CERAMIC FUEL CELLS

Annual Report 2014

Ceramic Fuel Cells Limited
ABN : 82 055 736 671
Website : www.cfcl.com.au

About Ceramic Fuel Cells

Ceramic Fuel Cells Limited ("CFCL"; "the Company") makes generators which use proprietary fuel cell technology to convert natural gas into electricity and heat for homes and small commercial buildings. We have commercialised our technology into products and we are selling these products to commercial customers and via distribution partners.

Our products have many advantages over other forms of electricity generation, including very high electrical efficiency and the ability to remotely control their power output. CFCL has a broad portfolio of wholly-owned intellectual property, including 28 patent families that have been granted in key global markets. The CFCL Group employs approximately 110 staff in Australia and Europe.

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.

Corporate Directory

Board of Directors

Mr Alasdair Locke (Chairman)
Mr Robert (Bob) Kennett (Managing Director)
Dr Karl Föger
Mr Clifford Ashby (Executive Director)

Company Secretary

Mr Glenn Raines

Share Registry

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Contents

Chairman's Message

Dear Shareholder,

I am very pleased to introduce the FY 2014 Annual Report of Ceramic Fuel Cells Limited.

In our opinion our patented fuel cell technology remains the highest efficiency electrical power generation product available. BlueGEN converts natural gas into electricity at up to 60% efficiency and a further 25% as heat to supply hot water. During the last year the Company has undertaken a rigorous review of its overall strategy and is now well positioned to take full advantage of a number of important market opportunities.

The levels of efficiency achieved by BlueGEN are externally recognised to be better than any other technology currently available to the market. This results in a reduction of up to 60+% in carbon emissions compared with coal fired generation and provides significant savings for customers by reducing the marginal cost of electricity. As energy costs increase, BlueGEN's high efficiency can deliver further savings.

In FY 2014 the Company has delivered against a number of key objectives:

- The BlueGEN fleet has achieved 5 million accumulated operating hours and demonstrated high levels of reliability and availability in a range of applications.
- Having completed a review of our resource requirements in the first half of the calendar year we have continued to rigorously manage our cash flow.
- During the financial year the Company raised a net $12.0 million (£6.6 million) from the issue of Equity and a net $0.5 million (£0.3 million) from the issue of Convertible Loan Notes.
- A further $4.0 million (£2.2 million) was received as a tax refund against research and development expenditure in FY 2013 and we anticipate receiving a refund for FY 2014 in the near future. This remains subject to confirmation with the Australian tax authorities.
- In December 2013 the Company sold the assets of its powder plant for GBP 1.1 million (A$2.0 million). A change in production process had resulted in CFCL no longer using the powder from the plant, hence, the Company realised a surplus asset which will have no detrimental effect on the Company.
- Our sales strategy has been reviewed to deliver lower sales costs per unit. This has been achieved by significantly reducing the direct sales resource in both Germany and the UK and concentrating on the development and delivery of large-scale, project based opportunities. This allows the Company to use its resources much more efficiently and we are now engaged in the development of a number of key opportunities. We have also seen a marked improvement in the administration of the German grant support systems and this is now feeding through into our improving sales activities in that country. Overall we have seen a 43% increase in unit sales in 2014 with 210 units sold.
- The Company has recently announced a major technical improvement. We have achieved a 70% reduction in degradation resulting in an expected increase in stack life to five years. This puts us on the path to achieving our objective of a 10-year stack life. This will allow further improvements in operational performance of the BlueGEN unit and subsequently provide a major improvement in the overall commercial performance.
- The Company has continued to concentrate on achieving its key objective of reducing manufacturing costs. Since 2012 a further 29% has been taken out and we are confident of achieving further major savings through higher volume production levels and value engineering.
- We are seeing further evidence of support in both existing and new markets. European Industry has estimated that in Germany alone market growth will exceed 90% per annum year-on-year through to 2020. This provides confidence of a very strong potential sales pipeline supported by increasing fiscal support schemes.
- Our revised strategy has provided the opportunity to initiate discussions with a number of potential strategic partners. We are liaising with North American and Asian companies to develop alternative rated products for a variety of applications. We are also exploring the possibility of further distribution and manufacturing alliances in those regions as well as Europe.

Having now reviewed our strategic operations and met a number of key objectives in the last financial year I remain confident that the Company is well prepared to successfully develop the market opportunities open to us.

For the next financial year, the Company will:

- Continue to focus on the selected markets with a view to achieving substantial, profitable sales volumes and revenues.
- Maintain a focus on rigorous cash management.
- Continue the focus on the reduction of the manufacturing costs of our components through the efficient management of our relationships with our supply chain partners and value engineering.
- Explore opportunities to develop strategic partnerships with a number of international organisations.

On behalf of the CFCL Board and Management, I would like to again extend my thanks for the continued and vital support of our shareholders.

I look forward to reporting success in achieving our objectives in the coming year.

Alasdair Locke
Chairman

Review of Operations and Activities

For the year ended 30 June 2014

Overview:

For the FY 2014 the Company committed to a number of key objectives.

- A focus on reducing operating costs.
- The continued focus on increasing sales in the European market through both direct and indirect channels.
- Exploration of potential market opportunities outside Europe supported by strategic partnerships.
- Consolidation of the Melbourne operation to concentrate on research, product development, value engineering and supply chain management.
- Scale up of the Heinsberg facility to support planned production levels.
- Deliver a high quality product from the Heinsberg facility and establish a robust plan for increasing production capacity.
- Successfully deliver a number of key technical objectives to achieve further significant performance improvements from BlueGEN.
- A continued focus on reducing the production costs of BlueGEN.
- A continued concentration on maintaining the highest levels of safety throughout the Company's operations.

Operational highlights during the year were as follows:

Sales

- CFCL is selling commercialised products to both commercial and retail customers, directly and through a number of distribution partners in both Germany and the UK. CFCL continues to focus its sales resources on Germany and the UK in order to take full advantage of the continuing environmental and energy supply policies supported by a range of fiscal incentives in those countries, introduced at the beginning of CY 2013. Sales in the Benelux nations have gained traction during the year. The number of units sold in this year was 210, an increase of 43% over the previous financial year. In excess of 500 units have now been deployed in 12 countries and the units have successfully achieved over 5 million accumulated operating hours with high levels of reliability and availability across the fleet.
- In both Germany and the UK we reviewed the effectiveness of the direct sales approach, and based on the Company's available sales resources, a decision was taken to move wherever possible to large-scale projects which have the potential to deliver orders of 100's or 1,000's of units. Whilst such opportunities by nature take longer to successfully develop, this strategy allows the more efficient deployment of our sales resource and is very important in supporting our cost down strategy by providing volume orders to our component suppliers.
- The UK feed-in tariff introduced at the end of 2012/early 2013 and the North Rhine Westphalia (NRW) capital grant announced at the end of March 2013 continue to be important in supporting the initial sale of BlueGEN units. In addition, a further 4 States in Germany have introduced similar capital support schemes during the financial year and this clearly provides a major uplift in the levels of government support.
- We remain confident that having revised our sales strategy to achieve improved efficiency from our sales resource, and with the ongoing concentration on large scale, multi-unit projects, the Company is now well positioned to successfully develop the available opportunities in the next financial year.
- Following the sale of units for the virtual power plant project on the island of Ameland in the Netherlands, the Company believes that there are significant future sales opportunities for similar projects where our BlueGEN is able to provide a flexible base load to complement renewable energy sources such as wind and solar.

Product performance

- CFCL remains the leader in providing the most efficient, commercially available technology for small-scale power generation. Our technology has a significant advantage over other combined heat and power (CHP) products. The product's very high electrical generation efficiency (60%+), combined with an impressive overall CHP efficiency of 85%, significantly reduces carbon emissions (up to 4 tonnes per year in the UK) and provides greater value to the customer through the reduction in the marginal cost of electricity.

- Research and product development resources are concentrated at our Noble Park facility in Melbourne, Australia. In the last year the team has achieved a number of successful milestones, culminating in the recently announced improvement in the stack life of the BlueGEN unit to an anticipated 5 years. This is a major advancement in our technology and puts the Company in an excellent position to meet our key objective of a 10 year stack life. In other areas we are seeing constant improvements to the design, reliability and performance of the unit.
- The research and product development team continues to refine the product in order to improve both its robustness to thermal cycling events and the unit's ability to continuoulsy power modulate across the entire operating range. In-house validation testing of enhanced stack technology has demonstrated successful thermal cycling and power cycling under a range of operating conditions. Significant progress continues to be made to fully validate and deliver these refinements into production.

Manufacturing and supply chain

- The CFCL assembly plant in Heinsberg, Germany, is successfully producing fuel cell stacks, the core component of the product, at very high yields. In addition, the manufacturing capability includes the assembly of complete Gennex fuel cell modules and BlueGEN products. The plant is currently able to produce in excess of 1700 BlueGENs per year and capacity is readily scalable to meet future demands with limited investment.
- Over recent months the sintering facility has continued to successfully perform to expectations and meet rigorous quality and technical parameters. The furnace has a current capacity of 16 stacks per firing and, together with additional sintering resources, the Heinsberg facility is currently able to produce 1,700 stacks per year.
- Our ongoing supply chain relationships continue to be very successful enabling us to secure higher volume manufacturing capability which will assist us in achieving our cost reduction objectives. Based on the success achieved during the last year we are now confident that we will shortly be able to successfully outsource additional BlueGEN components to our partners.
- We are continuing to reduce cost via a combination of value engineering, process improvements and outsourcing of manufacturing to low cost, high quality, component manufacturers. However, the main component of cost reduction will be achieved through higher volume manufacturing. As previously mentioned our sales strategy of securing large volume orders based on large-scale, project-based opportunities will assist in supporting the cost reduction objectives.
- The Company is presently executing a value engineering project with respect to the Power Management System (PMS) that is expected to deliver cost savings of greater than 40 per cent ompared to the existing PMS at the same production volume.

Financial Results

Key financial results for the year from 1 July 2013 to 30 June 2014 are as follows:

• Net Loss after Tax	AUD 21.4M (GBP 11.8M) (increase of 8% from FY13)
• Revenue from Operations	AUD 6.1M (GBP 3.4M) (increase of 43% from FY13)
• Net Operating cash outflow	AUD 18.3M (GBP 10.0M) (decrease of 9% from FY13)
• Cash balance at 30 June 2014	AUD 5.3M (GBP2.9M)

Revenue

The Group's total revenue increased during the year by 43 percent to AUD $6.1M (GBP 3.4M). The increase in revenue is due to 210 units being sold during the year compared to 147 in the prior year.

Cost of sales, service and warranty

The total cost of units sold during the year was AUD 5.3M (GBP 2.9M). Reducing the standard cost of manufacture remains one of the key focus areas of the Company.

Service and support costs totalled AUD 1.2M (GBP 0.7M) and covered the costs associated with installation, system monitoring and provision of maintenance support and training. The increase in volume of units sold gave rise to the increase in these costs.

The Group adopts a conservative position in relation to potential warranty claims and replacement of parts under service contracts. The expense for the year totalled AUD 1.9M (GBP 1.0M), which compares to the prior year charge of AUD 3.2M (GBP 1.8M). This decrease in expenditure from the prior year is due to the conservative position taken by the Company in FY2013 when it increased the provision substantially. As previously mentioned, it is envisaged that the degradation improvements will reduce the magnitude of the required future warranty provision per unit.

Operating Expenses

Research and Product Development expenses were AUD 7.6M (GBP 4.2M) which is AUD 0.3M (GBP 0.2M) lower than last year. This reflects the restructure of the Group, which took place in March of this year. The Company believes it is important to continue with its core research and product development activities to the extent that its financial resources allow. The Company is also satisfied that the technical capabilities have been fully retained and that all future development opportunities can be appropriately managed.

General and administration expenses were AUD 8.5M (GBP 4.7M) which is AUD 0.2M (GBP 0.1M) higher than last year.

Manufacturing expenses were AUD 3.0M (GBP 1.7M) which is AUD 0.2M (GBP 0.1M) higher than last year. This is due to the increase in manufacturing that occurred prior to the slow down in March 2014.

Sales and marketing costs were AUD 3.5M (GBP 1.9M), which is AUD 1.1M (GBP 0.6M) greater than last year. This increase was due to the ramp up of the direct sales force in Germany that began in early FY2013. The restructure that occurred in March 2014 has led to a reduction in these resources over the past 4 months.

Net Loss after Tax Attributable to Members

The net loss for the year after tax was AUD 21.4M (GBP 11.8M), an increase of AUD 1.6M (GBP 0.9M) over the prior year. A tax refund of AUD 4.0M (GBP 2.2M) was received relating to research and development expenditure incurred during the FY13 year. This was AUD 1.2M (GBP 0.7M) less than the amount received in FY13 for FY12's expenditure. It is anticipated that a refund will again be received in FY15 for the FY14 year, however, at this time it is too early to provide an indication as to the amount of any claim which may be lodged, or the timing of any such receipt.

The net loss after tax represents a loss of AUD 1.19 cents (GBP 0.65 pence) per share compared to a loss of AUD 1.31 cents (GBP 0.72 pence) in the prior year.

Cash flow

The Group's net cash outflow from operations was AUD 18.3M (GBP 10.1M), which was AUD 1.6M (GBP 0.9M) greater than last year. Of this AUD 1.2M (GBP 0.7M) was due to a lower tax refund receipt than in the prior year.

Cash inflow from investing activities was AUD 1.8M (GBP 1.0M) compared to an inflow of AUD 1.7M (GBP 0.9M) in the prior year. The inflow was mainly due to the sale of the powder plant assets.

Cash inflow from financing activities amounted to AUD 11.6M (GBP 6.38M). This mainly arose from issues of Equity that raised a net AUD 12.0M (GBP 6.6M) and the issue of Convertible Loan Notes that raised a net AUD 0.5M (GBP 0.3M).

At 30 June 2014 the Group had cash of AUD 5.3M (GBP 2.9M), which was held on deposit with banks.

Risk management

The key risks that are continually addressed by the Company are:

•	Technical	Product performance and improvements
•	Manufacturing	Minimizing cost and maintaining quality
		Manufacturing quantities to meet increasing market demand
•	Commercial	Customer demand at appropriate pricing levels for each market sector
•	Funding	Continued funding for research and commercial operations until cash flow positive

These risks are representative of the Company's year-on-year situation and are the key focus of the CFCL management team. As the Company has successfully moved from research and development in the last 2 years into product development, increased levels of manufacturing and full commercial operation, the potential risks have now moved into the commercial areas of the business. An overarching risk remains the Company's ability to secure sufficient funding to support the full potential commercial opportunities available and to reach the point where cash flow from sales becomes sufficient to fund operating costs. This remains the emphasis in FY 2015.

