CeresPower



Alternative energy products for global markets

CHP demonstration, site visit and preliminary results for the year ended 30 June 2010

29th September 2010

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Introduction

Brian Count

Chairman, Ceres Power

Overview

- **Significant progress in a challenging year**
- **Key achievements:**
  - First funded international CHP contract secured with Bord Gáis, Ireland
  - Initial fuel cell manufacturing line installed & operating in Horsham factory
  - CHP units being built & tested, able to meet key Beta performance targets
  - Raised £30m net in share placing, British Gas invested £3.1m
- **CHP commercialisation:**
  - Product reliability issues identified during sheltered field trials phase being resolved
  - Commercial field trial CHP products now to begin installation in homes in Q4 2010
  - Initial CHP sales targeted for mid 2012, volume ramp-up six months thereafter
- **Outlook:**
  - Unique world-leading technology, underpins mass market residential CHP product
  - Support from key go-to-market customers and suppliers
  - Strong balance sheet: cash & investments > £40m

Results

Rex Vevers

Finance Director, Ceres Power

Financial Highlights - Summary

£m	FY '10	FY '09	Δ '09
Revenue from customers	**0.8**	1.0	(17%)
Other operating income	**0.6**	0.5	16%
Operating costs	**(14.5)**	(10.7)	35%
Loss for the financial year	**(11.7)**	(8.0)	47%
Capex (net of grants)	**2.6**	2.1	23%
Equity-free cash outflow[1]	**(12.3)**	(4.4)	180%
Net cash & financial assets	**40.9**	**23.0**	**78%**

Strengthened balance sheet has enabled planned increase in expenditure:

- ✓ **Investment in manufacturing scale-up & fuel cell testing infrastructure**
- ✓ **Increased spend to build and deploy beta phase field trial units**
- ✓ **Increased engineering headcount**

1 Change in net cash and financial assets, excluding net proceeds from issuance of ordinary shares

Financial Highlights (P&L)

Revenue from customers - £0.8m (down 17%)

- Revenue recognised based on 'costs incurred' during the programme (revenue is 'back-end loaded')
- Total milestone cash payments received to date from customers* = £5.3m
- Total revenue* recognised to date in P/L = £2.1m
- Deferred income of £3.2m included in liabilities

Operating costs - £14.5m (up 35%)

- Increase in headcount to ~110 employees (average headcount during year up 33%, as planned)
- Cost of development and manufacture of beta phase field trial units
- Full year operating costs of Horsham manufacturing facility
- Annualised effect of headcount & other cost increases from prior year

Net financial income - £0.4m (down 62%)

- Lower average interest rates during year
- Redemption of holding of UK Government gilt

Tax recovery - £1.1m (up 217%)

- Includes £0.6m in current year plus £0.5m additional recovery from 2009

Since entering into the British Gas contract

Financial Highlights (Cash Flow)

Net cash used in operating activities - £10m (up £6.5m)

- Increase in operating expenses ~£3.8m
- £3.9m favourable working capital movement in 2009, not repeated in current year

Capex - £2.6m (up £0.5m)

- Investment in cell manufacturing scale-up and test infrastructure
- Grants receivable of £0.3m

Finance income received – £0.5m (down £0.8m)

- Lower interest rates

Cash inflows from financing - £30.2m (up £30.1m)

- £30m (net) equity placing, British Gas invested £3.1m maintaining 9.94% stake

Equity-free cash outflow – £12.3m (up £7.9m)

- Significant investment in operational capabilities

Net cash & financial assets - £40.9m (up 78%)

- Strong balance sheet
- Held in 'AAA' money market funds and short-term cash deposits with banks

Since entering into the British Gas contract

Technology Update

CeresPower

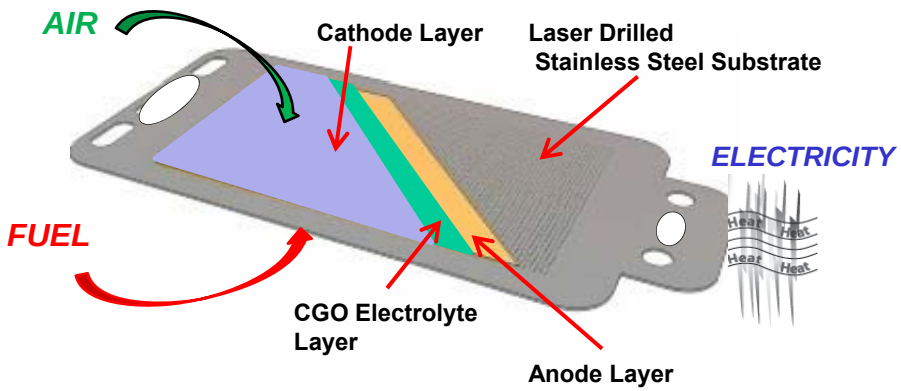
Dr. Phil Whalen

Technology Director, Ceres Power

Unique Metal-Supported Fuel Cell

Ability to fabricate dense CGO electrolyte on steel has enabled:

- ✓ Fuel Cell that operates below 600 ^{0}C
- ✓ Metal-supported, mechanically strong cell design
- ✓ Robust stack sealing using well-proven welding techniques
- ✓ Rapid load-following & thermal cycling without degradation
- ✓ Use of low cost materials for fuel cell stack and balance of plant components
- ✓ Compact, lightweight stack design



