

NORTHRAIL Manual of Corporate Governance

The North Luzon Railways Corporation (NORTHRAIL) is a wholly owned subsidiary of the Bases Conversion and Development Authority (BCDA) and an attached agency of the Department of Transportation and Communication (DOTC). Its mission is to develop, construct, operate and manage a world-class and environmentally sustainable rail transport system to serve Metro Manila, Central Luzon and Northern Luzon. The governance policy of NORTHRAIL shall be in pursuance of the strategic objectives of the corporation as determined by the Board considering its relationship with BCDA, as holding company, and with DOTC, as the Department with oversight and supervisory authority over transportation projects.

It is the policy of the North Luzon Railways Corporation (NORTHRAIL) to actively promote and pursue corporate governance reforms and to consciously observe principles of accountability and transparency with the utmost degree of professionalism and effectiveness. The Board of Directors of NORTHRAIL hereby adopts this Manual of Corporate Governance to steer the corporate organization toward excellence and competitiveness, locally and globally, thus enabling it to be a valuable partner of the government in national development.

I.

DEFINITION AND INTERPRETATION

1.1. Definition of Terms. Unless otherwise provided elsewhere in this Manual, the following terms shall mean as follows:

1.1.1. *Ad Hoc Board Committees* – Board Committees created to address particular issues, which may include operational matters. Ad Hoc Committees are temporary in nature and dissolved after they have served the purpose specified for their creation. Membership to any Ad Hoc Committee may include representatives of Management.

1.1.2. *Affiliate* – A corporation, of which fifty percent (50%) or less of the outstanding capital stock is owned by NORTHRAIL.

1.1.3. *Attached Agency / Corporation* – an agency with a lateral relationship with a national government department for the purpose of policy and program coordination. The coordination may be accomplished by having the Department represented in the governing board of the attached agency or corporation.

1.1.4. *BCDA* – The Bases Conversion and Development Authority – The holding company of NORTHRAIL

1.1.5. Board of Directors – The collegial body that exercises the corporate powers of NORTHRAIL, as specified in the Articles of Incorporation and By-laws. It is charged with the functions of governing and conducting the business of NORTHRAIL and monitoring Management.

1.1.6. Corporate Charter – refers to NORTHRAIL’s Articles of Incorporation which includes the corporation’s purpose(s) for which the company was formed, the specific type of corporation, the names and addresses of the initial directors and incorporators, the business location, number and classes of share and duration of the corporation and the authority of the corporation for the initial issue of specific number of shares of stock and price of those shares.

1.1.7. Code of Corporate Governance or Code – Code of Corporate Governance for GOCCs promulgated by the Governance Commission for Government Owned or Controlled Corporations (GCG) under GCG Memorandum Circular No. 2012-07 and Approved by the President of the Philippines on 28 November 2012.

1.1.8. Corporate Governance – The framework of rules, systems and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties to the State and the stakeholders. It provides the structure through which the objectives of a corporation are set, and the means of achieving those objectives, and monitoring performance are determined.

1.1.9. DOTC – The Department of Transportation and Communications. It is the primary policy, planning, programming, coordinating, implementing and administrative entity of the executive branch of the government on the promotion, development, regulation of a dependable and coordinated network of transportation systems and services.

1.1.10. Executive Board Member – A Member of the Board who is at the same time appointed to head a group/department/unit within NORTHRAIL or performs any work related to its operation.

1.1.11. Non-executive Director or Board Member – a director who is not the head of a department or unit of the corporation nor performs work related to its operation.¹

1.1.12. Independent Board Member – A Member of the Board who has no relationship with NORTHRAIL, its affiliates, partners in a joint venture, or subsidiaries that could interfere, or be reasonably perceived to interfere, with

¹ Taken from SEC MC No.6, Series of 2009

the exercise of his/her independent judgment in carrying out the responsibilities as a Member of the Board.

1.1.13. Internal Auditing – An independent, objective assurance and consulting activity designed to add value and improve NORTHRAIL's operations. It helps NORTHRAIL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

1.1.14. Internal Audit Department – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporations operations. This department reports to the NORTHRAIL board.

1.1.15. Internal Auditor - the highest position in the corporation responsible for Internal audit activities. If internal audit activities are performed outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

1.1.16. Internal Control – The system established by the Board and Management for the accomplishment of NORTHRAIL's objectives, the effective and efficient operation of its business, the reliability of financial reporting and faithful compliance with applicable laws, regulations, and internal policies.

1.1.17. Management – The body given the authority by the Board to implement the policies it has laid down.

1.1.18. Oversight Director(s) – A Board committee or a particular member of the Board tapped by the Board to oversee a specific project or function, providing consultancy-type advice and service, analyze information and recommend actions for Board approval.

1.1.19. Regular Board Committees – Permanent Board Committees that perform policy-making and governance functions of the Board that are delegated to them. Membership in Regular Committees shall be exclusively for Board Members.

1.1.20. Special Board Committees – Committees created to support the Board in the performance of its functions. Special Board committees should have written terms of reference that define their duties, authority, composition, reporting relationships and conduct of business.

1.1.21. Stakeholders – Beneficiaries of NORTHRAIL programs identified under its Articles of Incorporation and By-Laws, allied laws and executive

issuances, and investors providing external capital to NORTHRAIL in the form of equity or credit.

1.1.22. *Subsidiary* – A corporation of which more than 50% of the voting stock is owned or controlled, directly or indirectly through one or more intermediaries, by NORTHRAIL.

1.2. *Interpretation of Salient Provisions*. All doubts or questions that may arise in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability and fairness to the State and stakeholders of NORTHRAIL.

II.

COMMITMENT TO PRINCIPLES OF GOOD CORPORATE GOVERNANCE

2.1. *NORTHRAIL as an Active Partner of the Government in National Development*. NORTHRAIL shall perform its functions as an active partner of the government in national development. Such functions include the delivery of public services, as well as the production and creation of wealth necessary to support vital government initiatives.

2.2. *Governing Principles of Good Corporate Governance of NORTHRAIL*. The corporate governance framework for NORTHRAIL shall be governed by the following principles:

2.2.1. NORTHRAIL shall conduct its business strictly in accordance with the rule of law and shall be supportive of the primary goals and objectives of the State.

2.2.2. Timely and accurate disclosure shall be made for transparency on all material aspects and development regarding NORTHRAIL, including its financial condition, performance, ownership, and governance.

2.2.3. The strategic guidance of NORTHRAIL shall be in accordance with the objectives set by the government, the effective monitoring of Management by the Board, and the Board's accountability to the corporation, its holding company (BCDA), and the State. Strategic direction of NORTHRAIL shall be in accordance with the National Transportation Program and other directives and policies of DOTC regarding transportation.

2.2.4. NORTHRAIL shall adhere to the highest degree of ethical standards and promote accountability and fairness in all its business transactions.

2.2.5. The long-term growth, development and strength of NORTHRAIL shall be fostered.

2.2.6. NORTHRAIL recognizes its corporate responsibility for the common good of society.

2.2.7. Active cooperation between NORTHRAIL, and its partners, affiliates, subsidiaries and stakeholders in creating wealth, jobs, and the sustainability of a financially sound enterprise shall be encouraged.

2.3 *Commitment to Institutionalize the Principles of Corporate Governance.*

NORTHRAIL is committed to institutionalize the principles of good corporate governance in the entire organization. The Board of Directors, Management and Employees of NORTHRAIL equally commit to the principles contained in the Code of Corporate Governance for GOCCs and acknowledge that this Manual will serve as guide in the achievement of corporate goals.

