Ceramic Fuel Cells Limited

Clean power for your home

ANNUAL REPORT **2010**

Contents

Ceramic Fuel Cells Limited is a world leader in developing fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas.

Ceramic Fuel Cells has also sold more than 50 BlueGen gas-to-electricity generators to major utilities and other foundation customers in Germany, the United Kingdom, Switzerland, The Netherlands, Japan, Australia and the USA.

The Company 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.

The Ceramic Fuel Cells group employs 100 staff across its headquarters in Melbourne and plants in the United Kingdom and Germany. Ceramic Fuel Cells is listed on the London Stock Exchange AIM market and the Australian Securities Exchange (code CFU).

www.cfcl.com.au

Chairman's Message

Dear Shareholder

I am pleased to introduce the 2010 Annual Report of Ceramic Fuel Cells Limited.

Global energy markets are facing a transformation. In many markets there is a strong movement towards smaller scale distributed generation products - producing energy where it is needed and consumed, rather than at huge remotely located power stations - in order to meet increasing demand for energy while reducing carbon emissions.

Leading international consulting firm Boston Consulting Group has described the emergence of distributed generation as the biggest transformation to the power sector since Thomas Edison's invention of the light bulb.

Ceramic Fuel Cells Limited (CFCL) is very well placed to take advantage of these market forces, having developed fuel cell products for homes and other buildings that produce electricity and heat with the highest electrical efficiency of any small-scale generating technology in the world.

This very high efficiency can significantly cut carbon emissions. A June 2010 report by the CSIRO - the Australian Government's national science agency - confirms that in Victoria a BlueGen unit can save more than four times as much carbon as a typical home solar PV system.

The Company achieved the key goals set out in the review of operations in the 2009 Annual Report. More details of these achievements, and the goals for the year ahead, are set out in Managing Director Brendan Dow's Review of Operations.

Most significantly, the Company began selling BlueGen units – from July 2009 to September 2010, more than 50 units had been sold to leading energy companies and other foundation customers in seven countries. The Company also continued to operate integrated mini power and heating products with its partners in Germany, the United Kingdom and France.

The Company's customers are some of the largest energy companies in the world, including the largest gas utilities in Germany and France, the second largest energy retailer in the United Kingdom, the two largest gas utilities in Japan and the largest gas utility in the USA. Some customers are now actively looking to install large numbers of BlueGens networked together and controlled via 'smart' meters, so that they can operate collectively as small power stations close to where the power is being consumed.

The largest BlueGen order was from the Government of Victoria, which has ordered 30 units to be installed in social housing. In Australia, the Company appointed two non-exclusive distributors of BlueGen: green retailer Neco, based in Melbourne, and Harvey Norman's Commercial Division, in New South Wales and the ACT.

The Company's technology – which is all developed in Australia and wholly-owned – is internationally recognised. The Company was awarded the prestigious Innovation NRW.INVEST AWARD for 2010, by the Government of North Rhine-Westphalia in Germany. The 2009 winner of the Innovation award was the developer of the BlackBerry device.

During the financial year, to meet the expected large demand for its products, the Company opened its new volume fuel cell stack manufacturing plant in Germany. From early 2011, the Company will also assemble its BlueGen products at this state-of-the-art plant.

In the financial results, sales revenue increased by 21 percent whilst net cash outflow from operations increased by four percent. Spending on research and product development was broadly similar to last year, sales and marketing costs increased in Europe, and general and administration spending was down seven percent on last year. The net loss for the financial year was $19.6 million, significantly lower than last year. After the end of the financial year the Company received $3.9 million from settling litigation which it had taken against its former investment and treasury advisor.

In August the Company completed a placement to institutional investors and a cornerstone United Kingdom investor to raise $17.4 million. A subsequent rights issue and offer to existing shareholders raised a further $12.7 million. These funds will take CFCL to the next stage of its commercial development, funding the scaling up of production to meet expected future demand including working capital and manufacturing investment.

During the financial year Mr Roy Rose joined the Board as a non-executive Director. Mr Rose is now also Deputy Chairman, a member of the Audit Committee and Technical Committee, and Chairman of the Remuneration and Nominations Committee. In May 2009 Dr Peter Binks also joined the Board as a non-executive Director, and is now Chairman of the Technical Committee. Professor Mike Dureau stepped down as a non-executive Director and Chairman of the Technical Committee at the Annual General Meeting in November 2009. The Board thanks Professor Dureau for his contribution to the Company.

The focus of the Company during the 2010-11 financial year will be to generate sales revenue from selling BlueGen units as well as deploying more integrated power and heating products in Europe, in order to establish profitable operations as soon as possible.

The Board thanks you for your ongoing support of the Company and looks forward to reporting to you on further achievements during the coming year.

Yours faithfully

J. Harding

Jeff Harding
Chairman

Introduction

Ceramic Fuel Cells Limited is a leader in developing solid oxide fuel cell technology to provide highly efficient and low-emission electricity from widely available natural gas (and other hydrocarbon fuels in the future).

A fuel cell is an electricity generator that converts gas (from mains or bottles) into electricity and heat through an electrochemical reaction, without combustion or noise. Fuel cells can provide significant environmental benefits through high efficiency and low emissions.

The Company was established in 1992 and listed on the ASX in July 2004 and on the London AIM market in March 2006.

Global energy markets are facing a transformation. Energy use is rising, requiring significant investment in new power generation and grid infrastructure. However there is widespread agreement that greenhouse gas emissions from electricity generation must be reduced. These forces create a very large global opportunity for low-emission energy technology, like solid oxide fuel cells, which can be deployed using the existing natural gas and electricity infrastructure.

These market forces also encourage a move away from large centralised power stations towards 'distributed generation', where small scale power stations are installed close to where the power is used.

Ceramic Fuel Cells' products have achieved electrical efficiency of 60 percent, which the Directors believe is higher than any other technology in the rapidly expanding market for small scale power and heating products. When heat is recovered from the electricity production process, total efficiency is up to 85 percent – twice as efficient as the average among current European power stations.

This very high efficiency can significantly cut carbon emissions from power generation.

There is now widespread recognition that maximising electrical efficiency is the key to creating the most value from small scale power and heating products, and the Directors believe the Company's achievements can create a strong competitive advantage in this very large emerging market.

2010 Financial Year

During the 2010 financial year the strong focus of the Company was to start generating sales of its market-entry BlueGen™ product, as well as continuing to operate integrated products with partners in Europe.

The Company achieved the key goals set out in the review of operations in the 2009 Annual Report:

Goal in 2009 Annual Report	Achievements to September 2010
Finalising the BlueGen offering	✓ BlueGen offering finalised ✓ More than 50 BlueGen sales, to 17 customers in 7 countries
Installing BlueGen with VicUrban and at other high profile demonstration sites	✓ VicUrban unit installed and generating power from April 2010 ✓ More than 12 BlueGen units installed with leading customers in Europe, Japan and Australia
Entering agreements with appliance partners to make BlueGen	• Decided to assemble BlueGen in-house (discussed further below, under Manufacturing)
Entering agreements with BlueGen sales and distribution partners	✓ Appointed two non-exclusive distribution partners in Australia: Neco (signed November 2009) and Harvey Norman Commercial Division (signed July 2010)
Obtaining CE and local safety approvals for BlueGen	✓ CE safety approval obtained in April 2010 ✓ Approval obtained for each installation in Australia
Developing and deploying integrated mCHP products in larger numbers with European utility customers	• Integrated products installed and operating with partners in Germany, France and United Kingdom
Deploying early BlueGens in the Japanese market	✓ Four units installed with Paloma, Osaka Gas and Tokyo Gas
Completing the commissioning of the Heinsberg fuel cell plant, and formalising agreements with component suppliers to supply fuel cell modules and system components to manufacturers of BlueGen and integrated mCHP products.	✓ Heinsberg plant officially opened in October 2009 ✓ Agreements with component suppliers in place

Products

The first products to be powered by the Company's fuel cells are small scale units for homes and other buildings that produce one to two kilowatts of power as well as heat for hot water or space heating.

In order to cater for different markets and customers, the Company is developing two products in parallel: integrated combined heat and power (m-CHP) units, as well as a modular generator product called BlueGen. Both products use the Company's Gennex™ fuel cell module and share many 'balance of plant' components, allowing the Company and its partners to create different products and customer offerings from the same core technology platform.

BlueGen

BlueGen units convert natural gas into electricity with very high efficiency. BlueGen is designed to generate between one and two kilowatts of electricity constantly, all-year round. The electricity can be used in the home or other building and the excess can be exported back to the power grid. BlueGen also produces heat for hot water.

The Company launched the BlueGen product in May 2009. In the 2010 financial year the Company secured its first orders for BlueGen units from leading energy companies and other foundation customers.

As at 27 September 2010 the Company has received orders for 52 BlueGen units from customers in Germany, The Netherlands, Switzerland, the United Kingdom, Japan, Australia and the United States. Of these orders, 15 BlueGen units are currently installed and operating with customers. The BlueGen customers are described below.

Leading European Energy Utilities

The Company has generated very strong interest from energy utilities in Europe.

BlueGen units have been sold to German energy utilities EWE, E.On Ruhrgas, RheinEnergie, Alliander, EIFER / EnBW and the German Gas Association (an industry group of more than 1,700 utilities, 1,300 companies from the gas and water industry and 200 institutions).

Many energy utilities are recognising the benefits of controllable distributed generation with high electrical efficiency, and the Company expects this strong interest from German energy utilities to continue.

Apart from Germany, the Company also secured sales to Kiwa-Gastec / Gasterra in The Netherlands, Cosvegas in Switzerland and Ideal Boilers in the United Kingdom.

Japan's Biggest Gas Utilities

The Company also sold BlueGen units in Japan. One unit was sold to Paloma, a leading global home heating manufacturer and owner of the Rheem, Solahart and Raypak brands, for installation in Paloma's office in Sapporo, Japan.

In March 2010 Mitsui & Co. ordered a BlueGen unit to be installed with Japan's second largest gas utility, Osaka Gas. This was followed in July 2010 by an order for a second BlueGen unit for Osaka Gas. In August 2010 Mitsui & Co. ordered another BlueGen unit, this time for Japan's largest gas utility, Tokyo Gas.

Combined, Tokyo Gas and Osaka Gas serve more than 17 million customers and account for more than 69 percent of all gas sales in Japan. Both companies have deep experience with selling home power and heating products, including fuel cell products, to residential customers in Japan.

Customers in Australia

In late 2009 the Company secured an order for three BlueGen units from VicUrban, the Victorian Government's sustainable urban development agency, and an order for one unit from Energy Australia, a Sydney based energy retailer and owner of the largest energy network in Australia.

In April 2010 the Company secured an order for 30 BlueGen units from the Victorian Government's Office of Housing. The Office of Housing will install the units in public housing properties in metropolitan Melbourne and regional Victoria. The project will demonstrate the operation of the units and the benefits to tenants, via the generation of low emission power and hot water for the home. The units are scheduled to be installed from late 2010 to early 2011, for an initial two-year project period. This is the largest BlueGen order the Company has received and will be a significant project for the Company in the coming financial year.

In July 2010 the Company sold its first BlueGen in the Australian Capital Territory (ACT), to be installed at the Canberra Institute of Technology's new Sustainable Skills Training Hub. The Company believes this high profile site in Canberra is an ideal venue to showcase BlueGen, particularly to the Australian Federal government.

BlueGen Distribution in Australia

The Company has appointed two non-exclusive distributors of BlueGen in Australia. In November 2009 the Company appointed green retailer Neco, based in Melbourne, and, in July 2010, Harvey Norman's Commercial Division, in New South Wales and the ACT. Harvey Norman Holdings Limited is listed on the ASX and the Harvey Norman group is one of Australia's largest and best known retailers.

Harvey Norman Commercial and Neco are initially marketing BlueGen products to commercial customers like local Councils, State Governments, 'green building' developers and energy utilities.

First sale in the United States

In August 2010 the Company sold its first BlueGen in the United States, to be installed in California with one of the United States' largest energy companies. This is a significant achievement and marks the first steps towards the Company entering the United States market – one of the largest in the world for advanced home energy systems.

Integrated mCHP

In parallel with the BlueGen product, the Company and its partners are developing integrated mCHP products to provide power, hot water and space heating.

During the financial year the Company continued to operate mCHP units with its partners in Germany, the United Kingdom and France. In these partnerships Ceramic Fuel Cells supplies its Gennex fuel cell modules to appliance partners, which integrate them with high efficiency boilers into units which convert natural gas into power, hot water and space heating for homes. Like BlueGen, these integrated units are highly efficient and have low emissions.

In Germany there are three integrated units installed with boiler manufacturer Bruns and energy utility EWE. The Company is in advanced discussions with its partners towards agreeing the volume, pricing and timing of larger orders for integrated units.

In the United Kingdom two integrated units are installed, with appliance company Gledhill and with energy retailer E.On UK. One unit has been operating at Gledhill's premises in Blackpool since December 2009. Since March 2010 the other unit has been operating in a test house with EA Technology, a leading UK energy consulting and advisory firm. Under the product development agreement signed in 2009, the Company and E. On UK have agreed the development stages to move into production of commercial units. The partners are currently discussing the project plan details for the next phase of product development and deployment.

Since January 2010 the Company has also operated two integrated units with leading energy company GdF/Suez and appliance manufacturer BDR Thermea, its partners in France. One unit is installed with GdF/Suez in Paris and the other unit is installed with BDR Thermea in Mertzwiller. The Company is also in discussions with these partners about the next stage of product deployment.

Market Developments

During the year there was continued strong momentum in many markets towards supporting the deployment of smaller scale 'distributed generation' units in order to meet increasing demand for energy whilst reducing carbon emissions.

United Kingdom Feed-in Tariff

In April 2010 the United Kingdom Government introduced a feed-in tariff for small low-emission electricity generators, including small scale power and heating products. A feed-in tariff is a rate paid for electricity fed back into the electricity grid from designated renewable and low emission electricity generation sources.

Under the United Kingdom feed-in tariff, energy retailers are required to pay homeowners ten pence for every kilowatt hour of electricity generated by small scale power and heating products, plus an additional tariff of three pence for every kilowatt hour of electricity exported to the local power grid.

The tariff came into force on 1 April 2010 and will last for ten years. The tariff is available for the first 30,000 micro power and heating products that generate 2 kilowatts of power or less, with a Government review when 12,000 units have been installed. To be eligible for the tariff, the power and heating product must be certified under the Microgeneration Certification Scheme (MCS). The Company is working with industry partners to achieve MCS certification for the Company's products.

Victorian Government Feed-in Tariff Review

In June 2010 the Victorian Government commenced a review into the expansion of feed-in tariffs to include low-emissions technologies like fuel cells. In Victoria there is a 'standard' feed-in tariff (equal to the retail price for electricity, or about 20 cents per kilowatt hour) for electricity fed back into the grid from wind, solar, hydro and biomass generators of up to 100 kilowatts capacity; plus a 'premium' feed-in tariff (of 60 cents per kilowatt hour) for solar systems up to 5 kilowatts capacity.

The Company made a submission to the Government's review in July 2010. Without a feed-in tariff (either mandated by the Government or through a direct agreement with an energy retailer) BlueGen units can still give significant benefits to customers provided they can use all the electricity on-site, such as commercial and Government buildings. Securing a feed-in tariff would make it far easier for the Company's products to be sold in larger volumes to homeowners – which in Victoria would deliver significant carbon savings.

CSIRO Confirms BlueGen Carbon Savings

In June 2010 the Company released a report by the CSIRO which confirms the significant carbon savings from BlueGen. CSIRO is the Australian Government's national science agency.

In its report – *Desktop Greenhouse Gas Emission Comparison of the BlueGen Fuel Cell Unit with Other Means of Providing Electricity and Heat to Australian Homes* – CSIRO determines that compared to the Victorian power grid, each BlueGen unit, if operated continuously at 1.5 kilowatts, can save up to 14 tonnes of carbon per year when replacing a gas hot water unit.

To put these savings into context: the average household in Victoria produces around 10.7 tonnes of greenhouse gas emissions each year from energy used in the home;[1] and the report also notes that if an average home in Melbourne installs a 2 kilowatt solar PV system, and imports the rest of its power from the grid, the carbon savings are 3.2 tonnes per year.

German Innovation Award

In July the Company was awarded the prestigious Innovation NRW.INVEST AWARD for 2010, by the Government of North Rhine-Westphalia in Germany. More than 11,000 foreign companies based in North Rhine-Westphalia are eligible for the NRW.INVEST awards. Ceramic Fuel Cells was honoured to have received the 2010 award for Innovation. The 2009 winner of the Innovation award was Research in Motion, the developer of the BlackBerry device. North Rhine-Westphalia is the most populous and the most densely populated German state, with a population of 17.9 million people.

Boston Consulting Group report on distributed power generation

In June 2010 leading international consulting firm Boston Consulting Group published a report which says the emergence of distributed generation (producing energy where it is needed, rather than centrally) is the biggest transformation to the power sector since Thomas Edison's invention of the light bulb.

In its report - *Toward a Distributed-Power World: Renewables and Smart Grids Will Reshape the Energy Sector* - Boston Consulting Group says the power generation landscape worldwide is "facing disruptive changes" and that by 2020 renewable technologies and combined heat and power units could jointly provide more than 50 percent of all electricity consumed within the European Union.

The report says old centralised systems that deliver a one-way supply of electricity to consumers will be increasingly displaced by localised generation, and the future power landscape will include a larger proportion of small-scale sources, such as cogeneration through combined heat and power (CHP) plants.

[1] See http://www.saveenergy.vic.gov.au/blackballoons.aspx

Manufacturing

Fuel Cell Plant in Germany

In October 2009 the Company officially opened a plant in Heinsberg, Germany for the volume assembly of its fuel cell stacks.

The plant includes automated and semi-automated equipment, including:

- Ink Mixing Equipment to produce seal material
- Two Robotic Seal Dispensing Cells for automatically dispensing seal material
- Two Curing Ovens for pre-drying dispensed seals prior to assembly
- A Robotic Assembly Cell for automated 'pick and place' assembly of fuel cell stacks
- Four Furnaces for firing fuel cell stacks
- Three Testing stations to test fuel cell stacks before delivery

Several versions of the Company's complete fuel cell systems are also installed at the plant – including a BlueGen unit. The BlueGen unit has been operating at the plant since September 2009.

The assembly processes at the plant are commissioned and operating. The Company is currently making fuel cell stacks at the plant using a lower volume furnace. The Company is also continuing to make stacks at the Melbourne plant to meet current demand. In order to increase the volume of stacks the Company will need to use its larger furnaces already installed at the Heinsberg plant. The Company is currently working with the supplier of the large volume furnaces to ensure the furnaces will produce fuel cell stacks in larger volumes at acceptable quality standards.

BlueGen Assembly

In last year's Annual Report the Company noted that it intended to outsource the manufacturing of BlueGen to selected appliance partners.