Technical

Over recent years of the Company's operations, the key technical risk for CFCL (and for all fuel cell companies) has been to consistently make fuel cells that work reliably, in full commercial operating conditions, and for the longest period possible with the lowest maintenance costs.

During the last year CFCL has made excellent progress in a number of key technical areas. This has resulted in our ability to reduce operating costs, improve commercial returns to customers and reduce warranty risk and cost for CFCL.

The first objective of the research and product development team has been to concentrate on extending the lifetime of the fuel cell stack towards a commercial target of five years. A key factor in mitigating this risk has been our success in reducing stack degradation by up to 70% and as recently announced, following successful field trials with a key customer, the Company is now in a position to provide an anticipated extended stack life of 5 years.

This significant development in turn supports the aim of improving the robustness of the fuel cell system, in particular thermal cycling (cooling the unit down and restarting it). The product works optimally and delivers the highest value when it is at operating temperature, especially given that it requires a significant time for heat-up and cool-down. Whilst the product is not designed to be turned off and on constantly, it does need to withstand a limited number of thermal cycles during its lifetime. As referred to in the Operational Highlights section of this report, good progress is being made in this regard.

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

Manufacturing

CFCL 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 four years. The Company's key objective is to mitigate supply chain and manufacturing risks and our manufacturing/assembly facility in Heinsberg, Germany, is fully operational and has the necessary capacity to increase volume, reduce unit cost and deliver a quality and consistent product.

CFCL is also continuing to successfully:

- Outsource the manufacturing of fuel cells and other volume components;
- Establish commercial agreements with suppliers for system components; and
- Test and validate the performance of outsourced components in prototype trials before committing to larger volumes.

During this financial year the two most important manufacturing risks were:

- Continuing to build the expertise of cell manufacturing with Chaozhou Three-Circle (Group) Co Ltd (CCTC), our supportive strategic partner. CCTC is producing high quality, lower cost, fuel cell components for assembly in our Heinsberg manufacturing plant and has the ability to make significantly higher volumes of quality cells and other components. The major risk now being addressed is that we are relying on one supplier for these components, however, this is partially mitigated by us having the in-house expertise and capability to manufacture fuel cells in lower quantities should the need arise;
- Maintaining fuel cell stacks production and assembly of BlueGEN units made at the Heinsberg facility. The facility is now fully operational and can produce 1,700 stacks per year. With limited capital investment, as a first step, the facility can be upgraded to meet production levels of 5,000 units per year on a multi-shift basis; and
- The risks associated with the reliance on single source supply of high quality components and the requirement to scale up manufacturing levels to meet likely demand will continue to be an important focus for FY2015. To achieve the required volume increases, and a consequential reduction in the cost of manufacturing the product, further working capital and capital expenditure will be required.

Commercial

The key commercial risk is that CFCL must continue to significantly increase sales in order to achieve a cash flow positive position. Our revised sales strategy of concentrating on large-scale project opportunities means that we need to deal with larger organisations and the development programmes can take somewhat longer than that experienced with small volume sales.

The Company is also working to develop its brand image. Whilst we are confident that we have a fully developed commercial product providing the highest levels of performance, we are working to ensure that we achieve appropriate brand recognition in the potential markets.

We have continued to develop our distributor base in both Germany and the UK. For example, in Germany we now have more than 80 distribution partners working on our behalf.

CFCL's products need to be sold at a commercially viable price to satisfy each specific market. The Company's current costs of production are higher in low volumes. The challenge remains to ensure that sales prices for early products cover these higher costs and, as volumes increase, ensure that an appropriate gross margin is made on sales.

The Company initially adopted a conservative pricing strategy for market entry. This mitigates the risk of making losses on early sales, but makes it more difficult to increase sales volume. During FY2014 CFCL Management and the Board revised the Company's pricing strategy in the UK and adopted lower margins to drive sales growth. This clearly requires a balance of risks versus rewards and Management and the Board continue to monitor this position on an ongoing basis and adjust our pricing to meet market requirements and opportunities.

Once a product is sold, CFCL provides warranties and after-sales support to ensure the product meets customers' expectations. Prior to a fuel cell product being introduced into a market, it is not possible to mitigate all technical risks that could lead to product failures, or to test it for its expected lifetime. Consequently there is a risk that it will cost the Company more to support early products than the revenue received for those products. In addition, in order to preserve the reputation of the product, the Company continues to support earlier product versions, perhaps even at a loss.

The consequences of this product support risk increase as CFCL deploys more products into the market (there are more products to support) and as the Company comes to rely more on third parties to install and properly service the product. However, the likelihood of this risk will reduce as the Company has developed a more extensive database of our fleet operating data. This provides both a 'feedback' loop into ongoing product improvements and more reliable estimates of future support costs.

Financial

Over the life of the Group it has incurred substantial operating losses and is yet to become cash flow positive at an operational level. The Directors are mindful of this and continue to closely monitor the level of the Company's cash resources.

The Group has commercialised its fuel cell technology into products and has begun to make sales, but it has not yet achieved sales and production levels that allow the Group to generate positive operating cash flow or profits. The Company is thus reliant on the further raising of capital (debt or equity) in order to enable it to continue its research and product development and to implement its sales and production strategies.

These factors represent uncertainty about the ability of the Group to continue as a going concern. The Directors have considered these factors and believe it is appropriate to prepare the financial statements on a going concern basis given the following strategies:

Operational and business strategies

The Company continues its focus on increasing the volume of sales and is actively targeting large-scale projects, particularly focussing on the social housing sector in the UK. The Company has restructured its sales team and is focussing on indirect sales via installers and distribution partners. The Company's limited sales and marketing resources continue to concentrate on Germany and the UK due to the fiscal incentives in those countries.

In Germany, in addition to North Rhine Westphalia, the States of Hesse, Baden Wurttemberg, Saxony and Rhineland Palatinate announced subsidy programmes to support mCHP installations.

The Company continues to focus on reducing the standard cost of its unit in order to be able to reduce its sales price which in turn could lead to greater market acceptance and open markets where currently the unit is not economically viable. The cost reduction measures include: outsourcing production of components to high quality, lower cost, specialist manufacturers; placing higher volume orders; and undertaking cost-down engineering work.

The Company continues to investigate product distribution options with potential partners in Europe, North America, China, Korea and Japan.

The Company has reduced its production volumes in order to reduce its inventory, however, remains in a position to ramp up production as sales orders eventuate.

Financing strategies

The Company has been successful in raising funds in the past and in December 2013 raised $5.8M (£3.2M) before expenses via a Share Purchase Plan and an Overseas Offer. In April 2014 the Company raised A$6.1M (£3.3M) before expenses from an equity placement and entered into a subscription agreement for a minimum US$3.0M (A$3.2M or £1.7M) and up to US$8.5M (A$9.0M to £5.0M) to the end of February 2015. To 30 June, under the investor agreement, equity to the value of US$0.7M (A$0.7M, £0.4M) has been issued as well as US$0.25M (A$0.26M, £0.1M) of convertible notes. Under this agreement further equity of US$0.2M (A$0.2M, £0.1M) and convertible notes of US$0.35M (A$0.37, £0.2M) were issued in July.

The Company was also successful in selling the assets of its UK Powder Plant in December 2013 for £1.1M (A$2.0M). The Company was no longer using the powder produced by the plant and hence a decision was made to realise a surplus asset.

The Company is currently pursuing several funding options to strengthen its balance sheet and to allow it to continue its research and product development programme whilst it implements its sales and production strategies.

The continuing viability of the Company and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on successfully raising capital and its ability to achieve profitable sales growth. As such, there is material uncertainty as to whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Outlook

- Following the revision to our sales strategy and the emphasis on the development of large-scale projects, we have identified and are developing discussions on a number of opportunities. As previously stated, the nature of these projects results in somewhat longer development programmes but we remain optimistic that we can successfully secure a number of these in the next financial year.
- In the UK, the sales and marketing team continues to develop the concept of working with external funding bodies who can buy the BlueGEN products, installing them in social housing and obtaining their return through the charging of the electricity generated to the tenant. This concept provides the financier with their target return and provides the tenant with an attractive decrease in their electricity cost. It is the Board's opinion that under this type of concept, sales could increase significantly.
- CFCL is also receiving interest from markets which it currently cannot service and is looking at the potential of entering into strategic partnerships with the aim of supplying new and existing products for those markets. The Company is currently a "single product" Company and having the capital and demand to research other SOFC products is considered essential for the Company's growth.
- With firm supply arrangements in place that provide volume incentives, and following a rigorous assessment of cost down potential, CFCL is confident it will be able to reduce costs significantly once volume hurdles are reached. These arrangements will result in a lower cost product which will make it more accessible to a greater number of markets.
- In order to meet our sales forecasts and targets and to continue with the Company's research and development programme, further working capital will be required and the Board continues to develop a number of options to secure the necessary financial support. A capital raising (debt/equity) will be required in the second quarter of FY2015.

On behalf of the Board, I would like to once again thank our staff for their hard work and commitment over the past year.

And, as always, on behalf of the CFCL Board I want to thank our shareholders for your continued support through the last year. The Board remains confident that we have established clear strategic objectives and that we will be able to prove the significant commercial potential for our Company and its product.

Bob Kennett
Managing Director

Directors' Report

For the year ended 30 June 2014

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 2014.

DIRECTORS

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

Mr Alasdair Locke, Chairman
Mr Robert (Bob) Kennett, Managing Director
Dr Karl Föger *(appointed 1 August 2014)*
Mr Clifford Ashby

Ms Janine Hoey was a director from 1 July 2011 to the date of her resignation on 30 September 2013.
Dr Peter Binks was a director from 5 May 2009 to the date of his resignation on 1 March 2014.
Dr Roman Dudenhausen was a director from 17 May 2011 to the date of his resignation on 31 July 2014.

PRINCIPAL ACTIVITIES

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

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

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 6 to 11 of this document.

EARNINGS PER SHARE

	Consolidated	
	2014 cents	*2013 cents*
Basic and diluted earnings/(loss) per share	**(1.19)**	(1.31)

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) Share capital	***$A***
An increase in contributed equity of $12,077,303 (from $289,650,877 to $301,728,180) as follows:	
• Issue of 672,000,000 fully paid ordinary shares at a price of 0.5 pence sterling (approximately 0.9 Australian cents) via a placement to, and subscription by, UK investors	6,089,738
• Issue of 109,302,848 fully paid ordinary shares at a price of 3.84 Australian cents via a Share Purchase Plan to Australian & New Zealand residents	4,197,227
• Issue of 41,134,062 fully paid ordinary shares at a price of 2.14 pence sterling (approximately 3.84 Australian cents) via an overseas offer to UK investors	1,608,973
• Issue of 74,237,241 fully paid ordinary shares at prices ranging from 1.0 to 1.9 Australian cents as per the Investment Agreement announced 24 March 2014	944,567
• Issue of 9,345,794 fully paid ordinary shares at a price of 2.14 pence sterling (approximately 3.6 Australian cents) upon conversion of £200,000 of secured Notes	335,514
	13,176,019
• Add: Proceeds on sale of forfeited employee shares	23,363
• Less: Employee services written back on forfeiture of shares	(6,520)
• Less: Share issue transaction costs (refer Note 21(b) to the Financial Statements)	(1,115,559)
Net increase in share capital	12,077,303

b) Cash and cash equivalents

A net decrease in cash of $4.7 million (from $10.0 million to $5.3 million) after taking into account $12.5 million of net equity and net convertible loan notes raised, $22.3 million (before tax) of net operating expenditure, a $4.0 million tax refund, proceeds of $2.0 million on disposal of the Group's UK powder plant and $0.2 million of capital expenditure .

c) Inventory

An increase of $0.5 million (from $9.9 million to $10.4 million) arising from the ongoing commercialisation plans.

d) Plant and equipment

A net reduction of $1.3 million (from $10.9 million to $9.6 million) resulting from depreciation and amortisation charges of $1.6 million and capital expenditure of $0.2 million, with the balance due to the decline of the Australian dollar between reporting year-ends.

e) Significant expenses

A decrease in product warranty expense of $1.3 million (from $3.2 million to $1.9 million) due to additional provisioning in the prior reporting period, and an increase in service and support costs of $0.1 million (from $1.1 million to $1.2 million) predominantly due to an increase in the number of units sold and installed. A $2.0 million reversal of a prior period impairment charge on disposal of the Group's UK powder plant assets.

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.

DIVIDENDS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Issue of unsecured convertible note

On 2 July 2014 the Company issued an unsecured, convertible loan note (Second Convertible Security), denominated in American dollars, with a face value of US$450,000. The amount received for the Second Convertible Security was US$350,000. If not converted prior, the Second Convertible Security is repayable in full on the maturity date of 24 March 2016. The Second Convertible Security does not bear interest.

The terms by which the number and price of shares to be issued upon conversion are identical to those for the First Convertible Security (refer Note 17(b) to the Consolidated Financial Statements).

No other matter or circumstance has arisen since 30 June 2014 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 within the Review of Operations and Activities on page 10 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.

DIRECTORS' DETAILS

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

Mr Alasdair Locke

M.A. (Oxford). Age 61.

Chairman since 29 October 2012 (appointed a non-executive director on 24 September 2012; resident in the United Kingdom).

Chairman of the Remuneration & Nomination and Audit Committees.

Experience and expertise

Mr Locke, based in London, is the founder and former Executive Chairman of Abbot Group plc, an oil services company which he founded in 1990. Abbot Group was listed on the London Stock Exchange from 1995 until its sale in 2008 for £906 million to a US private equity fund. At the time of the sale, Abbot Group was one of the leading oil drilling service and engineering contractors in the world, employing over 8,000 people and operating in over 20 countries.

Mr Locke is Chairman of Argenta Holdings plc, an unlisted holding company which trades in the Lloyds of London Insurance Market and non-executive Chairman of Hardy Oil and Gas plc and First Property Group plc. Mr Locke has personally made a substantial investment in the Company and currently holds 11.1 per cent of the Company's shares. He holds a History and Economics Degree from Oxford. Mr Locke was Overall Scottish Entrepreneur of the Year in 1999, Grampian Industrialist of the Year in 2003 and winner of the Scottish Business Achievement Awards Trust International Business Achievement Award in 2007.

Current directorships of other listed companies

Nil

Former directorships of other listed companies (last 3 years)

Nil

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

200,000,000 ordinary, fully paid shares in Ceramic Fuel Cells Limited (held in own name).
83,258,782 ordinary, fully paid shares in Ceramic Fuel Cells Limited (held in the name of BBHISL Nominees Limited).