2.4 *Care, Diligence and Skill in the Conduct of the Business of NORTHRAIL.*

The members of the Board and the Officers must exercise extraordinary diligence in the conduct of business and in dealing with the properties of NORTHRAIL. Such degree of diligence requires using the utmost diligence of a very cautious person with due regard for all circumstances.²

2.5 *Promotion of Corporate Governance.* The Board of Directors, Management and Employees believe that good corporate governance is an integral component of sound strategic business management and of transparency and accountability in public corporate governance, and will undertake every effort necessary to create awareness of such within NORTHRAIL.

2.6 *Governance Policy on Conflict of Interest*

Public policy dictates that the personal interest of board members and officers should never prevail over the interest of NORTHRAIL. As such, Board Members and officers may not directly or indirectly derive any personal profit or advantage by reason of their position in the corporation.

2.6.1. *Determination of conflict of interest.* Conflict of Interest exists when an official, employee or a member of the board of directors, an officer of the corporation, or a partner in a joint venture with NORTHRAIL whose interest or whose company's interest or his rights or duties in said corporation or business, are opposed to or is affected by the faithful performance of official duty. A conflict of interest exists when a Board Member or officer of NORTHRAIL:

2.6.1.1. Supplies or is attempting or applying to supply goods or services to NORTHRAIL;

² Sec. 21, R.A. 10149

2.6.1.2. Supplies or is attempting to supply goods, services or information to an entity in competition with NORTHRAIL;

2.6.1.3. By virtue of his office, acquire or is attempting to acquire for himself a business opportunity which should belong to NORTHRAIL;

2.6.1.4. Is offered or receive consideration for delivering NORTHRAIL's business to a third party; and

2.6.1.5. Is engaged or is attempting to engage in a business or activity, which competes with or works contrary to the best interests of NORTHRAIL.

2.6.2. *Disclosure of Conflict of Interest.* If an actual or potential conflict of interest should arise on the part of board members, it should be fully disclosed and the concerned Board Member should not participate in the decision-making. A Board Member who has a continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.

2.6.3. *Void Contracts.* NORTHRAIL must not enter into any contract or agreement with one or more of its board members or officers in order to prevent a situation where there is actual or potential conflict of interest or one that could create the appearance of conflict of interest. Any such contract entered into by NORTHRAIL is considered void.

2.6.4. *Liability of Board Members.* Where a Board Member, by virtue of his/her office, acquires a business opportunity that should belong to NORTHRAIL, thereby obtaining profits to the prejudice of the corporation, the Board Member must account to the latter for all such profits by refunding the same, unless his/her act has been ratified. This provision shall be applicable notwithstanding the fact that the board member risked his own funds in the venture. The foregoing is without prejudice to NORTHRAIL's Rules or Code of Conduct and Ethics for its officers, employees and staff.

2.7 No Gift Policy

NORTHRAIL shall adhere to the highest form of ethical standards. The NORTHRAIL Board of Directors, Officers, Managers and employees shall demonstrate fairness, professionalism and deliver quality services without expectations of any undue favor or reward.

2.7.1. *NORTHRAIL adopts a No Gift Policy.* The Chairman and Members of the Board, Officers, Managers and Employees shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or use, or anything of monetary value ("gift") from a person, group, association, or juridical entity, whether from the public or the private sectors, at any time, on or off the work premises, in the course of their official duties or in connection

with any operation being regulated by, or any transaction which may be affected by the functions of their office, where such gift:

2.7.1.1. Would be illegal or in violation of law.

2.7.1.2. Is part of an attempt or agreement to do or refrain from doing anything in return.

2.7.1.3. Has a value beyond what is normal and customary in the business of NORTHRAIL.

2.7.1.4. Is being made to influence the Chairman and Members of the Board, Officers, Managers and Employees' actions as such.

2.7.1.5. Could create the appearance of a conflict of interest.³

2.8 Relations with Stakeholder. NORTHRAIL recognizes the rights of stakeholders established by law or through mutual agreements, and encourage active cooperation between NORTHRAIL and its stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

2.8.1. Recognition and respect of stakeholders' rights established by law or through mutual agreements. Recognizing the vital contribution of its stakeholders, NORTHRAIL shall ensure that stakeholders have access to relevant, sufficient and reliable information on a timely and regular basis.

2.8.2. Report on Stakeholder Relations. NORTHRAIL shall communicate with investors, stakeholders and the public at large on their stakeholder policies and provide information on their effective implementation. NORTHRAIL shall allow its stakeholder reports to be independently scrutinized in order to strengthen their credibility.

2.8.3. Development, Implementation and Communication of Compliance Programs for Internal Codes of Ethics. The Board shall apply high ethical standards in the organization with checks and balances that will ensure the corporation is protected from deviation from these standards in the course of the interaction of business considerations with political and public policy ones. NORTHRAIL shall develop an internal code of ethics that would give clear and detailed guidance as to the expected conduct of all employees and disciplinary measures for non-compliance therewith. The internal code of ethics should include guidance on procurement processes, as well as develop specific mechanisms protecting and encouraging stakeholders, and

³ Adopted from GCG Memorandum Circular No. 2012-12 or the "No Gift Policy of the Governance Commission for GOCCs (GCG)

particularly employees, to report on illegal or unethical conduct by corporate officers.

2.9 Disclosure and Transparency

NORTHRAIL shall continue to enhance disclosure and transparency and impose a duty of loyalty of Board Members. Timely and accurate disclosure shall be made on all material matters regarding NORTHRAIL, including its financial situation, performance, ownership, and governance.

2.9.1. Disclosure on Material Information. NORTHRAIL shall make a disclosure on, among others, the following material information:

2.9.1.1. Objectives and their fulfillment. Corporate objectives shall be made clear to all stakeholders, investors and the general public. NORTHRAIL shall report on how it fulfills its objectives by disclosing key performance indicators.

2.9.1.2. Material risk factors and measures taken to manage such risks. NORTHRAIL shall establish sound internal risk management systems to identify, manage, control and report on risks. Appropriate disclosure by NORTHRAIL of the nature and extent of risk incurred in their operations shall be made. Public-Private partnerships shall also be adequately disclosed as such ventures are often characterized by transfers of risks, resources and rewards between public and private partners for the provision of public services or public infrastructure and may consequently induce new and specific material risks.

2.9.1.3. Financial assistance, including guarantees, received from the government and commitments made on behalf of NORTHRAIL. To give a fair and complete picture of NORTHRAIL's financial situation, the mutual obligations, financial assistance or risk sharing mechanisms between the government and NORTHRAIL shall be appropriately disclosed. Disclosure shall include details on any government grant or subsidy received by NORTHRAIL, any guarantee granted by the government to NORTHRAIL for its operations, as well as any commitment that the government undertakes for and on behalf of NORTHRAIL.

2.9.1.4 Material transactions with related entities. Transactions between NORTHRAIL and related entities, such as an equity investment of one government owned or controlled corporation in another shall be disclosed. Reporting on transactions with related entities shall provide all information that is necessary for assessing the fairness and appropriateness of these transactions.

2.9.1.5 Information on Financial and Operating Results. NORTHRAIL shall also disclose information on its financial and operating results; the remuneration policy for members of the Board and key executives, and

information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the Board; related party transactions; issues regarding employees and other shareholders; and governance structures and policies and the process by which they are implemented.

2.9.2 Electronic Disclosure of Information. NORTHRAIL shall maintain a website and post therein for unrestricted public access:

2.9.2.1. Institutional Matters:

2.9.2.1.1. The latest version of the NORTHRAIL Charter.

2.9.2.1.2. List of Subsidiaries and Affiliates.

2.9.2.1.3. Government Corporate Information Sheet (GCIS) as mandated by the GCG in its Memorandum Circular No. 2012-01.

2.9.2.2. Board and Officers:

2.9.2.2.1. Complete Listing of the Directors and Officers with attached resume and their membership in Board Committees.

2.9.2.2.2. Complete compensation package of all the board members and officers, including travel, representation, transportation and any other form of expenses or allowances.