During the financial year the Company examined several alternatives for BlueGen manufacturing, including outsourcing the work to a toll manufacturer. After detailed discussions with several potential manufacturing partners, the Company concluded that to preserve product quality whilst reducing costs, the best initial option is for the Company to assemble complete BlueGen units itself.

During 2010 the Company began assembling BlueGen units at the Company's Noble Park facilities. From early 2011 the Company will begin to assemble BlueGen units in its Heinsberg plant, in the same building as the fuel cell stack assembly operation. The Company will continue to assess longer term strategic options for higher volume BlueGen assembly, including selective outsourcing where this can deliver cost savings whilst maintaining product quality.

Ceramic Powder Plant

During the financial year the Company's ceramic powder plant in Bromborough, United Kingdom, continued to make zirconia powder for use in the Company's pilot manufacturing plant in Melbourne. Zirconia is a key input into the Company's fuel cell components, and is also used in a wide range of other products and applications.

The Bromborough plant is successfully making zirconia powder that meets the Company's demanding quality requirements, using the Company's patented process.

During the financial year the Company continued to provide samples to other prospective customers for a range of ceramic powder applications.

Intellectual Property

The Company has a broad portfolio of wholly-owned intellectual property, including 33 patent families (i.e. a single invention covered in multiple jurisdictions) and more than 140 individual patents that have been granted in key global markets. This intellectual property portfolio extends from the basic raw materials of the Company's fuel cells through to complete power generating products.

In June 2010 the Company entered a licence agreement with USA-based NexTech Materials, Ltd for NexTech to commercially offer solid oxide fuel cell interconnect coating solutions based on Ceramic Fuel Cells' patented formulations. The Company has patented a technology which protects metal interconnect plates from chromium poisoning. This solution, which the Company uses in its own fuel cell products, is useful for other developers of solid oxide fuel cells.

Based in Ohio, NexTech Materials is a leading provider of technology solutions for the solid oxide fuel cell market. NexTech's customers are located in more than 35 countries and include fuel cell researchers, developers and manufacturers. Ceramic Fuel Cells will receive a royalty from NexTech Materials' sales, creating an additional revenue stream from the Company's existing intellectual property.

Financial Commentary

The summary financial results for the year from 1 July 2009 to 30 June 2010 are as follows:
(All currency figures are shown in thousands)

Income (Expense)	12 months to: 30-June-2010		30-June-2009		Change
	AUD 000	GBP 000	AUD 000	GBP 000	
Sales Revenue	2,033	1,169	1,679	965	21.1%
Operating Expenses (excluding depreciation)	(19,250)	(11,069)	(18,842)	(10,834)	2.2%
Foreign exchange gain (loss)	(3,356)	(1,930)	2,712	1,559	-223.7%
Impairment Charge	2,927	1,683	(27,460)	(15,790)	-110.7%
Depreciation & Amortisation	(2,261)	(1,300)	(2,365)	(1,360)	-4.4%
EBIT - profit (loss)	(19,907)	(11,447)	(44,276)	(25,460)	-55.0%
Interest & Other Income	255	147	2,101	1,208	-87.9%
Net Profit (Loss) - after tax	(19,652)	(11,300)	(42,175)	(24,252)	-53.4%
Cash Outflow from:					
- Operations	(17,219)	(9,901)	(16,595)	(9,542)	3.8%
- Capital Expenditure	(3,879)	(2,230)	(8,232)	(4,733)	-52.9%

Revenue

The Group's business revenues increased during the period by 21 percent to AUD 2,033K (GBP 1,169K). This increase was driven by the commencement of sales of the Group's BlueGen product. The Group recognises revenue upon installation of the BlueGen unit. The current total number of orders received for BlueGen units is 52.

In parallel with the BlueGen product, the Group is also developing, with partners, an integrated mCHP product to provide power, hot water and space heating. At the start of the year work on this product moved from a focus on field trialling initial units to the development of commercial units. Revenue from these development activities at AUD 1,525K (GBP 877K) was slightly down on last year.

Interest and other income was AUD 255K (GBP 147K) this year compared to AUD 2,101K (GBP 1,208K) last year. The Group received AUD 1,811K (GBP 1,041K) less in interest income for the year due to lower interest rates and a decline in the level of funds invested over the year.

Expenses

The Group spent AUD 10,257K (GBP 5,898K) on Research and Product Development activities which represented a four percent increase on last year. Expenditure on product development activities was broadly similar to last year with the increase in overall expenditure arising from a higher level of manufacturing activity associated with the rollout of the BlueGen units.

The Group employed 64 full time equivalent staff in R&PD and production activities over the year which was slightly lower than last year.

Sales and Marketing costs increased by 35 percent to AUD 2,335K (GBP 1,343K). The increase in costs was driven by the expansion of business development and support activities in Europe associated with the rollout of the BlueGen product.

The Group's expenditure on General and Administration costs at AUD 8,919K (GBP 5,129K) was down seven percent on last year. This was largely due to a reduction in the expensing of previously issued employee share options of AUD 1,013K (GBP 582K), partially offset by higher costs in Germany associated with the building of the plant there.

A foreign exchange loss on translation of AUD 3,356K (GBP 1,930K) arose during the year relating to the translation of cash balances held in foreign currencies back to Australian dollars. The Australian dollar appreciated 16 percent against the pound sterling and 21 percent against the euro across the year.

During the year the Company disposed of the remaining financial securities that it had held. These securities had been previously treated as impaired and had been written down to a fair value of AUD 4,253K at 30 June 2009. They were sold in the first half of the year for an amount greater than this which has given rise to a reversal of the previous impairment charge amounting to AUD 2,927K (GBP 1,321K).

Net Loss After Tax

The net loss for the year was AUD 19,652K (GBP 11,300K), a reduction of AUD 22,524K (GBP 12,951K) over the prior year.

The main reasons for the reduced loss are outlined above and can be summarised as:

	AUD	GBP Equivalent
- Higher sales revenue	354K	204K
- Reduced impairment charge	30,386K	17,472K
Offset by:		
- Reduced interest and other income	1,846K	1,061K
Increased operating expenses	303K	174K
- Turnaround from foreign exchange gain on translation to a loss in the current year	6,067K	3,489K

The net loss represents a loss of 1.91 cents per share (1.10 pence) compared to 8.58 cents (4.93 pence) last year.

Cashflow and Balance Sheet

The Group's net cash outflow from operations was AUD 17,219K (GBP 9,901K) up by 3.7 percent over last year. As the Group commences the commercial rollout of its BlueGen product its level of working capital requirement is increasing. Inventory at year end has increased from AUD 80K (GBP 46K) in the prior year to AUD 1,081K (GBP 622K) this year as a result of purchasing component parts for production of BlueGen units.

Also included in net cash outflow from operations was a regional development grant from the Government of North Rhine Westphalia in Germany. The amount received was EUR 1,386K (equivalent at transaction date to AUD 2,221K and GBP 1,277K) and this has been included in deferred income in the balance sheet pending satisfaction of the obligations attached to the grant – refer to Note 18 in accompanying financial statements.

Cash outflow from investing activities was AUD 3,879K (GBP 2,230K) which was AUD 4,353K (GBP 2,502K) lower than last year. This reduction reflects the conclusion of the major building programme at the plant in Germany.

Cash inflow from financing activities amounted to AUD 9,687K (GBP 5,570K). This principally arose from:

- The sale of financial securities discussed above which resulted in a cash inflow of AUD 7058K (GBP 4,058K); and
- The proceeds from a sale-and-leaseback transaction of equipment at the German plant. The details of this transaction are described in Note 19 to the accompanying financial statements.

At 30 June 2010 the Group had cash of AUD 11,474K (GBP 6,597K) which was held on deposit with banks. Of this amount EUR 1,800K (AUD 2,579K / GBP 1,483K) was pledged to support a bank guarantee issued in relation to the government grant discussed above. These funds are not available for use by the Group.

Staff

Management and the Board recognise the importance of attracting and retaining the Company's highly skilled staff, and the need to create appropriate incentives for those staff to deliver value to the shareholders.

All staff members have formal 'short term incentive' and 'long term incentive' remuneration plans, linked directly to performance against personal and Company key performance indicators (KPIs). A particularly important aspect of the Company's remuneration policy is to grant equity to staff, under the Directors and Employees Benefits Plan approved by shareholders in 2009 (**Equity Plan**).

Under the Equity Plan, in the past several years the Company has issued share options to staff as a long term incentive component of remuneration. In 2009 the Australian Government changed the laws relating to taxation of share options. This has had a significant impact on how the Company issues equity to its Australian staff. As a result of these changes, and after receiving advice on the alternatives available, for the 2010 financial year Management and the Board concluded that the most appropriate and effective remuneration tool was to issue Australian staff with ordinary shares, rather than options. (Staff based outside Australia will continue to be offered options on similar terms to offers in prior years.) This change is discussed further in the Remuneration Report section of the Directors' Report.

During the year the Company recognised the commitment and service of several staff, including one staff member receiving 15 Years' service awards and four staff members receiving 10 Years' service awards.

At the end of the financial year the Group had a total of 116 full time equivalent staff: 98 based at the head office in Melbourne, 6 in the United Kingdom, 10 in Germany and 2 staff based in France.

In October 2009 the Company appointed two senior Business Development and Sales executives, one based in Germany and one based in the United Kingdom. In the 2011 financial year the Company expects to employ more sales support, engineering and production staff based in Germany, to increase production and meet expected customer demand.

The Company continued to invest in staff training and development, including through a Leadership Forum group, comprising the Executive Management Team and key functional managers and future leaders, as well as a Strategy Workshop including all Directors.

During the year the Company continued to apply its Occupational Health & Safety system, with advice from external specialists. Under this shared approach to managing safety, departmental safety plans and safety KPIs are integrated into the performance review process for all managers and staff. The Company also conducted several staff training sessions on the chemical management system, dangerous goods and hazardous substances, contractor safety management, emergency evacuation, first aid and rehabilitation/return to work coordination.

During the financial year three safety incidents were reported at the Company's Melbourne operations (down from six last year). There were no major injuries and no lost work time recorded for the financial year. Of the three incidents, one involved minor injuries and two involved no injuries.

There were no safety incidents reported at the Company's powder plant in the United Kingdom or the fuel cell plant in Germany.

Risk management

In recent years the Company has significantly reduced the key risks facing the Company – however, as with any company that is commercialising new technology, there remain risks for the Company to identify, manage and mitigate. Management and the Board believe it is important for shareholders to understand these risks.

The key risks facing the Company are:

- **Technical**
  Does the product perform to the customer's expectations?
- **Manufacturing**
  Can the product be made reliably at acceptable levels of cost and quality?
- **Commercial**
  Is there a large number of customers who will buy the product - at a sensible price? Can the product be delivered, installed and maintained to meet the customer's expectations?

In general terms the nature of these risks has not changed significantly over the last few years. What has changed is the likelihood, the priority and the details of the risks. In simplistic terms, as the Company has successfully moved from research and development into product development and now sales, the emphasis has evolved from technical risk to commercial and manufacturing risks.

For each of these risks, Management has created specific projects, with clear KPIs linked to personal performance reviews and remuneration for the 2011 financial year. Management regularly reports to the Board on progress against these KPIs.

Technical

As the Company has stated for several years, the key technical risk for the Company (and for all fuel cell companies) is to consistently make fuel cells that work reliably, in real world conditions, for a long time.

For Ceramic Fuel Cells, this means ensuring that we have good quality input materials and that our fuel cells, stack, and systems, perform according to their specifications – particularly over a commercially acceptable lifetime.

During the year the Company continued to make significant progress toward reducing technical risk. To identify and mitigate technical risk the Company has one of the largest solid oxide fuel cell testing operations in the world, testing individual fuel cells, fuel cell stacks and complete systems.

The Company has also demonstrated that its fuel cell systems work out in the field: from early 2006 to 1 September 2010 the Company has operated 35 systems with customers in seven countries, together with 12 systems at the Company's own facilities, with an aggregate of 221,000 hours' operation. (There are 8,760 hours in one year.)

The Company has also achieved - and exceeded - commercial targets for electrical efficiency. The Company continues to focus on improving the lifetime of its fuel cell stacks and the durability and performance of the complete fuel cell systems, in order to reduce operating costs, improves commercial returns to customers and reduces warranty risk and cost for the Company. The Company has created separate projects to continue to improve the performance and reliability of fuel cells, stacks and system components, with each project having clear targets for the 2011 financial year.

Progress on mitigating technical risks is regularly reported to the Board Technical Committee.

Manufacturing

The Company needs to make its products in large numbers at low cost, with consistently high quality. Increasing the Company's manufacturing capability has been a key activity over the last two years, particularly the construction of a large volume fuel cell stack assembly plant in Germany.

In order to mitigate manufacturing risks, the Company has built a large scale manufacturing plant, to increase volume, reduce unit cost and improve quality and consistency. The Company is also:

- Outsourcing the manufacturing of fuel cells and other volume components.
- Establishing commercial agreements with suppliers for system components.
- Testing and validating the performance of outsourced components in prototype trials before committing to larger volumes.

The key manufacturing activities that Management and the Board will focus on during the coming financial year are:

- Increasing the number of fuel cell stacks made at the German plant – particularly, moving from low volume furnaces to high volume furnaces. Management is working with the manufacturer of the furnaces to ensure larger volumes can be produced at acceptable quality standards. In the meantime the Company will continue to manufacture fuel cell stacks at its plant in Melbourne and in low volumes at the German plant.
- Scaling up manufacturing processes in the Heinsberg plant to ensure they are uniform and consistent to deliver lower unit costs whilst retaining high quality standards.
- Ensuring the Company's supplier of fuel cell components delivers a higher number of fuel cells at lower unit prices whilst retaining acceptable quality standards. This is important, as the Company relies on one supplier of these components. In the meantime, to mitigate supply risk, the Company continues to make fuel cell components itself in Melbourne.
- Outsourcing the manufacture of the 'balance of plant' components to a lower cost supplier in Asia.
- 'Value engineering' projects and working with suppliers to reduce the cost and complexity of Gennex and BlueGen components and improve manufacturing processes.
- Transferring the in-house assembly of Gennex modules and BlueGen units from Melbourne to Heinsberg.

Commercial

The first key commercial risk is that the Company needs to sell products to generate revenue,. The Company is mitigating this 'sales' risk by:

- Agreeing 'forward orders' whereby a utility customer agrees to order a certain number of units provided certain milestones are met.
- Recruiting more utilities and appliance partner customers.
- Recruiting other types of customers who can place orders more quickly than large energy utilities.
- Most importantly, developing additional products (like BlueGen) that can be sold into additional markets (like Australia and North America) and to different customer segments in the European market.

A similar risk is that partners may take a longer time to develop products – which delays the Company's ability to generate revenue. The Company developed the BlueGen product on its own, in part to mitigate this risk of appliance and utility partners taking longer to develop the integrated mCHP product.

In addition, the product needs to be sold at a commercially viable price. Like most products, the Company's costs of production are higher in low volumes. The risk is to ensure that prices for early products cover these higher costs; and, as volumes increase, to ensure that costs of production come down faster than prices.

Management and the Board believe it is in the shareholders' best interests for the Company to make a margin on every product that it sells – other than exceptions where there are strong strategic benefits to the Company - rather than taking a high-risk approach of "loss-leading" in order to get the product into the market. To mitigate this pricing risk the Company is segmenting its target markets and selling early products for a higher value to commercial and Government customers, before expanding into the residential market.

Once a product is sold, the Company must provide certain warranties and after-sales support, to ensure the product meets the customers' expectations. When a product is first introduced into the market, it is often not possible to test the product for all faults, or to test it for its full expected lifetime. Therefore there is a risk that it will cost the Company more to support early products than the revenue received for those products. The Company is mitigating this 'support' risk by:

- Building cost models to understand the projected support costs and key drivers (fault rates and replacement costs for key components).
- Proactively monitoring product performance over the internet and remotely diagnosing and correcting faults (to avoid an on-site service).
- Planning to outsource on-site support obligations to local sales and service partners.
- Obtaining back to back warranties (where possible) from component suppliers.
- Deploying products in a managed, phased approach, to minimise 'lumpy' support obligations and costs.

Outlook 2010-11

During the 2010-11 financial year the focus of the Company will be to generate sales revenue from selling BlueGen units as well as deploying more integrated mCHP products in Europe.

To achieve this goal the Company's targets for the next financial year include:

- Sales of BlueGen units and Gennex modules
  - Substantially increase sales to drive the Company closer to profitability.
  - Secure follow-on orders from early BlueGen customers, and increase the size of orders from existing mCHP development partners.
  - The Company expects more than half of these sales to come from Germany; a large number from the UK and the remainder from Australia.
- Enter agreements in initial markets for local partners to provide installation and after-sales services for BlueGen products
- Further approvals for BlueGen:
  - MCS certification in the United Kingdom (2010);
  - Type 'A' gas appliance approval in Australia (mid 2011);
  - Initial safety approval for the United States (Q3 2011).
- Manufacturing:
  - Transfer BlueGen assembly to Germany from early 2011
  - Reduce the cost of Gennex and BlueGen components, by reducing the number and complexity of components, improving some manufacturing processes, implementing fixed tooling processes and increasing manufacturing yields.
  - Agreements with key component suppliers to increase scale and further reduce costs
- Technology: longer lifetime through improved fuel cell stack degradation and more robust system operation through improved thermal cycling
- Generate revenue from the UK ceramic powder plant.

The Board and Management are focused on achieving a 'cashflow breakeven' position as soon as possible, whilst managing the challenges of introducing a new product into global energy markets, and in particular the scale up of manufacturing, installation and after-sales service.

Brendan Dow
Managing Director

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Ceramic Fuel Cells Limited and the entities it controlled during, and at the end of, the year ended 30 June 2010.

Directors

The directors of Ceramic Fuel Cells Limited in office at the date of this report are:

Mr Jeff Harding, Chairman

Mr Brendan Dow, Managing Director

Mr Roy Rose (appointed 7 July 2009), Deputy Chairman

Dr Peter Binks

Mr John Dempsey

Mr Robert (Bob) Kennett

Prof. Michael Dureau was a director up to his retirement on 24 November 2009.

Principal Activities

The principal activity of the Company during the year was the commercial development and demonstration of power generating products based on the Company's ceramic (solid oxide) fuel cell technology.

There were no significant changes in the nature of the activities of the Group during the year.

Dividends

No dividends were recommended, declared or paid during the year and to the date of this report.

Review Of Operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Review of Operations and Activities on pages 2 to 9 of this document.

Earnings Per Share

	Consolidated	
	2010 cents	*2009 cents*
Basic and diluted earnings per share	**(1.91)**	(8.58)

Significant Changes In The State Of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

(a) Cash and Investments

A net decrease in cash and investments (financial assets) of $18.3 million (from $29.8 million to $11.5 million) after taking into account $17.2 million of net operating expenditure (including receipt of a government grant for $2.2 million), $3.9 million of capital expenditure and an increase in borrowings of $2.5 million.