Mr Robert (Bob) Kennett

B.Sc.(Mech.Eng.), C.Eng., FIMechE. Age 64.

Managing Director since 12 November 2012 (appointed an independent, non-executive director on 24 August 2006; resident in the United Kingdom).

Member of Technical Committee.

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. He has been a member of the Panel of Independent Assessors for DTI Energy Programmes, a Board member of the Power Industries division of the Institution of Mechanical Engineers, and non-executive Chairman of Ignis Energy. He is 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)

360,000 ordinary, fully paid shares in Ceramic Fuel Cells Limited.

Dr Karl Föger

PhD (Chem.) Innsbruck University, FRACI. Age 65.

Independent non-executive director. Director since 1 August 2014.

Chairman of Technical Committee.

Experience and expertise

Dr Föger is an initiator of SOFC technology in Australia and has an international reputation in research and development in the energy, environmental and catalysis fields. He holds a PhD in Physical Chemistry, is a Fellow of the Royal Australian Chemical Institute, a Member of the American Chemical Society, the American Ceramics Society and the VDI (Verein Deutscher Ingenieure), and is an Adjunct Professor at RMIT University in Melbourne. Dr Föger held various research and management roles at Australia's CSIRO (Commonwealth Scientific and Industrial Research Organisation), culminating in his appointment as a Chief Research Scientist. He has been involved with Ceramic Fuel Cells since its inception, having published several book chapters and numerous papers on SOFC technology, and is an inventor of several patents in the field.

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)

1,492,634 ordinary, fully paid shares in Ceramic Fuel Cells Limited.
934,450 options over ordinary shares in Ceramic Fuel Cells Limited

Mr Clifford Ashby

B.Comm.,CA. Age 52.

Executive director. Director since 8 October 2013.

Experience and expertise

Mr Ashby has over 20 years extensive leadership and general management experience, with a strong focus on international trade and corporate finance. He has a Bachelor of Commerce degree and is a qualified Chartered Accountant. His previous roles included being CFO of listed and unlisted companies and managing director of two ASX listed agribusiness companies. In previous roles Mr Ashby has been involved in the successful raising of capital – both debt and equity – for research & development, commercialisation and business growth.

Current directorships of other listed companies

None.

Former directorships of other listed companies (last 3 years)

Clean Seas Tuna Ltd (Dec 2009 to Apr 2012)

Interests in shares and options

None.

COMPANY SECRETARY

Mr Glenn Raines

B.Bus(Accountancy), CPA. Age 50.

Group Financial Controller. Company Secretary since 16 November 2012.

Experience and expertise

Prior to joining the Company, Mr Raines worked in the commercial construction and engineering, education and retail sectors. He has extensive, hands-on experience in managing internal and external financial reporting and statutory compliance.

DIRECTORS' MEETINGS

The number of meetings of the Board of directors of Ceramic Fuel Cells Limited and of each board committee held during the year ended 30 June 2014, and the number 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								
A J D Locke, *Chairman*	22	25	*	*	6	6	2	2
R J Kennett, *Managing Director*	25	25	*	*	*	*	*	*
R Dudenhausen	21	25	*	*	*	*	1	2
C W Ashby, *Executive Director (from 8/10/2013)*	22	22	*	*	*	*	*	*
Former directors								
P N Binks *(to 1/3/2014)*	17	18	2	2	6	6	2	2
J Hoey *(to 30/9/2013)*	3	3	*	*	3	3	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 (at the time of the meeting/s)

REMUNERATION REPORT

This remuneration report sets out remuneration information for Ceramic Fuel Cells Limited's non-executive directors, executive directors and other key management personnel.

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***
Alasdair Locke	£66,000	Chairman, resident in the United Kingdom. Chairman of the Remuneration & Nomination and Audit Committees.
Karl Föger	$66,000	Technical Committee Chairman *(from 1 August 2014).*

The Board may adjust remuneration of non-executive directors from time to time, up to an aggregate amount determined by the shareholders. The Board last adjusted the fees of non-executive directors in February 2011. The current aggregated, capped amount is $600,000 per annum, approved by shareholders at the Annual General Meeting in November 2011.

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).

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. Currently non-executive directors do not receive issues of shares or options as part of their remuneration.

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 2014, 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 Group for more than 12 months, including executives.

Personal KPIs and Company milestones relate to the Company's internal objectives, such as:

- technology achievements;
- product development;
- manufacturing efficiencies; and
- sales revenue 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 has in the past been paid as cash although it usually comprises equity issued under the Equity Plan. 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 Group for more than 12 months, including to all executives.

Whilst previously the Board had been increasing the amount of equity offered to staff and, in particular, to senior managers (in order to attract and retain quality staff, align employee incentives with shareholders' interests and to give key staff significant incentives to achieve the Company's goals), no new issues of shares or options were made to employees in the current year due to the current financial circumstances of the Group. It is the Board's desire to recommence offers of equity to eligible employees when circumstances permit.

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 plus a car to an agreed value. A bonus may be awarded by the Board at its sole discretion, however the Managing Director has no contractual right thereto.

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 any offers of equity to staff, including the Managing Director, and determines the remuneration of directors.

Since 2009, if the Board awards bonuses to staff, Australian staff members have been offered ordinary shares while employees based in Europe are typically offered share options. Half of any shares issued to staff are 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). Options issued to staff have a one year waiting period before they can be exercised. The number of any shares and options issued to staff is disclosed to the market as soon as they are issued.

B Remuneration details

Details of the remuneration of the directors and the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) are set out in the following tables. The key management personnel of the Group are the directors of Ceramic Fuel Cells Limited (see pages 14 to 15 above) and other key executives, including those who report directly to the Managing Director:

- Mr Frank Obernitz — Managing Director, Ceramic Fuel Cells GmbH & Ceramic Fuel Cells B.V.
- Mr Richard Payne — Chief Operating Officer
- Mr Andreas Ballhausen — Commercial Director Europe
- Mr Paddy Thompson — General Manager Business Development

Former other key management personnel

- Mr Nevill (Tony) Sherburn — Chief Financial Officer (until 16 July 2013)

Changes since the end of the reporting period

Dr Karl Föger retired as Chief Technical Officer effective 31 July 2014.

Key Management Personnel (KMP) of the Group

2014	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary & fees $	Non-monetary benefits $	Super-annuation [1] $	Long service leave [2] $	Shares [3] $	Total $
Current Directors						
Managing Director						
R J Kennett	472,478	14,531	73,600	-	-	560,609
Non-Executive Directors						
A J D Locke *(Chairman)*	119,044	-	-	-	-	119,044
R Dudenhausen	81,338	-	-	-	-	81,338
Executive Director						
C W Ashby [4]	331,294	-	25,000	-	-	356,294
Former Directors						
P N Binks *(to 1/3/2014)*	44,000	-	4,070	-	-	48,070
J Hoey *(to 30/9/2013)*	16,500	-	1,526	-	-	18,026
Sub-total Directors	**1,064,654**	**14,531**	**104,196**	**-**	**-**	**1,183,381**
Current other KMP						
F Obernitz	265,683	22,755	-	-	-	288,438
K Föger	186,417	14,292	35,000	3,339	3,167	242,215
A Ballhausen	221,402	12,372	-	-	-	233,774
R J Payne	204,190	503	17,775	3,224	1,367	227,059
P A Thompson	193,481	-	15,934	-	-	209,415
Former other KMP						
N A Sherburn *(to 16/7/2013)*	6,387	3,591	765	(108)	-	10,635
Sub-total Other KMP	**1,077,560**	**53,513**	**69,474**	**6,455**	**4,534**	**1,211,536**
Total	**2,142,214**	**68,044**	**173,670**	**6,455**	**4,534**	**2,394,917**

1. Superannuation: Contributions for R J Kennett and P A Thompson are UK National Insurance Contribution Scheme contributions made in compliance with UK law.
2. Long service leave is an entitlement of Australian employees which accrues at the rate of one week for every 60 weeks of full-time employment with one employer. An employee becomes legally entitled to long service leave after 7 years continuous service. The amount of long service leave disclosed is the movement, for the reporting period, in the long service leave entitlement of each employee, once they become unconditionally entitled. It does not represent long service leave taken (which would be disclosed within Short-term benefits: Cash salary & fees) nor does it represent long service leave paid out which, for the Company's Australian employees, can only occur on termination of employment (and which would, likewise, be disclosed within Short-term benefits: Cash salary & fees).
3. The shares amounts represent variable components of remuneration.
4. Mr Ashby joined the Company as CFO on 17 July 2014 and was appointed an executive director on 8 October 2013. His current remuneration package incorporates both roles but does not attribute a value to his directorial duties. As a guide, the current fee for a non-executive director, without the responsibility of chairing any Board sub-committees, is A$50,000 p.a. plus statutory superannuation.

Key Management Personnel (KMP) of the Group

2013	Short-term benefits		Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments		
Name	Cash salary & fees $	Non-monetary benefits $	Super-annuation [1] $	Long service leave [2] $	Payment in Lieu of Notice & Redundancy $	Options [3] $	Shares [3] $	Total $
Current Directors								
Managing Director								
R J Kennett *(appointed MD 12/11/2012; previously N-ED)*	273,435	-	37,225	-	-	-	-	310,660
Non-Executive Directors								
A J D Locke *(since 24/9/12; Chairman since 29/10/12)*	75,928	-	-	-	-	-	-	75,928
P N Binks	66,000	-	5,940	-	-	-	-	71,940
R Dudenhausen	70,298	-	-	-	-	-	-	70,298
J Hoey	66,000	-	5,940	-	-	-	-	71,940
Former Directors								
B L Dow *(to 31/12/12)*	266,679	5,599	16,667	-	413,369	-	-	702,314
J P Dempsey *(to 31/12/12)*	8,939	-	18,311	-	-	-	-	27,250
J Harding *(to 29/10/12)*	28,866	-	8,269	-	-	-	-	37,135
R R Rose *(to 29/10/12)*	11,735	-	12,061	-	-	-	-	23,796
Sub-total Directors	**867,880**	**5,599**	**104,413**	**-**	**413,369**	**-**	**-**	**1,391,261**
Current other KMP								
F Obernitz	244,008	21,437	4,137	-	-	12,699	1,954	284,235
K Föger	209,522	18,478	25,000	3,512	-	-	14,500	271,012
N A Sherburn	187,050	34,027	16,470	3,483	-	-	12,280	253,310
P A Thompson	167,128	-	13,764	-	-	4,627	-	185,519
R J Payne *(from 17/6/13)*	8,095	15	633	622	-	-	228	9,593
Former other KMP								
J C Rajoo *(to 14/6/13)*	186,476	1,896	24,038	3,168	-	-	12,472	228,050
F R Boyd *(to 1/3/13)*	165,786	1,683	25,000	-	-	-	11,932	204,401
A D Neilson *(to 16/11/12)*	73,447	281	6,250	-	51,566		17,935	149,479
T M Rowe *(to 14/12/12)*	80,518	254	7,302	-	37,710	-	15,305	141,089
P R McDonell *(to 31/10/12)*	42,197	604	7,349	-	45,398		10,065	105,613
Sub-total Other KMP	**1,364,227**	**78,675**	**129,943**	**10,785**	**134,674**	**17,326**	**96,671**	**1,832,301**
Total	**2,232,107**	**84,274**	**234,356**	**10,785**	**548,043**	**17,326**	**96,671**	**3,223,562**

1. Superannuation: Contributions for R J Kennett and P A Thompson are UK National Insurance Contribution Scheme contributions made in compliance with UK law.
2. Long service leave is an entitlement of Australian employees which accrues at the rate of one week for every 60 weeks of full-time employment with one employer. An employee becomes legally entitled to long service leave after 7 years continuous service. The amount of long service leave disclosed is the movement, for the reporting period, in the long service leave entitlement of each employee, once they become unconditionally entitled. It does not represent long service leave taken (which would be disclosed within Short-term benefits: Cash salary & fees) nor does it represent long service leave paid out which, for the Company's Australian employees, can only occur on termination of employment (and which would, likewise, be disclosed within Short-term benefits: Cash salary & fees).
3. The options and shares amounts represent variable components of remuneration.

The relative proportions of remuneration that were linked to performance, and those that were fixed, were as follows for the year ended 30 June 2014:

Name	Fixed remuneration	At risk remuneration (Shares)
Executive Directors		
R J Kennett *(Managing Director)*	100%	-
C W Ashby	100%	-
Non-Executive Directors		
A J D Locke *(Chairman)*	100%	-
R Dudenhausen	100%	-
Former Directors		
P N Binks	100%	-
J Hoey	100%	-
Current other KMP		
F Obernitz	100%	-
K Föger	98.7%	1.3%
A Ballhausen	100%	-
R J Payne	99.4%	0.6%
P A Thompson	100%	-
Former other KMP		
N A Sherburn	100%	-

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 (effective as at 1 July 2014):

R J Kennett, *Managing Director*

- Employment contract: ongoing position
- Annual Salary: £304,800 reviewable from time to time at the Board's discretion, with no contractual right to an increase.
- Vehicle: Provision of a motor vehicle up to a list price of £50,000 (such limit to be reviewed by the Board from time to time and increased commensurately with increases in new car prices). Vehicle has been provided via an operating lease.
- Executive's (and Company's) notice period: 12 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.

C W Ashby, *Chief Financial Officer (and Executive Director)*

- Employment contract: ongoing position
- Annual TSP of $411,200 reviewable annually *(next scheduled review 1 July 2015)*
- Executive's (and Company's) notice period: 6 months

A Ballhausen, *Commercial Director Europe*

- Employment contract: ongoing position
- Base salary of €151,650 p.a. reviewable annually *(next scheduled review 1 July 2015)*
- Performance-based equity component of up to €50,000 gross p.a.
- Fully maintained motor vehicle to an agreed value.
- Executive's (and Company's) notice period: 3 months.

K Föger, *Chief Technology Officer*

- Employment contract: ongoing position
- TSP of $242,706 p.a. reviewable annually *(retired 31 July 2014; commenced as a Non-Executive Director 1 August 2014)*
- Executive's (and Company's) notice period: 3 months.

F Obernitz, *Managing Director CFC GmbH & CFC BV*

- Employment contract: ongoing position
- Base salary of €181,980 p.a. reviewable annually *(next scheduled review 1 July 2015)*
- Performance-based equity component of up to €65,000 gross p.a.
- Motor vehicle lease cost of up to €9,900 p.a. plus running expenses
- Executive's (and Company's) notice period: 3 months.