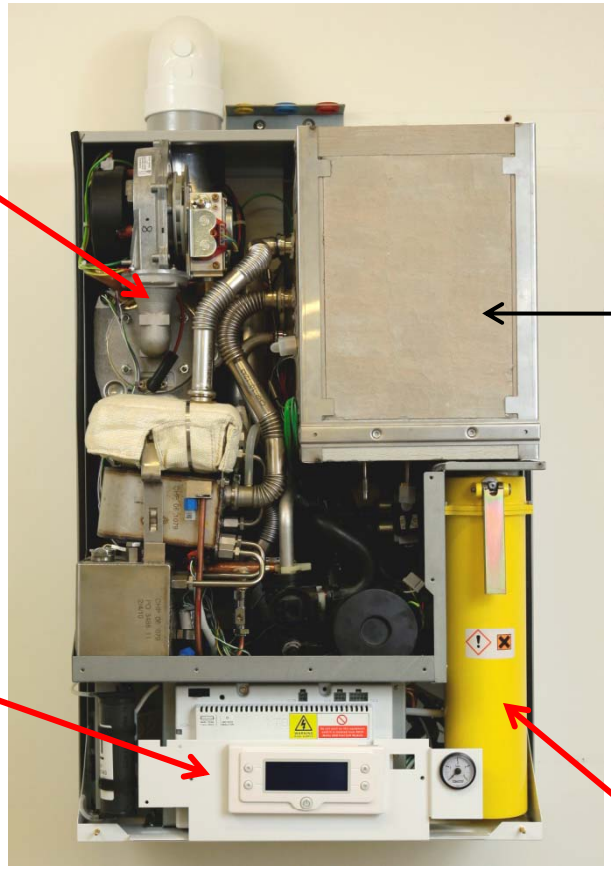
Mass manufacturable, robust fuel cell design

Fuel Cell Module & Integrated CHP Product

CeresPower

Wall-mounted CHP Product

Condensing Boiler Sub assembly
- Main burner
- Heat exchanger



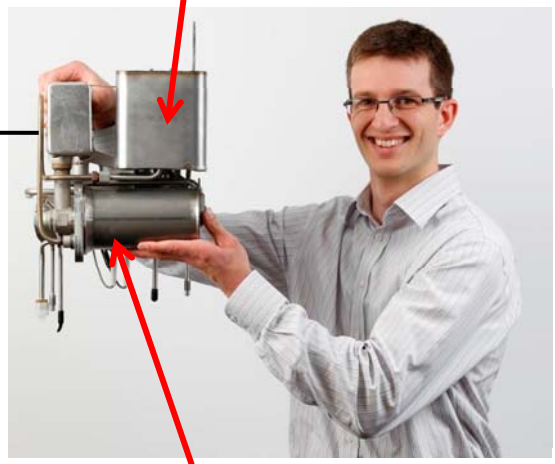
Integrated CHP System Controller & Power Electronics Module

Fuel Filter

FCM

Fuel Cell Module ('FCM')

Fuel Cell Stack



Fuel Processing Assembly

Unique FCM enables compact, wall-mounted integrated CHP product

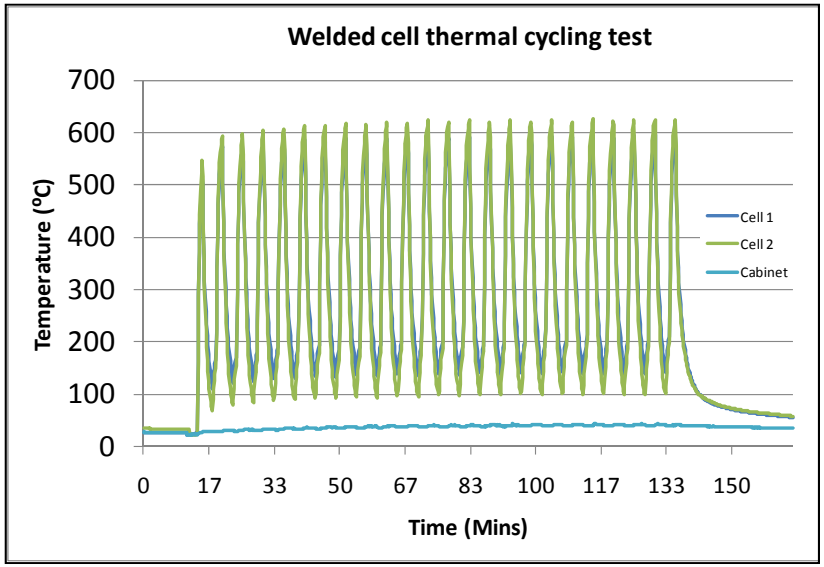
Unique Technology Enables Mass Market CHP Product

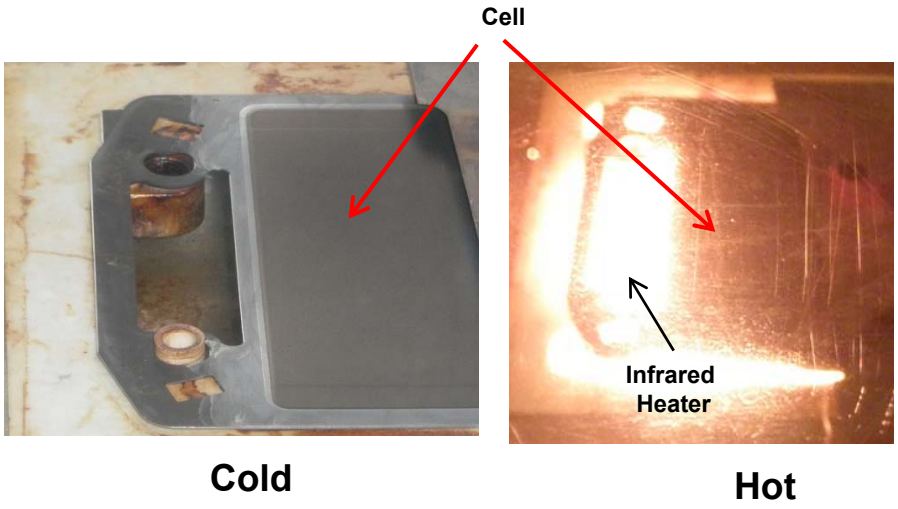
Ceres' CHP product is a robust, practical wall-mounted appliance that replaces a conventional gas boiler and delivers enduring energy and carbon savings in an unsubsidised low-carbon world

