



PADC CODE OF CORPORATE GOVERNANCE

WHEREAS, pursuant to the State declared policy of treating Government Owned or Controlled Corporation (GOCCs) as significant tools for economic development and the mandated obligation of the State to ensure that the governance of GOCCs is carried out of the transparent, responsible and accountable manner and with the utmost degree of professionalism and effectiveness through and under the governing boards which are competent to carry out their functions, fully accountable to the state as its fiduciaries and always acting for the best interests of the State, the **PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION** (hereafter, the **"PADC"** or the **"Corporation"**) a government instrumentality vested with corporate powers, in the exercise of its mandate under Presidential Decree No. 696 dated 09 May 1975, as amended, otherwise known as the charter of the Philippine Aerospace Development Corporation, approved this PADC Code of Corporate Governance ("Code") for its formal submission to the Governance Commission for GOCCs (GCG) and to the President of the Philippines for His Excellency's approval of what would constitute as an organic document for the PADC:

NOW, THEREFORE, the Corporation hereby formally promulgates and implements the Code as follows:

I. DEFINITION OF TERMS

SECTION 1. Definition of terms – For purposes of this Code, the following terms shall have the following meanings:

"Act" refers to the Republic Act No. 10149, and officially named the "GOCC Governance Act of 2011."

"Appointive Directors" refers to all members of the authority's Board of Directors who are not ex officio members thereof.

"Board of Directors" or "Board" or "Governing Board" refers to the collegial body that exercises the corporate powers, conducts all business and controls or holds all properties of the corporation.

"Charter" refers to Presidential Decree No. 696 dated 09 May 1975, as amended.

"Charter Statement" refers to a statement of the corporation's vision mission and core values.



“Chief Executive Officer” (“CEO”) refers to the highest ranking corporate executive who heads Management, who could be named as the President or the General Manager, Chairman or the Administrator of a GOCC.

“Confidential Information” refers to all non-public information entrusted to or obtained by a member of the Board of Officer by reason of his/her position as much with the agency. It includes, but is not limited to, non-public information that might be of use to competitors or harmful agency or its customers/stakeholders if disclosed such as, but not limited to, the following: (1) non-public information about the agency’s financial condition prospects or plans, its marketing and sales programs and research and development information; (2) non-public information concerning possible transactions or ventures with other corporation or agencies, or information about suppliers, joint venture partners or any information that the authority is under obligation to keep confidential; and (3) non-public information about internal discussions, deliberations and decisions , between and among Directors and Officers.

“Director” refers to any member of the Corporation’s Board of Directors.

“Ex Officio Board Member” (“ex Officio Director”) refers to any individual who sits or acts as a member of the Board of Directors by virtue of one’s title to another office, and without further warrant or appointment.

“Executive Officer” (“Officer”) refers to the President/CEO and such other corporate officers of the corporation. As distinguished from Board Officers, Executive Officers primarily form part of Management.

“Extraordinary Diligence” refers to the measure of care and diligence that must be exercised by directors and officers in discharging their functions, in conducting the business and dealing with the properties and monies of the agency, and which is deemed met when directors and officers act using the utmost diligence of a very cautious person taking into serious consideration all the prevailing circumstances and Material Facts giving due regard to the legitimate interests of all affected Stakeholders.

“Fit and Proper Rule” refers to a set of standards for determining whether a member of the Board of directors or the President/CEO is qualified to hold a position in the agency which shall include, but not be limited to, standards on integrity, experience, education, training and competence as such standards are set forth under GCG Memorandum Circular No. 2012-05.”

“President/CEO” refers to the highest ranking corporate officer who heads the PADC Management.

“Government Agency” refers to any of the various units of the Government of the Republic of the Philippines, including a department, bureau, office, instrumentally or GOCC, or a local government or a distinct unit therein.



“Government-owned or –Controlled Corporation” (“GOCC”) refers to any agency organized as a stock or non-stock corporation, vested with functions relating to public needs, whether government al or proprietary in nature and owned by the Government of the Republic of the Philippines, directly or through its instrumentalities, either wholly or, where applicable, as in the case of stock corporations, to the extent of at least a majority of its outstanding capital stock. The term includes Government Instrumentalities with Corporate Powers (“GCP”), Government Corporate Entities (“GCE”) and Government Financial Institutions (“GFI”). The term also includes a Subsidiary of a GOCC.

“Management” refers to the body given the corporation to implement the policies determined by the Board in directing the course and business activities of the corporation.

“Material Information” (“Material Fact”) refers to the information which a reasonable investor, stakeholder or Supervising Agency would consider important in connection with corporate acts, contracts and transactions which would adversely affect the operations the operations of the Corporation.

“Officers” refers to both Board Officers and Executive Officers.

“Per Diems” refers to the compensation granted to members of Board of Directors for actual attendance in meetings.

“Performance Evaluation System” (“PES”) refers to the process of appraising the accomplishments of GOCCS in a given fiscal year based on set performance criteria, targets and weights.

“Performance Scorecard” refers to a governance and management too forming a part of the performance evaluation system and which consists of a set of measures, targets and initiatives that facilitate the achievement of breakthrough results and performance through the effective and efficient monitoring and coordination of the strategic objectives of the Corporation.