2.9.2.2.3. Information on Board Committees and their activities.

2.9.2.2.4. Attendance Record of Directors in Board and Committee Meetings.

2.9.2.3. Financial Matters:

2.9.2.3.1. Their latest annual audited financial and performance report within thirty (30) days from receipt of such report.

2.9.2.3.2. Audited financial statements in the immediate past five (5) years.

2.9.2.3.3. Quarterly, annual reports and trial balance.

2.9.2.3.4. Current Corporate Operating Budget (COB).

2.9.2.3.5. Local and foreign borrowings.

2.9.2.3.6. Government subsidies and net lending.

2.9.2.3.7. All borrowings guaranteed by the government.

2.9.2.3.8. Any material risk factors and measures taken to manage such risk.

2.9.2.3.9. Performance Evaluation System (PES).

2.9.2.4. Governance Matters:

2.9.2.4.1. Charter Statement/Mission-Vision Statements.

2.9.2.4.2. Performance Scorecards and Strategy Map.

2.9.2.4.3. Organizational Chart.

2.9.2.4.4. Manual of Corporate Governance.

2.9.2.4.5. CSR Statement.

2.9.2.4.6. Such other information or report that the Commission on Audit (COA), the Governance Commission of GOCCs (GCG), or the Government Procurement Policy Board (GPPB) may require.⁴

2.9.3. *Development of Internal Audit Procedures.* NORTHRAIL shall develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the Board and its Audit Committee.

2.9.4. *Conduct of an independent external audit based on international standards.* NORTHRAIL may opt to undergo a periodic independent external audit based on international standards.⁵

2.9.5. *Observance of the highest quality accounting and auditing standards.* NORTHRAIL shall take all measures to be as transparent as publicly listed companies. It shall disclose financial and non-financial information according to high quality internationally recognized standards.

2.10 Communication

2.10.1. *Communication within the organization.* The Board and Management shall ensure the thorough dissemination of this Manual to all employees and third parties, and shall enjoin the development of organizational policies and processes consistent with the GOCC Code of Corporate Governance and this Manual.

2.10.2. *Education on the Code of Good Public Corporate Governance.* Funds shall be allocated for the conduct of an orientation program to operationalize this Corporate Governance Manual and for the continued

⁴ Sec. 43, GCG Memorandum Circular 2012-07, "Code of Corporate Governance for GOCCs."

⁵ Government corporations are not necessarily required to be audited by external independent auditors. This is because specific government audits provided by the Commission on Audit, which assigns resident auditors to GOCCs are deemed sufficient to guarantee the quality and comprehensiveness of accounting information on GOCCs. However, these specific government audits are designed to monitor the use of public funds and budget resources, rather than the operations of the state-owned enterprise as a whole. Thus, to reinforce trust in the information provided, the government should require that, in addition to special government audits, at least all large GOCC's should be subjected to external audits that are carried out in accordance with international standards.

education and training of all officers and employees to ensure compliance with the GOCC Code of Corporate Governance and this Manual.

2.11 Penalties for Non-Compliance

2.11.1. Table of Penalties. To ensure faithful compliance with the GOCC Code of Corporate Governance and the strict adherence to and implementation of the provisions of this Manual, the following penalties shall be imposed, after due notice and hearing, on the Members of the Board and officers who are found liable for any violation, in addition to such penalties as may have been specifically provided:

2.11.1.1. The penalty of reprimand shall be meted for the first infraction;

2.11.1.2. The penalty of suspension from office shall be imposed upon the offender for the second infraction. The duration of suspension, which shall be determined by the Board, shall be commensurate to the gravity of the violation;

2.11.1.3. The penalty of removal from office, in the case of an appointive director, or dismissal from service, in the case of an officer of Management, shall be imposed on the offender for the third infraction. In cases where the offender is a Member of the Board, the Board shall recommend the imposition of the penalty to the GCG.

The Board may, at its discretion, constitute a committee or appoint a Member or officer to conduct a fact-finding investigation or a hearing for this purpose. The results of the investigation and/or hearing shall be submitted to the Board for its consideration and approval.

III.

THE BOARD OF DIRECTORS

The powers and functions of NORTHRAIL are exercised by the Board of Directors. The Board is the policy making body and is primarily responsible for good governance in NORTHRAIL. Corollary to this main responsibility, the Board shall chart the corporate strategy and set guidelines for accomplishment of corporate objectives, as well as provide an independent check on management.

3.1. Mandate and Responsibility for NORTHRAIL's Performance. The responsibilities of Board are articulated in the NORTHRAIL Articles of Incorporation and other relevant legislation, rules and regulations. These responsibilities shall include the following:

3.1.1. Provide corporate leadership to NORTHRAIL subject to rule of law, and the objectives set by the State and NORTHRAIL.

3.1.2. Establish NORTHRAIL's vision and mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

3.1.3. Define NORTHRAIL's values and standards.

3.1.4. Foster the long-term success of NORTHRAIL and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of the State.

3.1.5. Determine the organizational structure of NORTHRAIL, define the duties and responsibilities of its officials and employees and adopt a pay plan, compensation and benefit scheme, and position classification in accordance to E.O. 62 and RA 7227 until the GCG issues the new Compensation Position Classification System (CPCS) for all GOCCs.

3.1.6. Appoint all officials down to the third level and authorize the NORTHRAIL President to appoint all others: Provided, that all appointments shall be based on merit and fitness and all personnel actions shall be in pursuance of the Labor Code of the Philippines, except those coterminous employees or Members of the Board.⁷

3.1.7. The Board, in the performance of its duty to manage the business and affairs of NORTHRAIL, shall delegate the management authority to the President. The President is charged by the Board with the day-to-day leadership of management of NORTHRAIL. The President is expected to keep the Board apprised and updated, in an open and transparent manner, of NORTHRAIL's progress and of any material deviations from the goals, objectives or policies established by the Board. To this end, the Board shall refrain from giving direct instructions to Management and shall course all directives through the President.

3.1.8. Prepare the annual and supplemental budgets of NORTHRAIL.

3.1.9. Comply with reportorial requirements, as required in the NORTHRAIL Articles of Incorporation and By-laws, as well as applicable laws, rules and regulations.

3.1.10. Carry out the mandate of NORTHRAIL, as provided in its Articles of Incorporation and By-laws.

3.1.11. Act as an effective and independent check on Management.

3.2. *Specific Functions of the Board.* In addition to those specified in the Articles of Incorporation and By-laws, the Board shall perform, among others, the following functions:

3.2.1. Determine NORTHRAIL's purpose and value, as well as strategies and general policies, to ensure that NORTHRAIL survives and thrives despite financial crises and its assets and reputation are adequately protected.

3.2.2. Determine important policies and establish programs that bear on the character of NORTHRAIL with a view towards ensuring its long-term viability and strength.

3.2.3. 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;

3.2.4. Provide sound strategic policies and guidelines on NORTHRAIL operating budget and major capital expenditures.

3.2.5. Periodically evaluate and monitor the implementation of such policies and strategies including the business plans, operating budget and Management's performance.

3.2.6. Ensure that NORTHRAIL complies with all relevant laws, regulations and codes of best business practices.

3.2.7. Implement a process for the recommendation or nomination of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies for NORTHRAIL, and its affiliates.

3.2.8. Establish a competitive selection process to ensure that the key executives of NORTHRAIL have the necessary motivation, integrity, competence and professionalism. Align key executive and board remuneration with the long-term interests of NORTHRAIL. Appoint competent, professional, honest and highly motivated management officers. Adopt a professional development program for officers and employees, and succession planning for key executives.