CHP product requirements	Met by Ceres technology capability
Maximise energy savings and CO_2 savings, whilst avoiding 'heat dumping'	✓ High electrical and total system efficiency and load-following
Deliver all home's energy requirements and operate all year round	✓ Low heat to power ratio
Rapid, multiple start/stops (e.g. to meet real-world needs such as holidays, maintenance)	✓ Robustness to thermal cycling
Flexibility to meet home's daily electrical demand and maximise displacement of expensive imported electricity	✓ Rapid load-following & thermal cycling without degradation
Wall-mounted boiler replacement product suitable for most homes	✓ Compact, lightweight FCM and integrated CHP design

Mass market requirements of CHP product met by unique Ceres technology, based on actual home energy usage gathered from real UK homes

Metal-Supported Design Enables Stack Sealing Robustness





Metal-supported cell design enables robust stack sealing through welding

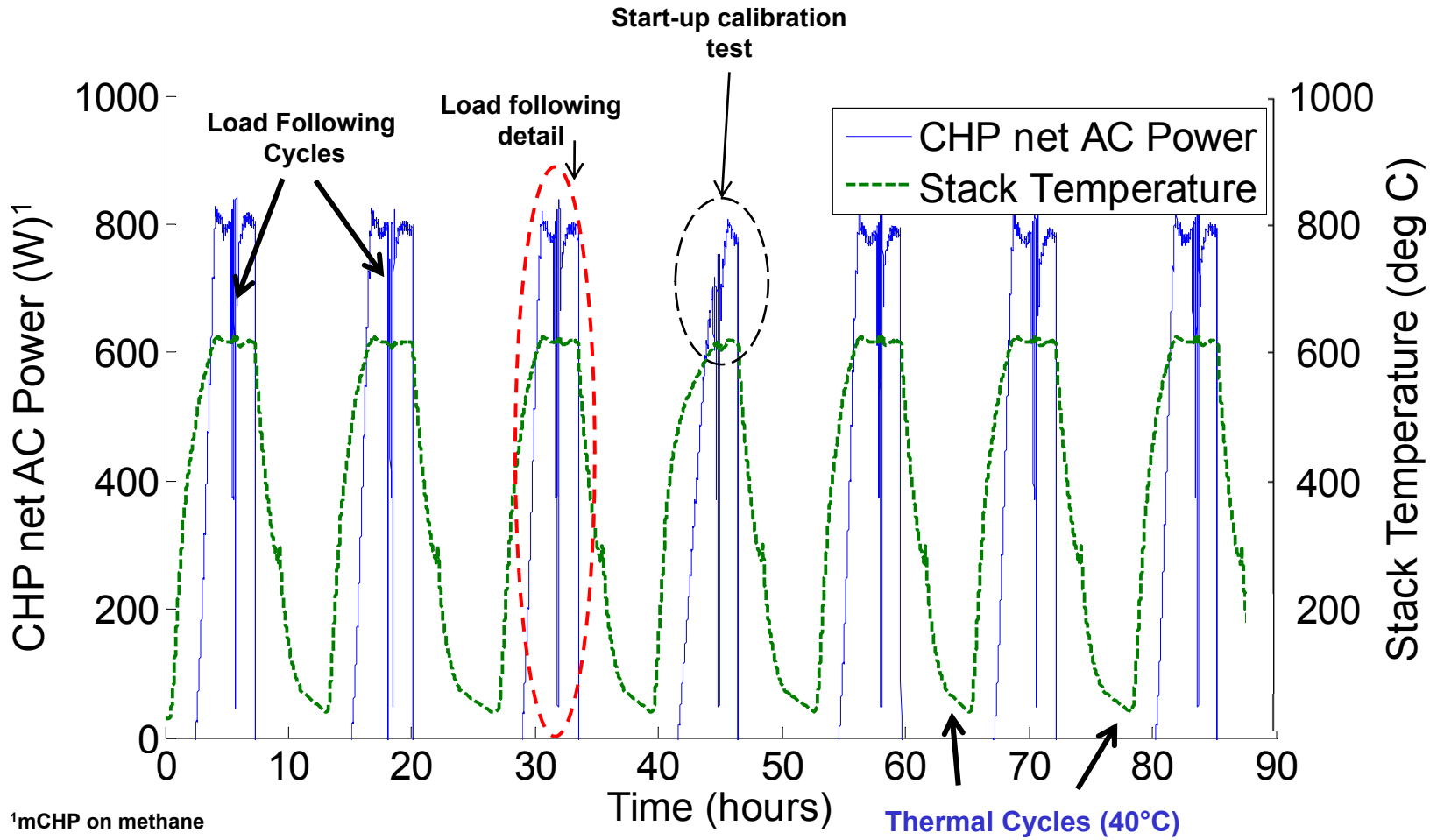
- Welded cells aggressively thermally cycled between 100^0C and 600^0C – cycle time < 5 mins
- Helium leak detection used to assess gas sealing capability periodically during test
- No measureable degradation in cell performance after 100 cycles (equivalent to years of operating lifetime for a typical UK house based on real-life energy demand data)