(b) Inventory

An increase in inventory of $1.0 million (from $0.1 million to $1.1 million) arising from the purchase of component parts for the production of BlueGen units.

(c) Borrowings

During the year the Group entered into a sale-and-leaseback transaction of certain equipment at the German plant. At the end of the financial year the Group had $2.1 million of borrowings outstanding in relation to this transaction. The Group had no borrowings in the prior year.

(d) Deferred Revenue

An increase in deferred revenue of $2.0 million (from $0.3 million to $2.3 million) arising largely from the receipt of a regional development grant from the Government of North Rhine Westphalia in Germany. The grant of $2.2 million has been included in deferred revenue in the balance sheet pending satisfaction of the obligations attached to the grant.

(e) Significant gains and expenses

Gains

- Impairment charge reversal of $2.9 million arising on the sale of financial assets that had been previously impaired.

Expenses

- Net foreign exchange loss of $3.4 million arising primarily upon the translation of foreign currency cash balances back into Australian dollars for reporting purposes.

In the opinion of the directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the year under review not otherwise disclosed in this report or in the financial statements.

Matters subsequent to the end of the financial year

(a) Share placement

Subsequent to the end of the financial year the company undertook a share placement of 95,238,096 ordinary shares at a price of 10.5 pence (approximately 18.25 Australian cents) and raised the equivalent of A$17.4m (before costs). These shares were allotted and issued on 27 August 2010.

(b) Australia and New Zealand rights issue

In conjunction with the share placement described above, the company also undertook a rights issue to ASX shareholders registered in Australia and New Zealand. The offer was a one for six non-renounceable rights issue of ordinary shares in the company at an offer price of 18.25 cents per new share. The offer, which was not underwritten, closed on 17 September 2010 and resulted in the issue of 51,112,184 ordinary shares and the raising of $9.3m (before costs).

(c) UK issue

In conjunction with the share placement described above, the company also undertook an Open Offer to existing United Kingdom and European AIM shareholders to raise up to £2,060,666 at a share issue price of 10.5 pence. The offer closed on 17 September 2010 and resulted in the issue of 19,222,606 ordinary shares and the raising of A$3.4m (before costs).

(d) Settlement of legal case

The Company agreed to settle legal action which it had taken against the Company's former investment and treasury advisor, Oakvale Capital Limited, in relation to losses suffered in prior reporting periods on the Company's financial investments. The litigation was funded by ASX-listed litigation funder IMF Australia Limited (IMF). After legal costs and IMF's agreed share of the settlement sum, the Company received A$3.9 million.

No other matter or circumstance has arisen since 30 June 2010 which has significantly affected, or may significantly affect:

a. the Group's operations in future financial years, or
b. the results of those operations in future financial years, or
c. the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments and expected results of operations is set out under the heading Outlook 2010-11 within the Review of Operations and Activities on page 9 of this document.

Environmental regulation

The Group is not subject to any significant environmental regulation under a law of the Commonwealth, or of a State or Territory, of Australia.

Proceedings on behalf of the company

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Directors' meetings

The numbers of meetings of the board of directors of Ceramic Fuel Cells Limited and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director as a member of the relevant committee, were:

Name of Director	Full meetings of directors		Meetings of committees					
			Technical		Audit		Remuneration and Nominations	
	A	B	A	B	A	B	A	B
Current directors								
J Harding	10	12	6	6	6	8	2	2
B L Dow	12	12	6	6	8	8	2	2
P N Binks	12	12	6	6	*	*	2	2
J P Dempsey	12	12	*	*	8	8	2	2
R J Kennett	12	12	*	*	*	*	*	*
R R Rose	12	12	6	6	7	7	2	2
Former directors								
M B Dureau	4	4	2	2	*	*	1	1

A = Number of meetings attended
B = Number of meetings held during the time the director held office, and was a member of the committee, during the year
* = Not a member of the relevant committee

BlueGen installation at VicUrban's Aurora housing development in Epping, Melbourne.

BlueGen installation at Energy Australia's Smart Home in Newington, Sydney.

Directors' Details

Further information regarding the directors of Ceramic Fuel Cells Limited in office at the date of this report is as follows:

Mr Jeff Harding

BE(Civil) Hons, BA(Economics), Master of Science in Industrial Administration, FAICD.

Age 64

Chairman since 22 November 2007
Member of Audit, Technical and Remuneration and Nominations Committees
Director since 17 September 2007

Experience and expertise

From 1995 to 2005 Mr Harding was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile. During his tenure, Mr Harding oversaw the international expansion of the business with growth in market capitalization from A$5 million to over A$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy. Previously he was a Divisional General Manager of Brambles Australia for 5 years.

Current directorships of other listed companies

Non-executive director of ASX listed Carnegie Corporation Limited since 19 May 2009.

Former directorships of other listed companies (last 3 years)

Non-executive director and Audit Committee Chairman of AIM listed Renewable Energy Holdings Plc from 11 February 2005 to 1 September 2009

Interests in shares and options (refer Note 23 to the Financial Statements)

12,075,000 ordinary shares in Ceramic Fuel Cells Limited, owned by Jeffrey Harding ATF The Harding Superannuation Fund. 100,000 options over ordinary shares in Ceramic Fuel Cells Limited.

Mr Brendan Dow

B.Eng.(Hons), MBA.

Age 44

Managing Director
Member of Technical Committee
Managing Director since 11 January 2007 (previously Chief Executive Officer)

Experience and expertise

Prior to joining Ceramic Fuel Cells Limited, Mr Dow spent almost 10 years as Managing Director of the Australian subsidiary of global electrical component manufacturers ebmpapst and Ziehl Abegg AG. He was responsible for operations across Australia and New Zealand, as well as for establishing and managing Greenfield manufacturing operations in Malaysia, and sales and marketing activities across the south-east Asian region. From 1992 to 1996 Mr Dow was a Regional Manager within General Electric Company and GEC Alstom, and from 1989 to 1992 he worked as Production Manager in London for the Gillette Company.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

None.

Interests in shares and options (refer Note 23 to the Financial Statements)

2,645,000 options over ordinary shares in Ceramic Fuel Cells Limited.

Mr Roy Rose

B.Sc.(Chem.), MAICD.

Age 63

Deputy Chairman, independent non-executive director
Chairman of Remuneration and Nominations Committee, member of Audit Committee and Technical Committee
Director since 7 July 2009

Experience and expertise

Mr Rose has 30 years experience in the paint, chemicals, fertilizer and medical products industries, possessing strong skills in technology and innovation, including experience commercialising and manufacturing innovative technologies. He has held non-executive directorships of Incitec Limited, CRC for Environmental Biotechnology and Qenos Pty Ltd, as well as having held senior management positions at Orica Australia. Mr Rose is currently Chairman of CSIRO's Future Manufacturing Flagship Advisory Committee. He has served on numerous Australian industry groups, including as a member and Past President of Australian Industrial Research Group.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

ITL Limited.

Interests in shares and options

116,666 ordinary shares in Ceramic Fuel Cells Limited.

Dr Peter Binks

D.Phil (Oxon), B.Sc.
(Hons – Tas Uni.)

Age 50

Independent non-executive director
Chairman of Technical Committee and member of Remuneration and Nominations Committee
Director since 5 May 2009

Experience and expertise

After completing a science degree at the University of Tasmania (Hons) majoring in Physics, Dr Binks attended Oxford University as a Rhodes Scholar. He completed his doctoral thesis in Theoretical Physics. Dr Binks has had a successful career with McKinsey & Company, BHP, Telstra and Nanotechnology Victoria Ltd. He was most recently the CEO of NanoVentures Australia Ltd, a company set up to attract funding and commercialise outcomes from Nanotechnology Victoria. Dr Binks is currently a director of NanoVentures Australia Limited, a director of NanoVic Commercial, and a director of NanoVic IP Holdings. From January 2006 to June 2008 Dr Binks was also a director of The Australian Nano Business Forum. On September 1 2009 Dr Binks took up the position of CEO of the General Sir John Monash Foundation, and joined the Board of that Foundation.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

None.

Interests in shares and options

None.

Mr John Dempsey

Grad.Dip.Acct.&Fin.Mgmt, Grad.Dip.Ag.Econ., PNA, ACIS, GAICD, JP.

Age 64

Independent non-executive director
Chairman of Audit Committee and member of Remuneration and Nominations Committee
Director since 1 June 2002

Experience and expertise

Mr Dempsey has been a qualified Accountant since 1974 and has worked in public practice, commerce and the Queensland rural sector in various positions. Previous appointments have included deputy Mayor of the City of Cairns, member of the Queensland Sugar Industry Tribunal, and Director/Partner in a public accountancy practice in Cairns. Mr Dempsey has recently sold his accountancy practice in Brisbane and has retired from public practice. He has been a non-executive Director of Queensland energy utility Energex Limited since 1999 and is its current Chairman. He is also Chairman of Allconnex Water.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

None.

Interests in shares and options (refer Note 23 to the Financial Statements)

300,000 ordinary shares in Ceramic Fuel Cells Limited, owned by JHM Superfund.

Mr Robert (Bob) Kennett

B.Sc.(Mech.Eng.),
C.Eng., FIMechE.

Age 60

Independent non-executive director – resident in the United Kingdom
Director since 24 August 2006

Experience and expertise

Mr Kennett has spent his career in the energy sector, specialising in Combined Heat and Power and renewables. He was Managing Director of Powergen Combined Heat and Power Ltd for 12 years and, for three years simultaneously, was the Chairman of PowerGen Renewables Ltd. In his ten years in this position, Mr Kennett successfully established and managed a leading and profitable business in the UK Combined Heat and Power market with assets of more than £600m at 22 sites. Mr Kennett is currently a consultant advising financiers and investors on business opportunities in the UK Combined Heat and Power and Renewable Energy markets. He is on a Panel of Independent Assessors for DTI Energy Programmes, a board member of the Power Industries division of the Institution of Mechanical Engineers, a non-executive Chairman of Ignis Energy, a board member of the UK Combined Heat and Power Association and the Chairman of the Micro CHP committee of that organisation.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

None.

Interests in shares and options (refer Note 23 to the Financial Statements)

320,000 shares in Ceramic Fuel Cells Limited.

100,000 options over ordinary shares in Ceramic Fuel Cells Limited.

Company Secretary

Mr Andrew Neilson *LLB(Hons), B.Comm., GAICD.*

Age 40
Company Secretary since 5 August 2004
Member of Executive Management Team

Experience and expertise

Mr Neilson has worked as a solicitor with one of Australia's largest law firms, and as an in-house legal counsel and commercial manager in the information technology industry. He has experience with commercialising technology, identification and allocation of commercial risk and in structuring and negotiating a range of commercial ventures with global partners, suppliers and customers. He was previously Legal Counsel for two NYSE-listed global information technology firms.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Remuneration details
C. Service agreements
D. Share-based compensation
E. Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles Used to Determine the Nature and Amount of Remuneration

Non-Executive Directors

The fees paid to non-executive directors, including the Chairman, reflect the demands which are made on, and the responsibilities of, the directors. Directors' remuneration consists of an annual fee plus statutory superannuation (where applicable). Directors are also entitled to be reimbursed for expenses incurred on Company business. Directors do not receive additional 'per meeting' fees.

The current annual fees for non-executive directors, excluding statutory superannuation, are:

Director	Fee p.a.	Comment
Jeff Harding	£60,000	Chairman. Fee unchanged since appointed as Chairman in November 2007.
Roy Rose	$60,000	Deputy Chairman, Remuneration & Nominations Committee Chairman.
Peter Binks	$60,000	Technical Committee Chairman.
John Dempsey	$60,000	Audit Committee Chairman.
Robert Kennett	£40,000	Consistent with guidance from an independent consultant on typical rates for non-executive directors in the United Kingdom. Fee unchanged since appointment in August 2006.

The Board may adjust remuneration of non-executive directors from time to time, up to an aggregate amount determined by the shareholders. The current aggregate amount is $475,000 per annum, approved by shareholders at the Annual General Meeting on 23 November 2005.

In 2009 the Company's shareholders approved a Directors and Employee Benefits Plan (Equity Plan), which gives the Board discretion to offer equity to directors (with shareholder approval). At the Annual General Meeting held on 22 November 2007, shareholders approved the issue of 100,000 options to each of four non-executive directors, including current directors Mr Harding and Mr Kennett. Those options granted to directors have an exercise price of $1.01.

The Board considers that it is important to create a strong alignment of interests between staff (including senior managers and directors) and shareholders, and that at this stage of the Company's development it is appropriate for the Company to achieve this alignment by offering equity rather than by the Company paying higher cash fees.

Managing Director and Executives

The Company enters into individual employment agreements with each of its executives, including the Managing Director.

For the financial year ended 30 June 2010, executive pay comprised annual remuneration plus two 'at risk' components, namely a short-term incentive and a long-term incentive.

Each executive's annual remuneration is based upon market rates for that person's role and responsibilities within the Company. Annual remuneration is expressed as a total remuneration package, which comprises base salary plus statutory superannuation and other entitlements.

At least once a year the Managing Director reviews the performance of each executive against previously agreed key performance indicators (KPIs), and sets KPIs for the next performance period. Information from the review process is then taken into account, along with such factors as increases in the cost of living and market parity, in determining the individual's remuneration for the next financial year. Apart from this annual review process, the Managing Director may also approve remuneration increases based upon changes in individual roles which increase an individual's level of responsibility, or recognise an increased level of skill necessary to perform a role.

The Company's short-term incentive program comprises a bonus that may be payable depending on:

- personal performance against KPIs; and
- Company performance against milestones agreed with the Board.

The short-term incentive program is part of the remuneration package for most employees who have worked with the Company for more than 12 months, including executives. Personal KPIs and Company milestones relate to the Company's internal objectives, such as technological achievements, manufacturing improvements and commercialisation goals. At this stage of the Company's development, personal KPIs do not relate to the earnings or dividends of the Company and there is no direct link between cash remuneration and the share price performance of the Company (or any other company).

The short-term incentive bonus is usually paid as cash although it may also comprise equity issued under the Equity Plan approved by shareholders in November 2009. Under the Equity Plan the Board has discretion to offer staff shares, performance rights or options in the Company.

The Company's long-term incentive program comprises offers of equity under the Company's Equity Plan. Like the short-term incentive, the level of long-term incentive depends on personal performance against KPIs and Company performance against milestones. The long-term incentive is also generally made available to most employees who have worked with the Company for more than 12 months, including to all executives.

Over the past few years the Board has increased the amount of equity offered to staff, in particular to senior managers, in order to attract and retain quality staff, align employee incentives with shareholders' interests (by giving staff a higher ownership stake in the Company) and to give key staff significant incentives to achieve the Company's demanding goals. The Board intends to continue to take this approach in coming years.

The specific details of any staff equity offers are set by the Board within the rules of the Equity Plan previously approved by shareholders. All such equity consequently issued is disclosed to the market.

The remuneration of the Managing Director comprises an annual salary package plus an annual equity incentive, depending on personal and Company performance against agreed KPIs. The annual offer of equity is made in lieu of a cash bonus.

Each year the Board reviews the performance of the Company and the Managing Director against previously agreed KPIs. The results of this review feed into the annual performance and remuneration review of all staff. The Board also approves offers of equity to staff, including the Managing Director, and determines the remuneration of directors.

Over the last few years the Company has issued share options as the equity component of the remuneration, typically as a long term incentive. In 2009 the Australian Government changed the laws relating to taxation of share options. This has had a significant impact on how the Company issues equity to its Australian staff.

Previously, if an employee was issued share options, then generally speaking the employee would pay tax on the value of the options when the employee exercised the options and received the shares. (There are other circumstances when tax was payable earlier but this describes the most common case.) Under the new laws, from 1 July 2009, an employee who receives options is required to pay tax when they are able to exercise the options, even if they do not exercise the options at that time. In this scenario an employee is required to pay tax on the estimated future value of the options, even if the options are 'out of the money' and are not converted into shares. (This is a simplified summary of the impact of the changes.)

Requiring employees to pay tax (in cash) before they receive any cash benefit from share options has significantly reduced the effectiveness of share options as a remuneration tool.

Management and the Board spent several months examining the impact of these tax changes on staff remuneration – and the alternative remuneration tools available - including obtaining advice from external remuneration consultants, accountants and lawyers.

Based on this review, for the 2010 financial year Management and the Board concluded that the most appropriate and effective remuneration tool was to issue Australian staff with ordinary shares, rather than options. (Staff based outside Australia will continue to be offered options on similar terms to offers in prior years.)

Accordingly for the 2010 remuneration review, most staff were given the choice of taking their short term incentive and long term incentive as (a) a cash bonus and some shares, or (b) no cash but more shares. Half of any shares issued to staff will be escrowed for two years, meaning that if the staff member leaves the Company within that time they forfeit the remaining shares (subject to Board discretion where for example the employee leaves because of redundancy, retirement, ill health etc, or if the business is sold). The number of shares issued to staff will be disclosed to the market as soon as the shares are issued.

Management and the Board believe this approach is in the best interests of shareholders at this time. Management and the Board will continue to review the remuneration alternatives available for creating an effective short and long term incentive for staff.

B   <u>Remuneration details</u>

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the five highest paid executives of Ceramic Fuel Cells Limited and the Ceramic Fuel Cells Limited Group are set out in the following tables. The key management personnel of the Group are the directors of Ceramic Fuel Cells Limited (see pages 12 to 13 above) and those executives who report directly to the Managing Director and includes the five highest remunerated Group and/or Company executives:

Mr Frank Boyd	Group General Manager – ERP Systems (appointed a member of the Executive Management Team on 1 August 2009)
Dr Karl Föger	Chief Technology Officer
Mr Peter McDonell	Human Resources Manager
Mr Andrew Neilson	Group General Manager - Commercial (and Company Secretary)
Mr Frank Obernitz	General Manager – Business Development (commenced 1 October 2009)
Mr John Rajoo	Chief Operations Officer
Mr Trent Rowe	Group General Manager - Product & Marketing
Mr Nevill (Tony) Sherburn	Chief Financial Officer
Mr Paddy Thompson	General Manager – Business Development (commenced 21 September 2009)

Key management personnel of the Group

2010		Short-term benefits		Post-employment Benefits	Share-based payment	Long-term benefits	
Name	Cash salary & fees	Cash bonus[1]	Non-monetary benefits	Super-annuation	Options [1]	Long service leave	Total
	$	$	$	$	$	$	$
Directors							
Managing Director							
B L Dow	428,503	-	55,214	25,000	31,579	-	540,296
Non-Executive Directors							
J Harding (Chairman)	6,566	-	-	100,000	-	-	106,566
P N Binks	51,250	-	-	4,613	-	-	55,863
J P Dempsey	52,500	-	-	12,900	-	-	65,400
R J Kennett	71,620	-	-	-	-	-	71,620
R R Rose (7/7/2009 – 30/6/2010)	31,056	-	-	24,096	-	-	55,152
Former Directors							
M B Dureau (1/7/2009 -24/11/2009)	-	-	-	24,028	-	-	24,028
Sub-total Directors	**641,495**	**-**	**55,214**	**190,637**	**31,579**	**-**	**918,925**
Other key management personnel							
F R Boyd [2]	213,603	9,600	-	84,261	35,854	-	343,318
K Föger	145,833	9,600	34,574	50,000	35,854	2,567	278,428
N A Sherburn	200,670	9,000	301	14,461	23,854	4,306	252,592
J C Rajoo	186,945	9,600	-	14,461	35,854	-	246,860
A D Neilson	153,550	30,000	-	13,878	35,854	-	233,282
T M Rowe	164,707	9,600	-	14,124	35,854	-	224,285
F Obernitz (1/10/2009 -30/6/2010)	159,667	-	11,951	7,485	-	-	179,103
P R McDonell	87,573	9,600	-	40,627	35,854	-	173,654
P A Thompson (21/9/2009 -30/6/2010)	135,380	-	-	10,569	-	-	145,949
Sub-total Other key management personnel	**1,447,928**	**87,000**	**46,826**	**249,866**	**238,978**	**6,873**	**2,077,471**
Total	**2,089,423**	**87,000**	**102,040**	**440,503**	**270,557**	**6,873**	**2,996,396**

1. The cash bonus and options amounts represent variable components of remuneration.
2. F R Boyd was appointed a member of the Executive Management Team on 1 August 2009. Amounts shown include all his remuneration fro the reporting period. The amount earned whilst a key management person was $314,708, comprising cash salary of $195,803, cash bonus of $8,800, superannuation of $77,239 and options expense of $32,866.