“Public Officials” or “Public Officers” refers to elective and appointive officials and employees, whether permanent or temporary, whether in the career or non-career service, whether or not they receive compensation, regardless of amount, who are in the National Government, and all other instrumentalities, agencies or branches of the Republic of the Philippines, including government-owned or controlled corporations, and their subsidiaries.

“Stakeholders” refers to any individual or entity for whose benefits the Corporation has been constituted, or whose life, occupations, business or well-being is directly affected , whether favorably or adversely, by the regular transactions, operations or pursuit of the business or social enterprise for which the Corporation has been instituted, and which would include a stockholder, member, or other investor in the Corporation, management employees, supply creditors or the community in which the Corporation operates.



“Strategy Map” refers to an integrated set of strategic choices or objectives drawn by the governing body, the successful execution of which results in the achievement of the Corporation’s vision in relation to its mission or purpose for its creation.

“Supervising Agency” refers to a Government Agency to which a GOCC is attached to for purposes of policy and program coordination and for general supervision.

SECTION 2. *Singular Term Include the Plural* – Unless otherwise indicated in this Code, any reference to a singular, shall apply as well to the plural, and *vice versa*.

SECTION 3. *Coverage*- This Code shall be consistently and faithfully observed by the Corporation.

II. ROLE OF PADC IN NATIONAL DEVELOPMENT

SECTION 4. *The Corporation as an Economic Tool for the States Development*- the State recognizes that:

- (a) It has been a continuing national policy to develop an integrated land, sea and air transport infrastructure throughout the country;
- (b) It is the policy of government to encourage and promote the development of advanced technology in the country in order to improve the quality of life of our people;
- (c) In order to optimize the national utility of the aviation and aerospace industry, a definite policy for its rationalization has become imperative;
- (d) Such a rationalization calls for positive government involvement and initiative in the development of local capability for design, assembly and manufacture of appropriate aircraft or aerospace related devices and the development and improvement of the technical, maintenance and engineering services required to support the above activities;
- (e) Such government involvement and initiative shall in the long run result in substantial savings of valuable foreign exchange, effect standardization of aerospace and associated ground equipment and facilities, optimize the utilization of skilled manpower in the country, and extend air transport services to a larger segment of the population as well as increase and improve such services between the country and the outside world;
- (f) Such government involvement and initiative shall further the national objective and policy of developing national self-reliance, best serve the interests of national security, and facilitate the performance of other essential governmental functions, such as mail service, relief and rehabilitation and other civic undertakings;
- (g) A well developed and technically reliable aviation and aerospace industry shall serve to meet the market demands and service requirements of neighboring countries in the Southeast Asia.¹

¹ Presidential Decree 696



Under the Presidential Decree, the Corporation by itself or through its subsidiary/subsidiaries, shall undertake all manner of activity, business or development projects for the establishment of a reliable aviation and aerospace industry that shall include but not limited to:

- (a) The design, assembly, manufacture, and sale of all forms of aircraft and aviation/aerospace devices, equipment or contraptions, and studies or researches for innovations and improvements thereon.
- (b) The development of local capabilities in the maintenance, repair/overhaul, and modification of aerospace and associated flight and ground equipment and components thereof in order to provide technical services and overhaul support to government agencies owning aerospace equipments, the Philippine Air Force, the national airline, foreign airline companies, foreign air forces and to the aviation industry in general
- (c) The operation and provision of air transport services, whether for cargo or passengers on a schedules, non-scheduled, non-scheduled, or charter basis on domestic and/or international scale.²

III. GOVERNING BOARD

SECTION 5. *Board of Directors Vested with Corporate Powers*- Having been vested directly by law with the legal capacity and authority to exercise all corporate powers, conduct all the business and to hold all the properties of the Corporation, the Board of Directors is primarily responsible for the governance of the Corporation. Consequently, it is the Board that is primarily accountable to the State for the operations and performance of the Corporation.³

SECTION 6. *Board Duty to Properly Select and Provide Independent Check on Management*- Concomitant with the power to elect the President/CEO from among their ranks and to appoint other officers of the Corporation. It is the duty of the Board to ensure that they elect and/ or employ only Officers who are fit and proper to hold such offices with due regard to their qualifications, competence, experience and integrity. The Board is therefore encouraged to provide an independence check on Management.⁴

SECTION 7. *Mandate and Responsibility for the Agency's Performance.* - Although the day-to-day management of the Corporation's affair is with the Management, the Board is, however, responsible for providing policy directions monitoring and overseeing the Management's actions, as articulated in its Charter and other relevant legislations. These mandated functions and responsibilities include the following:⁵