Core cell & stack technology enables robust CHP Product

Independently assessed by AEA

CHP Thermal Cycling Robustness

CeresPower



[1]mCHP on methane

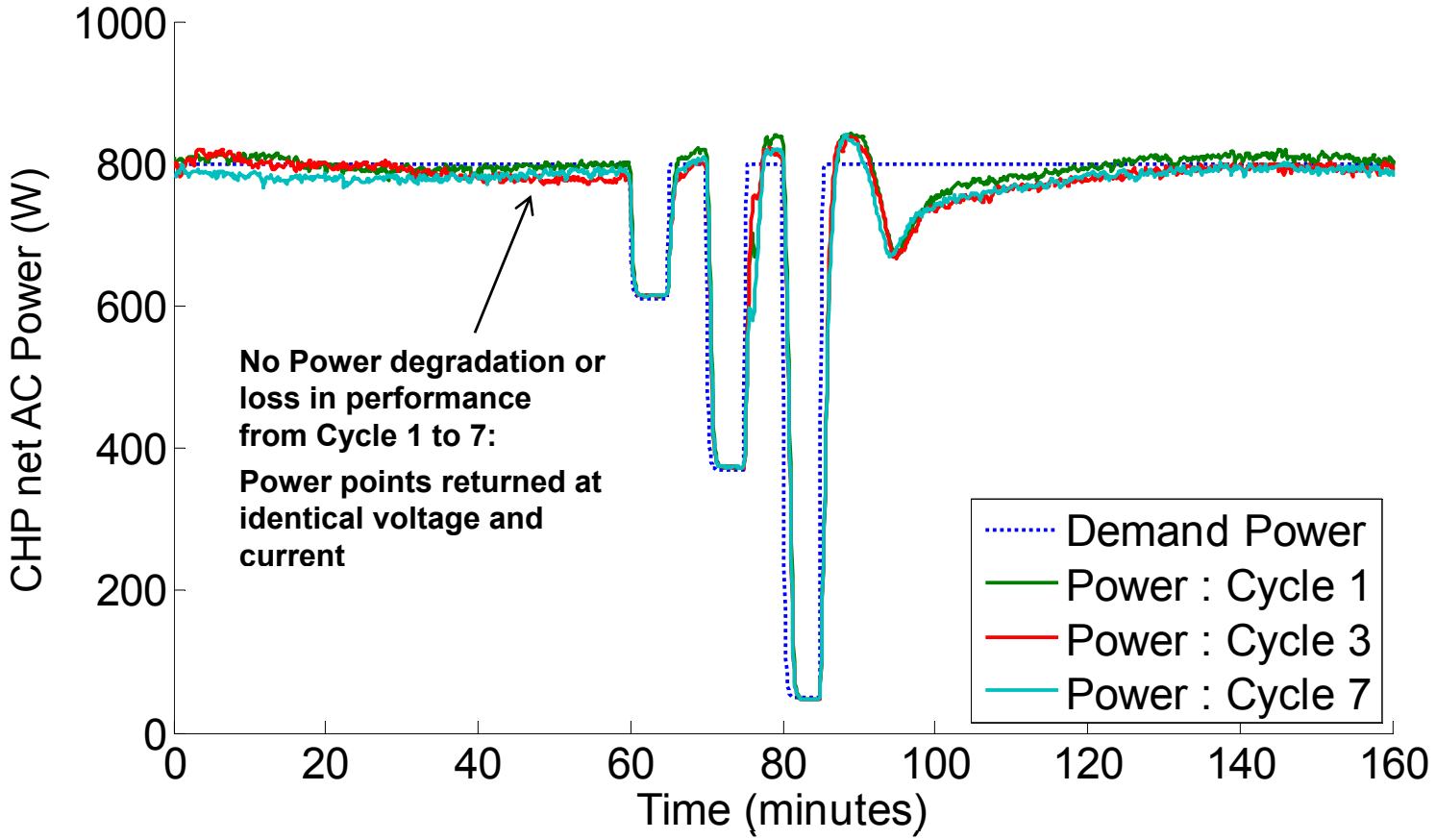
Thermal cycling robustness enables practical in-home product

Based on the information and data independently reviewed and validated by AEA on 17th and 21st September 2010. The above reflects AEA's unbiased and independent assessment and is not an endorsement of this CHP Product. AEA accepts no liability whatsoever to any third party for any loss or damage arising from any interpretation or reliance upon this assessment.