3.2.9. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable NORTHRAIL to anticipate and prepare for possible threats to its operational and financial viability.

3.2.10. Ensure the integrity of NORTHRAIL's accounting and financial reporting systems, including independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

3.2.11. Establish and maintain an investor and stakeholder relations program that will keep them informed of important developments in the corporation. The President shall exercise oversight responsibility over this program.

3.2.12. Oversee the process of disclosure and communications.

3.2.13. Adopt and implement a system of internal check and balance within the Board. A regular review and update of such system should be conducted to ensure the integrity of the decision making and reporting process at all times. There shall be a continuing review of NORTHRAIL's internal control system in order to maintain its adequacy and effectiveness.

3.2.14. Formulate and implement policies that would ensure the integrity and transparency of related party transactions between and among NORTHRAIL, its affiliates, joint ventures, joint ventures, stakeholders, directors and officers including their spouses, children and dependent siblings and parents and of interlocking director relationships by Members of the Board. Monitor and manage potential conflicts of interest of Management, Members of the Board and stakeholders, including misuse of corporate assets and abuse in related party transactions.

3.2.15. Constitute Board Committees as may be necessary to assist the Board in the performance of its functions.

3.2.16. Establish and maintain an alternative dispute resolution system that can amicably settle conflicts or differences between NORTHRAIL and its affiliates, joint ventures, stakeholders or third parties, including regulatory authorities.

3.2.17. Meet regularly to properly discharge its responsibilities. The minutes of such meetings should be duly recorded. Independent views during Board meetings shall be encouraged and given due consideration.

3.2.18. Conduct and maintain the affairs of NORTHRAIL within the scope of its authority, as prescribed in its Corporate Charter and in accordance with existing laws, rules and regulations.

3.2.19. Attest to the truth and fairness of the financial statements of NORTHRAIL.

3.3. *Composition of the Board.* The Board of Directors of NORTHRAIL, as provided for in the Articles of Incorporation, shall be composed of eleven (11) members receiving the highest votes of the stockholders in a meeting called for the purpose. The powers and functions of NORTHRAIL shall be exercised by a Board of Directors to be composed of eleven (11) members, as follows:

3.3.1. Chairman;

3.3.2. President

3.3.2. Nine (9) other members from the private sector, two (2) of whom shall be nominated by BCDA.

The Secretary of the DOTC, the agency to which NORTHRAIL is attached to for purposes of policy and program coordination and for general supervision, shall be Ex Officio Co-Chairman of the governing board. He may designate an Ex Officio Alternate who ideally should be an official next-in-rank to him, and whose acts shall be considered the acts of the Principal.

The Chairman, the President, and Members shall be appointed by the President of the Philippines from a shortlist prepared by the GCG. In case of vacancy in the Board, the appointee shall serve the unexpired term of the predecessor.

The positions of Chairman and President NORTHRAIL shall be separate. The duties and responsibilities of the offices are defined and delineated to ensure check and balance, accountability and independence. In case the offices are unified, safeguards shall be instituted to guarantee independent decision making in the Board.

3.4 Specific Duties and Responsibilities of a Director. A director should observe the following norms of conduct:

3.4.1. Remain fit and proper for the position for the duration of his/her term:

3.4.2. Conduct fair business transactions and ensure that his/her personal interest does not conflict with the interests of the corporation;

3.4.3. Devote time and attention necessary to properly and effectively perform his/her duties and responsibilities;

3.4.4. Act honestly and in good faith, in the best interest of the corporation, including its stakeholders; **3.4.5.** Act judiciously and exercise independent judgment; and

3.4.5. Observe confidentiality.

3.5 Term of Office. The term of office of the Chairman and each Member of the Board shall be for one (1) year, commencing on the 1st of July and ending on the 30th of June of the immediately succeeding year, unless sooner removed for cause.⁶ In the event that no new Board is elected and qualified after the official term of the Board of Directors, the existing Board, if still constituting a quorum, is still a legitimate Board with full authority to bind NORTHRAIL.⁷

3.6 Qualifications of Board Members. No person shall be appointed or designated to the Board unless he is a natural-born Filipino citizen, of good moral character, of unquestionable integrity, and of recognized competence in relevant fields including, but not limited to, economics, management, international relations, law or

⁶ Sec. 17, R.A. 10149

⁷ GCG MC No. 2012-3, Status of Holdover and Acting Directors/Trustees in GOCC Boards and Requiring the Submission of Information on their Respective Qualifications," 08 February 2012 citing SEC Opinion No. 06-18, 20 March 2006

engineering. All Board members must be appointed by His Excellency pursuant to R.A. No. 10149, GCG's selection and nomination procedures, and the GCG Fit and Proper Rule.⁸

3.7 Charter of Expectations. The Board recognizes its duties and shall adopt a Charter of Expectations as a general statement of its expectations as to how it will discharge its duties. The Charter will also serve as a tool in assessing the Boards' performance and that of individual directors.

3.8 Permanent Disqualification of Board Members.⁹ The following individuals are permanently disqualified from appointment or re-appointment, or to continue holding the position of Appointive Director or CEO in any GOCC, as the case may be, thus:

3.8.1. Persons who have been convicted by final judgment of a court or tribunal of:

3.8.1.1. A crime or offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery; violation of the Bouncing Checks Law, the Anti-Graft and Corrupt Practices Act, prohibited acts and transactions under Section 7 of the Code of Conduct and Ethical Standards for Public Officials and Employees, violation of banking laws, rules and regulations; Provided, however, that when the penalty imposed in the final judgment of conviction is censure or reprimand, the GCG shall determine from the terms of the judgment whether it shall constitute a ground for permanent or temporary disqualification;

3.8.1.2. A crime or offense where the sentence imposed is a term of imprisonment of at least six (6) years and one (1) day, or;

3.8.1.3. A violation of the laws, rules and regulations particularly applicable to the sector under which the GOCC is classified, and in other related sectors;

3.8.2. Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;

3.8.3. Directors, CEOs and Officers of GOCCS who have been:

3.8.3.1. Found by a competent administrative body as administratively liable for violation of laws, rules and regulations particularly applicable to the sector of the GOCC concerned, as well as those covered by related sectors, and where a penalty of removal from office is imposed, which finding of the administrative body has become final and executory;

⁸ GCG MC No. 2012-05 and 2012-06

⁹ Art. 6.1 GCG MC No. 2012-06 Fit and Proper Rule for Appointive Directors and CEOs of GOCCs", 28 November 2012

3.8.3.2. Determined by the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, to have, by virtue of their office, acquired or received a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the GOCC has an interest, using the rights, options or properties of the GOCC for their own benefit, receiving commission on contracts from the GOCC's assets, or taking advantage of corporate opportunities of the GOCC; or

3.8.3.3 Found to be culpable for a GOCC'S insolvency, closure, or cessation of operations, as determined by the GCG in consultation with the appropriate Government Agency;

3.8.4. Directors and officers of private corporations, or any person found by the GCG in consultation with the appropriate Government Agency, to be unfit for the position of Appointive Director because they were found administratively liable by such Government Agency for:

3.8.4.1. A violation of laws, rules and regulations relevant to the sector of the GOCC concerned, as well as in related sectors; or

3.8.4.2. Any offense/violation involving dishonesty or breach of trust; and

3.8.4.3. Which finding of such Government Agency has become final and executory

3.9. *Temporary Disqualification of Incumbent Board Members.*¹⁰ Incumbent Members of the Board of Directors shall be temporarily disqualified from appointment or re-appointment, or from continuing to hold office, as the case may be, if:

3.9.1. They refused or failed to fully disclose the extent of their business interest or any Material Information to NORTHRAIL, GCG or the appropriate Government Agency, when required pursuant to the requirements of the Securities Regulation Code, the Corporation Code of the Philippines, or any other relevant provision of law, as well as when required by a circular, memorandum, rule or regulation, applicable to such institutions, and such disqualification shall be in effect as long as the refusal or failure persists;

3.9.2. They have been absent or who have not participated for whatever reason in more than fifty percent (50%) of all meetings, both regular and special, of the Board during the immediately preceding semester, or who failed to attend for whatever reasons at least twenty five percent (25%) of all board meetings in any year; Provided, however, that such temporary disqualification applies only for purposes of the immediately succeeding appointment process for a new Term of Office;

¹⁰ Art. 6.2 GCG MC No. 2012-05

3.9.3. They are delinquent in the payment of their obligations, defined as follows:

3.9.3.1. Delinquency in the payment of obligations means the failure to pay according to the terms of the contracted obligation with a GOCC, Subsidiary or Affiliate or with a private corporation, within at least sixty (60) days from formal demand.