R J Payne, *Chief Operating Officer*

- Employment contract: ongoing position
- TSP of $233,306 p.a. reviewable annually *(next scheduled review 1 July 2015)*
- Executive's (and Company's) notice period: 1 month

P A Thompson, *General Manager Business Development*

- Employment contract: ongoing position
- Base salary of £101,754 p.a. reviewable annually *(next scheduled review 1 July 2015)*
- Performance-based equity component of up to £18,000 gross 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 2014.

Options granted under the plan carry no dividend, nor voting rights. When exercisable, each option is convertible into one ordinary share of Ceramic Fuel Cells Limited. The exercise price of options is currently based upon the volume weighted average closing price (VWAP) at which the Company's shares are traded upon the Australian Securities Exchange (ASX) during the week immediately prior to the date of grant.

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

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.

Further information on options is set out in Note 31 to the Financial Statements.

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 2014:

Compound share price growth per annum from grant date	Share price target
15% p.a.	$2.145
20% p.a.	$3.316
25% p.a.	$5.128

On 30 June 2014 Ceramic Fuel Cells Limited's ordinary shares closed at $0.012 on the Australian Securities Exchange, accordingly none of these options have become exercisable.

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 A$	Number of shares under option	Number of options exercisable
12 Oct 2005	11 Oct 2015	0.57	123,250	-
24 Aug 2006	23 Aug 2016	0.58	199,200	199,200
29 Aug 2007	28 Aug 2017	1.01	756,210	756,210
28 Mar 2008	27 Mar 2018	0.45	690,400	690,400
28 Aug 2008	27 Aug 2018	0.44	1,118,430	1,118,430
26 Jun 2009	25 Jun 2019	0.175	1,731,710	1,731,710
1 Oct 2010	30 Sep 2020	0.1825	1,439,700	1,439,700
28 Sep 2011	27 Sep 2021	0.15	2,171,750	2,171,750
			8,230,650	8,107,400

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 2014 and from 1 July 2014 to the date of this report.

INSURANCE OF OFFICERS AND INDEMNIFICATION OF AUDITOR

During the year ended 30 June 2014, Ceramic Fuel Cells Limited paid a premium of $47,952 (2013 - $52,490) to insure the directors and secretary of the Company 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.

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*.

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, as set out below, 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 Board 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	
	2014	*2013*
	$	*$*
(a) Taxation Services		
PricewaterhouseCoopers' Australian firm		
Preparation of company income tax returns	**61,400**	31,000
Other tax compliance and tax planning services	**3,950**	39,203
Related practices of PricewaterhouseCoopers' Australian firm	**40,182**	26,820
Total Fees for Taxation Services	**105,532**	97,023
(b) Other Assurance Services		
PricewaterhouseCoopers' Australian firm	**-**	-
Related practices of PricewaterhouseCoopers' Australian firm	**-**	-
Total Fees for Other Assurance Services	**-**	-
Total Fees for Non-Audit Services	**105,532**	97,023

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.

Alasdair Locke
Chairman

Melbourne
26 September 2014

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Ceramic Fuel Cells Limited for the year ended 30 June 2014, 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.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
26 September 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Corporate Governance Statement

Corporate Governance

As a company listed on the Australian Securities Exchange (ASX), Ceramic Fuel Cells Limited is required to have regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations), available from the ASX web-site (www.asx.com.au).

The Directors are also mindful of the Quoted Companies Alliance's *Corporate Governance Code for Small and Mid-Size Quoted Companies* applicable to AIM listed companies.

Both sets of recommendations cover a range of 'aspirational' principles to promote good corporate governance. The Company aims to comply with both standards to the maximum extent practicable, considering the Company's resources, stage of development and current priorities.

ASX Recommendations

The ASX Recommendations are guidelines rather than prescriptions. The essence of the ASX 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 and, unless otherwise stated, all practices were in place for the entire year ended 30 June 2014:

ASX Principles and Recommendations	**Compliance status**
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.	Complied. CFCL has a written Board Charter and Committee Charters which set out these matters.
Box 1.1 Content of a director's letter upon appointment	Complied. CFCL considers these matters when drafting directors' engagement letters.
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Complied. 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. The Managing Director formally reviews the performance of senior executives against agreed KPIs on a regular basis.
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complied. Refer Recommendations 1.1 to 1.2 (above).
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.	Partly complied. The Board had a majority of independent directors, in accordance with ASX guidelines, up until the resignation of Dr Binks on 1 March 2014. The Board Chairman, Mr Locke, became a substantial shareholder on the 24th of the same month and, because of the difficult circumstances in which the Company was in for the remainder of the financial year, the Board was unable to appoint independent replacement directors.
Box 2.1: Relationships affecting independent status.	Partly complied (refer Recommendation 2.1 above).

ASX Principles and Recommendations	Compliance status
Recommendation 2.2: The Chair should be an independent director.	Partly complied. Refer Recommendation 2.1 (above).
Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Complied.
Recommendation 2.4: The Board should establish a nomination committee.	Complied. The Board maintains a Remuneration & Nomination Committee.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Complied. The Directors evaluate the performance of the Board, its committees and individual directors on a regular basis. The process is led by the Chairman, initially with the Managing Director, and may be held on a formal or informal basis. Performance is assessed against a number of agreed KPI's for the coming year. The last review was undertaken in early 2014.
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complied. 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). Refer to Recommendations 2.1 to 2.5 (above).
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.	Complied. 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 which 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	Complied. 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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Did not comply. While the Company provides a workplace that is open to gender diversity, the Company currently does not have a formal policy or specific objectives for gender diversity. The Board recognises the benefits of a diverse workforce and is considering how the Company can best achieve these benefits at its current stage of development.
Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Did not comply. The Company does not currently have measurable objectives for achieving gender diversity. Refer Recommendation 3.2 (above).

ASX Principles and Recommendations	Compliance status
Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Complied (refer below). As at 12 September 2014 there are 27 female employees in the CFCL Group, representing 25% of the workforce. There is one woman in a senior executive position, that of Group Manufacturing Controller. With the resignation of Ms Hoey on 30th September last year the Board does not currently have any female directors.
Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.	Partly complied. Refer Recommendations 3.1 to 3.4 (above).
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.	Partly complied. The Board maintained an Audit Committee (AC) up until the resignation of Dr Binks on 1 March 2014. The AC was independently chaired by Ms Hoey until her resignation, thereafter it was chaired by Mr Locke up until Dr Binks' resignation. Thereafter, all matters normally referred to the AC have been dealt with by the full Board.
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.	Partly complied. Due to the Company's ongoing difficult circumstances, from 1st October last year Mr Locke assumed the chair of the AC upon Ms Hoey's departure, whilst also chairing the full Board. Thereafter the AC had only two members up until the departure of Dr Binks, whereupon all matters normally referred to the AC have since been dealt with by the full Board, with only non-executive directors eligible to vote on Audit Committee matters. Thus the AC has been in abeyance pending the appointment of new, suitably qualified and experienced, independent director/s.
Recommendation 4.3: The audit committee should have a formal charter.	Complied.
Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Partly complied. Details of the qualifications of the audit committee members, and meetings of the committee, are set out in the Directors' Report. Refer also Recommendations 4.1 to 4.3 (above).
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.	Complied. The Company maintains a Continuous Disclosure Policy.
Box 5.1: Continuous disclosure policies	Complied.
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complied. A summary of the Company's Continuous Disclosure Policy is provided in the Corporate Governance section of the Company's web-site (www.cfcl.com.au).

CERAMIC FUEL CELLS

ASX Principles and Recommendations	Compliance status
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.	Partly complied. 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	Complied. 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 the 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.	Complied. (refer Recommendation 6.1 above).
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.	Complied. The Managing Director's Review of Operations and Activities, within 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.	Complied. 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 (or full Board) on non-technical risks. This is an area of ongoing focus and improvement.
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.	Complied. This disclosure is contained in the Directors' Declaration to the Financial Report.
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complied.

ASX Principles and Recommendations	Compliance status
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.	Complied. The Board maintains a Remuneration & Nomination Committee.
Recommendation 8.2 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	Partly complied. The Remuneration & Nomination Committee initially comprised Mr Locke (Chair), Drs Binks and Dudenhausen and Ms Hoey, all independent, non-executive directors. However, the number of members fell below three with the departure of Dr Binks in March of this year. The directors are satisfied as to the independence of Mr Locke who, despite his current status as a substantial shareholder of the Company, takes no part in the management of the Company and so is able to objectively make executive remuneration decisions.
Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complied.
Box 8.1: Guidelines for executive remuneration packages	Complied.
Box 8.2: Guidelines for non-executive director remuneration	Complied. The Company's non-executive directors are remunerated by way of fees only. There are no retirement benefits other than superannuation (for Australian-based directors only).
Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complied. Further details of the Remuneration & Nomination Committee are set out in the Directors' Report. Refer also Recommendations 8.1 to 8.2 (above).

Board of Directors

The Board currently consists of a Chairman, Managing Director, one non-executive and one executive director. 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 usually 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

During the year the Audit Committee initially comprised Ms Hoey (Chair), Mr Locke and Dr Binks. Mr Locke assumed the Chair upon the departure of Ms Hoey. The Audit Committee has been in abeyance since the departure of Dr Binks. Important functions of the Audit Committee, currently being undertaken by the full Board, include the appointment and review of the external auditors, reviewing and monitoring compliance with the external audit plan, reviewing the Company's financial reports, monitoring the effectiveness of the accounting systems, the internal control environment, and the risk management and compliance system, and providing 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

During the year the Technical Committee initially comprised Dr Binks (Chair) and Mr Kennett, with the Chief Technical 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. Dr Föger is the new Chair of the Technical committee.

Remuneration and Nomination Committee

During the year the Remuneration and Nomination Committee initially comprised Mr Locke (Chair), Drs Binks and Dudenhausen and Ms Hoey. The Committee reviews the remuneration of directors, the Managing Director and senior management, as well as 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. The committee has been in abeyance since the departure of Dr Dudenhausen.

Directors' Independence

Mr Locke, currently a substantial shareholder of the Company, and Dr Föger, recently retired as Chief Technical Officer, are non-executive directors considered to be independent of the day-to-day running of the Company.

Mr Kennett, Managing Director, and Mr Ashby, Chief Financial Officer, are both executive, non-independent 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; and
- 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). 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 the Company's website.

Financial Report

For the year ended 30 June 2014

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 Securities 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 North, 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 6 to 11 and in the directors' report on page 12, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 26 September 2014. 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 2014

	Note	2014 $	2013 $
Revenue from continuing operations	5	**6,102,440**	4,265,690
Cost of sales, service & warranty	7	**(8,426,115)**	(7,851,934)
Gross profit/(loss)		**(2,323,675)**	(3,586,244)
Other income	6	**530,199**	791,236
Research & Product Development	1(e)	**(7,610,324)**	(7,869,834)
Manufacturing	1(e)	**(2,951,980)**	(2,773,627)
General & Administration	1(e)	**(8,487,767)**	(8,289,543)
Sales & Marketing	1(e)	**(3,534,999)**	(2,369,200)
Impairment reversal/(charge)	7	**1,968,924**	(351,383)
Other gains/(losses) - Foreign exchange	7	**(1,954,819)**	(241,898)
Finance costs		**(1,085,103)**	(271,167)
Loss before income tax		**(25,449,544)**	(24,961,660)
Income tax benefit		**4,022,582**	5,184,044
Loss for the year entirely attributable to members of Ceramic Fuel Cells Limited	22(b)	**(21,426,962)**	(19,777,616)
Other comprehensive income			
Items which may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	22(a)	**230,214**	2,216,165
Other comprehensive income for the year, net of tax		**230,214**	2,216,165
Total comprehensive income/(expense) for the year entirely attributable to members of Ceramic Fuel Cells Limited		**(21,196,748)**	(17,561,451)
		Cents	*Cents*
Earnings per share for loss attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share	30	**(1.19)**	(1.31)

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

CERAMIC FUEL CELLS

Consolidated Balance Sheet

As at 30 June 2014

	Note	**2014**	2013
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	9	**5,310,161**	10,010,131
Trade and other receivables	10	**464,519**	1,355,437
Inventories	11	**10,431,490**	9,974,671
Other	12	**258,880**	825,506
Total Current Assets		**16,465,050**	22,165,745
Non-Current Assets			
Plant and equipment	13	**9,628,457**	10,923,676
Intangible assets	14	**1,000**	1,000
Other	15	**235,551**	235,551
Total Non-Current Assets		**9,865,008**	11,160,227
Total Assets		**26,330,058**	33,325,972
LIABILITIES			
Current Liabilities			
Trade and other payables	16	**1,733,660**	2,328,053
Borrowings	17	**348,275**	6,145,958
Derivative financial instruments	18	**-**	663,878
Provisions	19	**2,848,938**	3,356,904
Other liabilities	20	**1,274,918**	1,185,710
Total Current Liabilities		**6,205,791**	13,680,503
Non-Current Liabilities			
Borrowings	17	**7,481,203**	854,947
Derivative financial instruments	18	**759,574**	-
Provisions	19	**2,751,343**	1,682,678
Other liabilities	20	**1,216,609**	1,361,522
Total Non-Current Liabilities		**12,208,729**	3,899,147
Total Liabilities		**18,414,520**	17,579,650
Net Assets		**7,915,538**	15,746,322
EQUITY			
Contributed equity	21(b)	**301,728,180**	289,650,877
Reserves	22(a)	**3,846,117**	2,327,242
Retained profits/(losses)	22(b)	**(297,658,759)**	(276,231,797)
Total Equity		**7,915,538**	15,746,322

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 2014

	Note	Contributed equity $	Reserves $	Retained earnings $	Total equity $
		Entirely attributable to owners of Ceramic Fuel Cells Limited			
Balance at 1 July 2012		277,282,387	68,950	(256,454,181)	20,897,156
Total comprehensive income for the year		-	2,216,165	(19,777,616)	(17,561,451)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	21(b)	12,111,270	-	-	12,111,270
Employee shares - value of employee services	21(b)	257,220	-	-	257,220
Employee share options - value of employee services	22(a)	-	42,127	-	42,127
Balance at 30 June 2013		289,650,877	2,327,242	(276,231,797)	15,746,322
Total comprehensive income for the year		**-**	**230,214**	**(21,426,962)**	**(21,196,748)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	21(b)	**12,083,823**	**-**	**-**	**12,083,823**
Employee shares - value of employee services	21(b)	**(6,520)**	**-**	**-**	**(6,520)**
Loss transferred to income statement on disposal of foreign subsidiary's assets	22(a)	**-**	**1,288,661**	**-**	**1,288,661**
Balance at 30 June 2014		**301,728,180**	**3,846,117**	**(297,658,759)**	**7,915,538**

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 2014

	Note	2014 $	2013 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods & services tax)		**7,710,776**	6,485,852
Payments to suppliers and employees (inclusive of goods & services tax)		**(30,452,605)**	(28,994,350)
		(22,741,829)	(22,508,498)
Grant receipts/(payments)		**(28,490)**	-
Other receipts		**492,795**	668,075
Interest receipts/(payments)		**-**	(87,557)
Income tax refunds received/(taxes paid)		**4,022,582**	5,184,044
Net cash inflow (outflow) from operating activities		**(18,254,942)**	(16,743,936)
Cash Flows from Investing Activities			
Decrease/(increase) in security deposits (including restricted cash equivalents)		**14,189**	2,234,576
Payments for plant and equipment		**(188,485)**	(540,404)
Proceeds from sale of plant and equipment		**1,973,572**	490
Net cash inflow (outflow) from investing activities		**1,799,276**	1,694,662
Cash Flows from Financing Activities			
Proceeds from the issue of shares		**12,677,790**	12,692,958
Share issue costs		**(626,922)**	(568,609)
Proceeds from borrowings – convertible loan notes		**612,684**	6,033,711
Convertible loan notes issue costs		**(114,890)**	(100,479)
Interest paid on borrowings – convertible loan notes		**(639,483)**	-
Repayment of borrowings – finance lease		**(328,249)**	(301,133)
Interest paid on borrowings – finance lease		**(64,010)**	(70,955)
Interest received		**67,314**	156,742
Net cash inflow from financing activities		**11,584,234**	17,842,235
Net increase (decrease) in cash and cash equivalents		**(4,871,432)**	2,792,961
Cash and cash equivalents at the beginning of the financial year		**10,010,131**	6,621,759
Effects of exchange rate changes on cash and cash equivalents		**171,462**	595,411
Cash and cash equivalents at the end of the year	9	**5,310,161**	10,010,131

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

Notes to the Consolidated Financial Statements
30 June 2014

Contents

Notes to the Consolidated Financial Statements
30 June 2014

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Ceramic Fuel Cells Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Ceramic Fuel Cells Limited Group also comply 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.