Key management personnel of the Group

2009	Short-term benefits		Post-employment Benefits	Share-based payment	Long-term benefits		
Name	**Cash salary & fees**	**Non-monetary benefits**	**Super-annuation**	**Options [2]**	**Long service leave**	**Termin-ation benefits**	**Total**
	$	$	$	$	$	$	$
Directors							
Managing Director							
B L Dow	424,422	55,896	36,000	180,767		-	697,085
Non-Executive Directors							
J Harding (Chairman)	28,005	-	100,613	10,417		-	139,035
P N Binks (5/5/2009 - 30/6/2009)	7,143	-	643	-		-	7,786
J P Dempsey	-	-	57,910	-		-	57,910
M B Dureau	-	-	59,950	10,417		-	70,367
R J Kennett [1]	97,381	-	-	10,417		-	107,798
Former Directors							
D Carruthers (1/7/2008 - 20/10/2008)	-	-	18,216	10,417		29,975	58,608
Sub-total Directors	**556,951**	**55,896**	**273,332**	**222,435**	**-**	**29,975**	**1,138,589**
Other key management personnel							
N A Sherburn	197,965	11,022	13,745	88,604	23,113	-	334,449
J C Rajoo	158,071	-	43,851	102,458	-	-	304,380
K Föger	77,583	33,810	100,000	83,292	3,952	-	298,637
A D Neilson	153,886	-	13,745	94,792		-	262,423
T M Rowe	144,885	-	13,111	102,458	-	-	260,454
P R McDonell	97,009	-	26,460	87,125		-	210,594
Former key management personnel							
B M Bilton (1/7/2008 - 24/4/2009)	155,055	-	13,694	88,604		139,967	397,320
Sub-total Other key management personnel	**984,454**	**44,832**	**224,606**	**647,333**	**27,065**	**139,967**	**2,068,257**
Total key management personnel	**1,541,405**	**100,728**	**497,938**	**869,768**	**27,065**	**169,942**	**3,206,846**
Other Group executives							
F R Boyd	186,243	36	100,000	75,625	-	-	361,904

1. R J Kennett's short-term benefit of $97,381 consists of director's fees of $86,561 and consultancy fees of $10,820 which were in relation to additional industry lobbying services.
2. The options amounts represent a variable component of remuneration.

C Service agreements

Remuneration and other terms of employment for the Managing Director and other key management personnel are formalised in written agreements, the major remuneration provisions of which are set out below (as at 30 June 2010):

B L Dow, *Managing Director*

- Employment contract: Fixed term contract ending 20 June 2012.
- Annual Total Salary Package (TSP): $500,000 reviewable annually.
- Incentive Plan: Issue of equity (share options, shares or performance rights) under the CFCL Directors and Employee Benefits Plan. The type and quantity of equity to be offered will be determined by the Board based on performance against agreed key performance indicators, and within the terms approved by shareholders.
- Executive's (and Company's) notice period: 6 months.

Other key management personnel

All employment contracts with key management personnel may be terminated early as follows: by the executive - by the giving of the required period of notice; by the company - by the giving of notice or by payment in lieu of notice or by part payment and part notice. Other than statutory entitlements and payments in lieu of notice, no termination payments apply.

F R Boyd, *Group General Manager – ERP Systems*

- Employment contract: Fixed term contract ending 26 August 2011
- TSP of $284,054 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's notice period: 3 months
- Company's notice period: 6 months.

K Föger, *Chief Technology Officer*

- Employment contract: ongoing position
- TSP of $218,284 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 3 months.

P R McDonell, *Human Resources Manager*

- Employment contract: ongoing position
- TSP of $126,126 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 1 month.

A D Neilson, *Group General Manager - Commercial (& Company Secretary)*

- Employment contract: ongoing position
- TSP of $168,081 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 1 month.

F Obernitz, *General Manager – Business Development*

- Employment contract: ongoing position
- Base salary of €125,000 p.a. reviewable at least annually (next review 1 July 2010)
- German social security insurance contributions
- Motor vehicle lease cost of up to €9,900 p.a. plus running expenses
- Performance-based equity component of up to €65,000 gross p.a.
- Executive's (and Company's) notice period: 3 months.

J C Rajoo, *Chief Operations Officer*

- Employment contract: ongoing position
- TSP of $203,156 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 1 month.

T M Rowe, *Group General Manager - Product & Marketing*

- Employment contract: ongoing position
- TSP of $178,788 p.a. reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 1 month.

N A Sherburn, *Chief Financial Officer*

- Employment contract: ongoing position
- Annual TSP of $216,036 reviewable at least annually (next review 1 July 2010)
- Executive's (and Company's) notice period: 3 months.

P A Thompson, *General Manager – Business Development*

- Employment contract: ongoing position
- Base salary of £90,000 p.a. reviewable at least annually (next review 1 July 2010)
- Statutory employer pension contribution of £8,100 p.a.
- Car allowance of £7,500 p.a.
- Medical insurance premium allowance of £1,800 p.a.
- Executive's (and Company's) notice period: 3 months.

D Share-based compensation

Options

Options over shares in Ceramic Fuel Cells Limited have been granted under the CFCL Share Option Plan (approved by shareholders on 26 November 1999) and under the Directors and Employee Benefits Plan (approved by shareholders on 28 November 2006). Under each plan, all full time and part time permanent employees, including directors but excluding casual and short-term contract employees, may be offered options on terms agreed by the Board. Any offer of options to directors requires shareholder approval.

No options were granted during the year ended 30 June 2010.

The terms of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Date vested and potentially exercisable	Expiry date	Exercise price at grant date	Value per option at grant date	% Vested
28 Aug 2008	The options vested and became exercisable on 28 Aug 2009 [1]	27 Aug 2018	$0.45	$0.20	100%
5 Dec 2008	The options vested and became exercisable on 20 Jun 2010 [2]	20 Jun 2014	$0.45	$0.05	100%
26 Jun 2009	The options vested and became exercisable on 26 Jun 2010 [1]	25 Jun 2019	$0.175	$0.12	100%

1. There were no vesting conditions other than a 12 month waiting period.
2. The only vesting condition was to remain employed through to 20 June 2010.

Details of options over ordinary shares in the company provided as remuneration to directors and other key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Ceramic Fuel Cells Limited. Further information on the options is set out in Note 30 to the Financial Statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2010 [(2)]	2009	2010	2009
Directors of Ceramic Fuel Cells Limited				
B L Dow	-	2,160,000	**1,000,000**	1,160,000
J Harding	-	-	-	100,000
M B Dureau	-	-	-	100,000
R J Kennett	-	-	-	100,000
Other key management personnel				
F R Boyd [1]	-	493,750	**437,500**	181,250
K Föger	-	493,750	**437,500**	381,250
P R McDonell	-	493,750	**437,500**	431,250
A D Neilson	-	493,750	**437,500**	531,250
J C Rajoo	-	493,750	**437,500**	631,250
T M Rowe	-	493,750	**437,500**	631,250
N A Sherburn	-	337,500	**337,500**	475,000

1. The 493,750 options granted to F R Boyd in the year ended 30 June 2009 were issued prior to his becoming a key management person.
2. No options were issued to, nor were any options exercised by, directors and key management personnel during the year ended 30 June 2010.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

Fair values at grant date are determined using a trinomial lattice option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, an expected price volatility range of the underlying share, any share market-based performance conditions applying to the exercise of the option, the restrictions on exercise applied by the Group's Securities Trading Policy, an allowance for expected early exercise, the expected dividend yield and the risk-free rate for the term of the option.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the remuneration tables in section B, and in the options tables in section D, the percentage of the available bonuses or grant that was payable, or that vested, in the financial year and the percentage that was forfeited because the person did not fully meet the relevant service or performance criteria is set out below.

No part of the bonuses is payable in future years. Refer to the table to the left for options vesting details. No options will vest if the vesting conditions are not satisfied, hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options which is yet to be expensed.

Name	Cash Bonus		Options					
	Paid or payable during reporting period	Forfeited during reporting period	Financial year granted	Vested during financial year ended 30/6/2010	Potential options foregone during year	Financial years in which options have vested, or may vest, or may be exercisable	Minimum total value of grant yet to vest at 30/6/2010	Maximum total value of grant yet to vest at 30/6/2010
	%	%		%	%		$	$
B L Dow	-	-	2009	100	-	2010	-	-
F R Boyd	96	4	2009	100	-	2010	-	-
K Föger	96	4	2006	-	-	2016	-	-
			2009	100	-	2010	-	-
P R McDonell	96	4	2006	-	-	2016	-	-
			2009	100	-	2010	-	-
A D Neilson	100	-	2006	-	-	2016	-	-
			2009	100	-	2010	-	-
J C Rajoo	96	4	2006	-	-	2016	-	-
			2009	100	-	2010	-	-
T M Rowe	96	4	2009	100	-	2010	-	-
N A Sherburn	90	10	2006	-	-	2016	-	-
			2009	100	-	2010	-	-

Mr Frank Obernitz of CFCL (right) with Mr Uwe Schöneberg, Chief Commercial Officer of the RheinEnergie group, at the Official launch of BlueGen at RheinEnergie, Cologne, Germany.

E Additional information

Performance of Ceramic Fuel Cells Limited

The options granted on 12 October 2005 with an exercise price of $0.58 had a 3 year vesting period and, thereafter, may only be exercised if certain share market-based performance conditions are met, as follows:

Compound share price growth per annum from grant date	Percentage of options that are exercisable
Less than 15% p.a.	Nil
15% p.a.	50%
20% p.a.	75%
25% p.a.	100%

The compound share price growth targets equate to the following share prices as at 30 June 2010:

Compound share price growth per annum from grant date	Share price target
15% p.a.	$1.177
20% p.a.	$1.490
25% p.a.	$1.886

On 30 June 2010 Ceramic Fuel Cells Limited's ordinary shares closed at $0.155 on the Australian Stock Exchange, accordingly none of these options have become exercisable.

Share-based compensation: options

Further details relating to options granted to each director of Ceramic Fuel Cells Limited and the five company and group executives who received the highest remuneration for the year ended 30 June 2010, are set out below:

Name	A Remuneration consisting of options	B Value at grant date	C Value at exercise date	D Value at lapse date
	%	$	$	$
Directors of Ceramic Fuel Cells Limited				
B L Dow	5.8	-	-	-
Other key management personnel				
F R Boyd	10.4	-	-	-
K Föger	12.9	-	-	-
N A Sherburn	9.4	-	-	-
J C Rajoo	14.5	-	-	-
A D Neilson	15.4	-	-	-

A The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year
B The value at grant date (calculated in accordance with AASB 2 *Share-Based Payment*) of options granted during the year as part of remuneration, which had not lapsed and which remained unexercised as at the end of the year
C The value at exercise date of options that were granted as part of remuneration and which were exercised during the year, being the intrinsic value of the options at that date
D The value at lapse date of options that were granted as part of remuneration and which lapsed during the year. Lapsed options are options which vested but which expired unexercised.

Loans to directors and executives

No loans were made to directors or to executives during the financial year and to the date of this report.

Shares under option

Unissued ordinary shares of Ceramic Fuel Cells Limited under option as at the date of this report are as follows:

Grant date	Expiry date	Issue price of shares	Number of shares under option
23 Feb 2001	22 Feb 2011	$1.49	1,000
27 Jul 2001	26 Jul 2011	$1.49	3,000
6 May 2004	5 May 2014	$2.00	170,000
1 Sep 2004	31 Aug 2014	$0.76	30,000
12 Oct 2005	11 Oct 2015	$0.57	339,500
24 Aug 2006	23 Aug 2016	$0.58	552,000
26 Oct 2006	26 Oct 2010	$0.2699	200,000
29 Aug 2007	28 Aug 2017	$1.01	3,062,260
29 Aug 2007	28 Aug 2017	$0.99	100,000
4 Dec 2007	3 Dec 2011	$0.685	285,000
4 Dec 2007	3 Dec 2011	$1.01	300,000
28 Mar 2008	27 Mar 2018	$0.45	1,789,900
28 Aug 2008	27 Aug 2018	$0.44	2,906,830
28 Aug 2008	27 Aug 2012	$0.102	285,000
5 Dec 2008	20 Jun 2014	$0.44	1,000,000
5 Dec 2008	5 Dec 2012	$0.45	200,000
26 Jun 2009	25 Jun 2019	$0.175	4,039,154
26 Jun 2009	25 Jun 2013	$0.175	675,000
		TOTAL	**15,938,644**

No option holder has any right under the terms of the issuance of their options to participate in any other share issue of the company or of any other entity.

Shares issued on the exercise of options

No options over shares were exercised during the year ended 30 June 2010 or from 1 July 2010 to the date of this report.

Insurance of officers and indemnification of auditor

During the year ended 30 June 2010, Ceramic Fuel Cells Limited paid a premium of $52,875 (2009 - $52,875) to insure the directors and secretary of Ceramic Fuel Cells Limited and its subsidiaries, plus the key management personnel and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of:

- conduct involving a wilful breach of duty in relation to the company, or
- improper use of position or information to gain advantage for self or someone else, or
- conduct causing detriment to the company.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Auditor is indemnified by the Group against claims from third parties arising from the provision of audit services except where prohibited by the Corporations Act 2001, or due to negligence, fraudulent conduct, dishonesty or breach of trust by the auditor.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group is important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of *Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity and its related practices:

	Consolidated	
	2010	2009
	$	$
(a) Taxation Services		
PricewaterhouseCoopers' Australian firm		
Review of company income tax returns	**25,500**	24,000
Other tax compliance and tax planning services	**27,838**	84,099
Related practices of PricewaterhouseCoopers' Australian firm	**16,858**	18,404
Total Fees for Taxation Services	**70,196**	126,503
(b) Other Services		
PricewaterhouseCoopers' Australian firm		
Advisory services	**-**	-
Related practices of PricewaterhouseCoopers' Australian firm	**4,894**	31,308
Total Fees for Other Services	**4,894**	31,308
Total Fees for Non-Audit Services	**75,090**	157,811

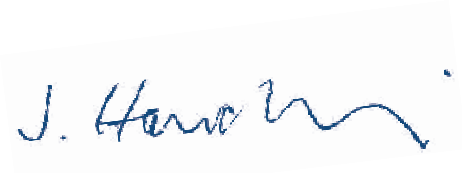
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



Jeff Harding

Chairman

Melbourne

27 September 2010

Executive Management Team

Brendan Dow

Managing Director

Prior to joining CFCL, Mr. Dow spent almost 10 years as Managing Director of the Australian subsidiary of two German global electrical component manufacturers. He was responsible for operations across Australia and New Zealand, as well as establishing and managing Greenfield manufacturing operations in Malaysia and sales and marketing activities across South East Asia. From 1992 to 1996, Mr. Dow was a Regional Manager within a multi-national electric equipment company. Mr. Dow completed his undergraduate degree at Swinburne University Australia in Manufacturing Engineering (Honors) and completed an MBA at Mt Eliza Business School (University of Melbourne).

Tony Sherburn

Chief Financial Officer

Mr Sherburn is a Chartered Accountant with a degree in economics and more than 20 years experience in finance and accounting with an emphasis on strategic planning. He has commercial experience in a number of industries including manufacturing and new technology. In addition, Mr Sherburn has been involved in the raising of venture capital equity within a high technology environment and has held senior finance positions in public companies.

Dr Karl Föger

Chief Technology Officer

Dr Föger is one of the initiators of SOFC technology in Australia and has an international reputation in research and development in the energy and environmental fields. He holds a PhD in Physical Chemistry and is a Fellow of the Royal Australian Chemical Institute and an Adjunct Professor at RMIT University in Melbourne. Dr. Föger held various research and management roles at Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO), culminating in his appointment as a Chief Research Scientist. He has been involved with the Company since its inception in 1992 and has published a number of papers on SOFC technology.

John Rajoo

Chief Operations Officer

Mr Rajoo has extensive senior operations and general management experience with multi national companies specialising in high technology products, including functional areas of engineering, strategy and sales. Mr. Rajoo has also been involved in commercialising new technology products and holds qualifications in engineering and business management.

Frank Boyd

Group General Manager ERP Systems

Mr Boyd is a CPA with a degree in Business Studies and is a Graduate of the AICD. He was previously Finance and Operations Director of an importing Company for 12 years and Managing Director of their subsidiary manufacturing company with factories in Australia and Malaysia. He also worked for 9 years as a consultant for Peat Marwick and held the position of Director of private business consulting services.

Andrew Neilson

Group General Manager - Commercial

Mr Neilson has worked as a solicitor with one of Australia's largest law firms, and as an in-house legal counsel and commercial manager for two NYSE-listed global IT firms. He has experience with commercialising technology, identifying and managing commercial risk and in structuring and negotiating a range of contracts with global partners, suppliers and customers. Mr Neilson is a Graduate of the Australian Institute of Company Directors and holds a Bachelor of Laws (Honours) and a Bachelor of Commerce.

Peter McDonell

Human Resources Manager

Mr McDonell has significant human resources management experience including key roles with one of the world's leading global automotive and engineering companies. He has had extensive involvement in human resources strategy and policy, performance management, workplace relations and operational aspects of human resources. Mr McDonell has a Bachelor of Arts, Bachelor of Laws and a Graduate Diploma of Industrial Relations and is a Member of the Australian Human Resources Institute.

