MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
VIVANT CORPORATION
March 4, 2010
Cebu Country Club, Inc.
Banilad Cebu City

PRESENT:
Mr. Dennis N. A. Garcia - Chairman
Mr. Ramontito E. Garcia- President
Mr. Charles Sylvestre A. Garcia
Mr. Gil A. Garcia II
Mr. Jose Marko G. Sarmiento
Mr. Efren P. Sarmiento
Mr. Emil M. Garcia
Mr. Elbert M. Zosa

ALSO PRESENT:
Mr. Arlo A.G. Sarmiento – Chief Operating Officer
Atty. Jess Anthony Garcia - Corporate Secretary
Mr. Macario Padullo – Finance Manager
Mr. Ricardo Lacson – VECO - VP for Customer Services & Admin.
Mr. Lyndon Jayme – VECO AVP for Utility Economics
Mr. Roger Lim – CPPC Senior VP & General Manager
Ms. Janice Villaflor – CPPC Finance & Accounting Manager
Mr. Ed Santina – CEDC
Mr. Albert De Sagun – CEDC Project Manager
Mr. Athony Shibley – DPI Chairman
Mr. Walden Tantuico – DPI President
Mr. Asisclo Gonzaga – AHPI President

NOT PRESENT:
Atty. Jesus B. Garcia, Jr. – Independent Director
Amb. Raul Ch. Rabe – Independent Director
Mr. Alfred Ty

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## I . Call to Order

The Chairman, Mr. Dennis N.A. Garcia, called the meeting to order at 9:30 AM and presided over the same.

## II. Proof of Notice and Certification of Quorum

The Corporate Secretary, Atty. Jess Anthony N. Garcia, certified to the Board of Directors (BOD) that notices were sent in accordance with the law and a quorum was present to transact business.

**III. Reading and Approval of the Previous Minutes of Meeting**

Upon motion duly made and seconded, the minutes of the previous meeting of the BOD was ratified and approved.

**IV. Update on Subsidiaries**

A. VECO

Mr. Ricardo Lacson reported on the goals of VECO for 2010. He explained the five pillars that VECO focuses on as a company namely: Financial Perspective, Customer Perspective, Internal Business Process Perspective, Learning & Growth Perspective.

Mr. Lacson explained how each pillar affects one another. For the Financial Perspective, he explained that the key driver for this year would be to maximize the profit from the performance base rate implementation. The company is looking at the middle of the year for the ERC to approve the new distribution charges from the approved Performance Based Rate application. Part of its strategy is to secure power contracts to forecast the demand.

In support of this goal, Mr. Lacson explained that VECO wants to be sure that it could strengthen its relationship with stakeholders. He expressed that the company is looking out for some programs that will ensure that stakeholders will be happy with the company's service. All these drive the need for the company to improve its operational efficiencies. With this, Mr. Lacson further explained that there are initiatives that they have been looking into and he explained how customer care services could really help boost the business further.

One of the key pillars to reach its goal for 2010 is for the company to be able to make use of new technologies or new processes while taking a hard look also in the organization and see if there are any weak spots. Mr. Lacson explained that it is important for them to be able to identify key talents and find the right people to put in the right position.

When asked by Mr. Emil Garcia on what margin the company is looking at when Performance Base Rate kicks in, Mr. Lacson explained how the company is trying to manage the "rate increase slope" so that customers would not be shocked with the increase. He then mentioned that the approval of the RORB last year translated into something positive for VECO's revenues.

Mr. Lyndon Jayme reported on the growth for 2009. He explained that large growths were experienced from residential customers, call centers, and malls. Negative growth from certain customers like Waterfront and San Miguel Corporation were noted. He further explained that San Miguel had a major rehabilitation within their premises which took them until April of 2009 to resume operation. Mr. Jayme then specifically explained each customer class and presented sales figures.