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.

Going Concern

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.

The Group has commercialised its fuel cell technology into products and has begun to make sales, but it has not yet achieved sales and production levels that allow the Group to generate positive operating cashflow or profits. The Company is thus reliant on the further raising of capital (debt or equity) in order to enable it to continue its research and product development and to implement its sales and production strategies.

These factors represent uncertainty about the ability of the Group to continue as a going concern. The Directors have considered these factors and believe it is appropriate to prepare the financial statements on a going concern basis given the following strategies:

Operational and business strategies

The Company continues its focus on increasing the volume of sales and is actively targeting large-scale projects, particularly focussing on the social housing sector in the UK. The Company has restructured its sales team and is focussing on indirect sales via installers and distribution partners. The Company's limited sales and marketing resources continue to concentrate on Germany and the UK due to the fiscal incentives in those countries. In Germany, in addition to North Rhine Westphalia, the States of Hesse, Baden Wurttemberg, Saxony and Rhineland Palatinate announced subsidy programmes to support mCHP installations.

The Company continues to focus on reducing the standard cost of its unit in order to be able to reduce its sales price which in turn could lead to greater market acceptance and open markets where currently the unit is not economically viable. The cost reduction measures include: outsourcing production of components to high quality, lower cost, specialist manufacturers; placing higher volume orders; and undertaking cost-down engineering work.

The Company continues to investigate product distribution options with potential partners in Europe, North America, China, Korea and Japan.

The Company has reduced its production volumes in order to reduce its inventory, however, remains in a position to ramp up production as sales orders eventuate.

Financing strategies

The Company has been successful in raising funds in the past and in December 2013 raised $5.8M (£3.2M) before expenses via a Share Purchase Plan and an Overseas Offer. In April 2014 the Company raised A$6.1M (£3.3M) before expenses from an equity placement and entered into a subscription agreement for a minimum US$3.0M (A$3.2M or £1.7M) and up to US$8.5M (A$9.0M to £5.0M) to the end of February 2015. To 30 June 2014, under the investor agreement, equity to the value of US$0.7M (A$0.7M, £0.4M) has been issued as well as US$0.25M (A$0.26M, £0.1M) of convertible notes. Under this agreement further equity of US$0.2M (A$0.2M, £0.1M) and convertible notes of US$0.35M (A$0.37, £0.2M) were issued in July 2014.

Notes to the Consolidated Financial Statements
30 June 2014

The Company was also successful in selling the assets of its UK Powder Plant in December 2013 for £1.1M (A$2.0M). The powder produced by the plant was no longer being used by the Company and hence a decision was made to realise a surplus asset.

The Company is currently pursuing several funding options to strengthen its balance sheet and to allow it to continue its research and product development programme whilst it implements its sales and production strategies. A capital raising will be undertaken in October 2014, further details of which will be announced to the market in the near future. Cash from R&D tax offsets of approximately $4M is anticipated to be received in November 2014. Furthermore, the Company's Chairman, Mr Alasdair Locke, has provided an undertaking to the Board to provide a short-term bridging facility of up to A$1.8M (£1.0M), in the event it is required, prior to the cash inflow from the planned October 2014 capital raising and/or the receipt of the R&D tax offset refund. Depending on the amount of capital raised and the success of the Company's sales programme, a further raising of capital is likely to be required in the second half of FY2015.

The continuing viability of the Company and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on the success of the afore-mentioned capital raising and its ability to achieve profitable sales growth. As such, there is material uncertainty as to whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

(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 2014 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 entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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 an impairment of the transferred asset. 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.

(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.

Foreign exchange gains and losses which relate to borrowings are presented in the statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis.

Translation differences on assets and liabilities carried at fair value are reported in the income statement as part of the fair value gain or loss.

(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 item 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 item 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 Cost of Sales, Service & Warranty, Research & Product Development, Manufacturing, 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.

Cost of sales, service & warranty expense includes cost of goods sold, product warranty expense and product service and support costs. Research & Product Development (R&PD) expense, as denoted in the statement of comprehensive income, includes the cost of all research and development projects and activities, 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. Manufacturing expense includes all non-R&PD manufacturing costs. Sales & Marketing expense includes depreciation costs attributable to Ceramic Fuel Cells B.V. and Ceramic Fuel Cells (Europe) Limited.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Over the reporting period the Group moved away from a single sales contract, containing multiple revenue elements, to a multi-contract approach whereby unit service and support is contracted separately to initial unit delivery, installation and commissioning.

Contracts for ongoing unit support and maintenance are for defined periods of time at either fixed or variable rates. With unit installation being the purchaser's responsibility and commissioning being an immaterial component of the sale process, revenue in relation to initial unit supply is now recognised upon delivery. Revenue in relation to the ongoing unit support and maintenance continues to be recognised over the life of the service period, but on a time elapsed, rather than cost incurred, basis.

Revenue from product development agreements is recognised as the relevant contractual services are provided.

(g) Other income recognition

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.

(h) Government grants

Grants from governments are recognised as revenue, at their fair value, when there is reasonable assurance that the grant will be received and the Group has complied 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.

Notes to the Consolidated Financial Statements
30 June 2014

(i) 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 applicable 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, 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 end of the reporting period 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 foreign operations 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 when 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 is recognized in the income statement, except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. In these circumstances the tax is also recognized in other comprehensive income or directly in equity, respectively. Ceramic Fuel Cells Limited does not have any wholly-owned, Australian resident, controlled entities and so has not implemented the Australian tax consolidation legislation.

Refunds from the Australian Taxation Office for expenditure incurred on research and product development are accounted for in the income statement when they are received.

(j) 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 13). 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.

(k) 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.

(l) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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.

Notes to the Consolidated Financial Statements
30 June 2014

(m) 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.

(n) 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 make the sale.

(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;
- Assets under finance lease: 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(k)).

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 0.5 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.

Notes to the Consolidated Financial Statements

30 June 2014

(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 initial acquisition and development phase 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 have been 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. Costs incurred after the completion of the initial development phase in maintaining, modifying or increasing functionality are expensed to profit and loss as incurred.

(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.

The fair value of the liability portion of a convertible loan note is determined using a market interest rate for an equivalent non-convertible loan note. This amount is recorded as a liability on an amortised cost (net of transaction costs) basis until extinguished on conversion or maturity of the loan notes. The remainder of the proceeds is allocated to the conversion option which, for convertible loan notes with a foreign currency conversion price, is recognised as a derivative financial instrument liability.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Provisions

Provisions for service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for any anticipated future operating losses.

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 is a pre-tax rate which reflects current market assessments of the time value of money and the liability-specific risks. Any increase in the provision due to the passage of time would be recognized as an interest expense.

The Group is required to restore all of its leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Notes to the Consolidated Financial Statements
30 June 2014

(t) Employee benefits

(i) Short-term obligations

Liabilities for wages, salaries, annual leave and long service leave, including non-monetary benefits, expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term obligations

The liability for long service leave not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 incentives based on a formula that takes into consideration, as at each reporting date, progress towards the expected achievement of both Group 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)).

Shares

The fair value at grant date of shares granted as remuneration to employees is as follows: for services already provided, the fair value is immediately expensed to the income statement; for services yet to be provided, the fair value is expensed as the services are provided. The share capital account is credited with the fair value of employee shares as the services are provided.

Share options

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 additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements
30 June 2014

(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 taxation 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.

Share-based payments

The grant by Ceramic Fuel Cells Limited of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published which are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 *Financial Instruments (effective from 1 January 2017)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. The new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss however the Group is not expected to be materially impacted. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

(ii) IFRS 15 *Revenue and Contracts with Customers (effective 1 January 2017)*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. While the AASB has not yet issued an equivalent standard, they are expected to do so in the second half of 2014. The Group has not yet formally considered the impact of the new rules on its revenue recognition policies, however the impact is not expected to be material.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements
30 June 2014

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, but has entered into a derivative financial instrument liability by issuing secured and unsecured convertible loan notes in a foreign currency and with a foreign currency conversion price (refer also Notes 17 and 18).

The Group holds the following financial instruments:

	2014	*2013*
	$	*$*
Financial assets		
Cash and cash equivalents	**5,310,161**	10,010,131
Trade and other receivables	**464,519**	519,008
	5,774,680	10,529,139
Financial liabilities		
Trade and other payables	**1,733,660**	2,328,053
Borrowings	**7,829,478**	7,000,905
Derivative financial instrument	**759,574**	663,878
	10,322,712	9,992,836

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 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; and
- 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.

Notes to the Consolidated Financial Statements
30 June 2014

The Group operates internationally and holds foreign currency funds which are intended to be used in the 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, euros and US dollars. 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 Group's cashflow forecasts.

The Group's accounting exposure to foreign currency risk at the reporting date that would impact the post tax loss for the year, expressed in Australian dollars, was as follows:

	2014					2013				
	EUR	GBP	USD	CNY	NZD	EUR	GBP	USD	CNY	NZD
	$	$	$	$	$	$	$	$	$	$
Cash and cash equivalents	**1,262,308**	**3,653,345**	**64,118**	**336**	-	549,959	53,975	62	345	-
Trade and other receivables	**342,157**	**43,835**	**7,442**	-	-	173,539	6,588	-	-	-
Trade and other payables	**364,395**	**386,375**	**283**	**54,769**	**9,005**	19,380	29,937	6,106	203,426	31,463
GBP Convertible notes	-	**6,709,600**	-	-	-	-	5,826,453	-	-	-
USD Convertible notes	-	-	**241,533**	-	-	-	-	-	-	-
Derivative liability	-	**744,699**	**14,875**	-	-	-	663,878	-	-	-

Sensitivity

Based on the financial instruments held at 30 June 2014, had the Australian dollar strengthened/weakened by 5% against the Pound Sterling, Euro and US Dollar, with all other variables held constant, the Group's post tax loss for the year would have been $213,238 lower/higher (2013 – $299,810 lower/higher), mainly as a result of foreign exchange gains/losses on the translation of cash, receivables, payables and convertible notes denominated in Pounds Sterling, Euros and US Dollars as detailed in the above table.

(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 interest bearing securities, with short durations, with leading commercial banks. The value of cash and cash equivalents at 30 June 2014 that was exposed to variable interest rate risk was $5,310,161 (2013 - $10,010,131).

The Group has borrowings in the form of a finance lease on certain equipment located in the German plant. At 30 June 2014 the amount owing was $878,345 (2013 - $1,174,452). The borrowings are at a fixed effective interest rate of 5.8% per annum and the lease has a further 2.3 years to run. Changes in interest rates will not affect 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.

The Group also issued £4,100,000 of Secured Convertible Loan Notes on 10 May 2013 and a US$375,000 Unsecured Convertible Loan Note on 24 March 2014. The Secured Convertible Loan Notes bear interest at a fixed rate of 9% per annum payable quarterly in arrears and have a maturity date of 2 May 2016. The Unsecured Convertible Loan Note does not bear interest and has a maturity date of 24 March 2016. Changes in interest rates will not affect the interest payments on these borrowings.

Sensitivity

If, during the year ended 30 June 2014, 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 $27,983 lower/higher (2013 – change of 50 basis points: $41,906 lower/higher), mainly as a result of higher/lower interest income.

(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.

Notes to the Consolidated Financial Statements
30 June 2014

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:

S&P Rating	***2014***	*2013*
	$	*$*
Trade receivables		
Counterparties without external credit ratings:		
- New customers (less than 6 months)	**152,392**	218,014
- Existing customers (more than 6 months) with no defaults in the past	**210,399**	98,716
- Existing customers (more than 6 months) with defaults in the past	**88,767**	-
	451,558	316,730
Cash and cash equivalents		
- denominated in AUD		
AA-	**75,391**	73,413
A+	**254,663**	5,378,779
- denominated in EUR		
AA-	**18,707**	-
A+	**33,209**	562,018
A-	**1,210,392**	3,822,450
- denominated in GBP		
AA-	**56,060**	-
A+	**3,587,413**	173,063
A-	**9,872**	-
- denominated in USD		
A+	**64,118**	63
- denominated in CNY		
A+	**336**	345
	5,310,161	10,010,131

Financial assets that are past due as at the end of the reporting period but not impaired are as follows:

	2014	*2013*
	$	*$*
Trade receivables		
0 – 30 days	**175,101**	-
>30 – 60 days	**72,466**	-
>60 – 90 days	**115,223**	7,539
Over 90 days	**-**	16,500
	362,790	24,039

(c) Liquidity risk

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

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.