² Taken from Presidential Decree 696 Section 2

³ Adopted from Article III Section 5, GCG MC No.2012-07

⁴ Adopted from Article III Section 6, GCG MC No.2012-07

⁵ Adopted from Article III Section 7, GCG MC No.2012-07



- a) Provide the corporate leadership of the Corporation subject to the rule of law and the objectives set by the National Government through the GCG and other supervising agencies;
- b) Establish the Corporation's vision and mission, strategic objectives, policies and procedures, as well as define the Corporation's values and standards through:
 - Charter Statements;
 - Strategy Maps; and
 - Other controls mechanism mandated by best business practices;
- c) Determine important policies that bear on the character of the Corporation to foster its long-term success, ensure its long term viability and strength, and ensure its sustained competitiveness;
- d) Determine the organizational structure of the Corporation, defining the duties and responsibilities of the officers and employees and adopting a compensation and benefit scheme that is consistent with the GOCC Compensation and Position Classification System (CPCS) developed by GCG and formally approved by the President of the Philippines;
- e) Ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in pursuit of the applicable laws, rules and regulations;
- f) Provide sound written policies and strategic guidelines on the Corporation's operating budget and major capital expenditures and prepare the annual and supplemental budgets of the Corporation;
- g) Comply with all reportorial requirements, as required in the Charter as well as applicable laws, rules and regulations;
- h) Formally adopt and conduct annually and mandated Performance Evaluation System (PES) and the Performance Scorecard and report in a timely and accurate manner, the result to the GCG; and
- i) Ensure the fair and equitable treatment of all stakeholders and enhance the Corporation's relations with its Stakeholders.

SECTION 8. *Specific Functions of the Board*- In addition to those specified in the PADC Charter and/or By-laws, the Board shall perform the following function:⁶

⁶ Adopted from Article III Section 8, GCG MC No.2012-07



- (a) Meet regularly, as may be agreed to properly discharge its responsibilities. Independent views expressed during such meetings being given due consideration, which meetings shall be properly documented in the minutes of the Board meeting;
- (b) Determine the Corporation's purpose and value, as well as adopt strategies and policies, including risk management policies, including risk management policies and programs, in order to ensure that the Corporation survives and thrives despite financial crises and that its asset reputation are adequately protected;
- (c) Monitor and evaluate on a regular basis the implementation of corporate strategies and policies, business plans and operating budgets as well as Management's over-all performance to ensure optimum results;
- (d) Adopt a competitive selection and promotion process, a professional development program as well as succession plan to ensure that the Officers of the Corporation have the necessary motivation, integrity, competence and professionalism;
- (e) Monitor and manage potential conflicts of interest of Directors, Management, and shareholders, including any misuse of corporate assets or abuse in related party transactions;
- (f) Implement a system of internal checks and balances which may be applied in the first instance to the Board and ensure that such system are reviewed and updated on a regular basis;
- (g) Constitute specialized committees, as may be necessary, or required by applicable regulations, to assist the Board in discharging its functions; and
- (h) Conduct and maintain the affairs of the Corporation within the scope of its authority as prescribed in its Charter and applicable laws, rules and regulations.

SECTION 9. *Composition of Board of Directors-* The Corporation shall be governed and its activities shall be directed, controlled and managed by a Board of Directors which shall be composed of the following ex-officio members, namely the;⁷

1. Secretary of Transportation & Communications as Chairman
2. Secretary of Finance
3. Secretary of National Defense
4. Secretary of Trade & Industry
5. Chairman of the Board of Governors of the Development Bank of the Philippines (DBP)
6. President & General Manager of the Government Service Insurance System (GSIS); and
7. Three (3) other member to be appointed by the President of the Philippines

⁷ Executive Order No. 904



The first three (3) appointive directors shall serve for a term of one (1) year, the second, for a term of two (2) years, and the third, for a term of three (3) years, after which their successors shall serve for a term of two (2) years.

In addition, any official exercising voting powers in accordance with Section 4, paragraph g, of the Presidential Decree 696 shall automatically become an ex-officio member of the Board of Directors, provided that the numbers of shares of stock of the Corporation owned or subscribed by the institution represented by such official constitute at least nine percentum (9%) of the total subscribed capital stock of the Corporation. All members of the Board, whether appointed or ex-officio shall enjoy the same powers, rights, and privileges as may be established by the Board for the conduct of its affairs. The President of the Philippines shall appoint a Chairman from among the directors.⁸

Section 4 paragraph g of Presidential Decree 696 states that:

“The voting power pertaining to shares of stock hereinafter subscribed by or transferred to national financial institution or government owned or controlled corporations shall be vested in the Chairman of their respective Board of Directors/Trustees, or, in the absence of a Board of Directors/Trustees, or when so delegated by the Chairman of the Board of Directors/Trustees, in their respective chief executive official.”

SECTION 10. *Ex Officio Alternates- Ex Officio* Directors may designate their respective alternates who ideally should be the officials next in rank to them, and whose acts shall be considered the acts of their respective principals.⁹

SECTION 11. *Multiple Board Seats-* The capacity of the appointive Directors to serve with diligence shall not be compromised. As such, no appointive director may hold more than two (2) other Board seats in other GOCCs, subsidiaries and/or affiliates.¹⁰

SECTION 12. *Appointment of Appointive Directors-* The appointive Directors of the Corporation shall be appointed by the President of the Philippines from the shortlist prepared by the GCG. The selection, nomination and short listing of prospective Appointive Directors shall be in accordance with the rules and criteria formulated by the GCG.¹¹

SECTION 13. *Fit and Proper-* All members of the Board, the President/CEO and other officers of the Corporation shall be qualified by the Fit and Proper Rule adopted by the GCG in consultation and coordination with the relevant government agencies to which the authority is attached,

⁸ Presidential Decree 696 Section 6

⁹ Adopted from Article III Section 10, GCG MC No.2012-07

¹⁰ Adopted from Article III Section 11, GCG MC No.2012-07

¹¹ Adopted from Article III Section 12, GCG MC No.2012-07



which rule shall be approved by the President and shall include by reference the qualifications expressly provided for in the Charter.¹²

SECTION 14. *Term of Office of Appointive Directors*- The term of office of each Appointive Director shall be for one (1) year, unless sooner removed for cause: Provided, however, that each Appointive Director Shall continue to hold office until the successor is appointed and qualified. The term of office of all Appointive Director shall begin on 01 July of the year of appointment and end on 30 June of the following year. Any appointment to any vacancy shall only be for the unexpired term of the predecessor.¹³

SECTION 15. *Board Officers* – The Board Officers of the Corporation are the Chairman of the Board (who is the highest ranking of the Board Officers), the Corporate Secretary, and the Compliance Officer, who must all be Filipino Citizens.