Trent Rowe

Group General Manager - Product & Marketing

Mr Rowe specialises in facilitating industrial companies turn their technology into 'products' and then integrating these products into customer's applications. He has broad experience in the manufacturing and plastics processing industries, the Heating, Ventilation & Air Conditioning (HVAC) industry, and marketing industrial textile products. Mr Rowe has an MBA and is a member of the Australian Marketing Institute.

Paddy Thompson

General Manager Business Development

Mr. Thompson has extensive business development experience gained over 10 years as a corporate finance adviser, particularly in working with companies specialising in low carbon and renewable energy generation. He has experience of building an environmental consultancy business in the UK, working with innovative environmental companies, the public sector, technologists, entrepreneurs and financiers. Mr. Thompson qualified as a chartered accountant with Ernst & Young and is also a qualified corporate financier. He is a fluent Spanish speaker and is based in the UK.

Frank Obernitz

General Manager Business Development

Mr. Obernitz has gained extensive business development experience in the utility and industrial sector over the last 10 years. After setting up the sales and added value services activities of Dutch utility Nuon in Germany he became responsible for the Acquisition, Marketing and Sales group in the industry park business of the company in the Benelux and Germany. Mr. Obernitz graduated in energy and process engineering and followed a general management study at INSEAD, Fontainebleau. A native German speaker he is also fluent in Dutch and English and is based at CFCL's manufacturing site in Heinsberg, Germany.

PricewaterhouseCoopers

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Auditor’s Independence Declaration

As lead auditor for the audit of Ceramic Fuel Cells Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ceramic Fuel Cells Limited and the entities it controlled during the period.

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
27 September 2010

Corporate Governance Statement

As an Australian listed company, Ceramic Fuel Cells Limited is required to have regard to the Australian Securities Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (**ASX Recommendations**, available on www.asx.com.au).

The Directors are also mindful of the corporate governance requirements imposed on AIM quoted companies and the expectations of European investors, including the recommendations of the UK Combined Code on Corporate Governance.

The Company intends to comply with both sets of recommendations to the maximum extent practicable, considering the Company's resources, stage of development and current priorities.

ASX Recommendations

The ASX Recommendations were first published in 2003, and an updated version came into force on 1 January 2008. On 30 June 2010 the ASX published amendments to the ASX Recommendations, which come into force on 1 January 2011. The Company will report on its compliance with these amended Recommendations in its 2011 Annual Report.

The ASX Recommendations are guidelines rather than prescriptions. The essence of the Recommendations is an "if not, why not" approach: that is, a company is free to depart from the Recommendations provided it discloses and explains the approach it has taken.

The table below sets out the Company's compliance with the ASX Recommendations:

ASX Principles and Recommendations	Compliance
Principle 1 – Lay solid foundations for management and oversight *Companies should establish and disclose the respective roles and responsibilities of board and management.*	
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Complies. CFCL has a written Board Charter which sets out these matters.
Box 1.1 Content of a director's letter upon appointment	Complies. CFCL considers these matters when drafting directors' engagement letters.
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Complies. CFCL regularly reviews the performance of senior executives. The Board (and/or the Remuneration & Nomination Committee) formally reviews the performance of the Managing Director against agreed milestones at least annually, usually at the end of the financial year. The Managing Director formally reviews the performance of senior executives against agreed KPIs twice a year, usually after each financial half year.
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies.
Principle 2 – Structure the board to add value *Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.*	
Recommendation 2.1: A majority of the board should be independent directors.	Complies. All Directors apart from the Managing Director are 'independent' directors according to the ASX guidelines.
Box 2.1: Relationships affecting independent status	Complies.
Recommendation 2.2: The chair should be an independent director.	Complies.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Complies.
Recommendation 2.4: The board should establish a nomination committee.	Complies. The Board has established a Remuneration & Nomination Committee.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Directors evaluate the performance of the Board, its committees and individual directors, generally annually. This process is led by the Chairman. In 2006-07 the Board conducted a formal review facilitated by an external consultant. In 2007-08 and in 2008-09 the Board conducted an internal review.
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2. (From 1 January 2011 – including a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the board.)	Complies. More information about the Directors is set out in the Directors' Report. The Company also maintains a Corporate Governance section on its website, www.cfcl.com.au.

ASX Principles and Recommendations	Compliance
Principle 3 – Promote ethical and responsible decision-making *Companies should actively promote ethical and responsible decision-making.*	
Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies. The Company has a written Code of Conduct, designed to maintain confidence in the integrity of the Company and its subsidiaries. The Code expresses certain basic principles that CFCL, its employees, contractors and external consultants should follow in all dealings related to the Company. The Code is given to new employees and directors as part of their induction into the Company.
Box 3.1: Suggestions for the content of a code of conduct	Complies. The Company's Code of Conduct includes principles relating to: Compliance with the law, particularly laws relating to competition and consumer protection, insider trading and privacy Occupational health & safety policy Equality in employment Confidentiality Conflict of interests Procedures for reporting any breaches of the Code.
Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. (Note – this Recommendation will be deleted from 1 January 2011, when a similar rule comes into effect as an ASX Listing Rule.)	Complies. A summary of the Company's Securities Trading Policy is posted on the Company's website.
Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies
Principle 4 – Safeguard integrity in financial reporting *Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.*	
Recommendation 4.1: The board should establish an audit committee.	Complies.
Recommendation 4.2: The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.	Complies. The Board has an audit committee comprising Mr Dempsey (Chair), Mr Harding and Mr Rose. Each of these directors is an independent non-executive director.
Recommendation 4.3: The audit committee should have a formal charter.	Complies.
Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Complies. Details of the qualifications of the audit committee members, and meetings of the committee, are set out in the Directors' Report.
Principle 5 – Make timely and balanced disclosure *Companies should promote timely and balanced disclosure of all material matters concerning the company.*	
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies. The Company has a Continuous Disclosure Policy.
Box 5.1: Continuous disclosure policies	Complies.
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies. A summary of the Company's Continuous Disclosure Policy is provided in the Corporate Governance section of www.cfcl.com.au.

ASX Principles and Recommendations	Compliance
Principle 6 – Respect the rights of shareholders *Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.*	
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company has a strategy for promoting effective communications with shareholders, brokers, media and other stakeholders. The Company has not disclosed a formal communications policy.
Box 6.1: Using electronic communications effectively	Complies. As a dual-listed company, with shareholders across the world, the Company uses several electronic communications tools to communicate with shareholders: • Shareholders can receive all announcements and other correspondence by email, through the Company's website and also through Computershare's e-Tree service; • The Company's website includes all announcements since the Company listed on ASX in 2004, other Company presentations, and the full text of AGM notices and explanatory material; • The Company provides webcasts, podcasts and videos through the Boardroomradio service www.brr.com.au/cfu.
Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies.
Principle 7 – Recognise and manage risk *Companies should establish a sound system of risk oversight and management and internal control.*	
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies. The Directors' Report section of each Annual Report includes an overview of the Company's material business risks.
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies. Management reports material business risks to the Board, including regular reports to the Board Technical committee on technical risks, and to the Board Audit committee on non-technical risks.
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies. This disclosure is contained in the Directors' Report.
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies.
Principle 8 – Remunerate fairly and responsibly *Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.*	
Recommendation 8.1: The board should establish a remuneration committee.	Complies. The Board has established a Remuneration & Nomination Committee.
New Recommendation 8.2 (from 1 January 2011) The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent director • has at least three members	Complies. The Remuneration & Nomination Committee comprises Mr Rose (Chair), Mr Harding, Mr Dempsey and Dr Binks – all independent directors.
Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies.
Box 8.1: Guidelines for executive remuneration packages	Complies.
Box 8.2: Guidelines for non-executive director remuneration	The Company's non-executive directors are remunerated by way of fees. There are no retirement benefits other than superannuation. Any issue of equity to directors is approved by shareholders.
Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies. Further details of the Remuneration & Nomination committee are set out in the Directors' Report.

Board of Directors

The Board consists of a Chairman, Deputy Chairman, Managing Director and three other non-executive directors.

The Board has ultimate responsibility to the shareholders for the welfare of the Company by guiding and monitoring the Company's business affairs. The Board delegates management of the Company's resources to the executive management team, under the leadership of the Managing Director. The responsibilities of the Board and the roles and division of authority between the Chairman and Managing Director are set down in a Board Charter.

Under the Company's constitution, directors are elected for three years subject to the requirement that one-third of the directors (excluding a Managing Director) must retire at each annual general meeting. A retiring director may stand for re-election.

A director must declare any conflict of interest, and directors may not participate in discussions or resolutions pertaining to any matter in which the director has a material personal interest without Board approval.

In discharging their duties, directors are provided with direct access to senior management and outside advisors and auditors. Board committees and individual directors may seek, with the Chairman's approval, independent professional advice at the Company's expense in order to perform their duties.

The Company's practise is to execute a formal deed with each director and the Company Secretary regarding access to Board papers, indemnity and insurance.

The Board meets monthly, with additional meetings when required. The details of directors' attendance at Board meetings during the year are shown in the Directors' Report.

Board Committees

The Board has established three standing committees. Each of these Committees has adopted a written charter.

Audit Committee

The Audit Committee comprises Mr Dempsey (Chair), Mr Harding and Mr Rose. The Audit Committee recommends to the Board the appointment of the external auditors, reviews and monitors compliance with the audit plan, reviews the Company's financial reports, monitors the effectiveness of the accounting systems, the internal control environment, and the risk management and compliance system, and provides a clear line of communication between the external auditors and the Board. The Audit Committee regularly reviews the evaluation and testing of the Company's internal control environments undertaken by the Company's financial staff.

Technical Committee

The Technical Committee comprises Dr Binks (Chair), Mr Rose, Mr Harding and Mr Dow, with the Chief Technology Officer and other senior managers attending by invitation. All Directors are entitled to attend all meetings of the Technical Committee. The Technical Committee overviews the Company's product and technology development programmes and advises the Board upon those matters, including technology risks.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Mr Rose (Chair), Mr Harding, Mr Dempsey and Dr Binks. The Committee reviews the remuneration of directors and senior management and the Company's recruitment, retention and termination policies for senior management. The Committee also monitors Board composition, Board and senior management succession planning, and reviews the performance of the Managing Director.

Directors' Independence

All directors other than Managing Director Mr Dow are independent non-executive directors.

Company Policies

The Company has adopted a range of policies and procedures to follow appropriate standards of corporate governance, including:

- A Code of Conduct which requires all directors and employees to observe high standards of ethics and behaviour in the Company's activities.
- Continuous disclosure policies, to keep the ASX and AIM markets informed of material price sensitive information.
- A Securities Trading policy, to govern when directors and employees may trade in the Company's shares.

The Board has adopted a formal Charter, including a Directors' code of conduct, modelled on the *Australian Institute of Company Directors* Code of Conduct. The Charter sets out the responsibilities of the Board and the roles and division of authority between the Chairman and Managing Director.

Communication with Shareholders

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's performance. The Company promotes effective communications to keep shareholders regularly informed about the Company.

Information is communicated to shareholders through the Company's annual report, annual general meeting, half-yearly results, quarterly cashflow statements and trading updates, email alerts, market announcements and website, www.cfcl.com.au. CFCL also holds 'Open Days' for shareholders to meet senior staff and to tour the Company's facilities. The Company also provides a facility on its website for shareholders to subscribe to receive Company announcements and shareholder communications by email. The Company also provides webcasts through the Boardroomradio service. Details of the Company's Corporate Governance practices are also published on www.cfcl.com.au.

Financial Report

For the year ended 30 June 2010

Contents

This financial report is the consolidated financial report of the consolidated entity consisting of Ceramic Fuel Cells Limited and its subsidiaries. The financial report is presented in the Australian currency.

Ceramic Fuel Cells Limited is a public company limited by shares, incorporated and domiciled in Australia, listed on both the Australian Stock Exchange and on the AIM Market of the London Stock Exchange. Its registered office and principal place of business is at 170 Browns Road, Noble Park, Victoria 3174, Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 2 to 9 and in the directors' report on page 10, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 27 September 2010. The directors have the power to amend and to reissue the financial report.

A copy of this financial report may be obtained from Ceramic Fuel Cells Limited's website: **www.cfcl.com.au**

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	Note	2010 $	2009 $
Revenue from continuing operations	5	**2,032,984**	1,679,399
Other income	6	**255,433**	2,100,969
Research & Product Development	1(e)	**(10,257,270)**	(9,861,834)
General & Administration	1(e)	**(8,919,372)**	(9,614,608)
Sales & Marketing	1(e)	**(2,334,848)**	(1,731,444)
Net foreign exchange gain/(loss)	1(e)	**(3,355,754)**	2,711,657
Impairment reversal/(charge)		**2,926,957**	(27,459,991)
Loss before income tax		**(19,651,870)**	(42,175,852)
Income tax expense	8	**-**	-
Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited	22(b)	**(19,651,870)**	(42,175,852)
Other comprehensive income			
Exchange differences on translation of foreign operations		**(3,345,291)**	(582,120)
Changes in the fair value of financial assets		**-**	3,898,009
Other comprehensive income for the year, net of tax		**(3,345,291)**	3,315,889
Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited		**(22,997,161)**	(38,859,963)
		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	30	**(1.91)**	(8.58)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2010

	Note	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	**11,474,299**	25,527,144
Trade and other receivables	10	**836,636**	452,479
Inventories	11	**1,081,472**	80,092
Financial assets	13	**-**	4,253,041
Other	12	**445,842**	352,105
Total Current Assets		**13,838,249**	30,664,861
Non-Current Assets			
Plant and equipment	14	**19,435,452**	20,275,958
Intangible assets	15	**1,000**	1,000
Total Non-Current Assets		**19,436,452**	20,276,958
Total Assets		**33,274,701**	50,941,819
LIABILITIES			
Current Liabilities			
Trade and other payables	16	**1,307,448**	817,544
Borrowings	19	**271,944**	-
Provisions	17	**1,161,925**	843,125
Deferred revenue	18	**2,261,610**	258,111
Total Current Liabilities		**5,002,927**	1,918,780
Non-Current Liabilities			
Borrowings	19	**1,788,647**	-
Provisions	20	**437,644**	533,099
Total Non-Current Liabilities		**2,226,291**	533,099
Total Liabilities		**7,229,218**	2,451,879
Net Assets		**26,045,483**	48,489,940
EQUITY			
Contributed equity	21	**230,415,020**	230,415,020
Reserves	22(a)	**710,438**	3,503,025
Retained profits/(losses)	22(b)	**(205,079,975)**	(185,428,105)
Total Equity		**26,045,483**	48,489,940

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

	Note	Contributed equity	Reserves	Retained earnings	Total equity
		Entirely attributable to owners of Ceramic Fuel Cells Limited			
		$	$	$	$
Balance at 1 July 2008		199,583,570	(1,378,867)	(143,252,253)	54,952,450
Total comprehensive income for the year		**-**	**3,315,889**	**(42,175,852)**	**(38,859,963)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	21	30,831,450	-	-	30,831,450
Employee share options - value of employee services	22(a)	-	1,566,003	-	1,566,003
Balance at 30 June 2009		**230,415,020**	**3,503,025**	**(185,428,105)**	**48,489,940**
Total comprehensive income for the year		**-**	**(3,345,291)**	**(19,651,870)**	**(22,997,161)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	21	-	-	-	-
Employee share options - value of employee services	22(a)	-	552,704	-	552,704
Balance at 30 June 2010		**230,415,020**	**710,438**	**(205,079,975)**	**26,045,483**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2010

	Note	2010	2009
		$	$
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods & services tax)		**2,290,575**	2,030,435
Payments to suppliers and employees (inclusive of goods & services tax)		**(21,764,342)**	(18,800,097)
		(19,473,767)	(16,769,662)
Grant receipts		**2,220,798**	123,370
Other receipts		**107,031**	51,428
Interest payments		**(73,196)**	-
Net cash inflow (outflow) from operating activities	29	**(17,219,134)**	(16,594,864)
Cash Flows from Investing Activities			
Decrease/(increase) in security deposits		**(4,394)**	515
Proceeds from sale of plant and equipment		**500**	810
Payments for plant and equipment		**(3,874,946)**	(8,233,045)
Net cash inflow (outflow) from investing activities		**(3,878,840)**	(8,231,720)
Cash Flows from Financing Activities			
Net proceeds from/(payments for) financial assets		**7,057,546**	4,327,143
Proceeds from borrowings		**2,449,686**	-
Repayment of borrowings		**(130,051)**	-
Interest received		**309,929**	2,153,155
Proceeds from issue of shares		**-**	32,234,327
Share issue costs		**-**	(1,402,877)
Net cash inflow from financing activities		**9,687,110**	37,311,748
Net increase (decrease) in cash and cash equivalents		**(11,410,864)**	12,485,164
Cash and cash equivalents at the beginning of the financial year		**25,527,144**	12,650,750
Effects of exchange rate changes on cash and cash equivalents		**(2,641,981)**	391,230
Cash and cash equivalents at the end of the year	9	**11,474,299**	25,527,144

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of this consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of Ceramic Fuel Cells Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial report of the Ceramic Fuel Cells Limited Group also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Financial statement presentation

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Future funding considerations

The Group is in the commercialisation stage of its fuel cell technology. Over the life of the Group it has incurred substantial operating losses and is yet to become cashflow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources and the quality and liquidity of the Company's financial assets. Potential sources of future funding may include, but are not limited to:

- generation of sales revenue through developing and selling pre-commercial and commercial products;
- disposing of non strategic assets;
- securing debt financing for new assets, either in part or in whole; and
- further issues of equity.

To ensure that the Group has sufficient cash resources to be able to meet its future capital and operating expenditure requirements, the Directors have raised further equity subsequent to year end, as disclosed in Note 28. The Directors continue to monitor the Group's detailed financial plans and will take appropriate measures to maintain funding for the Group's operations. Accordingly, the financial report has been prepared on a going concern basis.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ceramic Fuel Cells Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Ceramic Fuel Cells Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to, or acquired by, the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources to, and assessing the performance of, the operating segments. The chief operating decision maker is considered to be the Managing Director.

Change in accounting policy

The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the group's assets and liabilities.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Ceramic Fuel Cells Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of net investments in foreign entities are recognised in other comprehensive income.

(e) Expenses classification

The statement of comprehensive income continues to be reported on the basis of the function of expenses incurred rather than by their nature. The main reasons for the classification of expenses into the functional sub-categories of Research & Product Development, General & Administration and Sales & Marketing are as follows:

- readers of the Group's statement of comprehensive income will gain a better understanding of progress towards achievement of its business plans than they would otherwise have gained if reporting was based upon the nature of costs, and
- these classifications are widely recognised within the Australian and international financial community.

Research & Product Development expense, as denoted in the statement of comprehensive income, includes the cost of all research and development projects, incorporating direct labour and direct material costs, as well as parent entity depreciation and amortisation charges, but excludes indirect project support costs and otherwise apportionable overheads, which are borne within the General & Administration expense classification. Sales & Marketing expense includes depreciation costs attributable to Ceramic Fuel Cells (Europe) Limited.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group's sales contracts generally contain multiple revenue elements. These elements include:

- the delivery and installation of the unit; and
- the provision of services. These services are for the ongoing support and maintenance of the unit for a defined period of time and, in addition to this, in the case of product development agreements, for the provision of engineering services involved in the development of the unit.