Independently assessed by AEA

Rapid-Load Following Capability

CeresPower



High speed dynamic response to meet real-time energy needs

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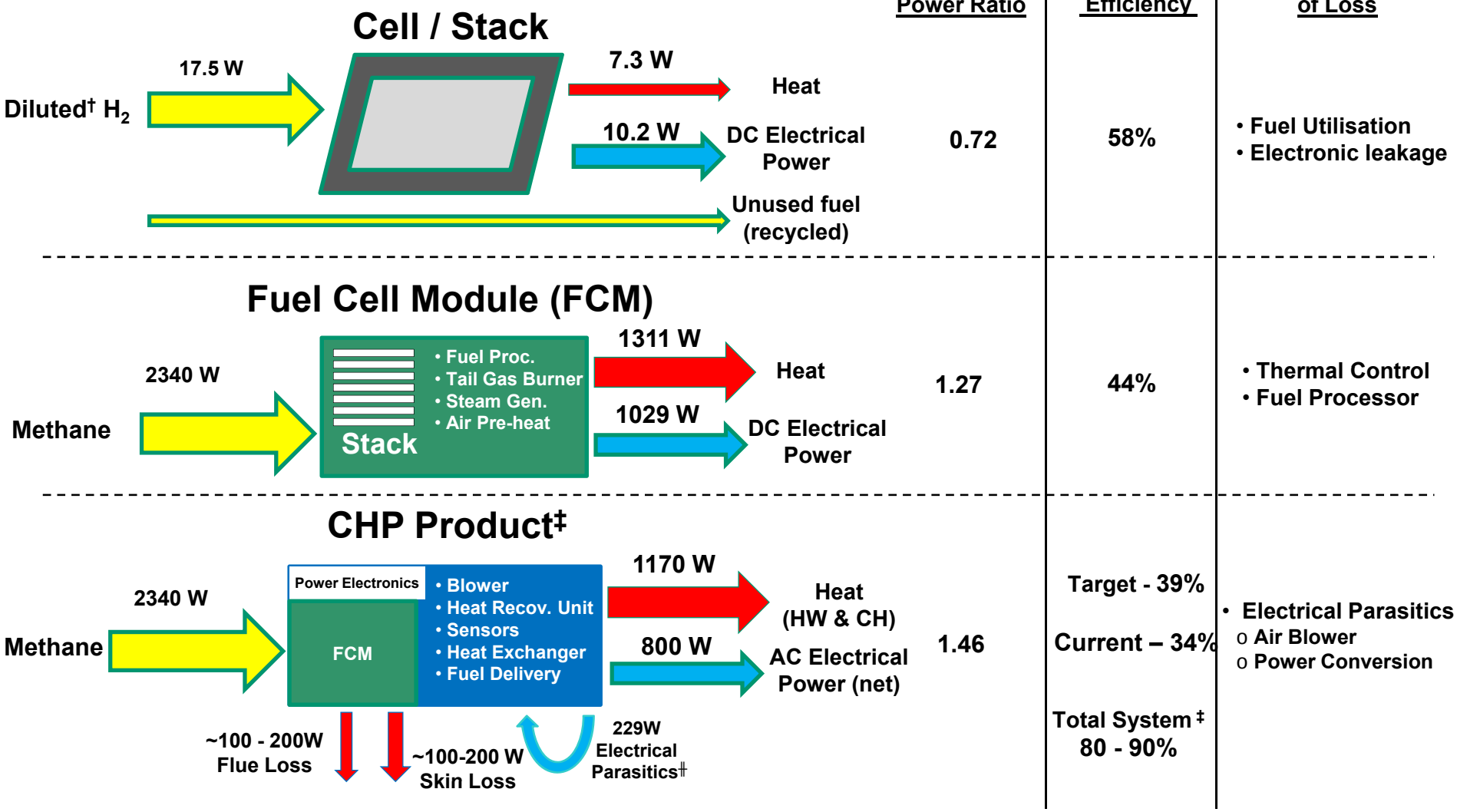
High Energy Conversion Efficiency



* All efficiencies based on Low Heating Value (LHV)

† H_2 concentration equivalent to FCM reformate

‡ Without main burner running

‡ Parasitics include power required to drive boiler systems

Unique Technology Meets Residential CHP Requirements

CeresPower

Demonstrated core technology at cell, stack, FCM and CHP product level

- Repeated start-up, shut-down and rapid dynamic response without loss of performance
- Validated cycling robustness of metal-supported core technology
- Rated power, efficiency and low heat to power ratio
- Highly efficient modulating boiler

Unique set of characteristics delivers a practical, cost effective, despatchable, low carbon energy product for the residential mass market

Independent Confirmation of CHP Performance

Based on the information and data independently reviewed by AEA on the 17th and 21st September 2010 AEA validated that:

- ✓ A Ceres Power integrated wall-mounted CHP unit sequentially thermal cycled 7 times on methane:
  - With no measureable power degradation over the 7 cycles; and
  - An electrical efficiency of >34% LHV (>31% HHV) at 800 W net AC electrical power
  - Each cycle comprised:
    - Heating from cold to fuel cell operating temperature and back to cold
    - Running at rated power of 800W net AC electrical power and load-following down to ~66% of rated power, back up to rated power, down to ~40% of rated power and back up to rated power and down to < 10% rated power and back to rated power and then shutting down

- ✓ A Ceres fuel cell stack produced a heat to power ratio of 0.72:1 at a nominal operating cell voltage of 0.75V

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Independent Confirmation of Integrated CHP Boiler Performance

Enertek International validated the following thermal performance characteristics of the main burner element of Ceres Power's integrated CHP product:

- ✓ Maximum thermal rating of 25 kW on demand
- ✓ Thermal cycling between maximum rated output and minimum rated output
- ✓ Capability to respond to abrupt dynamic load demands
- ✓ Net efficiency of 96.4% at full load (based on 80/60^0 C flow/return)

Key Areas of Focus in Beta Phase

Challenge	Risk reduction actions
System Reliability - Unplanned shutdowns	• Power Electronics and System Controller software de-bugging • Mapping of stable product operating space • Complete Design Validation Testing • Extensive commercial field trials
CE Marking - Safety case & supporting evidence	• Active engagement with regulatory bodies since Alpha (LVD, GAD, EMC-D and G83) • Pre-approval testing of sub-systems underway using calibrated external test facilities
Product Durability - Performance stability over time	• Steady state and accelerated life testing at component and CHP level • Control strategy optimisation
Manufacturing Quality - mCHP Performance variability	• Reduce production variation through rigorous 6 Sigma project execution; multivariable analysis

Beta Phase provides opportunity to identify and resolve reliability issues, while supporting data collection for control strategy optimisation

Business Update

Peter Bance

Chief Executive Officer, Ceres Power

Techno-Economic Modelling Approach

- Ceres has developed a rigorous ‘real-life’ computer model to predict the economic savings from CHP products using data from actual UK houses

Key requirement	Met by Ceres model capability
Real world energy usage	Extensive data sets gathered from UK real homes, providing actual heat and power usage over a complete annual cycle with high precision (5 min intervals)
Realistic product performance	Codifying CHP Product performance over the range of situations that it is likely to encounter (e.g. changing operating point, starting up / shutting down)
In-home product behaviour	Realistic operating strategies reflecting the way the CHP Product will automatically respond to events (e.g. loads varying with different time factors)
‘System’ not just ‘product’ approach	Inclusion of complete home energy system (inc. space heating system, electrical loads, hot water storage tank / tapping cycles)