- 15.1 *Chairman of the Board*- The Chairman shall preside at all meetings of the Board of Directors, shall have the general supervision of the affairs of the Corporation, and shall perform all other functions assigned to him by law or by the Board of Directors. In the absence of inability of the Chairman, the Board of Directors may elect an Acting Chairman who shall exercise all the functions of the Chairman until the President of the Republic of the Philippines shall have appointed or designated his successor.¹⁴
- 15.2 *Acting Chairman*- In the absence of the Chairman of the Board, the Board of Directors may elect an Acting Chairman who shall exercise all the functions of the Chairman until the President of the Philippines shall have appointed or designated his successor.¹⁵
- 15.3 *Corporate Secretary or Secretary*- The Secretary shall keep or cause to be kept in books provided for the purpose the minutes of the meetings of the stockholders and of the Board of Directors, shall give or cause to be given notice of all meetings of stockholders and directors and all other notices required by law or by the by-laws of PADC; and in case of his absence or refusal or neglect to do so, any such notice may be given by the Assistant Secretary directed by the President, or by the directors or stockholders, upon whose requisition the meeting is called as provided by PADC by-laws; shall be custodian of the records and of the seal of the Corporation and see that the seal or a facsimile thereof is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of PADC By-laws, and shall attest the same; shall keep a register of the post office address of each stockholder, and make

¹² Adopted from Article III Section 13, GCG MC No.2012-07

¹³ Adopted from Article III Section 14, GCG MC No.2012-07

¹⁴ By-laws of PADC Article V, Section 7

¹⁵ By-laws of PADC Article V, Section 7



all proper changes in such register, retaining and filing his authority for all such entries; shall see that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed; may sign with the President or any Vice-Presidents any or all certificated of stock of the Corporation; shall, unless otherwise determined by the directors, have charge of the original stock books, transfer books and stock ledgers and act as transfer agent in respect of the stock and securities of the Corporation; and in general, the Secretary shall perform all duties incident to the office of the Secretary, and such other duties as may, from time to time, be assigned to him by the Board of Directors or by the President.¹⁶

15.4 *Compliance Officer*- The Board shall appoint a Compliance Officer who shall report directly to the Chairman or the Vice Chairman. In the absence of such office or appointment, the corporate secretary, who is preferably a lawyer, shall act as Compliance Officer. The Compliance Officer shall perform the following duties.¹⁷

- (a) Monitor compliance by the Corporation with the requirements under the Decree, this Code, the rules and regulations of the appropriate Government Agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of violation;
- (b) Appear before the GCG when summoned in relation to compliance with this Code or other compliance issues; and
- (c) Issue a certification every 30 May of the year on the extent of the Corporation's compliance with the government corporate standards governing GOCCs for the period beginning 01 July of the immediately preceding calendar year and, explain the reason for such deviation.

The appointment of a Compliance Officer shall not relieve the Board of its primary responsibility vis-a-vis the State acting through the GCG, to ensure that the Corporation has complied with all its reportorial monitoring and compliance obligations.

SECTION 16. Board Committees- The Board of Directors may, by resolution or resolutions passed by the majority of the whole Board, designate one or more committees, each committee to consist of two or more directors of the Corporation which, to the extent provided in said resolution or resolutions or in the by-laws, shall have and may exercise any of the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may have powers to authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its proceedings and report the same to the Board when required. The Board

¹⁶ By-laws of PADC Article V, Section 12

¹⁷ Adopted from Article III Section 15 number 15.4, GCG MC No.2012-07



of Directors shall have the power to change the members of any such committee at any time, to fill vacancies and to discharge any such committee either with or without cause.¹⁸

- 16.1 The Governing Boards of PADC shall therefore constitute the proper committee to assist them in performing their duties and responsibilities, providing each of the committees with written terms of reference defining the duties, authorities and the composition of the committees constituted. The committees shall report to the entire Board as a collegial body and the minutes of their meetings shall be circulated to all members of the Board. The existence of the committees shall not excuse the Board of Directors of its collective responsibility for all matters that are within the primary responsibility and accountability of the Board.¹⁹

SECTION 17. *Annual Performance Evaluation of the Board* – A systematic evaluation process of the Board shall be developed as a necessary tool in enhancing its professionalism and as a useful incentive for Board Members to devote sufficient time and effort to their duties. The evaluation should also be instrumental in developing effective and appropriate induction and training programs for new and existing members of the Board.²⁰

IV. MANAGEMENT

SECTION 18. *Role of Management* – The Management shall stand as the center of decision-making for the day-to-day affairs of the Corporation. It determines PADC's activities by putting the targets set by the Board in concrete terms and by implementing basic strategies for achieving those targets.