Mr. Jayme also explained the sales growth with and without CEMEX. It has been reported that CEMEX had helped a lot in pulling down system loss by 2%. He also informed the Board that because of the shortage in power supply, the power interruptions that we are experiencing could have been worse had it not been for the Interruptive Load Program

Mr. Jayme reported on the sales forecast for 2010. Growth of 6% was noted, considering the contribution by CEMEX and Grand Cement. He presented growth forecast for each customer class and also showed tabulation of total growth with and without CEMEX and Grand Cement. He also explained the forecast for the margins in 2010. Considering the Performance Base Rate to come in by July, margin forecast is shown at 1.12 Peso for the entire year 2010.

With all the discussions about margins, Mr. Efren Sarmiento commented that it would be best if Board would be informed of where and how margins are being treated.

Actual budget of 2010 against 2009 was reported. Megawatthour sales was noted to increase by 16% and revenues at 30.5 %. Items such as operating revenues, power costs, taxes and licenses, net operating income, and miscellaneous income were discussed.

B. CPPC

Mr. Roger Lim reported on the results of operation as of December 31, 2009. Two very important factors were covered in the discussion:

1. Availability Factor – availability was noted at an average of 95% . Due to high availability factor, the company never failed to meet delivery commitments.
2. Energy Transmitted – Mr. Lim reiterated that they have faithfully delivered their commitment to VECO.

Mr. Lim also presented the statement of cash flows as well as the balance sheet which consists of current and total assets. He also explained the statement of income which consist of budget for 2010 vs. Actual 2009. Major items such as: energy transmitted, energy revenues, cost of generation, gross profit, operating income, pre-tax income, net income after tax, and net income were covered in the discussion.

Gross profit projection for this year was explained as well as the operating income Projections. Large expense for the year is noted to be from loan interest. With this, Janice Villaflor reiterated the purpose of the loan and that was to be used for the interest expense for an additional tax shield for CPPC. As a result, as shown in the projection, CPPC would not be paying taxes for this year.

After the discussion, Mr. Arlo Sarmiento asked about any tax consequences after the BOT expires.

Janice Villaflor promised to get back to Mr. Sarmiento for feedback on this matter.

C. CEDC

Mr. Ed Satina reported that up to February 25, 2010, CEDC was able to deliver 300,000 kwH.

Mr. Albert De Sagun then presented an accomplishment report on the schedule. Unit 1 is currently operating at a load of about 14mW. Full load of 82mW was not yet attained due to some restrictions in the coal-handling system. As of time of report, testing of the system will still have to be done. He further explained that based on schedule presented, after all testing is done, unit can then be turned over to operations.

Mr. De Sagun presented some pictures of the ongoing works and explained the cracks that were visibly noted during the presentation. Mr. Arlo Sarmiento explained further that the cracks are part of the normal process. The contractors gave their position that those cracks are natural expansion valves of the structure. Despite the cracks, contractors were very confident and that they have given their go-signal for CEDC to start running.

**After a thorough discussion, it was encouraged that a 3rd party contractor render an independent opinion on the crack.**

Mr. De Sagun also reported on the updates on the Toledo-Talavera lines that were already energized as of time of reporting. A delay in the Naga Transmission line was also reported and the contingency plan was then explained. Dumping measures for coal ash were also discussed.

For the commercial updates, Mr. Ed Satina discussed that the major issue for CEDC is the absence of offtakers considering that it is now generating well. To this date, only VECO had signed a contract with CEDC. He also informed the board of the status of negotiations with other potential offtakers and was hopeful that all contracts presented were to be finalized before end of March 2010. However, CEBECO 1,2, &

3 are still hesitant to buy from CEDC since the company still believes that KEPCO is selling cheaper power than that of CEDC's.

A comparison between the final approved tariff and what was applied for with the ERC was also reported, together with therates as of January 10, 2010 for CEDC, KSPC, and Greencore based on original rate vs. adjusted rates.