- The computer model, and underlying methodology, are based on a model originally developed with and subsequently validated by elementenergy

Energy Bill Savings For a Typical UK House

- Predicted energy bill and CO_2 savings for a Ceres CHP product installed in an actual UK home

Annual electricity demand		4,618 kWh[1]
CHP power generated		3,463 kWh
CHP power exported		107 kWh
Grid power imported	(4,618 – 3,463 + 107)	1,262 kWh
Baseline annual energy costs	Without CHP	£1,374[2]
New annual energy costs	With CHP	£1,088
Annual energy cost savings	(£1,374 – £1,088)	£286
Annual FIT	(3,463 kWh x 10 p / kWh) + (107 kWh x 3 p / kWh)	£350
TOTAL ANNUAL ENERGY BILL SAVINGS[3,4,]		**£636**

Annual CO_2 Savings[5]	(Compared to condensing boiler and grid)	1- 1.5 tonnes

Substantial annual energy bill savings available from market launch

1. Centrica: customer average (2008) ~4,000 kWh / yr
2. Ofgem: average UK residential energy bill ~£1,200
3. Based on launch targets (e.g. 39% electrical efficiency @ LHV) and property with hot water tank
4. Operating savings only, excludes any service or finance costs
5. Range depends on assumed grid intensity, lower bound assumes grid mix electricity, upper bound assumes displacing only fossil components (as recommended by DECC for CHP calculations)

Factors Included in Techno-Economic Model

- Predicted annual energy bill savings incorporate:
  - Energy used for as-needed stop / start cycles of the Fuel Cell Module
  - Electrically-led, thermally capped control strategy to maximise displacement of imported retail electricity

- Economic case is expected to improve with
  - Homes with higher occupancy / higher energy demand
  - Optimised control strategy of CHP product
  - Further improvements in CHP product performance
  - Time of day electricity tariffs in conjunction with smart meters

Go-to-Market Commercial Partners

Ceres has established commercial channels for mass market uptake of CHP products

- ✓Partners paying in aggregate >£9m for development and trialling programmes
- ✓ Volume forward orders placed for >70,000 Ceres Power CHP products
- ✓ Market-leading partners supplying energy & gas boiler services to residential market
- ✓ Co-branding rights

Company	Total cash payments to Ceres	CHP order volumes	Customer profile
British Gas	£5 million	37,500	• Largest UK domestic energy supplier with 15.7m customer accounts • Largest operator in installation & maintenance of domestic central heating & gas appliances
CALOR	£2.5 million	20,000	• Largest LPG supplier in UK • Part of SHV Gas, the world's largest LPG distributor (supplying tens of millions of customers in 27 countries)
Bord Gáis Energy	£1.6 million	16,000	• Largest domestic gas supplier in the island of Ireland • Growing its energy efficiency home services division, including gas boiler installation, service & maintenance

British Gas CHP Programme – Status of Beta Phase

Key activities

- ✓ Beta design iteration for integrated, wall-mounted CHP product
- ✓ 'Go-to-market' volume supply agreements for key components for Beta phase
- ✓ Procurement and manufacture of parts for up to 100 CHP products
- ✓ Site selection & instrumentation of commercial field trial homes
- ✓ Sheltered field trial learnings being incorporated into commercial field trial units
- ➢ Testing of FCM and CHP components for commercial field trials
- ➢ Building CHP products off volume-capable processes and machinery
- ➢ Testing of grid-connected CHP products
- ➢ CE marking
- Commencement of commercial field trials in occupied homes
- Independent validation / audit of CHP field trial data and sign-off by British Gas

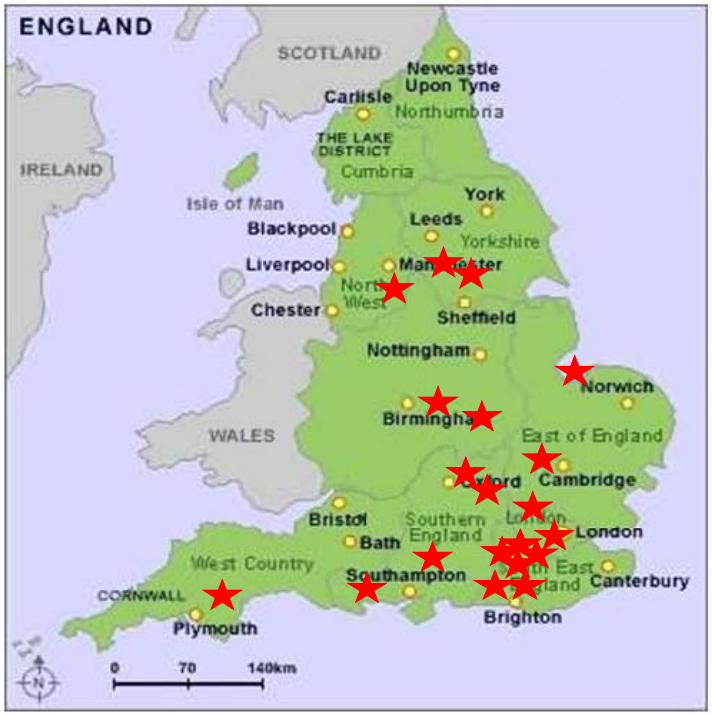
Current work in progress

Example CHP Product Installation

Fully integrated CHP product designed for boiler replacement mass market

Beta Field Trials Programme – Next Steps

- Preparations for commercial field trials in occupied homes
  - CE marking for completion in Q4 '10
  - First wave of 5 CHP products to be installed following achievement of CE marking
  - Second wave of 15 CHP products to be built in Q2 '11 (incl. learnings from 1st wave)
  - Conducted in conjunction with British Gas
  - Key value of commercial field trials:
    - Debug in-field reliability issues
    - Optimise product control strategy
    - Inform final gamma product design iteration
    - Provide consumer feedback & raise awareness
- Ongoing testing in Ceres test facilities:
  - Accelerated lifetime testing of CHP products
  - Durability testing of CHP products, FCMs & cells
  - Reliability testing of sub-systems & components