Management is responsible to the Board for implementing the infrastructure for PADC's success through the following mechanisms in its organization as set by the Board: organizational structures that work effectively and efficiently in attaining the goals of PADC; useful planning, control and risk management systems that assess risks on an integrated cross-functional approach; information systems that are defined and aligned with an information technology strategy and the business goals of PADC; and a plan of succession that formalized the process of identifying, training and selection of successors in key positions in PADC.²¹

SECTION 19. *Management Primarily Accountable to the Board*- Management is primarily accountable to the Board for the operation of the Corporation. As part of its accountability, Management shall provide all members of the Board with a balanced and understandable

¹⁸ By-laws of PADC Article IV (Committees)

¹⁹ Adopted from Article III Section 16, No 16.1 of GCG MC No. 2012-07

²⁰ Adopted from Article III Section 17 of GCG MC No. 2012-07

²¹ Adopted from Article IV Section 18 of GCG MC No. 2012-07



account of PADC's performance, position and prospects on a monthly basis. This responsibility shall extend to interim and other price sensitive public report and reports to regulators.²²

SECTION 20. *President*- the President shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general and active care, supervision and direction of the business and affairs of the Corporation. He may sign with the Secretary or an Assistant Secretary any or all certificates of stock of the Corporation; shall see that the books, reports, statements and certificates required by law are properly kept, made and filed according to law; and in general shall perform all duties incident to the office of President and such other duties as may from time to time be assigned to him by the Board of Directors or as are prescribed by the by-laws.²³

SECTION 21. *Other Executive Officers*. – Subject to the provisions of PADC By-laws, the Executive Officers shall be appointed by the Board.

- 21.1 *Executive Vice-President* – At the request of the President, or in his absence or disability, the Executive Vice-President shall perform all the duties of the President and, when so acting shall have all the powers of and be subject to all restrictions upon the President.²⁴
- 21.2 *Senior Vice-President* – The President of the Chief Executive of the subsidiaries or the Corporation shall concurrently be designated as Senior Vice-President of the Corporation. The Senior Vice-President shall perform such other duties as may from time to time be assigned to him by the Board or the President.²⁵
- 21.3 *Vice-President* – The Board shall appoint Vice-President who shall head the different functional departments of the Corporation and who shall perform such other duties as may from time to time be assigned by the Board or the President.²⁶
- 21.4 *Assistant Secretary* – In the absence or disability of the Secretary, the Assistant Secretary, if any, shall perform all the duties of the Secretary and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the Secretary. The Assistant Secretary shall perform such other duties as from time to time may be assigned to him by the Board of Directors or the President or the Secretary.²⁷
- 21.5 *Treasurer* – The Treasurer of the Corporation shall disburse such funds as may be necessary for the operation of the Corporation; shall have the custody of all moneys, securities and other valuables of the Corporation which may come into his possession and he shall keep regular books of accounts therefor. The Treasurer

²² Adopted from Article IV Section 19 of GCG MC No. 2012-07

²³ By-laws of PADC, Article V Section 8

²⁴ By-laws of PADC, Article V Section 9

²⁵ By-laws of PADC Article V Section 10

²⁶ By-laws of PADC Article V Section 11

²⁷ By-laws of PADC Article V Section 13



shall also perform all other duties incident to his office or such as may be assigned to him by the Board.²⁸

- 21.6 *Other Officers* – The duties and functions of the other officers of the Corporation shall be those which are ordinarily understood to be attached to their respective positions and those fixed by the Board.²⁹

SECTION 22. *Removal* – Any officer, except the Chairman of the Board, may be removed, either with or without cause, by vote of a majority of the whole Board of Directors.³⁰

V. DUTIES AND OBLIGATIONS OF DIRECTORS AND OFFICERS³¹

SECTION 23. *Fiduciaries of the State* – Directors and Officers are fiduciaries of the State in that: (a) they have the legal obligation and duty to always act in the best interest of PADC, with utmost good faith in all dealings with the properties, interests and monies of PADC, and (b) they are constituted as trustees in relation to the properties, interests and monies of PADC

SECTION 24. *Directors and Officers as Public Officials* – Directors and Officers are also Public Officials as defined by, and are therefore covered by the provisions of the “Code of Conduct and Ethical Standards for Public Officials and Employees,” with its declared policies: (a) to promote a high standard of ethics in public service; and (b) Public Officials and employees shall at all times be accountable to the people and shall discharge their duties with utmost responsibility, integrity, competence, and loyalty, act with patriotism and justice, lead modest lives, and uphold public interest over personal interest.

SECTION 25. *Respect for and Obedience to the Constitution and the Law* – As Public Officials, a Director or Officer shall respect and obey the Constitution, and shall comply, and cause PADC to faithfully and timely comply, with all legal provisions, rules and regulations, and corporate governance standards, applicable to them and to PADC in which they serve, and to act within the bounds of the Charter, Articles of Incorporation and By-laws

SECTION 26. *Duty of Diligence* – The fiduciary duty of diligence of Directors and Officers to always act in the best interest of PADC, with utmost good faith in all its dealings with the property and monies of PADC, includes the obligation to:

- 26.1 Exercise extraordinary diligence, skill and utmost good faith in the conduct of the business and in dealing with properties of PADC, using the utmost diligence of a very cautious person with due regard to all the circumstances;

²⁸ By-laws of PADC Article V Section 14

²⁹ By-laws of PADC Article V Section 15

³⁰ By-laws of PADC Article V Section 3

³¹ Adopted from Article V Section 23-27 of GCG MC No. 2012-07



- 26.2 Apply sound business principles to ensure the financial soundness of PADCO; and
- 26.3 Elect and/or employ only Officers who are fit and proper to hold such office with due regards to the qualifications and integrity.

