

**PRESIDENTIAL DECREE NO. 696**

**REVISING PRESIDENTIAL DECREE NO. 286, DATED SEPTEMBER 5, 1973, AS AMENDED, OTHERWISE KNOWN AS THE CHARTER OF THE PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION AND FOR OTHER PURPOSES.**

**I, FERDINAND E. MARCOS**, Commander-in-Chief of all the Armed Forces of the Philippines, pursuant to Proclamation Order No. 1081, dated September 21, 1972 and General Order No. 1, dated September 22, 1972, as amended, and in order to strengthen the corporate structure of the Philippine Aerospace Development Corporation, do hereby order and decree the revision of its charter, Presidential Decree No. 286, dated September 5, 1973, as amended, which shall henceforth read in its entirety as follows:

**WHEREAS**, it has been a continuing national policy to develop an integrated land, sea and air transport infrastructure throughout the country.

**WHEREAS**, 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;

**WHEREAS**, in order to optimize the national utility of the aviation and aerospace industry, a definite policy for its rationalization has become imperative;

**WHEREAS**, such a rationalization calls for positive government involvement and initiative in the development and improvement of air transportation services and facilities 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;

**WHEREAS**, 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.

**WHEREAS**, 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;

**WHEREAS**, a well-developed and technically reliable aviation and aerospace industry shall serve to meet the market demands and service requirements of neighboring countries in Southeast Asia;

**NOW, THEREFORE, I, FERDINAND E. MARCOS**, by virtue of the powers vested in me by the Constitution as Commander-in-Chief of all the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, and General Order No. 1, dated September 22, 1972, as amended, and in order to effect the desired changes and reforms in the social and economic structure of our Society, do hereby order and decree that:

**SECTION 1. Creation Of The Corporation.** - There is hereby created a body corporate and politic under the Office of the President of the Philippines to be known as the Philippine Aerospace Development Corporation, hereinafter referred to as the Corporation, which shall be governed by this Decree and its by-laws as authorized hereunder and shall have succession for a period of fifty (50) years from and after the date of approval of this Decree. The principal office of the Corporation shall be located in a place to be determined by the Board of Directors.

**SECTION 2. Purposes Of The Corporation.** - 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 be 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 equipment, 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 scheduled, non-scheduled, or charter basis on domestic and/or international scale.

**SECTION 3. Powers Of The Corporation.** - In order to accomplish the foregoing corporate purposes, the Corporation shall be vested with the following powers:

- (a) To prescribe and thereafter to amend and repeal its by-laws not inconsistent with this Decree;
- (b) To adopt and use a seal and alter it when necessary;
- (c) To sue and be sued in any court, Provided, that PADCO, shall, unless it consents otherwise, be immune to suits for acts ex delicti;



- (d) To carry on any other lawful business whatsoever in pursuance of or in connection with the foregoing primary purposes;
- (e) To enter into, make, perform and carry out contracts of every kind and description for the foregoing corporate purpose with any person, firm or association or corporation, domestic or foreign; to have one or more offices in and outside of the Philippines, and to conduct its business and exercise its power throughout and in any part of the Republic of the Philippines and/or in any and all foreign countries, states and territories;
- (f) To hold public agricultural lands and mineral lands in excess of the areas permitted to private corporations, associations and persons by the laws of the Philippines for a period not exceeding twenty-five years renewable by the President of the Philippines for another twenty-five years;
- (g) To acquire, hold, mortgage and alienate personal and real property in the Philippines or elsewhere;
- (h) To purchase, hold, alienate, mortgage, pledge or otherwise dispose of the shares of the capital stock of, or any bond, security of other corporations or associations of this or any other country, and while the owner of said stock, to exercise all the rights of ownership including the right to vote thereon;
- (i) To borrow funds, from any source, private or government, foreign or domestic;
- (j) To invest, own or otherwise participate in equity in any establishment, firm or entity engaged in the aviation and aerospace industry; to form, organize, establish and maintain subsidiary or subsidiaries;
- (k) To submit to the President of the Philippines, whenever appropriate, recommendations on policies and measures that shall promote and stabilize the industry, including recommendations on import and export limitation, tariffs, subsidies or anti-dumping measures and to recommend to the appropriate authorities such as policies and measures as may be necessary to promote the development of the aviation and aerospace industry;
- (l) To cooperate, coordinate and exchange such information, studies and reports with; and to seek such cooperation and coordination from the private sector as well as other departments, agencies and instrumentalities of the National Government as will most effectively contribute to the achievement of the purpose of this Decree;
- (m) To coordinate, cooperate and consult with the Department of National Defense and its affiliated entities on activities of the Corporation related to national defense and security and to avail itself of or share any resources, incentives exemptions or benefits granted or in connection with national defense and security activities or hereafter promulgated;
- (n) To execute any and all acts which a partnership or a natural person is authorized to perform under the laws now existing or which may hereafter be enacted and;
- (o) To exercise such powers and perform such acts as may be necessary to carry out the purpose of which the PADC was established or which from

