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Table of Contents

1. Case Study - Star Energy (Wayang Windu) Geothermal
2. A “risk profile” comparison with typical power projects
3. A comparison with Oil & Gas projects
4. At which stage geothermal power projects are financeable?
5. Financing of geothermal power projects – Suggested solutions
Case Study - Star Energy (Wayang Windu) Geothermal

Fast-track Financings

- In 2007, project finance banks were skeptical about PLN after it changed IPP tariffs.
- Existing secured lenders could block or delay Unit 2 expansion.
- Unit 2 expansion financing was completed within 8 months.
- SCB attracted bank interest from Indonesian and international financial institutions.
- In 2010, SCB successfully priced a USD 350m senior, secured and guaranteed offering.
- This marks the company’s debut in the int’l debt capital markets and first Asian high yield deal from the geothermal energy sector.
- Despite a weak market backdrop, the company was able to garner a final order book of well over USD 1.1b and achieved its target issue size.

Key Project Milestones

1994
- Signed Joint Operation Contract and Energy Sales Contract with Pertamina / PLN
- Proven energy notice submitted and Unit 1 EPC awarded to Sumitomo

1997
- Unit 1 (110MW) in operation

1999
- Unit 1 completed; transmission delayed

2000
- JOC and ESC amended. Standard Chartered engaged for Unit 2 expansion
- Star Energy acquires 100%

2004
- Unit 2 (110MW) financing is signed and EPC awarded to Sumitomo
- ~8 months

2006
- Issues US$350m 5-year bond to refinance all senior debt

2007
- ~22 months

2009
- Unit 2 commences operations

2010
- SCB successfully priced a USD 350m senior, secured and guaranteed offering.
- This marks the company’s debut in the int’l debt capital markets and first Asian high yield deal from the geothermal energy sector.
- Despite a weak market backdrop, the company was able to garner a final order book of well over USD 1.1b and achieved its target issue size.

Standard Chartered Bank ("SCB") Solution

- Financial advisory – Sole financial advisor, due diligence leader.
- Underwriting – 7 year ‘mini-perm’ project finance debt facilities totaling USD 298m, fully underwritten by SCB.
- Refinance of Notes – Prepaid Unit 1 notes to accelerate expansion.
- Construction Letter of Credit – Issued SBLC to the EPC contractor.
- Hedging – Provided interest rate swaps.
- Carbon credits – Solution to offtake the carbon credits.
- Agency – Performs intercreditor and collateral agency roles.
- Accounts services – All project accounts are opened with SCB and managed by our accounts services department.
- Project Bond issue – Joint bookrunner for US$350m 5-year bond issue.

USD 298,200,000
Financial Advisor, Mandated Lead Arranger, Underwriter Wayang Windu Project Finance Indonesia 2007

USD 350,000,000
Senior, secured and guaranteed notes due 2015 Joint Bookrunner 2010
Case Study - Star Energy (Wayang Windu) Geothermal (Continued)
A “risk profile” comparison with typical power projects

- Typically, geothermal power projects are riskier than power projects which run on gas, LNG or coal. They carry significant additional risks in addition to the usual risks of power projects.

<table>
<thead>
<tr>
<th>Typical power projects</th>
<th>Additional risks for geothermal power projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsor risk</td>
<td>• <strong>Tariff may not be competitive</strong> due to long lead development time, high development costs and high level of uncertainty</td>
</tr>
<tr>
<td>Market/off-take risk</td>
<td>• <strong>Tariff may be below the level required for investment</strong> as capacity and tariff typically agreed before steam is proven</td>
</tr>
<tr>
<td>Fuel risk</td>
<td>• Reserve risks, steam under wellhead risks</td>
</tr>
<tr>
<td>Technology risk</td>
<td>• “Fuel cost” is not fully passed through via tariff</td>
</tr>
<tr>
<td>Construction risk</td>
<td>• <strong>Wells drilling risks</strong> (in addition to construction of the power plant and associated facilities)</td>
</tr>
<tr>
<td>Operating risk</td>
<td>• Steam resources risks (in addition to technical and performance management of the power plant)</td>
</tr>
<tr>
<td>Inflation risk</td>
<td>• <strong>Significant capex requirement</strong> to maintain the quality and quantity of steam resources during operations</td>
</tr>
<tr>
<td>Interest &amp; FX risks</td>
<td>• <strong>National resources protection related risks</strong> (in addition to regulatory underdevelopment or changes)</td>
</tr>
<tr>
<td>Legal risk</td>
<td></td>
</tr>
<tr>
<td>Regulatory risk</td>
<td></td>
</tr>
<tr>
<td>E &amp; S risks</td>
<td></td>
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<tr>
<td>Country risk</td>
<td></td>
</tr>
</tbody>
</table>
A comparison with Oil & Gas projects

- Compared to Oil & Gas projects, the resources risk of geothermal power projects is significantly higher. Having sufficient reserve does not mean there will be sufficient steam resources.

<table>
<thead>
<tr>
<th>Oil &amp; Gas projects</th>
<th>Geothermal power projects</th>
</tr>
</thead>
</table>
| • Wide references for field and basins  
  • Reserve is assessable | • Unique steam field characteristics  
  • Reserve is assessable but relatively less accurate  
  • Steam under wellhead can be unpredictable |
| • Reserve certification | • Reserve certification  
  • Proven steam under wellhead  
  • Meeting the capacity and tariff under power purchase agreement (PPA), which are typically agreed before steam is fully proven, otherwise uneconomical |
| • Recovery of all costs | • No cost recovery – Many discovered steam fields have not fully developed |
| • Upside – Oil prices, adding reserves, production growth | • Little upside – Fixed tariff under the PPA, no other sources of revenues (carbon credit market collapses) |
At which stage geothermal power projects are financeable?

- Development of geothermal power projects goes through several stages with geothermal resources risk remaining high until the success of the first stage of drilling.

- During the development stages until the success of first stage of drilling, geothermal power projects are typically financed by governments, development agencies or corporate.

- Once the team resources are proven to be reasonably sufficient, geothermal power projects would be able to attract financing from commercial banks.
Financing of geothermal power projects – Suggested solutions

<table>
<thead>
<tr>
<th>The key issues</th>
<th>Suggested solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unique steam field characteristics</td>
<td>• Reserve certification</td>
</tr>
<tr>
<td>• Unpredictable steam under wellhead</td>
<td>• Proven steam under wellhead up to a comfortable level</td>
</tr>
<tr>
<td>• Meeting the capacity and tariff under the PPA</td>
<td>• Capacity under the PPA should adapt to the nature of resources risk, e.g. allowing flexibility in capacity building up according to steam resources found and subsequent expansions once more steam resources are available</td>
</tr>
<tr>
<td>• Tariff may be below the level required for investment</td>
<td>• Flexible tariff structure, e.g. tariff is more accommodating for early units but less so for the subsequent ones once steam resources are already established</td>
</tr>
<tr>
<td>• Tariff may not be competitive</td>
<td>• Clear government support for the projects and the PPA</td>
</tr>
<tr>
<td>• National resources protection related risks</td>
<td>• Subsidy, if any, should be applied across different fuels used</td>
</tr>
<tr>
<td>• Maintaining the steam resources during operating period</td>
<td>• Create favorable tax treatment for geothermal wells, e.g. allowing transferable depreciation allowance</td>
</tr>
<tr>
<td></td>
<td>• Build in a capacity buffer, periodic steam resources update</td>
</tr>
<tr>
<td></td>
<td>• Tariff component for ongoing capex (repair wells, makeup wells, etc.) having an escalation linked to a drilling cost index</td>
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Thank You