Notes to the Consolidated Financial Statements
30 June 2014

Maturities of financial liabilities

The tables below 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. The Secured Convertible Loan Notes were shown as a current liability in FY2013 because they had not been approved by shareholders as at 30 June 2013. Shareholder approval was subsequently received on 2 July 2013.

30 June 2014 **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 $**
Trade and other payables	1,733,660	-	-	-	-	1,733,660	1,733,660
Borrowings (finance lease liabilities)	195,523	195,523	391,045	162,935	-	945,026	878,345
Secured Convertible Loan Notes	-	-	6,709,600	-	-	6,709,600	6,709,600
Secured derivative financial instrument	-	-	744,699	-	-	744,699	744,699
Unsecured Convertible Loan Note	-	-	241,533	-	-	241,533	241,533
Unsecured derivative financial instrument	-	-	14,875	-	-	14,875	14,875
Total financial liabilities	1,929,183	195,523	8,101,752	162,935	-	10,389,393	10,322,712

30 June 2013 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 $
Trade and other payables	2,328,053	-	-	-	-	2,328,053	2,328,053
Borrowings (finance lease liabilities)	190,314	190,314	380,628	539,224	-	1,300,480	1,174,452
Secured Convertible Loan Notes	5,826,453	-	-	-	-	5,826,453	5,826,453
Derivative financial instrument	663,878	-	-	-	-	663,878	663,878
Total financial liabilities	9,008,698	190,314	380,628	539,224	-	10,118,864	9,992,836

(d) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk:

30 June 2014	**Carrying amount**	**Interest rate risk**			
		-50bps		**+50bps**	
		(Loss)/Gain	**Other Equity**	**(Loss)/Gain**	**Other Equity**
Financial assets					
Cash and cash equivalents	5,310,161	(27,983)	-	27,983	-
Trade and other receivables	464,519	-	-	-	-
Financial liabilities					
Trade and other payables	1,733,660	-	-	-	-
Borrowings	7,829,478	-	-	-	-
Derivative financial instruments	759,574	-	-	-	-

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk:

30 June 2014	**Carrying amount**	**Foreign exchange risk**			
		-5%		**+5%**	
		(Loss)/Gain	**Other Equity**	**(Loss)/Gain**	**Other Equity**
Financial assets					
Cash and cash equivalents	5,310,161	184,233	-	(184,233)	-
Trade and other receivables	464,519	5,520	-	(5,520)	-
Financial liabilities					
Trade and other payables	1,733,660	(17,456)	-	17,456	-
Borrowings	7,829,478	(347,556)	-	347,556	-
Derivative financial instruments	759,574	(37,979)	-	37,979	-

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.

Notes to the Consolidated Financial Statements
30 June 2014

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 which 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.

Warranty provision

A provision for estimated warranty claims is created at the time of initial revenue recognition for all unit sale contracts. The adequacy of this provision is reviewed at each reporting date. The products being developed and sold by the Group remain relatively new and, as such, there remains 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.

Within the current reporting period the Group has predominantly entered into service and support contracts of 10 years duration. The major variable cost assumption in relation to the service and maintenance of the units is the amount of labour time required. Whilst the major variable cost assumption in relation to the warranty provision remains the estimated life of the fuel cell stack (which will determine how many replacement stacks, if any, will be required during the warranty period), as stack life increases it is possible that current cost assumptions related to the estimated life of major balance of plant components may prove to be inaccurate.

If the amount of labour time required to service and maintain the units is greater than 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.

Likewise, if the number of major balance of plant components requiring replacement 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

Income tax

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.

Notes to the Consolidated Financial Statements
30 June 2014

Note 4. Segment information

(a) Operating segment

Management has determined the operating segment based on the reports reviewed by the Managing Director which are used to make strategic decisions.

The Managing Director considers the business from a product perspective and monitors performance as a single operating segment.

(b) Other segment information

	2014 $	2013 $
Sales revenue from external customers domiciled in:		
Australia	**236,492**	304,143
Germany	**4,211,055**	1,509,953
United Kingdom	**192,245**	1,503,333
The Netherlands	**1,416,413**	247,572
Other	**46,235**	700,689
Total sales revenue	**6,102,440**	4,265,690
Non-current, tangible assets located in:		
Germany	**9,034,209**	9,680,001
Australia	**829,799**	1,468,852
The Netherlands	**-**	10,374
Total non-current, tangible assets	**9,864,008**	11,159,227

Major customers

The Group's reliance on major customers, individually contributing ten percent or more of total revenue, was as follows:

2014

Revenue of $3,376,413 was derived from three customers as follows:

- $1,584,880
- $1,162,362
- $629,171

2013

Revenue of $1,332,305 was derived from one customer.

Note 5. Revenue

	2014 $	2013 $
From continuing operations		
Sales revenue		
Fuel cell products	**5,879,551**	3,397,301
Service and support	**209,994**	868,389
Licensing income	**12,895**	-
Total revenue from continuing operations	**6,102,440**	4,265,690

Notes to the Consolidated Financial Statements

30 June 2014

Note 6. Other income

	2014 $	2013 $
Sundry income	**464,305**	668,075
Net interest revenue	**65,892**	122,671
Net gain on disposal of plant and equipment	**2**	490
Total other income	**530,199**	791,236

Note 7. Expenses

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

	2014 $	2013 $
Cost of Sales, Service & Warranty		
Cost of goods sold	**5,315,543**	3,581,257
Product warranty expense	**1,920,602**	3,200,122
Service and support costs	**1,189,970**	1,070,555
Total Cost of Sales, Service & Warranty	**8,426,115**	7,851,934
Depreciation		
Research & Product Development Expenses		
Depreciation – Plant and equipment	**311,251**	922,817
Depreciation – Leasehold improvements	**2,701**	25,993
General & Administration Expenses		
Depreciation – Plant and equipment	**1,109,300**	848,507
Depreciation – Leasehold improvements	**205,869**	305,404
Sales & Marketing Expenses		
Depreciation – Plant and equipment	**-**	3,496
Total Depreciation	**1,629,121**	2,106,217
Impairment charge/(reversal)		
Plant and equipment of UK powder production plant	**(2,032,878)**	-
Provision for impairment of receivables	**63,954**	351,383
Total impairment charge/(reversal)	**(1,968,924)**	351,383
Equity-based payments expense/(reversal)		
Share-based expense/(reversal)	**(14,017)**	28,095
Share options expense	**-**	42,127
Total equity-based payments expense/(reversal)	**(14,017)**	70,222
Other losses – Foreign exchange		
Loss on disposal of assets of foreign subsidiary	**1,288,661**	-
Other foreign exchange losses	**666,158**	241,898
Total foreign exchange losses	**1,954,819**	241,898
Other provisions – Employee entitlements	**571,062**	516,032
Rental expense relating to operating leases - Minimum lease payments	**909,226**	800,797
Defined contribution superannuation expense	**610,747**	663,640

Notes to the Consolidated Financial Statements

30 June 2014

	2014	2013
	$	$

Note 8. Income tax expense

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

	2014 $	2013 $
Profit/(loss) before income tax expense	**(25,449,544)**	(24,961,660)
Tax at the Australian tax rate of 30% (2013 - 30%)	**(7,634,863)**	(7,488,498)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments expense	**(4,201)**	22,675
Sundry non-deductible items	**(42,661)**	18,033
	(7,681,725)	(7,447,790)
Difference in overseas tax rates	**257,736**	233,827
Adjustments for tax of prior periods (inclusive of Australian R&D tax refund)	**(2,467,500)**	(4,296,549)
Income tax benefit not recognised	**5,868,907**	6,326,468
Income tax expense/(benefit)	**(4,022,582)**	(5,184,044)

(b) Tax losses

	2014 $	2013 $
Unused tax losses for which no deferred tax asset has been recognised	**314,643,509**	299,316,238
Potential tax benefit	**93,395,413**	89,011,564

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

The income tax benefit for the year equates to refundable R&D tax offsets, in relation to the previous year, recognised upon receipt during the current year.

Note 9. Current assets - Cash and cash equivalents

	2014 $	2013 $
Cash and Cash Equivalents		
Cash at bank and on hand (balance as per statement of cash flows)	**5,310,161**	10,010,131

Cash at bank and on 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.

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

Note 10. Current assets - Trade and other receivables

	2014 $	2013 $
Trade receivables	**918,750**	710,407
Provision for impairment of receivables	**(467,192)**	(393,677)
	451,558	316,730
GST/VAT receivable	**-**	836,429
Other receivables	**12,961**	202,278
	464,519	1,355,437

Notes to the Consolidated Financial Statements
30 June 2014

Note 11. Current assets - Inventories

	2014 $	2013 $
Raw materials and stores	**4,270,018**	3,816,980
Work in progress	**1,981,651**	3,637,666
Finished goods	**4,179,821**	2,520,025
	10,431,490	9,974,671

Inventory expense
Write-downs of inventories to net realisable value recognized as an expense during the year ended 30 June 2014 amounted to $Nil (2013 – $Nil).

Note 12. Current assets - Other

	2014 $	2013 $
Prepayments	**258,880**	811,317
Security deposits	**-**	14,189
	258,880	825,506

Note 13. Non-current assets - Plant and equipment

	2014 $	2013 $
Equipment		
Machinery - at cost	**28,156,959**	31,357,829
Less: Accumulated depreciation	**(20,613,633)**	(20,043,996)
Less: Impairment loss	**-**	(2,764,710)
Net book amount	**7,543,326**	8,549,123
Reconciliation		
Opening net book amount	**8,549,123**	8,917,913
Exchange differences	**94,921**	557,720
Additions	**167,347**	848,310
Transfers in/(out)	**152,486**	-
Depreciation expense (Note 7)	**(1,420,551)**	(1,774,820)
Closing net book amount	**7,543,326**	8,549,123
Leasehold Improvements		
Leasehold improvements - at cost	**8,833,562**	10,514,282
Less: Accumulated depreciation	**(6,748,431)**	(8,139,729)
Net book amount	**2,085,131**	2,374,553
Reconciliation		
Opening net book amount	**2,374,553**	2,405,845
Exchange differences	**71,634**	294,902
Additions	**-**	5,203
Transfers in/(out)	**(152,486)**	-
Depreciation expense (Note 7)	**(208,570)**	(331,397)
Closing net book amount	**2,085,131**	2,374,553
Total Plant and Equipment		
Plant and equipment - at cost	**36,990,521**	41,872,111
Less: Accumulated depreciation	**(27,362,064)**	(28,183,725)
Less: Impairment loss	**-**	(2,764,710)
Net book amount	**9,628,457**	10,923,676
Reconciliation		
Opening net book amount	**10,923,676**	11,323,758
Exchange differences	**166,555**	852,622
Additions	**167,347**	853,513
Depreciation expense (Note 7)	**(1,629,121)**	(2,106,217)
Closing net book amount	**9,628,457**	10,923,676

	2014	2013
	$	$
Leased assets		
Equipment includes the following amounts where the Group is a lessee under a finance lease:		
Plant and equipment - at cost	**4,427,596**	4,309,652
Less: Accumulated depreciation	**(1,579,929)**	(1,666,920)
Net book amount	**2,847,667**	2,642,732

Note 14. Non-current assets - Intangible assets

	2014	2013
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

Note 15. Non-current assets - Other

	2014	2013
Security deposits	**235,551**	235,551

The deposits bore fixed interest rates between 0% and 3.8% at reporting date (2013 – 0% and 3.8%)

Note 16. Current liabilities - Trade and other payables

	2014	2013
Trade payables	**701,594**	1,258,035
Other payables	**992,900**	1,070,018
GST/VAT payable	**39,166**	-
	1,733,660	2,328,053

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

Note 17. Current & Non-current liabilities - Borrowings

	2014 $	2013 $
Current		
Finance lease	348,275	319,505
Convertible loan notes (secured)	-	5,826,453
	348,275	6,145,958
Non-current		
Finance lease	530,070	854,947
Convertible loan notes (secured)	6,709,600	-
Convertible loan notes (unsecured)	241,533	-
	7,481,203	854,947
(a) Finance lease liabilities		
Current	348,275	319,505
Non-current	530,070	854,947
	878,345	1,174,452

Finance lease

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 as at transaction date) 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 up-front lease payment of 50% of the value of the equipment. The lease liability is secured against the leased asset.

	2014 $	2013 $
(b) Convertible loan notes (secured and unsecured)		
Current	-	5,826,453
Non-current	6,951,133	-
	6,951,133	5,826,453

Convertible loan notes

Secured

On 10 May 2013 Ceramic Fuel Cells Limited (the Company) issued 4,100,000 convertible loan notes (the Notes) denominated in British pounds sterling with a face value of £4,100,000, being the amount received. If not converted prior, the Notes are repayable in full on the maturity date of 10 May 2016. The Notes bear fixed interest at a fixed rate of 9% per annum payable quarterly in arrears. Interest payments commenced on 1 August 2013.

The Notes are secured by a first, fixed and floating charge over the assets of the Company.

On 22 August 2013 a further 200,000 Notes were issued to Mr Alasdair Locke, Chairman, for £200,000.

Shareholder approval for the issue of all 4,300,000 Notes was obtained on 2 July 2013 hence the Notes, which had previously been classified as a current liability as at 30 June 2013, are now classified as a non-current liability as at 30 June 2014.

On 24 October 2013 Mr Locke's 200,000 Notes were converted into 9,345,794 fully paid ordinary shares.

A total of 4,100,000 Notes remain on issue as at 30 June 2014.

The noteholders may elect to convert their Notes into 191,588,785 fully paid ordinary shares in the Company at any time prior to the maturity date at an issue price of £0.0214 per share (approximately $0.0324 at issue date).

The fully paid ordinary shares issued upon any such conversion will rank *pari passu* with existing fully paid ordinary shares.

If, after 2 November 2014, the average of the mid-market AIM closing price of the Company's shares exceeds 10 pence over any period of 20 consecutive business days then the Company may redeem the Notes at any time prior to the maturity date, after having given noteholders 10 days notice of such intention. The noteholders may elect to convert their Notes during this notice period.

Notes to the Consolidated Financial Statements
30 June 2014

Unsecured

On 24 March 2014 the Company issued a convertible loan note (First Convertible Security), denominated in American dollars, with a face value of US$375,000 (the Principal Amount). The amount received for the First Convertible Security was US$250,000. If not converted prior, the First Convertible Security is repayable in full on the maturity date of 24 March 2016. The First Convertible Security does not bear interest.

Entirely at the noteholder's discretion, the First Convertible Security shall be convertible into new ordinary shares in the Company determined by dividing the Principal Amount by the lesser of:

(a) 90% of the average of the three daily VWAPs per share during a specified period prior to the conversion date of the note; and

(b) 130% of the average of the daily VWAPs per share during the 20 trading days prior to 24 March 2014, being A$0.0378.