3.9.3.2. Obligations shall include all borrowings obtained by a Director for his/her own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such institutions; the spouse or child under the parental authority of the Director; any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a Director; a partnership in which a Director, or his/her spouse, is the managing partner or a general partner owning a controlling interest in the partnership; and a corporation, association or firm wholly-owned or majority of the capital of which is owned, by any or a group of persons mentioned herein.

3.9.3.3. Such temporary disqualification shall be in effect as long as the delinquency persists.

3.9.4. They have been convicted in the first instance by a court for:

3.9.4.1 Any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery;

3.9.4.2. Violation of the Bouncing Checks Law, the Anti-Graft and Corrupt Practices Act, prohibited acts and transactions under Section 7 of the Code of Conduct and Ethical Standards for Public Officials and Employees;

3.9.4.3. Violation of banking laws, rules and regulations; or

3.9.4.4 An offense where the penalty imposed is to serve a maximum term of imprisonment of more than six (6) years; but whose conviction has not yet become final and executory; Provided, however, that such temporary disqualification shall automatically cease upon receipt by NORTHRAIL of a certified true copy of a judgment amounting to an acquittal;

3.9.5. They are Directors or Officers of private corporations which have been officially declared insolvent, dissolved or closed, pending their clearance by the GCG in consultation with the appropriate Government Agency;

3.9.6. They are disqualified for failure to observe/discharge their duties and responsibilities prescribed under the Ownership and Operations Manual Governing the GOCC Sector, the Code of Corporate Governance for GOCCs,

the NORTHRAIL Manual of Corporate Governance, or existing rules and regulations of the GCG; and such temporary disqualification applies until the lapse of the specific period of disqualification or upon approval by the GCG of such Directors' appointment/reappointment;

3.9.7. They failed to attend within three (3) months from their appointment and assumption of office the public corporate governance seminar for Directors conducted by the GCG or any individual/entity accredited by the GCG; Provided, however, that such disqualification shall cease when the Director concerned has submitted to NORTHRAIL an official certification that he/she has attended such seminar;

3.9.8. They are dismissed/terminated from employment for just cause; Provided, however, that such temporary disqualification will cease when they have cleared themselves of involvement in the alleged irregularity;

3.9.9. They are under preventive suspension, whether it be in the government service or in private sector service; Provided, however, that Board shall determine from the cause for the preventive suspension whether it shall constitute a ground for temporary disqualification;

3.9.10. They have derogatory records as certified by, or on the official files of, the Judiciary, the National Bureau of Investigation (NBI), the Philippine National Police (PNP), the Ombudsman, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries, for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the Directors or the ability to effectively discharge their duties; and this disqualification applies until they have cleared themselves of the alleged irregularities/violations, or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated; Provided, however, that Board shall determine from the nature of the derogatory record whether it shall constitute a ground for temporary disqualification;

3.9.11. They are Directors or Officers of private corporations or GOCCs found by the appropriate Government Agency as administratively liable for violation of laws, rules and regulations relevant to the sector of the GOCC, as well as in related sectors, where a penalty of suspension from office or fine is imposed, regardless whether the finding of the appropriate Government Agency is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and such disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid; or

3.9.12. They have conflict of interest as defined under the Code of Conduct and Ethical Standards for Public Officials and Employees and its Implementing Rules and Regulations; and this disqualification applies until the conflict of interest is resolved.

3.10 *Fiduciary Duties of the Board and Officers.* As fiduciaries of the State, Members of the Board of Directors and the Officers of NORTHRAIL have the legal obligation and duty to always act in the best interest of the NORTHRAIL, with utmost good faith in all its dealings with the properties, interests and monies of NORTHRAIL. The Members of the Board and Officers of NORTHRAIL shall:

3.10.1 Act with the utmost and undivided loyalty to NORTHRAIL;

3.10.2 Act with due care, extraordinary diligence, skill and good faith in the conduct of the business of NORTHRAIL;

3.10.3 Avoid conflicts of interest and declare any interest they may have in any particular matter before the Board;

3.10.4 Apply sound business principles to ensure the financial soundness of the NORTHRAIL; and

3.10.5 Elect and/or employ only Officers who are fit and proper to hold such office with due regard to the qualifications, competence, experience and integrity. Where a Member of the Board or an Officer, by virtue of the office, acquires or receives for oneself a benefit of profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the NORTHRAIL has an interest, using the properties of NORTHRAIL for their own benefit, receiving commission on contracts from NORTHRAIL's assets, or taking advantage of corporate opportunities of NORTHRAIL, all such profits or benefits shall be subject to restitution under Section 24 of Republic Act No. 10149, without prejudice to any administrative, civil or criminal action against Members of the Board of Directors or Officers. This provision shall be applicable notwithstanding the fact that such member of the Board or Officer risked one's own funds in the venture.

3.11. *Internal Control Responsibilities of the Board*

3.11.1. The Control environment of NORTHRAIL consists of:

3.11.1.1 The Board, which ensures that the NORTHRAIL is properly and effectively managed and supervised;

3.11.1.2. A Management that actively manages and operates NORTHRAIL in a sound and prudent manner;

3.11.1.3. The organizational and procedural controls supported by effective management information and risk management reporting systems; and

3.11.1.4. An independent audit mechanism to monitor the adequacy and effectiveness of NORTHRAIL's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

3.11.2. The minimum internal control mechanisms for the Board's oversight responsibility include, but shall be limited to:

3.11.2.1. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system.

3.11.2.2. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same.

3.11.2.3. Recommending, nominating and electing a President with the appropriate ability, integrity, and experience to fill the role. The President shall be subject to the disciplinary authority of the Board.¹¹

3.11.2.4. Reviewing proposed key executive appointments.

3.11.2.5. Ensuring the selection, appointment and retention of qualified and competent management.

3.11.2.6. Reviewing NORTHRAIL's personnel and human resources policies, compensation plan and the management succession plan.

3.12. *Collective and Individual Liability of Board Members.* There shall be no difference between the liabilities of different Board Members, whether nominated by the government or other stakeholders.

Board members who willfully and knowingly vote or consent to patently unlawful acts of NORTHRAIL or who are guilty of gross negligence or bad faith in directing the affairs of the corporation or acquire any personal or pecuniary interest in conflict with their duty as such members, shall be liable jointly and severally for all resultant damages suffered by NORTHRAIL, the State, stakeholders and/or third persons, without prejudice to the imposition of criminal or administrative penalties.

In addition, when a Board Member attempts to acquire or acquires, in violation of his duty, any interest adverse to NORTHRAIL in respect of any matter which has been reposed in him in confidence, as to which equity imposes a disability upon him to deal in his own behalf, he shall be liable as a trustee for NORTHRAIL and must account for the profits which otherwise would have accrued to NORTHRAIL.