Revenue is recognised in relation to each element based on the proportion of the estimated cost associated with that element. Revenue in relation to the delivery and installation of the unit is recognised upon completion of the installation. Revenue in relation to the ongoing support and maintenance of the unit is recognised over the life of the service period. Revenue in relation to engineering services is recognised in proportion to the amount of costs incurred and the total estimated cost to complete the engineering activities.

Interest income is accrued and recognised on a time proportion basis using the effective interest method. Interest income is brought to account as other income in the income statement as the Group derives interest from its cash and financial assets which are being utilised to fund the Group's operations.

(g) Government grants

Grants from the government are recognised as revenue, at their fair value, where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred, if received in advance, and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity or in other comprehensive income are also recognised directly in equity or in other comprehensive income.

Ceramic Fuel Cells Limited does not have any wholly-owned, Australian resident, controlled entities and so has not implemented the Australian tax consolidation legislation.

(i) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases (refer Note 14). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (refer Note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Any non-financial assets, other than goodwill, that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement no more than 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Factors which would indicate that a trade receivable might be impaired include significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments. The amount of the provision would be the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables would not be discounted if the effect of the discount were to be immaterial. The amount of the provision would be recognised in the income statement.

(m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a standard cost basis. Costs of purchased inventory are determined after deducting any rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to effect the sale.

(n) Investments and other financial assets

The Group's investments have been classified as available-for-sale financial assets. Available-for-sale financial assets, comprising principally marketable securities, are non-derivatives that are either designated in this category or not classified in any of the other financial asset categories. Individual investments are included in non-current assets unless either they mature or it is management's intention that they be disposed within twelve months of the balance sheet date. The investments are initially recognised at fair value plus transaction costs and are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. The investments continue to be carried at fair value in the balance sheet. Fair value is calculated for each individual asset based on advice from external professionals, using the indicative selling values of the individual securities. Translation differences on monetary securities denominated in a foreign currency and classified as available-for-sale are recognised in the income statement as foreign exchange gains or losses, as appropriate, whilst changes in their fair value are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement

(o) Plant and equipment

Machinery, equipment and vehicles

All machinery, equipment and vehicles are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation of machinery, equipment and vehicles is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Plant and equipment: 5 to 10 years;
- Vehicles: 6.7 years;
- Furniture and fittings: 5 years; and
- Computer equipment: 3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer Note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease, or the estimated useful life of the improvement to the company, whichever is the shorter. Leasehold improvements not already completely written down as at reporting date are being amortised over periods ranging from 1.6 to 2.5 years.

(p) Intangible assets and expenditure carried forward

(i) Intellectual property

Intellectual property consists of the actual cost incurred in purchasing (for a nominal sum) the beneficial interest in the company's intellectual property, which previously resided in the company's founding members.

This asset has an indefinite life, hence it is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstance indicate that it may be impaired.

(ii) Research and product development

Expenditure on research and product development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised only if the product or service is technically and commercially feasible and adequate resources are available to complete development. Any expenditure so capitalised would comprise all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Such capitalised expenditure would be stated at cost less accumulated amortisation, the latter being calculated on a straight-line basis over the period of the expected benefit. All research and product development expenditures not meeting the criteria for capitalisation are recognised in the income statement as expenses when incurred. The Group does not consider that the expenditure on the current programme of research and product development activities meets the full criteria for capitalisation and, as such, this expenditure is being expensed as incurred.

(iii) Patents

Patent costs are written off to the income statement in the reporting periods in which incurred.

(iv) Information Technology (IT) systems

Costs incurred in the acquisition and development of the Group's global Enterprise Resources & Planning (ERP) computer system which will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis from the time of initial implementation over a period of 5 years.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which are unpaid at that date. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Any fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(s) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the liability-specific risks. Provisions are not recognised for anticipated future operating losses.

(t) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for annual leave are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the accrued benefit method pro-rated on service. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and any known impending changes to relevant legislation. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Short-term incentive

The Group recognises an expense for short-term cash incentives based on a formula that takes into consideration, as at each reporting date, progress towards the expected achievement of both company and employee key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Share-based payments

Share-based compensation benefits are provided to employees, and have been provided to former directors, via the Ceramic Fuel Cells Limited Directors and Employee Benefits Plan (*Equity Plan* - refer Note 31(a)).

The fair value of options granted under the Equity Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using an option pricing model which takes into account the exercise price, the term of the option, the vesting and performance criteria, the non-tradeable nature of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for any bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Goods and Services Tax (GST) (including European Value Added Tax)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxing authority are presented as operating cash flows.

(x) Parent entity financial information

The financial information for the parent entity, Ceramic Fuel Cells Limited, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements with the exception of investments in subsidiaries, which are accounted for at cost in the financial statements of Ceramic Fuel Cells Limited.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009 8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share based payment arrangement should be measured, that is, whether it is measured as an equity or a cash settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's financial statements.

(ii) AASB 2009 10 Amendments to Australian Accounting Standards Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The Group has no financial assets at 30 June 2010 that would be affected by the standard however it may choose to hold such assets in the future. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 will affect the group's accounting treatment in the future if it holds available-for-sale financial assets. AASB 9 will only permit the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The group has not yet decided when to adopt AASB 9.

(iv) Revised AASB 124 Related Party Disclosures and AASB 2009 12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(v) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009 13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 January 2011)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

(vi) AASB 2009 14 Amendments to Australian Interpretation Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

(vii)AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

(Viii)AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Ceramic Fuel Cells Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

Note 2. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to earn an appropriate return on surplus funds whilst mitigating the potential for cash flow losses arising from unfavourable movements in foreign exchange rates on funds intended for the operation of the Group's businesses. Such funds are held in pounds sterling or euros to provide a hedge against expected future cash flow requirements. The Group has not used derivative financial instruments to hedge its risk exposures during the year.

The Group holds the following financial instruments:

	2010	*2009*
	$	*$*
Financial assets		
Cash and cash equivalents	**11,474,299**	25,527,144
Trade and other receivables	**836,636**	452,479
Financial assets - investments	**-**	4,253,041
	12,310,935	30,232,664
Financial liabilities		
Trade and other payables	**1,307,448**	817,544
Borrowings	**2,060,591**	-
	3,368,039	817,544

Financial risk management is the responsibility of the Chief Financial Officer, acting within policies approved by the Board of Directors. The Board approves documented principles for overall financial risk management, as well as written policies covering specific areas such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

The Group's investment policy guidelines set the framework within which management must manage the Group's investment portfolio. The current objectives and policy goals are to:

Within the Investment Risk framework

- earn appropriate returns on surplus cash within conservative levels of risk return exposure;
- mitigate the credit and liquidity risks inherent within its investment activities; and
- set dealing policy controls and management reporting processes.

Within the Operational framework

- ensure investments are only made in approved interest bearing securities. The policy does not permit equity investments. Investments made since September 2008 may only be placed in a limited number of highly liquid securities;
- ensure investments are only made within the guidelines for approved institutions and limits as defined in the policy;
- ensure investments are classified appropriately for accounting purposes at the time the investments are made;
- ensure investments are either held directly or in safe custody, Euroclear or Austraclear in the name of Ceramic Fuel Cells Limited;
- ensure that the investment policy guidelines are reviewed on a regular and timely basis.

Other aspects of the financial risk management programme and policies include:

(a) Market risk

(i) Foreign exchange risk

- Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group operates internationally and holds foreign currency funds which are intended to be used in the construction and operation of its European businesses. As such its Australian dollar reported results are exposed to foreign currency translation adjustments arising from holding currencies other than in the Group's functional currency. During the reporting period this exposure was principally to pounds sterling and euros. The Group's policy is to retain these funds in the currencies in which they are expected to be spent as a natural hedge and not to acquire financial instruments to offset the foreign currency translation adjustments arising in the Australian dollar reported results. The potential adjustment is measured using sensitivity analysis. To the extent that these funds are matched to specific future currency outflows, there is no risk to the Company's cashflow forecasts. See table below

Sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 5% against the pound sterling and euro, with all other variables held constant, the Group's post tax loss for the year would have been $242,718 lower/higher (2009 – $1,077,297 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of cash, investments, receivables and payables denominated in pounds sterling and euros as detailed in the above table. Profit is more sensitive in both 2010 and 2009 to movements in the Australian dollar/euro exchange rate due to the higher level of euro denominated investments.

Equity would have been $980,874 higher/$887,475 lower (2009 – $819,926 higher/$741,712 lower) had the Australian dollar weakened/strengthened by 5% against the pound sterling and euro, arising from the translation of the net investment in foreign operations. Equity is more sensitive to movements in the Australian dollar/euro exchange rate in 2010 than 2009 because of the increased net investment in Germany with the construction of the Group's fuel cell plant there.

(ii) Interest rate risk - cash flow and fair value

The Group's main interest rate risk arises from holding cash and interest-bearing securities as investments. Funds invested at variable rates expose the Group to cash flow interest rate risk. Funds invested at fixed interest rates expose the Group to fair value interest rate risk. The Group's investment policy allows for funds to be invested in securities with maximum interest rate duration of 3 years. During the reporting period the majority of the Group's funds were invested in cash and short interest rate duration securities with leading commercial banks. The value of cash and cash equivalents at 30 June 2010 that was exposed to variable interest rate risk was $11,474,299 (2009 - $25,527,144).

The Group also has borrowings in the form of a finance lease on certain equipment located in the German plant. At 30 June 2010 the amount owing was $2,060,591 (2009 - $Nil). The borrowings are at a fixed effective interest rate of 5.8% per annum and the lease has a further 6.3 years to run. Changes in interest rates will not effect the interest payments on these borrowings and, as they are being measured on the basis of amortised cost, nor will it affect the value of the borrowings in the balance sheet.

Sensitivity

If, during the year ended 30 June 2010, interest rates in each currency that the Group held cash and investments in had changed by +/- 50 basis points from the actual rates with all other variables held constant, post-tax loss for the year would have been $119,000 lower/higher (2009 – change of 50 basis points: $227,000 lower/higher), mainly as a result of higher/lower interest income.

The Group's accounting exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	30 June 2010				30 June 2009		
	EUR $	GBP $	USD $	NZD $	EUR $	GBP $	USD $
Cash and cash equivalents	**10,549,163**	**613,046**	**93,451**	**-**	8,967,112	8,326,166	2,268
Trade and other receivables	**652,730**	**35,184**	**-**	**-**	344,227	27,326	-
Financial assets – investments	**-**	**-**	**-**	**-**	3,501,883	751,158	-
Net investment in foreign operations	**14,125,727**	**4,513,883**	**-**	**-**	9,796,284	5,756,161	-
Trade and other payables	**239,586**	**77,829**	**-**	**25,349**	338,712	78,397	17,101
Borrowings	**2,060,591**	**-**	**-**	**-**	-	-	-

(b) Credit risk

The Group is exposed to credit risk arising from the potential of a counterparty to a financial instrument failing to fulfil their obligations. To manage this risk the Group employs the Standard & Poors (S&P) credit rating system and has policies that define the maximum exposure to a single counterparty within a ratings category and the level of asset concentration of the portfolio as a whole to a specific ratings category. The Group does not invest in securities that have an S&P credit rating lower than 'A' for long-term securities and 'A-2' for short-term securities.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historic information about counterparty default rates:

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet funding requirements.

During the year the Group completed the transfer of all of its funds into current or short-term deposits with major commercial banks.

The Group manages liquidity by continuously monitoring forecast and actual cash flows. The Group does not currently have any lines of credit or bank overdrafts.

Maturities of financial liabilities

The tables below and on Page 44 analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

S&P Rating	*2010*	*2009*
		$
Trade receivables		
Counterparties with external credit ratings (S&P)		
- denominated in EUR		
A	**116,496**	46,008
Counterparties without external credit ratings:		
- New customers (less than 6 months)		
- denominated in AUD	**48,744**	-
- denominated in EUR	**256,096**	-
- denominated in GBP	**1,894**	-
- Existing customers (more than 6 months) with no defaults in the past		
- denominated in AUD	**27,500**	-
	450,730	46,008
Cash and cash equivalents		
- denominated in AUD		
AA	**218,636**	8,231,594
- denominated in EUR		
AA	**4,159,070**	8,962,500
A	**6,390,096**	-
- denominated in GBP		
AA	**613,046**	8,330,782
- denominated in USD		
AA	**93,451**	2,268
	11,474,299	25,527,144

30 June 2010 Contractual maturities of financial liabilities	Less than 6 months $	6 - 12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying Amount (assets)/ liabilities $
Non-derivatives							
Trade and other payables	1,307,448	-	-	-	-	1,307,448	1,307,448
Borrowings (finance lease liabilities)	193,477	193,478	386,955	1,160,865	548,186	2,482,961	2,060,591
Total non-derivatives	1,500,925	193,478	386,955	1,160,865	548,186	3,790,409	3,368,039

30 June 2009 Contractual maturities of financial liabilities	Less than 6 months $	6 - 12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying Amount (assets)/ liabilities $
Non-derivatives							
Trade and other payables	817,544	-	-	-	-	817,544	817,544
Borrowings (finance lease liabilities)	-	-	-	-	-	-	-
Total non-derivatives	817,544	-	-	-	-	817,544	817,544

(d) Summarised sensitivity analysis

The following tables summarises the sensitivity of the Group's financial assets, financial liabilities and net investment in foreign operations to interest rate risk:

30 June 2010	Carrying amount	Interest rate risk			
		-50bps		+50bps	
		Loss	Equity	Loss	Equity
Financial assets					
Cash and cash equivalents	11,474,299	(119,000)	(119,000)	119,000	119,000
Trade and other receivables	836,636				
Net investment in foreign operations	15,552,435				
Financial liabilities					
Trade and other payables	1,307,448				
Borrowings	2,060,591				

The following tables summarises the sensitivity of the Group's financial assets, financial liabilities and net investment in foreign operations to foreign exchange risk:

30 June 2010	Carrying amount	Foreign exchange risk			
		-5%		+5%	
		Loss	Equity	Loss	Equity
Financial assets					
Cash and cash equivalents	11,474,299	235,842	235,842	(235,842)	(235,842)
Trade and other receivables	836,636	11,914	11,914	(11,914)	(11,914)
Net investment in foreign operations	15,552,435		980,874		(887,475)
Financial liabilities					
Trade and other payables	1,307,448	(5,038)	(5,038)	5,038	5,038
Borrowings	2,060,591	-	-	-	-

As noted above, this sensitivity analysis focuses on the accounting impact of these foreign exchange risks. The Group's policy is to hold funds in currencies in which they are expected to be spent, thus minimising the economic impact on future cash flows.

Note 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal subsequent actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition and warranty provisions

As described in Note 1(f) the Group's sales contracts contain multiple revenue elements. Revenue is recognised in relation to each element based on the proportion of the estimated cost associated with that element. A provision for estimated warranty claims is also created at the time of the initial revenue recognition.

The products being developed and sold by the Group are new and as such there is a relative lack of historical experience in undertaking the service, maintenance and warranty obligations of the units. This has meant that management has had to make significant assumptions as to future contract outcomes, from both a cost and technical perspective.

For most contracts the service and warranty obligations cover a period of between 1 and 2 years. The major variable cost assumption in relation to the service and maintenance of the units is the amount of labour time required. The major variable cost assumption in relation to the warranty provision is the estimated life of the fuel cell stack, which will determine how many replacement stacks (if any) will be required during the warranty period.

If the amount of labour time required to service and maintain the units is greater then management's estimates then the amount of revenue that has been deferred, and recorded in the balance sheet, will not be sufficient to cover the future costs.

If the number of stacks that are required to be replaced during the warranty period is greater than management's estimates then the warranty provision will need to be increased, resulting in an increased charge to the income statement.

(b) Critical judgements in applying the entity's accounting policies

Impairment of non-current assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to the impairment of assets. The Directors consider that the Group represents a single cash-generating unit. If an impairment trigger were to arise in the future, such as a change in technical research direction leading to potential obsolescence of one or more items of plant and equipment, then the recoverable amount of the asset/s would need to be reconsidered and determined. The carrying amount of the Group's plant and equipment at 30 June 2010 is approximately $19.4 million (2009 - $20.3 million), the majority of which is specialist equipment dedicated to solid oxide (ceramic) fuel cell research and product development, ceramic powder production and the production and assembly of ceramic fuel cell stacks.

Income tax losses

The ability of each member of the Group to obtain the potential tax benefit of unused tax losses, for which no deferred tax asset has been recognised, is dependent upon:

- the derivation of future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- continued compliance with the conditions for deductibility imposed by the taxation legislation of the relevant tax jurisdiction; and
- there being no changes in tax legislation which may adversely affect the ability to realize the benefit from the deductions for the losses.

Note 4. Segment Information

(a) Operating segment

Management considers that the Group represents a single operating segment whose activities are directed towards the commercialisation of its fuel cell technology. Decisions as to resource allocation and the measurement of the business's performance are undertaken at the Group level.

(b) Geographical information

Although the Group's operational businesses are managed on a global basis, they operate within two main geographical areas:

Australia: The home country of the parent entity. The areas of operation are principally solid oxide (ceramic) fuel cell research, product development and pilot manufacturing; and

Europe: Comprises the subsidiaries of the parent entity. The areas of operation include the operation of a zirconia powder manufacturing plant, a fuel cell products manufacturing and assembly plant, sales, marketing and business development.

Geographical revenues are allocated based upon the country in which the customer is located.

Geographical assets are allocated based upon the country in which the assets are physically located.