Every Director or Officer, by the act of accepting such position in PADCO, affirms and agrees: (1) to have a working knowledge of the statutory and regulatory requirements affecting PADCO, including the contents of its Charter and By-laws, the requirements of the GCG, and where applicable, the requirements of other Supervising Agencies; and (2) to always be informed of industry developments and business trends in order to safeguard PADCO's interests and preserve its competitiveness.

SECTION 27. *Duty of Loyalty* – The fiduciary duty of loyalty of Directors and Officers to always act in the best interest of PADCO, with utmost good faith in all its dealings with the property and monies of PADCO, includes the obligation to:³²

- (a) Act with utmost and undivided loyalty to PADCO;
- (b) Avoid conflict of interest and declare any interest they may have in any particular matter before the Board; and
- (c) Avoid (1) taking for themselves opportunities related to PADCO's business; (2) using PADCO's property, information or position for personal gain; or (3) competing with PADCO's business opportunities.

- 27.1 *Avoid Conflict of Interest* – Directors and Officers shall at all times avoid any actual or potential conflict of interest with PADCO. Each shall also avoid any conduct, or situation, which could reasonably be construed as creating an appearance of a conflict of interest.

Any question about a Director's or Officer's actual or potential conflict of interest with PADCO shall be brought promptly to the attention of the Chairman of the Board, who will review the question and determine an appropriate course of action.

- 27.2 *Trustee Relation to PADCO Properties, Interest and Monies* – Except for the per diem received for actual attendance in board meetings, and the reimbursement for actual and reasonable expenses and incentives as authorized by the GCG, any and all realized and unrealized profits and/or benefits including, but not limited to, the share in the profits, incentives of Directors or Officers in excess of that authorized by the GCG, stock options, dividends, and other similar offers or grants from corporations where PADCO is a stockholder or investor, and any benefit from the performance of Directors or Officers acting for and in behalf of PADCO in dealing

³² Adopted from Article V Section 27 No.27.2 – 27.4 of GCG MC No. 2012-07



with its properties, investments in other corporations, management of Subsidiaries and other interest, are to be held in trust by such Director or Officer for the exclusive benefit of the GOCC represented.

- 27.3 *Taking of Corporate Opportunities* – Where a Director or an Officer, by reason of his being a member of the Board or an Officer of PADC, acquires or receives for himself/herself a benefit or profit of whatever kind or nature, including but not limited to, the acquisition of shares in corporations where such PADC has an interest, the use of properties of PADC for his/her own benefit, the receipt of commission(s) on contract(s) with PADC or its assets, or taking advantage of corporate opportunities of PADC, all such profits or benefits shall be subject to restitution pursuant to Section 24 of the Act, without prejudice to any administrative, civil or criminal action against members of PADC Director or Officer. The remedy of restitution shall apply notwithstanding the fact that such Director or Officer risked his/her own funds in the venture.
- 27.4 *Restitution* – Pursuant Section 24 of the Act, upon the determination and report of the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executor, that properties of monies belonging to PADC are in the possession of a Director or Officer of PADC without authority, or that profits are earned by the Director or Officer in violation of his/her fiduciary duty, or the aggregate per diems, allowances and incentives received in a particular year are in excess of the limits provided under the Act, the Director or Officer receiving such properties or monies shall immediately return the same to PADC.

Failure by a Director or Officer to make the restitution within thirty (30) days after a written demand has been services shall, after trial and final judgment, subject such Director or Officer to the punishment of imprisonment for one (1) year and a fine equivalent to twice the amount to be restituted and, in the discretion of the court of competent jurisdiction, disqualification to hold public office

SECTION 28. *Limits to Compensation, Per Diems, Allowances and Incentives* – Pursuant to Section 23 of the Act.³³

- (a) The Charter or By-laws of PADC to the contrary notwithstanding, the compensation, per diems, allowances and incentives of the Appointive Directors shall be determined by the GCG, using a reference, among others, Executive Order No. 24 , dated February 10, 2011;
- (b) Directors shall not be entitled to retirement benefits acting as such directors; and
- (c) With respect to PADC's organized solely for the promotion of social welfare and the common good, without regard to profit, the total yearly per diems and incentives in the aggregate which the Directors may receive shall be determined by the President

³³ Adopted from Article V Section 28 of GCG MC No. 2012-07



upon the recommendation of the GCG based on the achievement by PADC of its performance target(s).

SECTION 29. *No gift policy* – A Director or Officer shall not solicit, nor accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary values (“Gift”) from any person where such Gift:³⁴

- (a) Would be illegal or in violation of law;
- (b) Is part of an attempt or agreement to do anything in return;
- (c) Has a value beyond what is normal and customary in PADC’s business
- (d) Is being made to influence the member of Board’s, or Officer’s, actions as such; or
- (e) Could create the appearance of a conflict of interest.