## D. AHPI

Mr. Asisclo Gonzaga reported on the bidding process for Bakun-Benguet IPPA. He updated the board on the bidding date which was held on December 15, 2009 and gave figures for all bidders. The big difference in bid price of AHPI from the second highest bidder which is Pacifica was noted to be due to the fact that Pacifica failed to impute the terminal value of the plants.

A graphical representation of the load curve for Bakun generation showing projections and actual loads revealed the worst times that Bakun Plant encountered since its inception. The plant was noted to be at its lowest point of generation in the years 2002 and 2003. However, it was noted that these were the years when diversion of the river had not yet been done. Sensitivities of the load curve were further explained and management is now banking on the higher price and the diversion to get through the projected worst times of generation.

Projections in terms of Energy, Price and Total Revenues against actual were discussed as well as the Financial Projections, which included items such as, Income Statement, Cash flows, and the Balance Sheet. During the discussion on the income statement, Mr. Arlo Sarmiento reiterated that the company has not enjoyed any revenue for the first 3 months due to the turnover date which was originally for March 26, 2010, so no energy was assumed until then. However, he informed the board that the plant had already started selling last February 23, 2010 so that would now be an addition to the budget. With all the figures presented and explained, Mr. Sarmiento was optimistic to be able to start hitting positive figures by May 2010.

The turnover date for Benguet plant was supposed to be on March 15, 2010. However, PSALM was having a difficulty in meeting the deadline due to certain apprehensions of HEDCOR in the arrangements/agreements.

In closing, Mr. Arlo Sarmiento discussed the administrative/organizational structure . Currently, management was able to find an 80 sq. meter office space in Makati with a goal to have an overhead of less than 30 Million pesos per year. Most of the important positions have been filled in based on each field of experience and expertise.

E. Delta P, Inc.

Mr. Anthony Shibley presented the 2009 operational issues of the company. The plant is performing very well. There were no major issues and plant ran as it should. Issues such as contracts, capacity factors and availability factors were covered in the discussion. The biggest challenge for the plant for 2009 was noted to be the heat rate and the 2 biggest operational issues for the plant were Lube Oil consumption and fuel consumption. Mr. Shibley explained that these are the two issues that they have to really work on for the next couple of years. Lube oil and fuel consumption are determined depending on the number and which engine would the company run. He then explained briefly the capacities of each engine.

After discussion on overall operations of the company for 2009, the Board commended the excellent performance of the DPI.

Mr. Walden Tantuico gave the report on the company's financial issues. He briefly explained the petition for a new rate that was filed with ERC. However, the ERC granted a rate lower than what was applied. Because of this, DPI filed for a Motion for Reconsideration in December 2009 and as of BOD meeting, decision is still pending with the ERC.

Mr. Tantuico presented the income statement of the company reflecting the revenues using ERC's approved rate and the projected new rate, as filed in the motion for reconsideration. He also presented the 2010 financial forecast and operational assumptions including items such as: tariff, fuel cost per energy generated, operating and maintenance expenses, plant availability factor, net plant heat rate, plant output, and other relevant operational and financial data.

After discussion on the financial issues, Mr. Efren Sarmiento asked if items such as the spare cranked shaft is well accounted for since it involves a substantial amount of money. Mr. Shibley promised to give feedback on this query at a future time.

In closing, Mr. Shibley assured the board that they will have to revise the figures as soon as ERC shall have ruled on the pending Motion for Reconsideration.

**V. Update on Mindoro Project**

Mr. Shibley reported on the updates of Mindoro project which is the second largest SPUG market in the country next to Palawan. This plant has not been operating since 2005.

The power plant is a 7mW bunker-fired plant located in San Jose which is the southwestern-most tip of Mindoro, owned by Island Power Corporation (IPC). The role of this power plant, considering its location, is not only to deliver active energy (kWh), but also to provide voltage regulation (KVAR) to the southernmost point of the grid. With the company's only power plant shutdown in August 2007, Occidental Mindoro is currently beset by power supply shortage due to the frequent load shedding by the NPC – SPUG to equitably distribute its limited supply to Occidental Mindoro Electric Cooperative (OMECO). OMECO serves the entire requirements of Occidental Mindoro in two sectors: the North and South sectors.