	Australia	*Europe*	*Inter- segment eliminations*	*Total*
	$	*$*	*$*	*$*
2010				
Sales revenue from external customers				
Customers domiciled in Australia	**68,096**	**-**	**-**	**68,096**
Customers domiciled outside Australia				
- European Union	**168,239**	**1,582,340**	**-**	**1,750,579**
- Asia	**208,697**	**-**	**-**	**208,697**
Other income	**318,462**	**27,898**	**(221,699)**	**124,661**
	763,494	**1,610,238**	**(221,699)**	**2,152,033**
Unallocated revenue and other income				**136,384**
Total revenue and other income				**2,288,417**
Non-current assets	**10,425,668**	**24,084,619**	**(15,074,835)**	**19,435,452**
Unallocated non-current assets				**1,000**
Total non-current assets				**19,436,452**
2009				
Sales revenue from external customers				
Customers domiciled in Australia	**-**	**-**	**-**	**-**
Customers domiciled outside Australia				
- European Union	**-**	**1,407,897**	**-**	**1,407,897**
- Asia	**262,111**	**-**	**-**	**262,111**
- North America	**9,391**	**-**	**-**	**9,391**
Other income	**341,844**	**98,933**	**(410,197)**	**30,580**
	613,346	**1,506,830**	**(410,197)**	**1,709,979**
Unallocated revenue and other income				**2,070,389**
Total revenue and other income				**3,780,368**
Non-current assets	**11,318,261**	**24,014,782**	**(15,057,085)**	**20,275,958**
Unallocated non-current assets				**1,000**
Total non-current assets				**20,276,958**

	2010	2009
	$	$

Note 5. Revenue

From continuing operations		
Sales revenue		
Fuel cell products	**2,014,660**	1,670,008
Powder sales income	**18,324**	-
Licensing income	**-**	9,391
Total revenue from continuing operations	**2,032,984**	1,679,399

Note 6. Other Income

Net interest revenue	**136,384**	1,947,019
Export Market Development Grant	**-**	123,370
Sundry income	**118,768**	29,815
Net gain on disposal of plant and equipment	**281**	765
Total other income	**255,433**	2,100,969

Note 7. Expenses

Profit/(loss) before income tax includes the following specific expenses:

Depreciation		
Equipment	**1,754,217**	1,763,875
Amortisation		
Leasehold improvements	**506,453**	609,267
	2,260,670	2,373,142
Share options expense	**552,704**	1,566,003
Other provisions		
Employee entitlements	**687,104**	624,408
Rental expense relating to operating leases		
Minimum lease payments	**804,702**	866,654
Defined contribution superannuation expense	**667,513**	676,031

Note 8. Income Tax Expense

(a) Numerical reconciliation of income tax expense to prima facie tax payable

	2010 $	2009 $
Profit/(loss) before income tax expense	**(19,651,870)**	(42,175,852)
Tax at the Australian tax rate of 30% (2009 - 30%)	**(5,895,561)**	(12,652,756)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Australian R&D tax concession	**(692,325)**	(710,025)
Share-based payments expense	**165,297**	467,709
Sundry non-deductible items	**53,113**	24,425
	(6,369,476)	(12,870,647)
Difference in overseas tax rates	**(119,100)**	9,110
Adjustments for current tax of prior periods	**4,071,047**	(146,999)
Income tax benefit not recognised	**2,417,529**	13,008,536
Income tax expense	**-**	-

(b) Tax losses

	2010 $	2009 $
Unused tax losses for which no deferred tax asset has been recognised	**224,260,912**	215,096,122
Potential tax benefit	**66,540,831**	64,123,303

Unused tax losses have been incurred by all Group entities and are calculated at rates applicable to each taxation jurisdiction.

Note 9. Current Assets - Cash and Cash Equivalents

	2010 $	2009 $
Cash at bank and on hand (balance as per statement of cash flows)	**11,474,299**	25,527,144

Cash at bank and in hand

Cash on hand is non-interest bearing. Cash at bank consists of multiple currencies in 'at call' accounts (bearing balance-dependent interest rates in accordance with individual account terms) and short term deposits of up to 3 months duration.

The amount of cash and cash equivalents at 30 June 2010 includes an amount of €1,800,000 (A$2,579,166) which is held in a CFCL Group bank account pledged to support a bank guarantee issued in relation to a government grant received during the current reporting period (refer Note 18 Deferred Revenue). The cash in this bank account is not available for use by the CFCL Group.

Further information about the Group's exposure to interest rate risk is discussed in Note 2.

Note 10. Current Assets - Trade and Other Receivables

	2010 $	2009 $
Trade receivables	**450,731**	46,008
GST/VAT receivable	**357,726**	383,872
Other receivables	**28,179**	22,599
	836,636	452,479

	2010 $	2009 $

Note 11. Current Assets - Inventories

	2010 $	2009 $
Raw materials and stores – at cost	**1,068,408**	76,841
Work in progress – at cost	**13,064**	3,251
	1,081,472	80,092

Note 12. Current Assets - Other

	2010 $	2009 $
Prepayments	**241,772**	150,804
Security deposits	**204,070**	201,301
	445,842	352,105

Security deposits

The deposits are bearing fixed interest rates between 0% and 4.40% at reporting date (2009 – 0% and 2.92%).

Note 13. Financial Assets - Investments

(a) Unlisted Securities

	2010 $	2009 $
Current assets		
Financial assets	-	4,253,041
Non-current assets		
Financial assets	-	-
	-	4,253,041
Investments include the following revaluation surplus/(deficit) *(transferred to equity)* as at reporting date:	-	-
Unlisted, interest-bearing securities denominated in:		
Australian dollars	-	-
European euros	-	3,501,883
UK pounds sterling	-	751,158
	-	4,253,041

(b) Impairment Charge Reversal

During the period the company disposed of all of its securities for total net proceeds of approximately $6.6 million. The fair value of these financial assets was approximately $4.3 million as at 30 June 2009. After taking into account foreign exchange movements, approximately $2.9 million of impairment charges recognised in prior reporting periods was reversed in the current period. The impairment reversal of $2.9 million represents the gain realised on the sale of the securities.

Note 14. Non-Current Assets – Plant and Equipment

	2010 $	2009 $
Equipment		
Machinery - at cost	**27,277,717**	20,088,883
Less: Accumulated depreciation	**(13,033,351)**	(11,377,586)
Net book amount	**14,244,366**	8,711,297
Reconciliation		
Opening net book amount	**8,711,297**	11,766,888
Exchange differences	**(607,168)**	(12,823)
Additions	**200,916**	796,995
Transfers in/(out)	**7,693,757**	(2,043,417)
Disposals (written down value)	**(219)**	(32,471)
Depreciation expense (Note 7)	**(1,754,217)**	(1,763,875)
Closing net book amount	**14,244,366**	8,711,297
Leasehold Improvements		
Leasehold improvements - at cost	**6,603,412**	6,882,105
Less: Accumulated amortisation	**(5,793,610)**	(5,373,838)
Net book amount	**809,802**	1,508,267
Reconciliation		
Opening net book amount	**1,508,267**	72,759
Exchange differences	**(198,536)**	(1,736)
Additions	**6,524**	3,094
Transfers in/(out)	**-**	2,043,417
Amortisation expense (Note 7)	**(506,453)**	(609,267)
Closing net book amount	**809,802**	1,508,267
Assets Under Finance Lease		
Plant and equipment - at cost	**4,381,284**	-
Less: Accumulated depreciation	**-**	-
Net book amount	**4,381,284**	-
Reconciliation		
Opening net book amount	**-**	-
Exchange differences	**-**	-
Additions	**-**	-
Transfers in/(out)	**4,381,284**	-
Disposals (written down value)	**-**	-
Depreciation expense (Note 7)	**-**	-
Closing net book amount	**4,381,284**	-

	2010 $	2009 $

Note 14. Non-Current Assets – Plant and Equipment (continued)

	2010 $	2009 $
Assets Under Construction		
Construction in progress - at cost	**-**	10,056,394
Reconciliation		
Opening net book amount	**10,056,394**	2,322,101
Exchange differences	**(1,739,964)**	265,296
Additions	**3,758,611**	7,468,997
Transfers in/(out)	**(12,075,041)**	-
Disposals (written down value)	**-**	-
Closing net book amount	**-**	10,056,394
Total Plant and Equipment		
Plant and equipment - at cost	**38,262,413**	37,027,382
Less: Accumulated depreciation	**(18,826,961)**	(16,751,424)
Net book amount	**19,435,452**	20,275,958
Reconciliation		
Opening net book amount	**20,275,958**	14,161,748
Exchange differences	**(2,545,668)**	250,737
Additions	**3,966,051**	8,269,086
Transfers in/(out)	**-**	-
Disposals (written down value)	**(219)**	(32,471)
Depreciation and amortisation expense (Note 7)	**(2,260,670)**	(2,373,142)
Closing net book amount	**19,435,452**	20,275,958

Note 15. Non-Current Assets – Intangible Assets

	2010 $	2009 $
Intellectual property		
Cost	**1,000**	1,000
Less: Impairment charge	**-**	-
Net book amount	**1,000**	1,000
Reconciliation		
Opening net book amount	**1,000**	1,000
Additions	**-**	-
Impairment charge	**-**	-
Closing net book amount	**1,000**	1,000

	2010	2009
	$	$

Note 16. Current Liabilities – Trade and Other Payables

	2010 $	2009 $
Trade payables	**253,256**	291,573
Other payables	**1,054,192**	525,971
	1,307,448	817,544

Information about the Group's exposure to foreign exchange risk is provided in Note 2.

Note 17. Current Liabilities - Provisions

	2010 $	2009 $
Provisions for employee benefits: annual and long service leave	**1,055,246**	843,125
Provision for product warranty	**55,252**	-
Provision for operating leases	**51,427**	-
	1,161,925	843,125

Note 18. Current Liabilities – Deferred Revenue

	2010 $	2009 $
Deferred revenue, including government grants	**2,261,610**	258,111

In December 2009 the Group received a regional development grant of €1,386,000 (A$1,985,958 as at 30 June 2010) from the Government of North Rhine Westphalia in Germany. The funding requires the company to meet certain requirements as to expenditure on construction of the Group's plant in Germany and the creation of jobs. The Group has met the requirement in relation to expenditure on the plant. As at the reporting date the full amount of the grant has been treated as deferred revenue and will be brought to account in future periods in line with the satisfaction of the obligations.

Note 19. Borrowings

In December 2009 the Group entered into a sale-and-leaseback transaction for certain equipment located in the Group's plant in Germany. The transaction involved the sale of equipment with a cost of €3,057,698 (A$4,899,372) to the German banking Group Commerzbank. This equipment is included within the non-current asset, plant and equipment, in the balance sheet. The equipment is being leased back over 7 years with an upfront lease payment of 50% of the value of the equipment. Accordingly, the net funding received in December 2009 was €1,528,849 (A$2,449,686).

	2010 $	2009 $
Finance lease liabilities (refer also to Note 25)		
Current	**271,944**	-
Non-current	**1,788,647**	-
	2,060,591	-

	2010	2009
	$	$

Note 20. Non-Current Liabilities - Provisions

Provision for employee benefits: long service leave	**95,304**	69,589
Provision for operating leases	**342,340**	463,510
	437,644	533,099

Provision for Operating Leases (Current and Non-Current)		
Carrying amount at start of reporting period	**463,510**	342,133
Initial and/or additional provisions recognised	**31,178**	133,312
Amounts used	**(100,921)**	(11,935)
Carrying amount at end of reporting period	**393,767**	463,510

The provision for operating leases relates to premises leased by the parent entity and its European-based subsidiaries during the reporting period. AASB 117 *Leases* requires that lease payments under an operating lease be recognised as an expense on a straight-line basis over the lease term.

Note 21. Contributed Equity

(a) Share capital

The share capital account of the company consists of 1,029,873,280 fully paid up, ordinary shares as at 30 June 2010.

(b) Movements in ordinary share capital

Movements in ordinary share capital of the company during the past two years were as follows:

Date	Details	Number of shares	Issue price	Amount $
1-7-2008	Opening balance	344,745,674		199,583,570
6-4-2009	Placing and subscription	409,046,688	$0.05	18,897,499
23-4-2009	Overseas offer	99,906,445	$0.05	4,528,104
23-4-2009	Australia and New Zealand rights issue	176,174,473	$0.05	8,808,724
	Less: Transaction costs arising on share issues	-		(1,402,877)
30-6-2009		1,029,873,280		230,415,020
	No movement	-		-
30-6-2010	Balance	**1,029,873,280**		**230,415,020**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Share options

Information relating to the company's Directors and Employee Benefits Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 31.

Note 21. Contributed Equity (continued)

(e) Capital management

The Group's and the parent entity's objective when managing capital is to safeguard their ability to continue as a going concern. This objective has been historically met by issuing shares in the capital of the parent so as to ensure sufficient cash reserves to enable the Group to carry out its operations and to meet current and future obligations as and when they arose. Further information on the Group's future funding is set out in Note 1(a). Capital under management consists solely of fully paid up, ordinary shares. Neither the parent nor any of its subsidiaries is subject to any externally imposed capital requirements. There has been no change, from the previous reporting period, in the way in which the Group and parent has managed its capital objective.

	2010	*2009*
	$	*$*
Note 22. Reserves and Retained Profits/(Losses)		
(a) Reserves		
Share-based payments reserve	**4,377,872**	3,825,168
Foreign currency translation reserve	**(3,667,434)**	(322,143)
Investments revaluation reserve	**-**	-
Total reserves	**710,438**	3,503,025
Share-based payments reserve		
Balance at 1 July	**3,825,168**	2,259,165
Option expense	**552,704**	1,566,003
Balance at 30 June	**4,377,872**	3,825,168
Foreign currency translation reserve		
Balance at 1 July	**(322,143)**	259,977
Currency translation differences arising during the year	**(3,345,291)**	(582,120)
Balance at 30 June	**(3,667,434)**	(322,143)
Investments revaluation reserve		
Balance at 1 July	**-**	(3,898,009)
Amount reversed upon impairment of financial assets	**-**	3,898,009
Balance at 30 June	**-**	-
(b) Retained profits/(losses)		
Movements in retained profits/(losses) were as follows:		
Balance at 1 July	**(185,428,105)**	(143,252,253)
Net profit/(loss) for the year	**(19,651,870)**	(42,175,852)
Balance at 30 June	**(205,079,975)**	(185,428,105)

(c) Nature and purpose of reserves

(i) Share-based payments reserve: The share-based payments reserve is used to recognise the fair value of options issued but not exercised – refer Note 1(t)(iv).

(ii) Foreign currency translation reserve: Exchange differences arising on translation of controlled foreign entities are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in the income statement when the net investment is disposed.

(iii) Investments revaluation reserve: Changes in the fair value of investments classified as available-for-sale financial assets are taken to the investments revaluation reserve. Reserve amounts are transferred to the income statement when the associated assets are sold or impaired.

Note 23. Key Management Personnel Disclosures

(a) Key management personnel compensation

	2010	2009
	$	$
Short-term employee benefits	**2,278,463**	1,642,133
Post-employment benefits	**440,503**	497,938
Long-term benefits	**6,873**	27,065
Termination benefits	**-**	169,942
Share-based payments	**270,557**	869,768
	2,996,396	3,206,846

Detailed remuneration disclosures are provided in the Directors' Report, within sections A to C of the Remuneration Report, on pages 14 to 18.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

No options were granted as compensation during the reporting period.

No shares were issued on the exercise of options during the reporting period.

(ii) Option holdings

The numbers of options over ordinary shares in the company held at any time during the financial year by each director of Ceramic Fuel Cells Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010								
Name	Balance of options at the start of the year	Options granted during the year as compen-sation	Options exercised during the year	Options forfeited during the year	Balance of options at the end of the year	Options vested and exercisable at the end of the year	Options yet to vest at the end of the year	Potential options foregone during the year
Directors of Ceramic Fuel Cells Limited								
B L Dow	2,645,000	-	-	-	2,645,000	2,645,000	-	-
J Harding	100,000	-	-	-	100,000	100,000	-	-
R J Kennett	100,000	-	-	-	100,000	100,000	-	-
Former directors of Ceramic Fuel Cells Limited								
M B Dureau	100,000	-	-	-	100,000	100,000	-	-
Other key management personnel of the Group								
F R Boyd	718,750	-	-	-	718,750	718,750	-	-
K Föger	934,450	-	-	-	934,450	889,950	44,500	-
P R McDonell	984,450	-	-	-	984,450	939,950	44,500	-
A D Neilson	1,084,450	-	-	-	1,084,450	1,039,950	44,500	-
J C Rajoo	1,183,450	-	-	-	1,183,450	1,139,950	43,500	-
T M Rowe	1,068,750	-	-	-	1,068,750	1,068,750	-	-
N A Sherburn	928,200	-	-	-	928,200	883,700	44,500	-
Former key management personnel of the Group								
B M Bilton	625,000	-	-	(625,000)	-	-	-	-

Note 23. Key Management Personnel Disclosures (continued)

(ii) Option holdings (continued)

2009 Name	Balance of options at the start of the year	Options granted during the year as compen-sation	Options exercised during the year	Options forfeited during the year	Balance of options at the end of the year	Options vested and exercisable at the end of the year	Options yet to vest at the end of the year	Potential options foregone during the year
Directors of Ceramic Fuel Cells Limited								
B L Dow	485,000	2,160,000	-	-	2,645,000	1,645,000	1,000,000	90,000
J Harding	100,000	-	-	-	100,000	-	-	-
M B Dureau	100,000	-	-	-	100,000	-	-	-
R J Kennett	100,000	-	-	-	100,000	-	-	-
Former directors of Ceramic Fuel Cells Limited								
D Carruthers	-	100,000	-	(100,000)	-	-	-	-
Other key management personnel of the Group								
K Föger	440,700	493,750	-	-	934,450	452,450	369,500	68,750
P R McDonell	490,700	493,750	-	-	984,450	502,450	482,000	68,750
A D Neilson	590,700	493,750	-	-	1,084,450	602,450	482,000	68,750
J C Rajoo	689,700	493,750	-	-	1,183,450	702,450	481,000	68,750
T M Rowe	575,000	493,750	-	-	1,068,750	631,250	437,500	68,750
N A Sherburn	590,700	337,500	-	-	928,200	546,200	382,000	225,000
Former key management personnel of the Group								
B M Bilton	625,000	212,500	-	(212,500)	625,000	625,000	-	37,500

(iii) Share holdings

The number of shares in the company held at any time during the financial year by each director of Ceramic Fuel Cells Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010 Name	Balance of shares at the start of the year	Shares received during the year on the exercise of options	Shares received during the year as compensation	Other changes during the year	Balance of shares at the end of the year
Directors of Ceramic Fuel Cells Limited					
J Harding	10,350,000	-	-	-	10,350,000
J P Dempsey	-	-	-	20,000	20,000
R J Kennett	290,000	-	-	-	290,000
Other key management personnel of the Group					
K Föger	380,000	-	-	-	380,000
A D Neilson	28,000	-	-	-	28,000
J C Rajoo	104,500	-	-	-	104,500
P A Thompson [1]	-	-	-	9,777	9,777

1. P A Thompson commenced 21 September 2009.

Note 23. Key Management Personnel Disclosures (continued)

(iii) Share holdings (continued)

2009 Name	Balance of shares at the start of the year	Shares received during the year on the exercise of options	Shares received during the year as compensation	Other changes during the year	Balance of shares at the end of the year
Directors of Ceramic Fuel Cells Limited					
J Harding	150,000	-	-	10,200,000	10,350,000
R J Kennett	-	-	-	290,000	290,000
Former directors of Ceramic Fuel Cells Limited					
D Carruthers	100,000	-	-	(100,000)	-
Other key management personnel of the Group					
K Föger	200,000	-	-	180,000	380,000
A D Neilson	6,000	-	-	22,000	28,000
J C Rajoo	5,000	-	-	99,500	104,500
Former key management personnel of the Group					
B M Bilton [1]	9,000	-	-	-	9,000

1. B Bilton departed 24 April 2009.

(c) Loans to key management personnel

No loans were made to directors or to other key management personnel during the year ended 30 June 2010 (2009 – Nil).