Every Governing Board shall formally adopt a “No Gift Policy” within PADC and ensure its full advertisement to the community and its strict implementation by particular set of rules.

SECTION 30. *Duty of Confidentiality* – Pursuant to their duties of diligence and loyalty, a member of the Board or an Officer shall not use or divulge confidential or classified information officially made known to them by reason of their office and not made available to the public, either: (1) to further their private interests, or give undue advantage to anyone; or (2) which may prejudice the public interest.³⁵

VI. OBLIGATIONS OF PADC TO DIRECTORS AND OFFICERS³⁶

SECTION 31. *Providing for Staff Support to Directors* – PADC shall provide the members of its Governing Board with reasonable support staff and office facilities to allow them to properly discharge their duties and responsibilities.

SECTION 32. *Obtaining of Directors and Officers Liability Insurance (DOLI)* – Having imposed the highest level of responsibility and accountability on the members of the Board and Officers, i.e. that of extraordinary diligence, it is equitable that when PADC itself and/or the members of the Board and Management are sued before tribunals on matters that are within the official functions and capacity and on matters where business judgment has been exercised in good faith, that there be proper recovery of the costs of litigation and the judgment liability imposed. It is prudent measure therefore for PADC to obtain “Directors and Officers Liability Insurance” (DOLI) coverage for itself and the members of the Governing Board and Officers against contingent claims and liabilities that may arise from, as well as the expenses that may be incurred in prosecuting, the actions that may be filed against PADC arising from the actions of the Governing Board and/or Management that may cause loss or damage to third parties.

³⁴ Adopted from Article V Section 29 of GCG MC No. 2012-07

³⁵ Adopted from Article V Section 30 of GCG MC 2012-07

³⁶ Adopted from Article VI of GCG MC 2012-07



Nothing in this section shall be construed as to authorize the reimbursement or the incurring of costs, such as the payment of premiums on DOLI coverage, by PADC on the litigation expenses incurred and the judgment liability decreed against a Director or Officer for breach of any of the fiduciary duties of for fraud committed in the performance of his or her duties to PADC and/or its stakeholders.

VII. CSR AND RELATIONS WITH STAKEHOLDERS³⁷

SECTION 33. *Duty to be Responsive to Stakeholders* – Every Director and Officer accepts the position fully aware that he/she assumes certain responsibilities not only to PADC, but also with different constituencies or Stakeholders, who have the right to expect that PADC is being run in a prudent manner and with due regard to the interests of all Stakeholders.” Consequently, members of the Board and Officers shall deal fairly with the PADC’s employees, customers, suppliers and other Stakeholders. No member of the Board or Officer may take unfair advantage of PADC’s employees, customers, suppliers and other Stakeholders through manipulation, concealment, abuse of confidential or privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

SECTION 34. *CSR Principles* – As an integral part of the National Government, PADC is inherently mandated to be socially responsible, to act and operate as good corporate citizens. The Governing Board shall thus recognize and perform the obligations PADC has towards the National Government, as well as its employees, suppliers, customers and other Stakeholders, and the communities in which it operates.

The Directors, Officers and all its employees are required to abide by ethical policies as mandated by the GCG. The protection of the reputation and goodwill of every GOCC is of fundamental importance, and Trustees, Officers and employees should be aware of the disciplinary implications of breaches of policy.

Every member of PADC is encouraged to promptly report any potentially illegal, improper and/or unethical conduct that they become aware of at their workplace or in connection with their work. PADC shall have an environment that enables its people to raise genuine and legitimate concerns internally. However, in the event that the people of PADC believe their reporting to management may result in harassment, or undue distress, they may contact the GCG support to report such matters.

SECTION 35. *Formal Recognition of the Stakeholders* – PADC Board shall, as an integral part of its Charter Statement and embodies in its Code of Corporate Governance, identify and formally recognize PADC’s major and other Stakeholders, identify the nature of their interests, provide a hierarchy system of their conflicting interest in PADC, and providing a clear policy on communication or relating with the Stakeholders accurately, effectively and sufficiently,

³⁷ Adopted from Article VII of GCG MC 2012-07



together with a system of properly rendering an accounting on how PADC has served its legitimate interest.

SECTION 36. Employees – Every employee of PADC is encouraged to –

- (a) Remember that the biggest Stakeholder is the Government
- (b) Share the vision of PADC;
- (c) Be accountable to the public;
- (d) Listen and learn from his/her co-employees;
- (e) Think and act as a team;
- (f) Focus on the customers and strive for customer satisfaction;
- (g) Respect others;
- (h) Communicate with stockholders and customers
- (i) Deliver results and celebrate success; and
- (j) Protect the reputation of PADC

There should be employee development discussions and structured training programs for continuing personal and professional development for employees.

SECTION 37. Customers – Integrity and honesty in dealings with customers is necessary for a successful and sustained business relationship. PADC should operate a highly effective and efficient organization, focused on meeting customer objectives with the aim of providing services which give fair value and consistent quality, reliability and safety in return for the price paid for the same. PADC should operate policies of continuous improvement, of both processes and the skills of the staff, to take best advantage of advances in all aspect of society in order to ensure that it continues to add value to its customers.

PADC should have clear and strong lines of communication which allow them to respond quickly and efficiently to customer and market requirements, as well as the public need, and for the customers to receive consistent service in order to successfully and consistently deliver what PADC is mandated to do.