Preparation for Initial Sales

- Beta Phase completion process:
  - Demonstration of Beta performance specification on CHP products
    - ✓ Compact wall-mounted
    - ✓ Net electrical efficiency ≥30% HHV (~33% LHV)
    - ✓ CHP product delivering rated power ≥ 0.7kW net grid-connected AC
    - ✓ Rated thermal output from 20kW to 28kW (max)
  - CE accreditation of CHP product
  - Operation of ≥ 15 CHP 'wave 2' products in occupied homes
    - Across a range of 'typical field usage conditions'
    - Over a 'diverse range of conditions' to demonstrate robustness
  - Reliable operation of commercial field trial products for ≥ 6 months
  - Operation of FCMs and CHP products in Ceres' test facilities to validate durability/reliability including accelerated lifetime tests

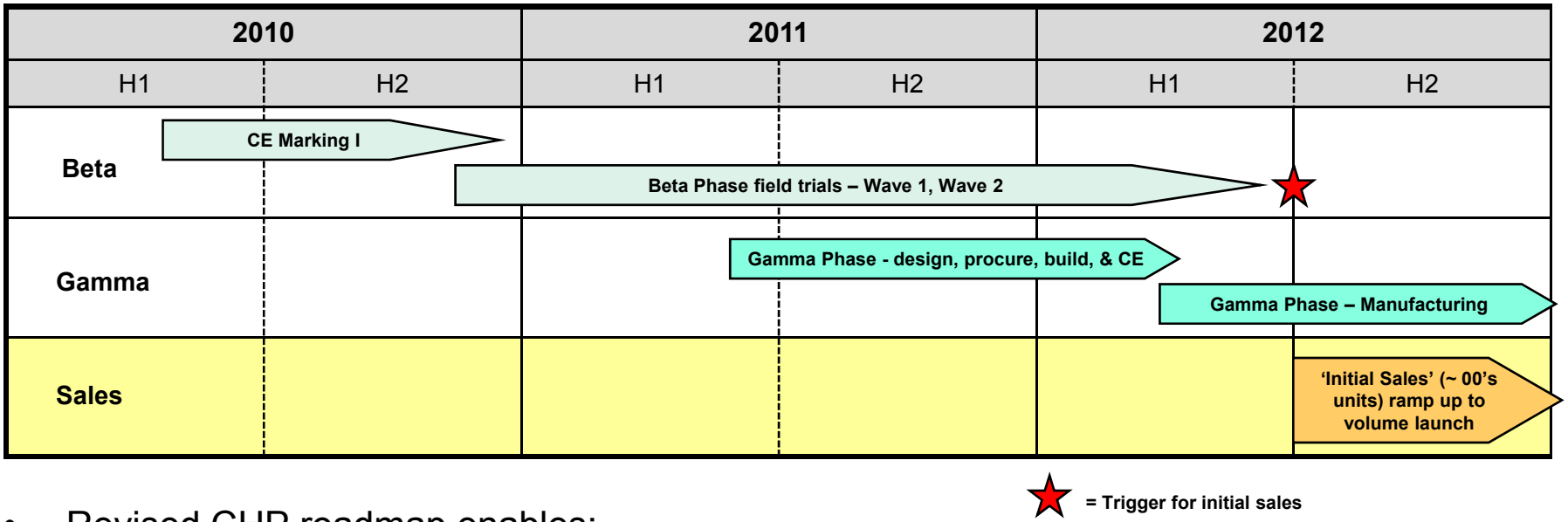
- Beta phase completion enables initial market sales in mid 2012

Preparation for Volume Sales

- Gamma Phase
  - Design, procure & build sub-phases conducted in parallel with Beta field trials
  - Gamma products incorporate Beta phase learnings (e.g. control strategy optimisation, software upgrades, incremental performance improvement to target level electrical efficiency - 39%)
  - Validate operational capabilities for volume deployment
    - Optimising manufacturing processes able to 'run at rate'
    - Gearing up logistics with external partners
    - Validating marketing propositions to households
  - Gamma phase CHP products installed in customer homes and used for
    - Initial low volume sales to early adopters (~ low '00s)
    - Operational validation in conjunction with British Gas based on an additional 150 units

- Gamma phase enables Ceres & its partners to prepare for volume ramp-up

CHP Roadmap



- Revised CHP roadmap enables:
  - Additional time to address system reliability issues
  - Extended Beta phase with in-field learnings to be incorporated in second wave of field trials
  - Gamma units to include design optimisation iteration based on Beta field trials (e.g. control strategy)
  - Initial product sales to begin before Gamma phase completion
  - Accelerated volume ramp-up six months after initial sales achieved
- Revised roadmap supported by customers and suppliers

Centrica and British Gas: Energy for a Low Carbon World

Gearoid Lane

Managing Director, British Gas Communities and New Energy

2010 Our defining year

Centrica Overview & New Energy Focus

- Centrica corporate overview
  - Operating in UK and North America
  - Britain's biggest energy supplier
  - Business units: British Gas, Centrica Energy, Centrica Storage, Direct Energy
- British Gas
  - Provides gas/electricity/services to 50% of all homes in Britain ~ 16 million residential energy accounts
  - Employs 28,000 people including 9,500 Gas Safe engineers
  - Installs over 100,000 boilers & central heating systems per annum
  - Plans to install 2 million smart meters in British homes by 2012
  - Provides range of microgeneration technologies to homes and businesses
  - Britain's leading supplier of energy efficiency services in the home