time to time may be declared by the Board of Directors to be necessary, useful, incidental or auxiliary to accomplish such purpose.

**SECTION 4. Capital Stock And Appropriations Therefor.** - The Corporation shall have a capital stock divided into FIVE MILLION no-par shares to be subscribed, paid for and voted on as follows:

- a) Two million shares of stock shall be subscribed and paid for by the Government of the Republic of the Philippines. Such shares shall have an initial value of forty pesos (P40.00) per share and may be redeemed by the Corporation and resold only to the National Government at re-issue value determined by the Board of Directors and approved by the President of the Philippines.

For this purpose the amount of P10 million set aside and appropriated from the General Fund, under Presidential Decree No. 286, dated September 5, 1973, and an additional sum of SEVENTY MILLION PESOS out of the General Funds, not otherwise appropriated, are hereby appropriated for the payment of the two million shares subscribed by the Republic of the Philippines.

- b) Five hundred thousand shares of stock shall each be subscribed and paid for by the Development Bank of the Philippines and the Government Service Insurance System at issue values to be determined by the Board of Directors of the Corporations.
- c) Subject to the approval of the President of the Republic of the Philippines, the remaining two million shares shall be subscribed to by the Government of the Republic of the Philippines or any of its national financial institutions or government-owned or controlled corporations at issue values to be determined by the Board of Directors of the Corporation. In no case, however, shall the Government lose majority control over the total number of voting shares of the Corporation.
- d) Twenty-five per centum of the value of all stock subscribed under paragraphs (b) and (c), this section, shall be paid for at the time of subscription, and the balance thereof shall be subject to call upon a majority vote of the Board of Directors.
- e) The voting power pertaining to shares of stock subscribed by the Government of the Republic of the Philippines shall be vested in the President of the Philippines, or in such person or persons as he may designate.
- f) The voting power pertaining to shares of stock subscribed by the Development Bank of the Philippines and the Government Service



Insurance System shall be vested in the Chairman, Board of Governors, and the General Manager, respectively.

- g) 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.
- h). Each share of stock shall represent one vote. Issuance or transfers of shares shall be allowed only upon offer of such shares for subscription of purchase having first been made to the Government of the Republic of the Philippines. Any agreement, contract, arrangement, scheme or plan that shall transfer ownership and voting rights over such shares such that the majority control by the National Government over the total number of voting shares of the Corporation shall be impaired is prohibited.

**SECTION 5. Authority For Fund Appropriation.** - In addition to the appropriation of funds authorized under Section 4, paragraph (a), there are hereby set aside and appropriated from the General Fund, not otherwise appropriated, such amounts as may be necessary to pay for (1) the total re-issues values of shares of stock whenever the same are resold by the Corporation to the National Government under Section 4, paragraph a, (2) any subscription of the National Government under Section 4, paragraph (c) and (3) any subscription of the National Government to the capital stock of subsidiaries of the Corporation under Section 8.