	Consolidated 2010 $	Consolidated 2009 $

Note 24. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

(a) PricewaterhouseCoopers Australia

	2010 $	2009 $
Audit services		
Audit and review of financial reports	**125,676**	126,306
Taxation services		
Review of company income tax returns	**25,500**	24,000
Other tax compliance and planning services	**27,838**	84,099
Total fees for taxation services	**53,338**	108,099
Other services		
Advisory services	**-**	-
Total fees of PricewaterhouseCoopers Australia	**179,014**	234,405

(b) Related practices of PricewaterhouseCoopers Australia

	2010 $	2009 $
Audit services		
Audit and review of financial reports	**39,425**	12,984
Taxation services		
Preparation of company tax returns	**16,858**	18,404
Other services		
Advisory services	**4,894**	31,308
Total fees of related practices of PricewaterhouseCoopers Australia	**61,177**	62,696

	Consolidated 2010 $	Consolidated 2009 $

Note 25. Commitments

(a) Capital Commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:

	2010 $	2009 $
Within one year	**37,796**	2,795,659
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	37,796	2,795,659

(b) Lease Commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities.

(i) Operating leases

The Group leases offices and warehouses under non-cancellable operating leases expiring within 1.6 to 6.5 years. The leases have varying terms, escalation and break clauses, and renewal rights.

Commitments for minimum lease payments in relation to non- cancellable operating leases are payable as follows:

	2010 $	2009 $
Within one year	**841,894**	863,880
Later than one year but not later than five years	**1,922,043**	2,711,252
Later than five years	**485,593**	968,822
Commitments not recognised in the financial statements	**3,249,530**	4,543,954

(ii) Finance leases

The Group leases certain equipment located at its plant in Germany under a 7 year, non-cancellable finance lease.

Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:

	2010 $	2009 $
Within one year	**386,955**	-
Later than one year but not later than five years	**1,547,820**	-
Later than five years	**548,186**	-
Minimum lease payments	**2,482,961**	-
Future finance charges	**(422,370)**	-
Total lease liability	**2,060,591**	-
Representing lease liabilities (Note 19):		
Current	**271,944**	-
Non-current	**1,788,647**	-
	2,060,591	-

The present value of finance lease liabilities is as follows:

	2010 $	2009 $
Within one year	**271,944**	-
Later than one year but not later than five years	**1,264,123**	-
Later than five years	**524,524**	-
	2,060,591	

Note 26. Related Party Transactions

(a) Parent entity

The parent entity within the Group is Ceramic Fuel Cells Limited which, at 30 June 2010, owned 100% of the issued share capital of its two UK subsidiaries, Ceramic Fuel Cells (Europe) Limited and Ceramic Fuel Cells (Powder) Limited, and of its German subsidiary, Ceramic Fuel Cells GmbH.

(b) Key management personnel

	2010	*2009*
	$	*$*
Key management personnel compensation	2,996,396	3,206,846

Disclosures relating to key management personnel are set out in Note 23

Note 27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	*Country of incorporation*	*Class of shares*	*Equity holding **	
			2010	*2009*
			%	%
Parent entity				
Ceramic Fuel Cells Limited	Australia	Ordinary		
Subsidiaries				
Ceramic Fuel Cells (Europe) Limited	United Kingdom	Ordinary	100	100
Ceramic Fuel Cells (Powder) Limited	United Kingdom	Ordinary	100	100
Ceramic Fuel Cells GmbH	Germany	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held.

Note 28. Events Occurring After the Reporting Period

(a) Share placement

Subsequent to the end of the financial year the company undertook a share placement of 95,238,096 ordinary shares at a price of 10.5 pence (approximately 18.25 Australian cents) and raised the equivalent of A$17.4m (before costs). These shares were allotted and issued on 27 August 2010.

(b) Australia and New Zealand rights issue

In conjunction with the share placement described above, the company also undertook a rights issue to ASX shareholders registered in Australia and New Zealand. The offer was a one for six non-renounceable rights issue of ordinary shares in the company at an offer price of 18.25 cents per new share. The offer, which was not underwritten, closed on 17 September 2010 and resulted in the issue of 51,112,184 ordinary shares and the raising of $9.3m (before costs).

(c) UK issue

In conjunction with the share placement described above, the company also undertook an Open Offer to existing United Kingdom and European AIM shareholders to raise up to £2,060,666 at a share issue price of 10.5 pence. The offer closed on 17 September 2010 and resulted in the issue of 19,222,606 ordinary shares and the raising of A$3.4m (before costs).

(d) Settlement of legal case

The company agreed to settle legal action which it had taken against the Company's former investment and treasury advisor, Oakvale Capital Limited, in relation to losses suffered in prior reporting periods on the Company's financial investments. The litigation was funded by ASX-listed litigation funder IMF Australia Limited (IMF). After legal costs and IMF's agreed share of the settlement sum, the Company received A$3.9 million.

	2010 $	2009 $

Note 29. Reconciliation of Profit/(Loss) after Income Tax to Net Cash Inflow/(Outflow) from Operating Activities

	2010 $	2009 $
Operating profit/(loss) after income tax	**(19,651,870)**	(42,175,852)
Depreciation and amortisation (Note 7)	**2,260,670**	2,373,142
Impairment charge/(reversal) on financial assets	**(2,926,957)**	27,459,991
Non-cash employee benefits share options expense	**552,704**	1,566,003
Net (gain)/loss on disposal of non-current assets	**(281)**	(765)
Net foreign exchange differences	**1,485,087**	(2,994,295)
Net interest revenue	**(136,384)**	(1,947,019)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	**(377,927)**	268,577
Decrease/(increase) in inventories	**(1,001,380)**	(80,092)
Decrease/(increase) in other operating assets	**(133,954)**	65,312
Increase/(decrease) in trade and other payables	**484,314**	(711,948)
Increase/(decrease) in other provisions	**223,345**	41,380
Increase/(decrease) in deferred revenue	**2,003,499**	(459,298)
Net cash inflow/(outflow) from operating activities	**(17,219,134)**	(16,594,864)

Note 30. Earnings Per Share

	2010	2009
	Cents	*Cents*
Basic and diluted earnings per share	**(1.91)**	(8.58)
	Number	*Number*
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	**1,029,873,280**	491,437,376
	$	*$*
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the company	**(19,651,870)**	(42,175,852)

There were no results from discontinued operations, nor net loss attributable to outside equity interests, to be taken into account in determining earnings used in calculating basic and diluted earnings per share.

Information concerning the classification of securities

All options issued will be anti-dilutive until such time as the Group generates profits, rather than losses, hence all options have been excluded from the calculation of diluted earnings per share.

Note 31. Share-based Payments

(a) Equity Plan

Options over shares in Ceramic Fuel Cells Limited have been granted under:

- the CFCL Share Option Plan, originally approved by shareholders at the annual general meeting of the company held on 26 November 1999; and
- the Directors and Employee Benefits Plan, approved by shareholders on 28 November 2006, hereinafter collectively referred to as the Equity Plan.

Under the Equity Plan, all full time and part time permanent employees, including directors but excluding casual and short-term contract employees, may be offered equity upon successful completion of their employment probationary period. Any offer of equity is at the Board's discretion and no individual has a contractual right to receive any guaranteed benefit. No option holder has any right under the options to participate in any other share issue of the company or of any other entity. Options granted under the Equity Plan carry no dividend or voting rights.

Options

Unissued ordinary shares of Ceramic Fuel Cells Limited under option at 30 June 2010 totalled 16,153,644, all of which have been issued under the Equity Plan.

2010								
Grant Date	Expiry Date	Exercise Price [1]	Balance at start of year	Granted during the year	Forfeited during the year [2]	Exercised during the year	Balance at end of year	Vested and exercisable at end of year
		($)	(number)	(number)	(number)	(number)	(number)	(number)
15 May 2000	14 May 2010	1.49	60,000	-	(60,000)	-	-	-
25 Jul 2000	24 Jul 2010	1.49	134,000	-	-	-	134,000	134,000
23 Feb 2001	22 Feb 2011	1.49	1,000	-	-	-	1,000	1,000
27 Jul 2001	26 Jul 2011	1.49	3,000	-	-	-	3,000	3,000
6 May 2004	5 May 2014	2.00	170,000	-	-	-	170,000	170,000
1 Sep 2004	31 Aug 2014	0.76	30,000	-	-	-	30,000	30,000
12 Oct 2005	11 Oct 2015	0.57	342,000	-	(2,500)	-	339,500	-
9 Aug 2006	8 Aug 2016	0.61	150,000	-	(150,000)	-	-	-
24 Aug 2006	23 Aug 2016	0.58	565,120	-	(9,120)	-	556,000	556,000
26 Oct 2006	26 Oct 2010	0.2699	200,000	-	-	-	200,000	200,000
29 Aug 2007	28 Aug 2017	1.01	3,496,810	-	(425,050)	-	3,071,760	3,071,760
29 Aug 2007	28 Aug 2017	0.99	100,000	-	-	-	100,000	100,000
4 Dec 2007	3 Dec 2011	0.685	285,000	-	-	-	285,000	285,000
4 Dec 2007	3 Dec 2011	1.01	300,000	-	-	-	300,000	300,000
28 Mar 2008	27 Mar 2018	0.45	1,986,900	-	(172,000)	-	1,814,900	1,814,900
28 Aug 2008	27 Aug 2012	0.102	285,000	-	-	-	285,000	285,000
28 Aug 2008	27 Aug 2018	0.44	2,949,330	-	-	-	2,949,330	2,949,330
5 Dec 2008	20 Jun 2014	0.44	1,000,000	-	-	-	1,000,000	1,000,000
5 Dec 2008	5 Dec 2012	0.45	200,000	-	-	-	200,000	200,000
26 Jun 2009	25 Jun 2019	0.175	4,043,654	-	(4,500)	-	4,039,154	4,039,154
26 Jun 2009	25 Jun 2013	0.175	675,000	-	-	-	675,000	675,000
Total			16,976,814	-	(823,170)	-	16,153,644	15,814,144
Weighted average exercise price:			$0.53	-	$0.84	-	$0.52	$0.51

1. Effective 1 July 2009 the exercise price of all options on issue as at the date of the April 2009 rights issue was reduced by one cent in accordance with the rules of the Australian Securities Exchange (ASX).
2. Forfeited includes lapsed due to expiration of option.

The weighted average remaining life of share options outstanding at the end of the period was 6.9 years (2009 – 7.9 years).

2009								
Grant Date	Expiry Date	Exercise price	Balance at start of year	Granted during the year	Forfeited during the year	Exercised during the year	Balance at end of year	Vested and exercisable at end of year
		($)	(number)	(number)	(number)	(number)	(number)	(number)
15 May 2000	14 May 2010	1.50	60,000	-	-	-	60,000	60,000
25 Jul 2000	24 Jul 2010	1.50	135,000	-	(1,000)	-	134,000	134,000
23 Feb 2001	22 Feb 2011	1.50	1,000	-	-	-	1,000	1,000
27 Jul 2001	26 Jul 2011	1.50	3,000	-	-	-	3,000	3,000
6 May 2004	5 May 2014	2.01	170,000	-	-	-	170,000	170,000
1 Sep 2004	31 Aug 2014	0.77	30,000	-	-	-	30,000	30,000
12 Oct 2005	11 Oct 2015	0.58	351,700	-	(9,700)	-	342,000	-
9 Aug 2006	8 Aug 2016	0.61	150,000	-	-	-	150,000	150,000
24 Aug 2006	23 Aug 2016	0.59	577,920	-	(12,800)	-	565,120	565,120
26 Oct 2006	26 Oct 2010	0.2799	200,000	-	-	-	200,000	200,000
29 Aug 2007	28 Aug 2017	1.02	3,530,060	-	(33,250)	-	3,496,810	3,496,810
29 Aug 2007	28 Aug 2017	1.00	100,000	-	-	-	100,000	100,000
4 Dec 2007	3 Dec 2011	0.695	285,000	-	-	-	285,000	285,000
4 Dec 2007	3 Dec 2011	1.02	400,000	-	(100,000)	-	300,000	300,000
28 Mar 2008	27 Mar 2018	0.46	2,046,900	-	(60,000)	-	1,986,900	1,986,900
28 Aug 2008	27 Aug 2012	0.112	-	285,000	-	-	285,000	285,000
28 Aug 2008	27 Aug 2018	0.45	-	3,284,230	(334,900)	-	2,949,330	-
5 Dec 2008	20 Jun 2014	0.45	-	1,000,000	-	-	1,000,000	-
5 Dec 2008	5 Dec 2012	0.46	-	200,000	-	-	200,000	200,000
26 Jun 2009	25 Jun 2019	0.175	-	4,043,654	-	-	4,043,654	776,934
26 Jun 2009	25 Jun 2013	0.175	-	675,000	-	-	675,000	675,000
Total			8,040,580	9,487,884	(551,650)	-	16,976,814	9,418,764
Weighted average exercise price:			$0.82	$0.30	$0.60	-	$0.54	$0.70

The weighted average remaining life of share options outstanding at the end of the period was 7.9 years (2008 – 8.2 years).

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2010	2009
	$	$
Options issued under employee option plan	**552,704**	1,566,003

	2010 $	2009 $

Note 32. Parent Entity Financial Information

(a) Summary financial information

Aggregated items within the financial statements of the parent entity include:

	2010 $	2009 $
Balance Sheet		
Current assets	**6,424,191**	29,991,835
Total assets	**28,942,882**	46,847,639
Current liabilities	**2,366,047**	1,513,372
Total liabilities	**2,509,213**	1,622,381
Shareholders' equity		
Contributed equity	**230,415,020**	230,415,020
Share-based payments reserves	**4,377,872**	3,825,168
Retained profits/(losses)	**(208,359,223)**	(189,014,930)
Net profit/(loss) for the year	**(19,344,293)**	(47,662,910)
Total comprehensive income/(expense) for the year	**(19,344,293)**	(43,764,901)

(b) Contractual commitments for the acquisition of plant and equipment

	2010 $	2009 $
Commitments for the acquisition of plant and equipment contracted for at reporting date but not recognised as liabilities:	**37,796**	11,655

Directors' Declaration

In the directors' opinion:

a. the financial statements and notes set out on pages 30 to 63 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The directors have been given the declaration by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Jeff Harding
Chairman

Melbourne
27 September 2010

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Independent auditor's report to the members of Ceramic Fuel Cells Limited

Report on the financial report

We have audited the accompanying financial report of Ceramic Fuel Cells Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Ceramic Fuel Cells Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Independent auditor's report to the members of Ceramic Fuel Cells Limited (continued)

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Ceramic Fuel Cells Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 14 to 21 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Ceramic Fuel Cells Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Chris Dodd
Partner

Melbourne
27 September 2010

The shareholder information in this section was applicable as at 30 September 2010.

Equity Securities

Ordinary Shares

The Company had on issue 1,195,446,166 fully paid ordinary shares, held by a total of 13,417 shareholders: 13,008 shareholders on the Australian Securities Exchange (ASX) and 409 depository interest (DI) holders on the London Stock Exchange AIM market (AIM). There is no on-market buy-back.

The voting rights attaching to shares are set out in clause 62 of the Company's Constitution. Subject to that clause, at general meetings of the Company:

- On a show of hands each person present as a member, proxy, attorney or representative of a member, has one vote; and
- On a poll each member present in person or by proxy, attorney or representative has one vote for each fully paid share.

Options

The Company had 15,938,644 ordinary shares of the Company under option under the CFCL Share Option Plan and Directors and Employees Benefits Plan, held by 88 option holders. Options do not carry any voting rights. The options are not listed.

Distribution

	Ordinary Shares			*Options*
Range	*ASX share-holders*	*AIM DI holders*	*Total share-holders*	
1 - 1,000	336	12	348	-
1,001 - 5,000	2,486	43	2,529	2
5,001 - 10,000	2,333	49	2,382	9
10,001 - 100,000	6,698	191	6,889	47
100,000+	1,155	114	1,269	30
Total	**13,008**	**409**	**13,417**	**88**

The number of security investors holding less than a marketable parcel of 2,778 securities is 1,100 and they hold 1,762,539 securities.

Substantial Shareholders

Substantial holders in the Company as disclosed in substantial shareholding notices received by the Company as at 30 September 2010 are:

Holder	*Number of securities*
Neo International Investments Limited	90,909,090
KBC Asset Management Limited	82,334,808

Top 20 Shareholders

Registered Holder of Shares or Depository Interests	*Number*	*% of total shares*
HSBC Client Holdings Nominee (Uk) Limited <636167>	90,961,090	7.61
BBHISL Nominees Limited <120077>	58,941,560	4.93
J P Morgan Nominees Australia Limited	40,798,723	3.41
Metasource Pty Ltd	38,250,000	3.20
Log Creek Pty Ltd	29,166,666	2.44
Vidacos Nominees Limited <Sl060>	28,571,428	2.39
State Street Nominees Limited <Om02>	28,083,203	2.35
Vidacos Nominees Limited <Britut>	27,779,423	2.32
KBC Securities Nv <Client>	26,468,863	2.21
JP Morgan Nominees Australia Limited <Cash Income A/C>	19,788,537	1.66
TD Waterhouse Nominees (Europe) Limited <Smktnoms>	13,048,775	1.09
Barclayshare Nominees Limited	12,666,099	1.06
Mr Jeffrey Harding <The Harding Super Fund A/C>	12,075,000	1.01
National Nominees Limited	10,892,506	0.91
Bank Of Ireland Nominees Limited <Nri>	10,264,703	0.86
L R Nominees Limited <Nominee>	10,151,431	0.85
Moore Family Nominee Pty Ltd <Moore Family Super Fund A/C>	10,068,493	0.84
CBD Plaza (Aust) Pty Ltd	9,029,128	0.76
HSBC Custody Nominees (Australia) Limited	8,886,723	0.74
Citicorp Nominees Pty Limited	8,748,635	0.73
Total For Top 20	**494,640,986**	**41.38**

Restricted Securities

There are no 'restricted securities' as defined in the ASX Listing Rules.

Corporate Directory

Board of Directors	Jeff Harding (Chairman) Roy Rose (Deputy Chairman) Brendan Dow (Managing Director) Dr Peter Binks John Dempsey Robert (Bob) Kennett
Company Secretary	Andrew Neilson
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AIM Nominated Adviser	Nomura Code Securities Limited 1 Carey Lane London EC2V 8AE United Kingdom Telephone +44 207 776 1200 www.nomuracode.com
Annual General Meeting	The Annual General Meeting of Ceramic Fuel Cells Limited will be held at 5.30pm Wednesday 24 November 2010 at the offices of DLA Phillips Fox, 140 William Street, Melbourne. A formal notice of meeting and proxy form are being sent to members with this report.
Stock Exchange Listing	Ceramic Fuel Cells Limited shares are quoted on the Australian Securities Exchange and as depository interests on the London Stock Exchange AIM market. The stock code on both markets is CFU.

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