"My vision is that British Gas will no longer be an energy company that sells services, but an energy services company that sells energy; helping Britain's homes and businesses cut energy consumption and cut carbon emissions."
Sam Laidlaw, Chief Executive, Centrica

2010 Our defining year

British Gas & Residential CHP

- Decarbonising our homes is essential
  - UK 2050 target of 80% reduction in CO2 emissions requires step change in energy efficiency
  - Our target is to cut the average carbon footprint of our customers' homes by 35% within 10 years
- Residential CHP can really help
  - By 2015, CHP units could represent 30% of the 1.5m boilers sold in the UK each year[1]
  - It is complimentary to nuclear and large-scale renewables
- The world-leading Ceres fuel cell CHP product is good for our customers, and for the new 'Smart Grid'
  - Practical mass market product (a wall-mounted boiler replacement)
  - Provides all of a home's hot water & heating and the majority of electricity from a single unit
  - Significant reductions in home energy bills and CO_2 emissions
  - Controllable, flexible power generation that reduces demand and delivers high value despatchable power when required in the house and by the grid
  - Compatible with gas grid decarbonisation (e.g. biomethane)
- British Gas is ideally placed to lead the market
  - Unique combination of major energy supplier and home services
  - Trusted by customers to keep Britain's homes working

2010 Our defining year

Commercial Preparation for Volume Sales

- Substantial market opportunity
  - British Gas is aiming to be the UK's leading installer of microgeneration
- Policy tail-wind
  - Challenging UK carbon targets
  - Feed-in tariffs introduced April 2010 to incentivise low carbon electricity such as domestic CHP
  - Ambitious coalition "Green Deal" policy to engage customers and provide financing solution
- British Gas and Ceres working together to plan market entry and growth
  - Market segmentation via powerful customer insight database
  - CHP Product refinement using input from installation + service engineers
  - Joint working groups established
    - Proposition development and consumer research
    - Logistics, distribution and supply chain
    - Controls and metering
    - In-field support
    - Training & skills
  - Initial marketing will start later this year to develop customer awareness and understanding of the micro-CHP product concept

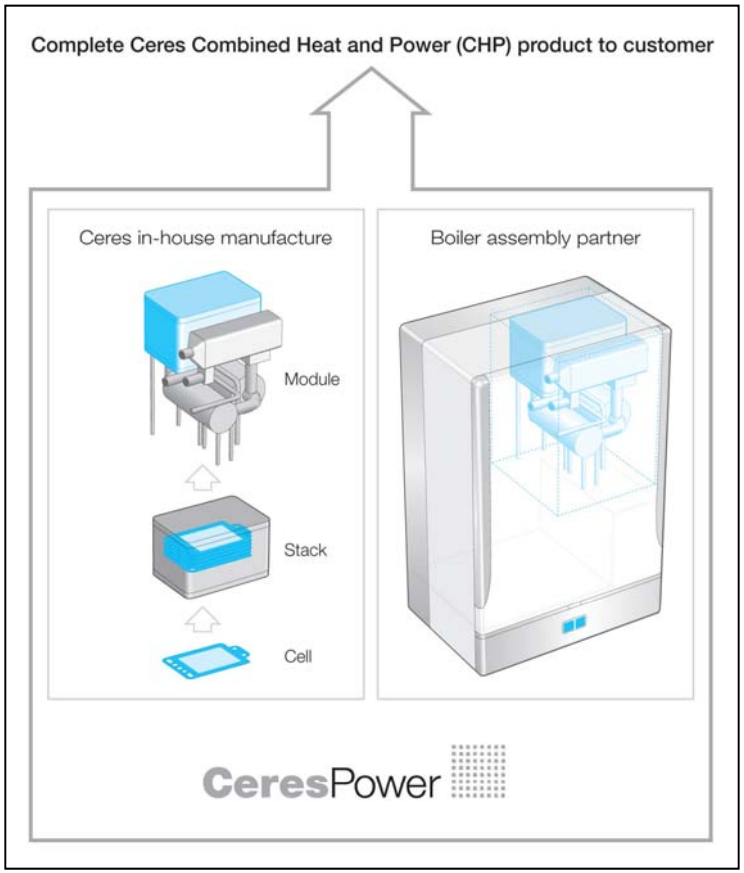
"Fuel cell technology has the potential to transform the domestic central heating market, enabling our customers to generate cheap, reliable & low-carbon electricity in their own homes."
Sam Laidlaw, Chief Executive, Centrica

2010 Our defining year

Ceres Manufacturing Strategy

CeresPower

- Designs complete CHP products
- Co-develops BoP components
- Manufactures cells, stacks, FCMs
- Sells complete CHP products
- Earns 'product-level' revenues
- Owns core IP



Daalderop

- Optimises CHP design for volume assembly & ease of service & maintenance
- Manufactures CHP boiler assemblies for Ceres

Manufacturing Operations - Horsham

Ceres Power – Horsham, UK

- Manufactures fuel cells and assembles fuel cell stacks and fuel cell modules
- Uses volume manufacturing equipment
- Process automation being selectively deployed where and when appropriate
- Capacity of initial manufacturing line sufficient for Beta & Gamma phases and initial product sales
- Opportunity to expand capacity to ~ 30,000 fuel cell modules p.a.

Manufacturing Operations - Tiel

Daalderop – Tiel, Netherlands

- Well established company (> 50 years), privately owned
- Purpose-built boiler manufacturing facility in 2004
- Total production capacity for heating appliances of 200,000 p.a.

- Achieved go-to-market cost targets for CHP boiler assemblies
- Beta CHP design now consists of five pre-assembled sub-systems
- Product design optimised for ease of assembly and in-field service & maintenance
- Capability to manufacture & deliver CHP boiler assemblies in volume