SECTION 38. Suppliers – As with other relationships with the Stakeholders, PADC should aim to develop relationships and improve networking with business partners and suppliers based on mutual trust. PADC should aim to offer, through partnership with its suppliers, the best combination of state-of-the-art technology and world class service, strong customer relations and deep industry knowledge and experience, together with the capacity to implement and deliver value-added solutions on time and within budget.

SECTION 39. Health and Safety – PADC should aim to ensure a safe and healthy working environment for all its employees, outside contractors and visitors. PADC should comply with all relevant local legislation or regulations, and best practice guidelines recommended by national health and safety authorities. The staff should be informed regarding the policies and practices of PADC in order to maintain a healthy, sage and enjoyable environment.



SECTION 40. *Environment* –PADC should consider that there are inevitable environmental impacts associated with daily operations. It shall be the goal of PADC to minimize harmful effects and consider the development and implementation of environmental standards to achieve this to be of great importance. As such, PADC should strongly encourage 3 R's: “Reduce”, “Reuse” and “Recycle”.

In the course of the operations of PADC, it should identify opportunities to reduce consumption of energy, water and other natural resources. PADC should also strive to re-use and recycle, where possible and dispose of non-recyclable items responsibly, thereby minimizing our impact on the environment. In doing so, by adopting simple, environmentally friendly initiatives, PADC shall raise awareness among the members of the communities it affect.

VIII. DISCLOSURE AND TRANSPARENCY REQUIREMENTS

SECTION 41. *Disclosure on PADC's Financial Situation, Performance and Governance* – Subject to GCG issuances, PADC shall disclose all material information on the following matters:

- (a) Financial and operating results;
- (b) Information about Board Directors, including their resume and membership in Board Committee;
- (c) Issues regarding employees; and
- (d) Governance structures and policies and the process by which they are implemented

SECTION 42. *Mandatory website* – In accordance with Section 25 of the Act, PADC shall maintain a website and post therein for unrestricted public access:

42.1 On Institutional Matters:

- (a) The latest version of PADC's Charter
- (b) List of Subsidiaries and Affiliates if any; and
- (c) Government Corporate Information Sheet (GCIS) as mandated by the GCG in its MC No. 2012-01

42.2 On the Board and Officers:

- (a) Complete listing of Directors and Officers with attached resume, and their membership in Board Committees;
- (b) Complete compensation package of all the board members and officers, including travel, representation, transportation and any other form of expenses or allowances;
- (c) Information of Board Committees and their activities; and
- (d) Attendance record of Directors in Board and Committee meetings.



42.3 On Financial and Operational Matters:

- (a) PADC's latest annual Audited Financial and Performance Report within thirty (30) days from receipt of such Report;
- (b) Audited Financial Statements in the immediate past three (3) years;
- (c) Quarterly, and Annual Reports and Trial Balance;
- (d) Current Corporate Operating Budget (COB);
- (e) Local and Foreign borrowings;
- (f) Government subsidies and net lending;
- (g) All borrowings guaranteed by the Government;
- (h) Any material risk factors and measures taken to manage such risks; and
- (i) Performance Evaluation System (PES)

42.4 On Governance Matters:

- (a) Charter Statement/Mission-Vision Statements;
- (b) Performance Scorecard and Strategy Map;
- (c) Organizational Chart;
- (d) Code of Corporate Governance;
- (e) CSR Statement; and
- (f) Balance Scorecard

42.5 Such other information or report that the GCG may require.

SECTION 43. *Mandatory Reports* – The Board shall regularly submit, as may be required by the GCG and other Government Agencies, the following:

- (a) Performance Scorecards;
- (b) Implementation of the audit recommendations of COA; and
- (c) Compliance with commitments on servicing loans to, and borrowings guaranteed by the National Government.

SECTION 44. *Other Repertorial Requirements* – PADC shall also submit to the GCG periodically in electronic form to the GCG the following:

- (a) Common Form financial statements based on annual audited financial statements within thirty (30) days from receipt of the report;
- (b) Dividend computations and payments in accordance with RA 7656, also known as "The Dividends Law;"
- (c) Cash and Investment balances;
- (d) Capital Expenditure program;
- (e) Statement of Financial Operations;
- (f) Acquisition or disposition of assets;
- (g) Off Balance Sheet transactions; and
- (h) Reports for the annual corporate budget call such as but not limited to the following:
 - (1) Physical and Financial Performance reports (the immediately preceding three (3) years); and



- (2) Sources and Uses of Funds (the immediately preceding three (3) years) and the proposal for the coming year.

SECTION 45. The format and schedule of submission for the various reports shall be provided by the GCG in consultation with the Department of Finance (DOF), Department of Budget and Management (DBM), Commission on Audit (COA) and other Government Agencies as may be proper.³⁸

IX. MISCELLANEOUS PROVISIONS

SECTION 46. *Dissemination of this Code* - The PADC Board and Management shall ensure that this Code be made known to all employees and third parties and shall enjoin the development or PADC's policies and processes consistent with this code.

SECTION 47. *Effectivity* - In the exigency of the service, this Code shall take effect immediately and shall remain in force and in effect until revised, amended or repealed.

ADOPTED this ____ day of _____, 2015.

³⁸ Adopted from Article VIII of GCG MC 2012-07