**SECTION 6. 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 Executive Secretary, the Secretary of Finance, the Secretary of Industry, the Secretary of National Defense, the Chairman, Board of Governors of the Development Bank of the Philippines, the General Manager of the Government Service Insurance System and three (3) other members to be appointed by the President of the Philippines. 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 this Decree shall automatically become an ex-officio member of the Board of Directors, provided that the number 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.



**SECTION 7. Functions And Duties Of The Board Of Directors.** - The General functions and duties of the Board of Directors shall be as follows:

- a) The prescribe and amend by-laws of the Corporation;
- b) The Board shall appoint and fix the salaries of such executive officers and other officials and employees as may be necessary for the management and internal administration of the Corporation, except that the appointing power may be delegated by the Board to Management of the Corporation;
- c) To act as initial incorporators of any subsidiary formed by the Corporation;
- d) The Board shall establish such number and Divisions and/or Department in the Corporation as may be necessary for the accomplishment of its corporation purpose;
- e) The Board shall constitute appropriate standing committees that it may deem necessary to effectively carry out its governing powers over the affairs and activities of the Corporation;
- f) The Board shall submit to the President of the Philippines and shall publish an annual report of the condition of the Corporation on or before the 15<sup>th</sup> day of September of each year.

**SECTION 8. Subsidiaries, Definition.** - The Corporation shall have the power to form, establish, organize and maintain subsidiary corporation or corporations. Such subsidiary or subsidiaries shall be formed in accordance with the Philippine Corporation Law and existing rules and regulations promulgated by the Securities and Exchange Commission, unless otherwise provided in this Decree.

A subsidiary of the Corporation shall have a Board of Directors of at least five (5) members of which at least one of the directors shall be elected from among the members of the Board of Directors of the Corporation. In addition, the Chief Executive Official of the Corporation, or his designated representative from the Corporation, shall be an ex-officio member of the Board of Directors of each subsidiary established by the Corporation.

In all cases, the Corporation shall own at least fifty-one percentum (51%) of the capital stock of each subsidiary. Subject to the foregoing conditions, the capital stock of a subsidiary may be offered for subscription to the Government of the Republic of the Philippines, its national financial institutions or government-owned or controlled corporations, or to the private sector, domestic or foreign, provided that subscriptions by the National Government shall be subject to the recommendation by the Board of Directors of the Corporation and approved by the President of the Philippines.

Unless otherwise provided in this Decree, a subsidiary of the Corporation shall be entitled to all the benefits, privileges and exemptions expressly granted to the Corporation under this Decree, provided that the combined total of at least eighty (80) percentum of its authorized capital stock is owned by the Corporation either entirely or in

combination with the National Government, its national financial institutions or government-owned or controlled corporations.

A subsidiary shall be governed by its Board of Directors, provided that no policies shall be prescribed or adopted that are inconsistent with or contrary to the objectives set forth in this Decree and policies established by the Board of Directors of the Corporation for the conduct of the affairs of the Corporation and its subsidiaries.

**SECTION 9. The Auditor.** - The Chairman of the Commission on Audit shall appoint a representative who shall be the Auditor of the Corporation and its subsidiaries. He shall likewise appoint the necessary personnel to assist said representative in the performance of his duties. The salaries of the auditor and staff shall be fixed by the Chairman of the Commission on Audit with the advice of the Board of Directors, and said salaries and other expenses for the auditor's office shall be paid by the Corporation. The Auditor of the Corporation and personnel under him may be removed only by the Chairman of the Commission on Audit.

The Auditor must be a certified public accountant with at least ten (10) years experience as a certified public accountant. No relative of any member of the Board of Directors of the Corporation or its subsidiaries or the Chairman of the Commission on Audit within the fourth degree of consanguinity or affinity shall be appointed as such representative.

**SECTION 10. Exemptions.** - The Corporation shall be exempt from all national and local taxes, duties and fees for a period of seven (7) years from the date set under Section 14 hereof, or, in the case of a subsidiary defined under Section 8 hereof as eligible for such exemption from the date of its incorporation if such date is later than the date set under Section 14 hereof, provided that no subsidiary shall be exempt from payment of corporate income tax.