¹¹ Sec. 18, R.A. 10149

Any Board Member who enters into a transaction or contract grossly disadvantageous to the government, whether he profited from it or not, shall be liable for violation of Republic Act No. 3019, also known as the Anti-Graft and Corrupt Practices Act.

3.13. Exercise of Objective and Independent Judgment. The Board must have some degree of independence from Management in order to effectively fulfill its responsibilities. To this end, the Board shall include a sufficient number of competent non-executive board members who are capable of independent judgment. These non-executive and independent board members should have the relevant competence and experience and it is advisable that they be recruited from the private sector. They must also comply with the following requirements:

3.13.1. Independent board members shall hold no interests or relationships with NORTHRAIL that may hinder their independence from NORTHRAIL or its management and which may interfere with the exercise of independent judgment in carrying out their responsibilities.

3.13.2. An independent board member shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with NORTHRAIL, its management or controlling shareholder at the time of his appointment and/or re-appointment.

NORTHRAIL shall, as appropriate, provide independent board members with technical support staff to assist them in performing their duties. Independent board members may, when necessary, also request and receive support from officers, employees or outside professionals such as auditors, advisers and counsel to perform such duties. NORTHRAIL shall cover the reasonable expenses of providing such support.

3.14. Board Meetings and Quorum Requirement. The Board shall schedule and hold regular meetings and convene for special meetings when required by the exigencies of business. Regular meetings shall be held monthly while special meetings may be held at any time upon the call of the Chairman or the President, or upon the request of two or more directors.

Notice of all special meetings stating the date, time and place of meeting must be sent to each and every director at least three (3) business days before any such meetings. A director may waive this requirement either expressly or impliedly.

A majority of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business. Every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers, which shall require the vote of all the members of the board.

Every member shall attend such meetings in person, through teleconferencing or video conferencing to ensure that the quorum requirement is met, unless otherwise prevented by justifiable causes.

3.15. Remuneration of Directors and Officers. The compensation of the Members of the Board of Directors and Officers shall have the following components:

3.15.1. Per diem for every board meeting actually attended; and

3.15.2. Performance-Based Incentives that may be allowed based on agreed upon metrics as provided under Section 11 of Executive Order No. 24, Series of 2011.¹²

Members of the Board shall receive a per diem based on the NORTHRAIL classification approved by the GCG. The per diem collected per month shall not exceed the equivalent of four (4) meetings and shall further be subject to the limits set forth in Sections 9 and 10 of Executive Order No. 24, Series of 2011. Any increases from the current rates of per diems being granted shall take effect only upon approval by the President of the Philippines.

Officers of the Board who are not concurrent Members of the Board shall receive a per diem based on rates authorized by the NORTHRAIL Board. The per diem collected per month shall not exceed the equivalent of four (4) meetings and shall further be subject to the limits set forth in Sections 9 and 10 of Executive Order No. 24, Series of 2011.

3.16. Annual Performance Evaluation of the Board. Performance Agreements shall be entered into between NORTHRAIL, as represented by its Governing Board, and the State, as represented by GCG.¹³ NORTHRAIL shall submit the components of the Performance Evaluation System (PES) to GCG for the succeeding calendar year annually. Submissions may be made during the period beginning the first working day of July and ending the last working day of August. Renegotiation of previously established Annual Targets for succeeding years can also be done during this period. The negotiation of the Performance Agreement shall conclude by the last day of October of the same year the PES components were submitted. Thereafter, the NORTHRAIL Board shall ratify the Performance Agreement.¹⁴

3.16.1 Measures/Performance Indicators. The NORTHRAIL Board's performance shall be based on the Measures/Performance Indicators and Annual Targets as contained in the Performance Agreement between BCDA and the GCG. It is understood that NORTHRAIL must achieve a weighted

¹² Sec. 8, E.O No. 24, Series of 2011

¹³ Sec. 3, GCG MC No. 2013-02, "Performance Evaluation System for the GOCC Sector," 29 April 2013

¹⁴ Sec. 7.1., GCG MC 2013-02

average rating of 90% to be eligible to grant any performance-based incentives.¹⁵

3.16.2. Strategic Initiatives. NORTHRAIL commits to undertake key programs and/or projects identified as having significant impact on its performance and shall provide quarterly monitoring reports¹⁶ to the GCG for this purpose, while at all times adhering to the principles of transparency, good governance, and integrity.

3.16.3 Performance Evaluation for Directors (PED). The PED shall cover all appointive Directors as the basis for the determination of whether they shall be recommended for reappointment.¹⁷ It shall also cover the Ex Officio Directors or their alternates for the purpose of reporting to the President the performance of such Ex Officio Directors, as well as to allow the GCG to evolve a good governance system for Ex Officio Directors in NORTHRAIL.

IV.

BOARD COMMITTEES AND OVERSIGHT DIRECTORS

To aid in ensuring compliance with the principles of sound corporate governance, the Board may create such committees, as it may deem necessary to support it in the performance of its functions and in accordance with the Articles of Incorporation and By-laws and to aid in good governance.

4.1. Regular Committees. As a minimum, however, the Board shall be supported by the following regular committees:

4.1.1. Audit Committee. There shall be an Audit Committee composed of at least three (3) members. An independent board member, if any, shall chair the Audit Committee. Each member shall have an adequate understanding of accounting and auditing principles in general and of the NORTHRAIL's financial management systems and environment in particular.

The Audit Committee is expected, through the provision of checks and balances, to bring positive results in supervising and supporting the management of the corporation. It shall have the following particular duties and responsibilities:

4.1.1.1 Exercise oversight over NORTHRAIL's internal auditors.

4.1.1.2 Be responsible for the setting-up of an internal audit department and consider the appointment of an internal auditor.

¹⁵ Sec. 5, GCG MC No. 2013-02.

¹⁶ Sec. 7.2, GCG MC No. 2014-02

¹⁷ Sec. 2, GCG MC No. 2014-03

4.1.1.3 Review and approve audit scope and frequency and the Annual Audit Plan of the Internal Audit Services Office (IASO).

4.1.1.4 Work with the Head of IASO to monitor and evaluate the adequacy of NORTHRAIL's internal control systems.

4.1.1.5 Review the findings of IASO on NORTHRAIL's periodic financial statements including (i.) any change in accounting policies and practices; (ii.) major judgmental areas; (iii.) significant adjustments resulting from audit; (iv.) going concern assumptions; (v.) compliance with accounting standards; (vi.) compliance with tax, legal and regulatory requirements.

4.1.1.6 Establish and identify the reporting line of the Chief Audit Executive so that the reporting level allows the internal audit activity to fulfill its responsibilities. The Chief Audit Executive shall report directly to the Audit Committee functionally. The Audit Committee shall ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results, and shall provide a venue for the Audit Committee to review and approve the annual internal audit plan.