It was reported that the project requires investments to pay the shareholders, proceed with the rehabilitation, and upgrade the plant with corresponding project costs.

Site visit and due diligence was performed in June 2009 (?) and Mr. Shibley personally commended the potential of the project as a good source of ancillary services. He reported on the stability of the demand situation using the present requirements and the projections from OMECO. He also reported on the optimal power plant configuration wherein he specifically discussed the advantages of the engines of IPC:

1. Reliable and fuel-efficient;

2. Able to meet emission standards with low sulphur fuel;

3. Provides both active power and ancillary services to both North and South Grid; and,

4. Very reasonable acquisition price

The 3 phases in buying the contract were explained and Mr. Shibley gave emphasis on the conditions given by the original owners to retain not less than 5% equity and not less than 2 Board seats in IPC at all times.

Project risks and project economics were reported and questions on the legal implications, especially the risks in acquiring the project were also discussed.

## VI. Update on Bauang Project

Mr. Arlo Sarmiento gave a brief description on the Bauang project, to be a bunker-fired power plant located in the province of La Union, with a rated capacity of 225MW. It was developed by First Private Power Corporation under a 15-year BOT contract. It commenced operations in 1995 and will expire on July 2010. The plant was foreclosed by the Local Government Unit of La Union due to unpaid real property taxes amounting to 1.87 billion pesos. DBP appraised the assets at 4.2 billion pesos, while COA valued it at 3.098 billion pesos.

Mr. Anthony Shibley added that the plant is one of the biggest diesel plants in the Philippines and he considers the asset as first-class, and commended the efficiency of the engines. As of this report, the plant was running perfectly.

With the plant as the only source of ancillary services, Mr. Shibley explained each nature of ancillary services that the plant provides to Northern Luzon, and which no other power plant have done or could do in the said area:

1. Regulating reserve – Generating capacity necessary to adjust total system generation in response to seconds to seconds or minutes to minutes small fluctuations of loads and generation outputs.

2. Contingency reserve – Synchronized generating capacity to automatically respond to any sudden loss or reduction in generating capacity

3. Dispatchable reserve – On line or off line generating capacity necessary to replenish the contingency reserve

4. Reactive power support service – Generating units used to absorb or supply reactive power to the grid in order to maintain the system voltage within ± 5 %.

5. Black start service – Generating units used to restore the power system from partial or total system black out

A discussion ensued on the system performance of the Luzon grid as well as the rough computation of expected investment returns.

An updated report based on site visit was then presented. The project consists of 3 plants, 3 transformers where one was burned and replaced by a low-efficient one which was leased from NAPOCOR. Mr. Shibley explained that since special tools would be part of the deal, tools and spare parts were not included but may be subject to negotiation. He also informed the board that the exclusivity to conduct legal and technical due diligence already expired last February 28, 2010.

Legal due diligence and ownership issues were explained by Atty. Jess Anthony Garcia. He informed the Board that the Supreme Court ruled in favor of the Province on the issue of the ownership of the plant. The PSALM Board is contemplating the issuance of a resolution to cede the ownership of the plant and the land to the province after the BOT expires in June, 2010.

Mr. Shibley then expressed that if the NGCP contract is not written the right way, the chance of getting a good financier is less. There is just so much politics in the project and that the existing policy on the table is not workable. However, given a reasonable contract, the project was viewed to be a very profitable one. But with a very huge amount involved in the possibility of having a contract with NGCP and buy the plant, Mr. Shibley expressed the need for having an additional partner, should the board decide to proceed with the project, considering the withdrawal of Mr. Jess Alcordo from the project.