The fully paid ordinary shares issued upon any such conversion will rank *pari passu* with existing fully paid ordinary shares.

The First Convertible Security does not carry any voting rights at meetings of shareholders of the Company and carries no right of participation in any rights issue which may be undertaken by the Company prior to its conversion.

No portion of the First Convertible Security was converted from the date of issue to the end of the current reporting period.

	2014	*2013*
	$	*$*
Reconciliation		
Convertible notes (secured)		
The Notes are reconciled to the amount included in the Balance Sheet as a non-current liability (2013 – current liability) as follows:		
Face value of Notes issued (at issue date)	**6,600,222**	6,300,907
Notes converted	**(335,514)**	-
Borrowing costs – amortised balance	**(263,887)**	(315,372)
Derivative liability – value of conversion rights (refer Note 18)	**(744,699)**	(663,878)
Interest expense	**960,280**	98,287
Foreign exchange loss/(gain)	**493,198**	406,509
	6,709,600	5,826,453
Convertible notes (unsecured)		
The First Convertible Security is reconciled to the amount included in the Balance Sheet as a non-current liability as follows:		
Face value of Notes issued (at issue date)	**275,300**	-
Borrowing costs – amortised balance	**(24,208)**	-
Derivative liability – value of conversion rights (refer Note 18)	**(14,875)**	-
Interest expense	**14,413**	-
Foreign exchange loss/(gain)	**(9,097)**	-
	241,533	-

With the exception of the convertible notes, the carrying amount of the Group's current and non-current borrowings approximates their fair values. The fair value of the convertible notes approximates the carrying value of the notes, net of the borrowing costs and the amount attributed to the fair value of the conversion rights.

Note 18. Current & Non-current liabilities - Derivative financial instruments

	2014 $	*2013 $*
Current		
Convertible loan notes (secured) – conversion rights	**-**	663,878
Non-current		
Convertible loan notes (secured) – conversion rights	**744,699**	-
Convertible loan notes (unsecured) – conversion rights	**14,875**	-
	759,574	-

The secured Notes were issued in British pounds sterling and the First Convertible Security was issued in American dollars, whereas the Group's functional currency is the Australian dollar. Therefore, the values attributed to the conversion rights do not meet the definition of an equity instrument. As such, both conversion rights have been classified as a derivative financial instrument and are recognised as liabilities at their fair values. Management estimated the fair values of the conversion rights at the dates of issue based on the difference between the face values of the notes and the estimated fair values of identical notes without conversion features. Any changes to the fair values of the conversion rights will be recognised in the income statement.

Note 19. Current & Non-current liabilities - Provisions

	2014 $	*2013 $*
Provisions for employee benefits: annual and long service leave		
Current	**1,536,575**	1,460,344
Non-current	**39,244**	46,696
	1,575,819	1,507,040
Provisions for product warranty		
Current	**881,059**	1,754,496
Non-current	**2,436,496**	886,496
	3,317,555	2,640,992
Provisions for leased property reinstatement		
Current	**431,304**	142,064
Non-current	**107,745**	536,179
	539,049	678,243
Provisions for operating leases		
Non-current	**167,858**	213,307
Reconciliation		
Current Liabilities		
Provisions for employee benefits	**1,536,575**	1,460,344
Provisions for product warranty	**881,059**	1,754,496
Provisions for leased property reinstatement	**431,304**	142,064
	2,848,938	3,356,904
Non-Current Liabilities		
Provisions for employee benefits	**39,244**	46,696
Provisions for product warranty	**2,436,496**	886,496
Provisions for leased property reinstatement	**107,745**	536,179
Provisions for operating leases	**167,858**	213,307
	2,751,343	1,682,678

Notes to the Consolidated Financial Statements
30 June 2014

Movements in provisions

Movements in each class of provision during the financial year were as follows:

	Employee benefits	Product warranty	Leased property reinstate-ment	Operating leases	Total
Carrying amount at start of year	1,507,040	2,640,992	678,243	213,307	5,039,582
Charged/(credited) to income statement					
- additional provisions recognized	610,174	1,920,602	-	-	2,530,776
- unused amounts reversed	(39,851)	-	(155,959)	-	(195,810)
Amounts used during the year	(504,633)	(1,244,039)	-	(51,286)	(1,799,958)
Increase/(decrease) on translation	3,089	-	16,765	5,837	25,691
Carrying amount at end of year	**1,575,819**	**3,317,555**	**539,049**	**167,858**	**5,600,281**

Note 20. Current & Non-current liabilities - Other

	2014 $	*2013 $*
Deferred revenue		
Current	**262,064**	377,159
	262,064	377,159
Government grants		
Current	**1,012,854**	808,551
Non-current	**1,216,609**	1,361,522
	2,229,463	2,170,073
Reconciliation		
Current liabilities		
Deferred revenue	**262,064**	377,159
Government grants	**1,012,854**	808,551
	1,274,918	1,185,710
Non-current liabilities		
Government grants	**1,216,609**	1,361,522

Government grants

NRW

In recognition of the construction of its German fuel cell assembly plant and the concomitant hiring of employees, the Group was awarded €966,000 of the €1,386,000 regional development grant originally received in December 2009 from the Government of North Rhine Westphalia in Germany. The balance of €420,000 was repaid, hence the remaining €966,000 ($1,398,784 as at 30 June 2014) has continued to be treated as deferred revenue and will be brought to account in a future period in line with the satisfaction of the remaining obligation, which is to maintain the number of jobs created through to December 2017.

The Group's satisfaction of the grant conditions is required to be assessed annually in December. Failure to satisfy the grant conditions in any year may result in a refund of some, or all, of the grant.

EU Grant

In January 2012 the Group received a European Union grant of €573,667 ($830,679 as at 30 June 2014) for the development and field trial of ceramic fuel cell micro-CHP units. At reporting date the full amount of the grant has been treated as deferred revenue and will be brought to account in a future reporting period in line with the satisfaction of the obligations.

Note 21. Contributed Equity

(a) Share capital

The share capital account of Ceramic Fuel Cells Limited (the Company) consists of 2,507,761,565 fully paid up, ordinary shares as at 30 June 2014.

(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 $
1-7-2012	Opening balance	1,366,298,863		277,282,387
25-9-2012	Placing and subscription	99,500,000	$0.060	5,970,000
25-9-2012	Overseas offer	23,254,556	$0.060	1,444,607
25-9-2012	Australia and New Zealand rights issue	69,677,901	$0.060	4,180,675
	Add: Employee services provided	-		257,220
1-11-2012	Placing and subscription	500,000	$0.060	30,000
10-5-2013	Placing and subscription	32,710,300	$0.033	1,067,676
	Less: Transaction costs arising on share issues			(581,688)
30-6-2013		1,591,941,620		289,650,877
24-10-2013	Conversion of secured convertible loan notes	9,345,794	$0.0359	335,514
30-12-2013	Australia and New Zealand share purchase plan	109,302,848	$0.0384	4,197,227
30-12-2013	Overseas offer	41,134,062	$0.0384	1,608,973
24-3-2014	Investor Agreement [1]	9,800,000	$0.00	-
24-3-2014	Investor Agreement [1]	10,000,000	$0.019	186,077
24-4-2014	Investor Agreement [1]	13,406,250	$0.016	218,914
29-4-2014	Placing and subscription	672,000,000	$0.009	6,089,738
28-5-2014	Investor Agreement [1]	21,677,900	$0.010	216,404
27-6-2014	Investor Agreement [1]	29,153,091	$0.011	323,172
	Add: Employee services provided	-		(6,520)
	Add: Proceeds from sale of forfeited shares	-		23,363
	Less: Transaction costs arising upon the issuing, and cancellation, of shares			(1,115,559)
30-6-2014	Balance	**2,507,761,565**		**301,728,180**

1. Investor Agreement: Refer to Note 1(a) Basis of Preparation (Going Concern – *Financing strategies*) and to the Company's Fundraising Announcement to the ASX of 24 March 2014.

(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.

Notes to the Consolidated Financial Statements
30 June 2014

(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 arise. 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. During the year the parent issued unsecured convertible loan notes, in addition to raising equity, as a means of complementing the Group's capital raising objectives.

Note 22. Reserves and retained profits/(losses)

	2014 $	2013 $
(a) Reserves		
Share-based payments reserve	**4,750,262**	4,750,262
Foreign currency translation reserve	**(904,145)**	(2,423,020)
Total reserves	**3,846,117**	2,327,242
Share-based payments reserve		
Balance at 1 July	**4,750,262**	4,708,135
Option expense	**-**	42,127
Balance at 30 June	**4,750,262**	4,750,262
Foreign currency translation reserve		
Balance at 1 July	**(2,423,020)**	(4,639,185)
Currency translation differences arising during the year	**230,214**	2,216,165
Transferred to income statement on disposal of subsidiary's assets	**1,288,661**	-
Balance at 30 June	**(904,145)**	(2,423,020)
(b) Retained profits/(losses)		
Movements in retained profits/(losses) were as follows:		
Balance at 1 July	**(276,231,797)**	(256,454,181)
Net profit/(loss) for the year	**(21,426,962)**	(19,777,616)
Balance at 30 June	**(297,658,759)**	(276,231,797)

Note 23. Key management personnel disclosures

(a) Key management personnel compensation

Short-term employee benefits	**2,210,258**	2,316,381
Post-employment benefits	**173,670**	234,356
Long-term benefits	**6,455**	10,785
Termination benefits	**-**	548,043
Share-based payments	**4,534**	113,997
	2,394,917	3,223,562

Detailed remuneration disclosures are provided in the Directors' Report, within sections A to D of the Remuneration Report, on pages 16 to 21.

Notes to the Consolidated Financial Statements
30 June 2014

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options, are provided in the Directors' Report, within section D of the Remuneration Report, on pages 20 to 21.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held 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.

2014

Name	Balance at the start of the year	Granted as compen-sation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable at year-end	Unvested at year-end
Current Directors of Ceramic Fuel Cells Limited							
None							
Former Director of Ceramic Fuel Cells Limited							
B L Dow	2,445,000	-	-	(2,445,000)	-	-	-
Current other KMP of the Group							
K Föger	934,450	-	-	-	934,450	889,950	44,500
F Obernitz	1,292,770	-	-	-	1,292,770	1,292,770	-
P A Thompson	831,470	-	-	-	831,470	831,470	-
Former other KMP of the Group							
N A Sherburn	928,200	-	-	(928,200)	-	-	-
F R Boyd	718,750	-	-	(718,750)	-	-	-
P R McDonell	984,450	-	-	(984,450)	-	-	-
A D Neilson	1,084,450	-	-	(1,084,450)	-	-	-
J C Rajoo	1,183,450	-	-	(1,183,450)	-	-	-
T M Rowe	1,068,750	-	-	(1,068,750)	-	-	-

2013

Name	Balance at the start of the year	Granted as compen-sation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable at year-end	Unvested at year-end
Current Directors of Ceramic Fuel Cells Limited							
None							
Former Director of Ceramic Fuel Cells Limited							
B L Dow	2,445,000	-	-	-	2,445,000	2,445,000	-
Current other key management personnel of the Group							
K Föger	934,450	-	-	-	934,450	889,950	44,500
F Obernitz	1,292,770	-	-	-	1,292,770	1,292,770	-
N A Sherburn	928,200	-	-	-	928,200	883,700	44,500
P A Thompson	831,470	-	-	-	831,470	831,470	-
Former other key management personnel of the Group							
F R Boyd	718,750	-	-	-	718,750	718,750	-
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	-

Notes to the Consolidated Financial Statements
30 June 2014

(iii) Share holdings

The number of shares in the Company held during the financial year by each director of Ceramic Fuel Cells Limited and other Key Management Personnel (KMP) of the Group, including their personally related parties, are set out below.

2014

Name	Balance at the start of the year [1]	Received during the year on the exercise of options	Received during the year on the conversion of loan notes	Received during the year as compen-sation	Other changes during the year [1]	Balance at year-end [1]
Current Directors						
A J D Locke [2]	73,912,988	-	9,345,794	-	200,000,000	283,258,782
R J Kennett	360,000	-	-	-	-	360,000
R Dudenhausen	781,250	-	-	-	-	781,250
Former Directors						
P Binks	17,625	-	-	-	(17,625)	-
J Hoey	125,000	-	-	-	(125,000)	-
Current other KMP of the Group						
K Föger	1,232,218	-	-	-	260,416	1,492,634
F Obernitz	170,260	-	-	-	-	170,260
A Ballhausen	-	-	-	-	22,500	22,500
R J Payne	175,340	-	-	-	-	175,340
P A Thompson	73,039	-	-	-	-	73,039
Former other KMP of the Group						
N A Sherburn	370,405	-	-	-	(370,405)	-

1. Totals are for number of shares whilst key management personnel (KMP). Hence, persons not KMP at the start of the year begin the year with no KMP shares and, likewise, persons who ceased to be KMP during the year end the year with no KMP shares.
2. Refer also Note 21(b) for details of shares issued on conversion of loan notes.

2013

Name	Balance at the start of the year [1]	Received during the year on the exercise of options	Received during the year as compensation	Other changes during the year [1]	Balance at year-end [1]
Current Directors					
A J D Locke *(from 24/9/12)*	-	-	-	73,912,988	73,912,988
R J Kennett	444,000	-	-	(84,000)	360,000
P Binks	12,500	-	-	5,125	17,625
R Dudenhausen	625,000	-	-	156,250	781,250
J Hoey	100,000	-	-	25,000	125,000
Former Directors					
B L Dow *(to 31/12/12)*	1,800,170	-	-	(1,800,170)	-
J P Dempsey *(to 31/12/12)*	500,000	-	-	(500,000)	-
J Harding *(to 29/10/12)*	12,826,852	-	-	(12,826,852)	-
R Rose *(to 29/10/12)*	458,332	-	-	(458,332)	-
Current other KMP of the Group					
K Föger	985,775	-	-	246,443	1,232,218
F Obernitz	170,260	-	-	26,000	196,260
R J Payne *(from 17/6/13)*	-	-	-	175,340	175,340
N A Sherburn	504,910	-	-	(134,505)	370,405
P A Thompson	73,039	-	-	-	73,039
Former other KMP of the Group					
F R Boyd *(to 1/3/13)*	878,385	-	-	(878,385)	-
P R McDonell *(to 31/10/12)*	310,100	-	-	(310,100)	-
A D Neilson *(to 16/11/12)*	782,688	-	-	(782,688)	-
J C Rajoo *(to 14/6/13)*	668,020	-	-	(668,020)	-
T M Rowe *(to 14/12/12)*	439,390	-	-	(439,390)	-

1. Totals are for number of shares whilst key management personnel (KMP). Hence, persons not KMP at the start of the year begin the year with no KMP shares and, likewise, persons who ceased to be KMP during the year end the year with no KMP shares.