4.1.1.7 Confirm and assure the independence of the internal auditors.

4.1.2. Governance, Nominations and Remunerations Committee. There shall be a Governance, Nominations and Remunerations Committee composed of at least three (3) members and chaired by the Chairman of the Board.¹⁸ Each member shall have experience in the fields of business, economics, finance and investment, management, and/or marketing. The committee shall have the following particular duties and responsibilities:

4.1.2.1. Oversee the periodic performance evaluation of the Board and its committees and Management; and conducts annual self-evaluation of their performance.¹⁹

4.1.2.2. Decide whether or not a Director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance.²⁰

4.1.2.3. Recommend to the Board regarding the continuing education of Directors, assignment to Board Committees, succession plan for the

¹⁸ Sec. 16.3, GCG MC No. 2012-07

¹⁹ Sec. 16.3a, GCG MC No. 2012-07

²⁰ Sec. 16.3b, GCG MC 2012-07

Executive Officers, and their remuneration commensurate with corporate and individual performance;²¹

4.1.2.4. Recommend the manner by which the Board's performance may be evaluated and propose an objective performance criteria to be approved by the Board. Such performance indicators shall address how the Board will enhance long-term shareholder's value;²²

4.1.2.5. Install and maintain a process to ensure that officers to be nominated or appointed shall have the qualifications and none of the disqualifications mandated under the law, rules and regulations;²³

4.1.2.6. Review and evaluate the qualifications of all persons nominated to positions in NORTHRAIL which require appointment by the Board;²⁴

4.1.2.7. Recommend to the GCG nominees for the shortlist in line with the GOCC's Board composition and succession plan;²⁵

4.1.2.8. Develop recommendations to the GCG for updating the Compensation Position Classification System (CPCS) and ensuring that the same continues to be consistent with NORTHRAIL's culture, strategy, control environment, as well as the pertinent laws, rules and regulations;²⁶

4.1.2.9. Assess investment proposals with terms, issues and conditions, which will require study for formulation of policies for approval by the Board.

4.1.2.10. Establish guidelines for the formulation of the annual and supplemental budgets of NORTHRAIL for the consideration of the Board.

4.1.2.11. Perform a periodic in-depth review of the operating budget, which includes: Operation Expenses (OPEX); Personal Services (PS); Maintenance and Other Operating Expenses (MOOE); and Capital Expenditures (CAPEX).

4.1.2.12. Exercise oversight function in the fiscal management of resources.

4.1.2.13. Formulate guidelines for the investment of corporate funds and conduct periodic review to determine viability and profitability of investments and/or placements.

4.1.2.14. Determine the necessity of incurring loans or other financial obligations.

²¹ Sec. 16 3c, GCG MC 2012-07

²² Sec. 16 3d, GCG MC 2012-07

²³ Sec. 16 4a, GCG MC No. 2012-07

²⁴ Sec. 16.4b, GCG MC No. 2012-07

²⁵ Sec. 16.4c, GCG MC No. 2012-07

²⁶ Sec. 16.4d, GCG MC No. 2012-07

- 4.1.2.15.** Conduct an in-depth review of the financial terms of all loan requirements and financial obligations.
- 4.1.2.16.** Conduct monthly review of NORTHRAIL's financial statements.
- 4.1.2.17.** Validate financial statements prior to the submission by Management to the Board.
- 4.1.2.18.** Recommend changes in accounting policies, where appropriate, in accordance with the pronouncements of regulatory bodies.
- 4.1.2.19.** Assist the Board of Directors in the conduct of studies, policy formulation, and monitoring of the implementing guidelines pertaining to issues, concerns and problems that affect organization and personnel.
- 4.1.2.20.** Coordinate with Management in addressing specific key result areas (KRAs) and adherence to existing policies on such matters as personnel recruitment, performance evaluation standards and processes, assignments, promotions and entitlements.
- 4.1.2.21.** Pursue broad organizational goals such as the promotion of meritocracy, the development of teamwork, and the enhancement of morale among personnel.
- 4.1.2.22.** Review and approve the Annual Training Program of the Human Resources Unit (HRU).
- 4.1.2.23.** Conduct periodic review of the organizational structure to ensure that it remains responsive to the NORTHRAIL goals, objectives and strategies.
- 4.1.2.24.** Oversee the development and periodic update of a Human Resources Development or Personnel Manual to ensure documentation and enforcement of as well as compliance with personnel policies, guidelines on employee benefits, and code of conduct for officers and employees.
- 4.1.2.25.** Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board and provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members.
- 4.1.2.26.** Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the corporation's culture, strategy and control environment.

4.1.3. Legal and Risk Management Committee. There shall be a Legal and Risk Management Committee composed of at least three (3) members. The Chairman of the Committee must possess an adequate understanding of Philippine Law and the legal system. The committee shall evaluate, review and monitor legal and risk management policies, structures and processes as defined by Management. It shall also recommend measures to address, mitigate, minimize or eliminate risks affecting the organization. In particular, the committee shall:

4.1.3.1. Monitor the creation of a risk management structure for the organization by Management.

After the creation of the structure, the committee shall evaluate, review and monitor risk management policies, structures and processes as defined by Management. It shall also recommend measures to address, mitigate, minimize or eliminate risks affecting the organization.

4.1.3.2. Review, evaluate and monitor policy-level studies, risk and threat assessments and other reports provided by Management for consideration of the Board.

4.1.3.3. Assess information periodically provided by Management on risk exposures and risk management activities.

4.1.3.4. Review, evaluate and monitor Management's researches and the preparation of analytical materials on probable causes, explanations and possible solutions to risks that the corporation faces.

4.1.3.5. Review and endorse to the NORTHRAIL Board position papers and key policy issues prepared by Management for use of any branch of the government.

4.1.3.6. Review, monitor and recommend measures on legislative proposals affecting the organization.

4.1.3.7. Assess the Annual Planning Program of NORTHRAIL as it relates to risk management.

4.1.3.8. Provide oversight over the senior management's activities in managing credit, market liquidity, operational, legal and other risks of the corporation.

4.2. Special Committees. When necessary, the Boards shall set up special committees to support the Board in the performance of its functions. In the creation of a special committee, the Board should define the cases in which the said committee may be considered by using a combination of criteria. It is essential that special board committees are chaired by a non-executive member and include a sufficient number of independent members. The existence of special board

committees shall not excuse the Board from its collective responsibility for all matters. Special board committees shall have written terms of reference that define their duties, authority and composition. Special board committees shall report to the Board and the minutes of their meetings shall be circulated to all board members.

4.3. Ad Hoc Committees. The Board may also set up Ad Hoc Board Committees to address particular issues affecting NORTHRAIL, which may include operational matters. Such issues may encompass operational decisions that are specifically delegated by the Board. For this reason membership in the committee may include representatives of Management. Ad Hoc Committees are temporary in nature and shall be dissolved after they have served the purpose specified for their creation.

4.3.1 Executive Committee. The President and four members of the Board of Directors, to be designated by the Chairman from time to time, shall constitute an Executive Committee and shall, in the interim between meetings of the Board of Directors, perform such duties as the Board of Directors may confer upon in accordance law and the NORTHRAIL's by-laws.²⁷

4.4. Per Diems for Committee Meetings. The maximum per diem per committee meeting attended provided to Members of the Board of Directors shall be based on the classification approved by the GCG and shall be at most sixty percent (60%) of the amount set per Board Meeting but not to exceed the maximum amount corresponding to the classification. (Sec. 10, E.O. No. 24, Series of 2011)

4.5. Oversight Directors. Certain occasions may arise when the Board, through the Chairman, may deem it necessary and/or convenient to tap a Board Committee or a particular Member of the Board to oversee a specific project or function. This is in line with Corporate Directorship principles of availing of specific expertise and developing niches of contributions of Directors. A Member of the Board assigned to oversee a specific project or function shall provide consultancy-type advice and service, analyze information and recommend to the Board decisions/courses of action to be taken.

Such assignments are mere extensions of corporate governance and oversight functions of the Board of Directors and do not constitute the grant of management authority and functions.

4.6. Reporting and Coordination. Board Committees and Oversight Directors report directly to the Board. This reporting function is inherent in the mandate of each committee. Comments and/or actions taken by management shall be incorporated in the Board Committee report to the Board.

In the Conduct of their functions, the Board, its Committees or Oversight Directors may require specific information, conduct visits to facilities, hold discussions with

²⁷ Article VI, Section 1 Northrail By-Laws

Management officials and rank-and-file, and consult outsiders (professional experts, Local Government Units (LGUs), National Government Organizations (NGOs), etc.) Accordingly, the Board, its Committees or Oversight Directors shall liaise with Management with whom they may discuss functional concerns and tasks, preliminary findings and recommendations. As a rule, Board Committees or Oversight Directors shall inform the Office of the President and the Board Secretariat when undertaking activities involving internal affairs with a view to facilitate coordination with units or offices concerned. The Board Secretariat shall be responsible for following-up arrangements with the latter, as required.