Further, within said period of Corporation shall not be subject to tariff, compensating tax and all other taxes, assessments and charges for their importation of machineries, equipment, devices, goods and spare parts and other items to be used for the purpose authorized under this Decree.

All transactions between the Corporation and its subsidiaries or among the subsidiaries shall likewise be exempt from tariff duties, taxes, and other duties during the life of the Corporation, provided that subsidiaries eligible for this exemption shall be limited only to those defined in Section 8 of this Decree as entitled to all benefits, privileges and exemptions provided under this Decree.

The exemption granted herein are in addition to any other exemptions, benefits, or privileges which the Corporation or its subsidiaries may be qualified for under existing laws, rules and regulations.



**SECTION 11. Foreign Loans.** - The Corporation, through its President or any duly authorized representative, upon approval by the Board of Directors, is hereby authorized to contract loans, credits in any convertible foreign currency or capital goods, and indebtedness from time to time from foreign governments, or any international financial institutions or fund sources, or to issue bonds, the total outstanding amount of which, exclusive of interest, shall not exceed one billion United States Dollars or the equivalent thereof in other currencies, on such terms and conditions as it shall deem appropriate for the accomplishment of its purposes and to enter into and execute agreements and other documents specifying such terms and conditions.

Further, the President of the Philippines, by himself, or through his duly authorized representative, is hereby authorized to negotiate and contract with foreign governments or any international financial institution or fund sources, in the name and in behalf of the Corporation, one or several loans, for the accomplishment of its purpose.

The President of the Philippines, by himself, or through his duly authorized representative, is hereby further authorized to guarantee, absolutely and unconditionally, as primary obligor and not as surety merely in the name and in behalf of the Republic of the Philippines, the payment of the loans, credits, indebtedness and bonds issued as well as the performance of all or any of the obligations undertaken by the Corporation in the territory of the Republic of the Philippines pursuant to loan agreements entered into with foreign governments or any international institutions or fund sources.

The loans, credits, and indebtedness contracted under this subsection by the Corporation or by the President of the Philippines or his duly authorized representative in behalf of the Corporation, and the payment of the principal, interest and other charges thereon, as well as the importation of machinery, equipment, materials, and supplies by the Corporation, paid from the proceeds of any loan, credit or indebtedness incurred under this Decree, shall be exempt from all direct and indirect taxes, fees, imports, other charges and restrictions, including import restrictions imposed by the Republic of the Philippines, or any of its agencies and political subdivisions.

Interests payments on foreign loans shall likewise be exempted from withholding tax if the Corporation has assumed the liability for payment of the tax due from the lender-remittee.

The tax exemption privilege granted under this section is not limited to the time period prescribed under Section 10 of this Decree.

**SECTION 12. Corporate Personnel.** - Appointments to positions in the Corporation other than to those classified under the clerical and janitorial categories are hereby deemed as either primarily confidential or highly technical in nature. The positions and corresponding wage structure adopted by the Corporation shall be exempt from the coverage of the Wages and Position Classification Office. Officials and employees of the Corporation shall be entitled to insurance coverage and other employee benefits under the Government Service Insurance System. Employment by the



Corporation of persons previously retired from government service shall receive allowances or other emoluments from the Corporation and/or its subsidiaries.

**SECTION 13. Fiscal Year.** - The Corporation shall observe the fiscal year beginning on July 1 of one year and ending on June 30 of the following year.

**SECTION 14. Effectivity Of The Revised Charter.** - This Decree shall take effect upon its approval. The Chairman of the Board, shall within thirty (30) days from the date of his appointment, call for an organizational meeting of the Board in order that corporate business may immediately be commenced. The new provisions on tax exemption, privileges granted to the Corporation and its subsidiaries shall, however, be effective beginning July 1, 1974.

**DONE** in the City of Manila, this 9<sup>th</sup> day of May, in the year of Our Lord, nineteen hundred and seventy-five.

**(SGD.) FERDINAND E. MARCOS**  
*President of the Philippines*