(c) Loans to key management personnel

No loans were made to directors or to other key management personnel of the Group during the year ended 30 June 2014 (2013 – Nil).

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

	2014	*2013*
	$	*$*
Audit and other assurance services		
Audit and review of financial reports	**172,296**	207,726
Other assurance services	**-**	-
Total fees for audit and other assurance services	**172,296**	207,726
Taxation services		
Review of company income tax returns	**61,400**	31,000
Other tax compliance and planning services	**3,950**	39,203
Total fees for taxation services	**65,350**	70,203
Total fees of PricewaterhouseCoopers Australia	**237,646**	277,929

Notes to the Consolidated Financial Statements
30 June 2014

	2014 $	2013 $
(b) Related practices of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial reports	**50,784**	38,827
Other assurance services	**-**	-
Total fees for audit and other assurance services	**50,784**	38,827
Taxation services		
Preparation of company tax returns	**23,154**	15,771
Other tax compliance and planning services	**17,028**	11,049
Total fees for taxation services	**40,182**	26,820
Total fees of related practices of PricewaterhouseCoopers Australia	**90,966**	65,647

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:

	2014 $	2013 $
Within one year	**4,936**	5,977
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	4,936	5,977

(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 0.5 to 2.5 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:

	2014 $	2013 $
Within one year	**605,077**	917,888
Later than one year but not later than five years	**450,653**	1,038,663
Later than five years	**-**	-
Commitments not recognised in the financial statements	**1,055,730**	1,956,551

(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:

	2014 $	2013 $
Within one year	**391,045**	380,628
Later than one year but not later than five years	**553,981**	919,853
Later than five years	**-**	-
Minimum lease payments	**945,026**	1,300,481
Future finance charges	**(66,681)**	(126,029)
Total lease liability	**878,345**	1,174,452
Representing lease liabilities (Note 17(a)):		
Current	**348,275**	319,505
Non-current	**530,070**	854,947
	878,345	1,174,452

Notes to the Consolidated Financial Statements

30 June 2014

	2014	*2013*
	$	*$*
The present value of finance lease liabilities is as follows:		
Within one year	**348,275**	319,505
Later than one year but not later than five years	**530,070**	854,947
Later than five years	**-**	-
	878,345	1,174,452

Note 26. Related party transactions

(a) Parent entity

The parent entity within the Group is Ceramic Fuel Cells Limited which, at 30 June 2014, owned 100% of the issued share capital of its two UK subsidiaries, Ceramic Fuel Cells (Europe) Limited and Ceramic Fuel Cells (Powder) Limited, its German subsidiary, Ceramic Fuel Cells GmbH, and its Dutch subsidiary, Ceramic Fuel Cells BV.

(b) Key management personnel

	2014	*2013*
	$	*$*
Key management personnel compensation	**2,394,917**	3,223,562

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 [1] 2014 %	Equity holding [1] 2013 %
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
Ceramic Fuel Cells B.V.	Netherlands	Ordinary	**100**	100

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

Note 28. Event occurring after the reporting period

Issue of unsecured convertible note

On 2 July 2014 the Company issued an unsecured, convertible loan note (Second Convertible Security), denominated in American dollars, with a face value of US$450,000. The amount received for the Second Convertible Security was US$350,000. If not converted prior, the Second Convertible Security is repayable in full on the maturity date of 24 March 2016. The Second Convertible Security does not bear interest.

The terms by which the number and price of shares to be issued upon conversion are identical to those for the First Convertible Security (refer Note 17(b)).

	2014 $	2013 $

Note 29. Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities

	2014 $	2013 $
Operating profit/(loss) after income tax	**(21,426,962)**	(19,777,616)
Depreciation and amortisation	**1,629,121**	2,106,217
Impairment charge/(reversal)	**(1,968,924)**	351,383
Non-cash employee benefits expense: share-based payments	**(14,017)**	70,222
Net (gain)/loss on disposal of non-current assets	**(2)**	(490)
Finance costs	**1,085,103**	271,167
Foreign exchange loss/(gain) on disposal of assets of foreign subsidiary	**1,288,661**	-
Net foreign exchange differences	**4,874**	1,237,657
Interest revenue	**(65,892)**	(122,671)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	**815,981**	1,026,492
Decrease/(increase) in inventories	**(456,819)**	(646,305)
Decrease/(increase) in other operating assets	**552,437**	(554,609)
Increase/(decrease) in trade and other payables	**(342,691)**	(1,015,121)
Increase/(decrease) in provisions	**699,893**	739,873
Increase/(decrease) in other liabilities	**(55,705)**	(430,135)
Net cash inflow/(outflow) from operating activities	**(18,254,942)**	(16,743,936)

Note 30. Earnings per share

	Cents	Cents
Basic and diluted earnings/(loss) per share	**(1.19)**	(1.31)
	Number	Number
Weighted average number of shares		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	**1,797,350,601**	1,513,723,279
	$	$
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the Company	**(21,426,962)**	(19,777,616)

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.

Notes to the Consolidated Financial Statements

30 June 2014

Note 31. Share-based Remuneration 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.

Shares

No shares were issued as compensation to directors, key management personnel, nor to any other employees of the Group, during the year ended 30 June 2014.

Options

Unissued ordinary shares of Ceramic Fuel Cells Limited under option at 30 June 2014 totalled 8,260,650, all of which have been issued under the Equity Plan.

2014

Grant Date	Expiry Date	Exercise Price ($)	Balance at start of year (number)	Granted during the year (number)	Forfeited during the year [1] (number)	Exercised during the year (number)	Balance at end of year (number)	Vested and exercisable at end of year (number)
6 May 2004	5 May 2014	2.00	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	212,750	-	(89,500)	-	123,250	-
24 Aug 2006	23 Aug 2016	0.58	541,600	-	(342,400)	-	199,200	199,200
29 Aug 2007	28 Aug 2017	1.01	2,944,210	-	(2,188,000)	-	756,210	756,210
29 Aug 2007	28 Aug 2017	0.99	100,000	-	(100,000)	-	-	-
4 Dec 2007	3 Dec 2017	0.685	285,000	-	(285,000)	-	-	-
28 Mar 2008	27 Mar 2018	0.45	1,635,400	-	(945,000)	-	690,400	690,400
28 Aug 2008	27 Aug 2018	0.102	285,000	-	(285,000)	-	-	-
28 Aug 2008	27 Aug 2018	0.44	2,724,930	-	(1,606,500)	-	1,118,430	1,118,430
5 Dec 2008	5 Dec 2018	0.44	1,000,000	-	(1,000,000)	-	-	-
5 Dec 2008	5 Dec 2018	0.45	200,000	-	(200,000)	-	-	-
26 Jun 2009	25 Jun 2019	0.175	3,684,835	-	(1,953,125)	-	1,731,710	1,731,710
26 Jun 2009	25 Jun 2019	0.175	675,000	-	(675,000)	-	-	-
1 Oct 2010	30 Sep 2020	0.1825	1,478,900	-	(39,200)	-	1,439,700	1,439,700
28 Sep 2011	27 Sep 2021	0.15	2,262,260	-	(90,510)	-	2,171,750	2,171,750
		Total:	18,229,885	-	(9,969,235)	-	8,260,650	8,137,400
		Weighted average exercise price:	$0.44	-	$0.53	-	$0.32	$0.32

1. Forfeited includes lapsed due to expiration of option.

The weighted average remaining life of share options outstanding at the end of the period was 5.3 years (2013 – 5.6 years).

Notes to the Consolidated Financial Statements
30 June 2014

2013

Grant Date	Expiry Date	Exercise Price ($)	Balance at start of year (number)	Granted during the year (number)	Forfeited during the year [1] (number)	Exercised during the year (number)	Balance at end of year (number)	Vested and exercisable at end of year (number)
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	335,500	-	(122,750)	-	212,750	-
24 Aug 2006	23 Aug 2016	0.58	549,600	-	(8,000)	-	541,600	541,600
29 Aug 2007	28 Aug 2017	1.01	3,053,710	-	(109,500)	-	2,944,210	2,944,210
29 Aug 2007	28 Aug 2017	0.99	100,000	-	-	-	100,000	100,000
4 Dec 2007	3 Dec 2017	0.685	285,000	-	-	-	285,000	285,000
28 Mar 2008	27 Mar 2018	0.45	1,735,400	-	(100,000)	-	1,635,400	1,635,400
28 Aug 2008	27 Aug 2018	0.102	285,000	-	-	-	285,000	285,000
28 Aug 2008	27 Aug 2018	0.44	2,899,180	-	(174,250)	-	2,724,930	2,724,930
5 Dec 2008	5 Dec 2018	0.44	1,000,000	-	-	-	1,000,000	1,000,000
5 Dec 2008	5 Dec 2018	0.45	200,000	-	-	-	200,000	200,000
26 Jun 2009	25 Jun 2019	0.175	3,949,210	-	(264,375)	-	3,684,835	3,684,835
26 Jun 2009	25 Jun 2019	0.175	675,000	-	-	-	675,000	675,000
1 Oct 2010	30 Sep 2020	0.1825	1,478,900	-	-	-	1,478,900	1,478,900
28 Sep 2011	27 Sep 2021	0.15	2,326,540	-	(64,280)	-	2,262,260	2,262,260
		Total:	19,073,040	-	(843,155)	-	18,229,885	18,017,135
		Weighted average exercise price:	$0.44	-	$0.43	-	$0.44	$0.43

1. Forfeited includes lapsed due to expiration of option.

The weighted average remaining life of share options outstanding at the end of the period was 5.6 years (2012 – 6.5 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:

	2014	*2013*
	$	*$*
Share-based payments expense	**(14,017)**	70,222

Note 32. Parent Entity Financial Information

(a) Summary financial information

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

	2014 $	2013 $
Balance Sheet		
Current assets	**6,461,055**	10,027,229
Total assets	**30,247,681**	31,158,699
Current liabilities	**3,968,854**	11,564,952
Total liabilities	**14,155,301**	12,929,448
Shareholders' equity		
Contributed equity	**301,728,180**	289,650,877
Share-based payments reserves	**4,000,549**	4,000,549
Retained profits/(losses)	**(289,636,349)**	(275,422,175)
Total Equity	**16,092,380**	18,229,251
Net profit/(loss) for the year	**(14,214,174)**	(15,459,421)
Total comprehensive income/(expense) for the year	**(14,214,174)**	(15,459,421)

(b) Guarantees entered into by the parent entity
The parent entity has not provided any financial guarantees in respect of its subsidiary undertakings as at 30 June 2014 (2013 – Nil).

(c) Contingent liabilities of the parent entity
The parent entity did not have any contingent liabilities as at 30 June 2014 (2013 – Nil).

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

	2014 $	2013 $
Commitments for the acquisition of plant and equipment contracted for at reporting date but not recognised as liabilities:	**389**	873

CERAMIC FUEL CELLS

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 32 to 69 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 2014 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) 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 declarations 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.

Alasdair Locke
Chairman

Melbourne
26 September 2014

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 consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Ceramic Fuel Cells Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), 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. Those 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 consolidated 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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 2014 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*.

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates the imminent need for additional funding to ensure the continuation of the consolidated entity. This condition, along with the other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 21 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
26 September 2014

Shareholder Information

The shareholder information in this section was applicable as at 12 September 2014.

Equity Securities

The Company had on issue 2,549,217,432 fully paid ordinary shares, held by a total of 11,293 shareholders: 11,007 shareholders on the Australian Securities Exchange (ASX) and 286 depository interest (DI) holders on the London Stock Exchange AIM market (AIM). There is no on-market buy-back and there are no 'restricted securities' as defined in the ASX Listing Rules.

The Company had 33,030,650 options on issue, as follows:

- 8,230,650 ordinary shares under option, issued under the CFCL Share Option Plan and Directors and Employees Benefits Plan, held by 60 option holders; and
- 24,800,000 ordinary shares under option, issued to a single investor, as announced to the market on 24 March 2014.

Options do not carry any voting rights and are not listed.

Distribution

Range	Ordinary Shares			Options
	ASX shareholders	*AIM DI holders*	*Total shareholders*	
1 - 1,000	382	9	391	-
1,001 - 5,000	1,565	31	1,596	2
5,001 - 10,000	1,558	26	1,584	4
10,001 - 100,000	5,414	109	5,523	29
100,000+	2,088	111	2,199	26
Total	11,007	286	11,293	61

There are 7,002 security investors holding less than a marketable parcel (being $500) at the ASX closing price of $0.012.

Two new substantial holder notices were received by the Company during the year ended 30 June 2014 and to the date of preparation of this information. Substantial shareholders of 5% or more as at 12 September 2014 were:

Holder	*Number*	*% of total shares*
MR ALASDAIR LOCKE	283,258,782	11.11

Top 20 Shareholders

Registered Holder of Shares or Depository Interests	*Number*	*% of total shares*
J P MORGAN NOMINEES AUSTRALIA LIMITED	325,755,191	12.78
MR ALASDAIR LOCKE	200,000,000	7.85
CHASE NOMINEES LIMITED <JPMELAI2>	123,364,485	4.84
HONG KONG THREE CIRCLE ELECTRONIC COMPANY LIMITED	100,000,000	3.92
AURORA NOMINEES LIMITED <2163207>	90,909,090	3.57
BBHISL NOMINEES LIMITED <120077>	83,108,782	3.26
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED <770731>	64,750,000	2.54
LOG CREEK PTY LTD	45,572,915	1.79
METASOURCE PTY LTD	38,250,000	1.50
BARCLAYSHARE NOMINEES LIMITED	36,104,546	1.42
NORTRUST NOMINEES LIMITED <SLEND>	31,619,683	1.24
STATE STREET NOMINEES LIMITED <OM02>	29,794,362	1.17
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	20,255,437	0.79
MORSTAN NOMINEES LIMITED <SEG>	20,000,000	0.78
CERAMIC OXIDE FABRICATORS PTY LTD	15,590,625	0.61
KBC SECURITIES NV <CLIENT>	14,892,097	0.58
HSDL NOMINEES LIMITED	14,462,908	0.57
JIM NOMINEES LIMITED <JARVIS>	13,881,108	0.54
TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS>	13,805,330	0.54
CITICORP NOMINEES PTY LIMITED	12,847,890	0.50
Total for Top 20	**1,294,964,449**	**50.80%**