The major issue then lied on whether NGCP is serious enough to carry their responsibility. After tackling the contract with NGCP, the approval from ERC would be another major concern

After a thorough discussion, management was challenged to come up with a firm decision as soon as possible.

## VII. Vivant Financials

Mr. Macario Padullo presented the budgeted income statement of Vivant for 2010 as well as the budgeted cash flows including items such revenues, operating expenses, operating profit, and net income. Cash inflows consisting of distribution business, generation business, cash outflows, net cash flows, beginning cash balance and end cash balance were also presented.

Top 5 operating expenses for 2010 consisting of compensation and benefits, professional fees, travel expenses, management fees and finance cost were explained to the board and approved.

A slight discrepancy on the big jump in the figures for distribution for VECO was noted. Mr. Padullo to return with answers on next Board meeting.

## VIII. Other Matters

Board Resolutions:

A. Appointment of AGS as the signatory for Globe Telecom applications for employees postpaid communication plans.

After discussion ensued, the Board unanimously approved and adopted the following resolutions:

**"RESOLVED, as it is hereby resolved, that the Corporation be authorized, as it is hereby authorized, to enter open a corporate account with Globe Telecommunications Inc. ("Globe");**

**RESOLVED FURTHER, that MR. ARLO A. G. SARMIENTO, Chief Operating Officer, be authorized, as he is hereby authorized, to sign for and in behalf of the Corporation, any and all other documents, papers and forms relative to the Corporation's subscription to Globe's Cellular Mobile Telephone Service."**

B. Designation of proxies to the VECO Annual Stockholders' Meeting.

After discussion ensued, the Board unanimously approved and adopted the following resolutions:

**"RESOLVED, as it is hereby RESOLVED, to appoint, authorize and designate the following as the proxies/representatives of the Corporation during the 2010 Annual Stockholders' Meeting of Visayan Electric Company, Inc. ("VECO") to be held on May 18, 2010 and any adjournment thereof, who shall vote, for and in behalf of the Corporation, its shares in VECO:**

**Dennis N. A. Garcia – Chairman of the Board and/or**

**Ramontito E. Garcia – President and/or**

**Arlo A. G. Sarmiento – Chief Operating Officer**

**RESOLVED, further, to furnish VECO's Corporate Secretary with a copy of the foregoing resolution."**

C. Designation of proxies to the Hijos de F. Escano, Inc. Annual Stockholders' Meeting

After discussion ensued, the Board unanimously approved and adopted the following resolutions:

**"RESOLVED, as it is hereby RESOLVED, to appoint, authorize and designate the following as the proxies/representatives of the Corporation during the 2010 Annual Stockholders' Meeting of Hijos de F. Escaño, Inc. ("Hijos") to be held on May 18, 2010 and any adjournment thereof, who shall vote, for and in behalf of the Corporation, its shares in Hijos:**

**Dennis N. A. Garcia – Chairman of the Board and/or**

**Ramontito E. Garcia – President and/or**

**Arlo A. G. Sarmiento – Chief Operating Officer**

**RESOLVED, further, to furnish the Corporate Secretary of Hijos de F. Escaño, Inc. with a copy of the foregoing resolution."**

## X. Adjournment

The meeting was adjourned upon motion duly made and seconded.

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| **Prepared by:** | **Reviewed by:** |
| **EIRREN L. BADAYOS**<br>Recording Secretary | **ATTY. JOAN GIDUQUIO-BARON**<br>Asst. Corporate Secretary |

**Attested by:**

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| **DENNIS N. A. GARCIA**<br>Chairman | **RAMONTITO E. GARCIA**<br>President |
| **CHARLES SYLVESTRE A. GARCIA**<br>Director | **GIL A. GARCIA II**<br>Director |
| **JOSE MARKO G. SARMIENTO**<br>Director | **EFREN P. SARMIENTO**<br>Director |
| **EMIL ANDRE GARCIA**<br>Director | **ELBERT M. ZOSA**<br>Director |