4.7. Support Staff. A Technical Working Group (TWG) and Secretariat shall be permanently assigned to each Board Committee. The composition and membership of said TWG shall be identified by the respective Committees. Members of management and other NORTHRAIL employees may be called upon by the Board Committees as may be necessary to act as part of the TWG. The Board Secretariat shall likewise serve as the committee secretariat.

V.

BOARD OFFICERS

5.1. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board and Stockholders. He shall:

5.1.1. Schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of NORTHRAIL's operations.

5.1.2. Prepare the meeting agenda in consultation with the President.

5.1.3. Exercise control over quality, quantity and timeliness of the flow of information between management and the Board.

5.1.4. Ensure compliance with the GOCC Code of Corporate Governance.

5.3. President. The President is ultimately accountable for the NORTHRAIL's organization and procedural controls. In addition to the duties imposed on him by the Board and the Articles of Incorporation and By-laws, the President shall:

5.3.1. Exercise general supervision of the business, affairs, and property of the corporation, and over its employees and officers.

5.3.2. Ensures that all orders and resolutions of the Board are carried into effect.

5.3.3. Submit to the Board as soon as possible after the close of each fiscal year a complete report of the operations of NORTHRAIL for the preceding year, and the state of its affairs; and

5.3.4. Report to the Board from time to time all matters, which the interest of NORTHRAIL may require to be brought to its notice.

5.3.5. In the absence of the Chairman of the Board, the President shall preside at the meetings of the Board and perform the functions of the Chairman.

5.4. *Corporate Secretary.* The Corporate Secretary need not be a member of the Board. The Corporate Secretary must possess organizational and interpersonal skills, and the legal skills of a chief legal officer. The Corporate Secretary shall have the following functions:

5.4.1. Serve as an adviser to the Members of the Board on their responsibilities and obligations.

5.4.2. Keep the minutes of meetings of the Board, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate.

5.4.3. Keep in safe custody the seal of NORTHRAIL and affix it to any instrument requiring the same.

5.4.4. Have charge of such books and papers as the Board may direct.

5.4.5. Attend to the giving and serving of notices of Board and Board Committee meetings.

5.4.6. Be fully informed and be part of the scheduling process of other activities of the Board.

5.4.7. Prepare an annual schedule of Board meetings and the regular agenda of meetings, and put the Board on notice of such agenda at every meeting.

5.4.8. Oversee the adequate flow of information to the Board prior to meetings.

5.4.9. Ensure compliance with and/or fulfillment of disclosure requirements to regulatory bodies.

The Board shall have separate and independent access to the Corporate Secretary.

5.5. *Corporate Treasurer/Chief Finance Officer.* The Treasurer of the Corporation shall be the chief fiscal officer and the custodian of its funds, securities and properties.

The CFO shall be responsible for the following:

5.5.1. Provide the Board with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals.

5.5.2. Maintain the integrity of accounting records as the basis of the financial statements and reports provided to the Board for decision-making and to government regulatory bodies in compliance with statutory requirements.

5.5.3. Promote investor and public confidence in NORTHRAIL by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to the concerned agencies are complied with.

5.5.4. Strengthen internal controls by monitoring compliance with policies and recommending to Management and the Board appropriate actions and changes in systems and procedures in the exigencies of the service.

5.6. *Compliance Officer.* The Board shall appoint a Compliance Officer who shall report directly to the Chairman of the Board. He shall perform the following duties:

5.6.1. Monitor compliance by NORTHRAIL with the GOCC Code of Corporate Governance and the rules and regulations of regulatory agencies, where applicable, 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 the violation.

5.6.2. Certify the extent of the NORTHRAIL's compliance with the GOCC Code of Corporate Governance for the completed year and, if there are any deviations, explain the reason for such deviation.

VI

DUTIES OF DIRECTORS AND OFFICERS

6.1 *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 NORTHRAIL, with utmost good faith in all dealings with the properties, interests and monies of the NORTHRAIL,²⁸ and (b) they are constituted as trustees in relation to the properties, interests, and monies of NORTHRAIL.²⁹

²⁸ Opening Paragraph of Sec. 19, R.A. No. 10149

²⁹ Sec. 20, R.A. No. 10149

Where a Member of the Board or an Officer, by virtue of the office, acquires or receives for oneself a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where NORTHRAIL has an interest, using the properties of NORTHRAIL for their own benefit, receiving commission on contracts from NORTHRAIL's Assets, or taking advantage of corporate opportunities of NORTHRAIL, all such profits or benefits shall be subject to restitution under section 24 of Republic Act 10149, without prejudice to any administrative, civil or criminal action against Members of the Board of Directors or Officers. This provision shall be applicable notwithstanding the fact that such member of the Board or Officer risked one's own funds in the venture.³⁰

6.2 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,"³¹ with its declared policies: (a) to promote a high standard of ethics in public service; (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.³²

6.3 Respect for and Obedience to the Constitution and the Law. As a Public Official, a Director or Officer shall respect and obey the Constitution, and shall comply, and cause NORTHRAIL to faithfully and timely comply, with all legal provisions, rules and regulations, and corporate governance standards, applicable to them and to NORTHRAIL in which they serve, and to act within the bounds of their Corporate Charter.

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

(a) Exercise independent judgment by viewing each problem/situation objectively. When a disagreement with other board members occurs, the director should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation;³³

(b) Gain a working knowledge of the statutory and regulatory requirements affecting NORTHRAIL, including the contents of its mandate, applicable laws, rules and regulations. A Director should also keep himself informed of industry

³⁰ Sec. 20, R.A. No. 10149

³¹ R.A. No. 6713

³² Sec. 2, R.A. No. 6713

³³ Sec. 3.8 (a) of the GOCC Model Code of Corporate Governance

developments and business trends in order to safeguard the corporation's competitiveness;

(c) Apply sound business principles to ensure the financial soundness of NORTHRAIL;³⁴ and

(d) Elect and/or employ only officers who are fit and proper to hold such office with due regard to the qualifications, competence, experience and integrity.³⁵

Every Director or Officer, by the act of accepting such position in NORTHRAIL, affirms and agrees: (1) to have a working knowledge of the statutory and regulatory requirements affecting the North Luzon Railways Corporation he is to serve, including the contents of its Corporate Charter (Articles of Incorporation and By-Laws), the requirements of the GCG, and where applicable, the requirements of other Supervising Agencies; and (2) to always keep in himself informed of industry developments and business trends in order to safeguard NORTHRAIL's interests and preserve its competitiveness.

6.5 Duty of Loyalty. The fiduciary duty of loyalty of Directors and Officers to always act in the best interest of NORTHRAIL, with utmost good faith in all its dealing with the property and monies of NORTHRAIL, includes the obligation to:

(a) Act with utmost and undivided loyalty to NORTHRAIL;³⁶

(b) Avoid conflicts of interest and declare any interest they may have in any particular manner before the Board;³⁷

(c) Avoid (1) taking for themselves opportunities related to NORTHRAIL's business; (2) using NORTHRAIL's property and information or using one's position for personal gain; or (3) competing with NORTHRAIL's business opportunities.

6.6. 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 being an officer 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 public interest.

6.7. Duty to be Responsive to Stakeholders. Every Director and Officer accepts the position fully aware that he assumes certain responsibilities not only to NORTHRAIL and its Stockholders, but also with different constituencies or stakeholders, who have the right to expect that NORTHRAIL is being run in a

³⁴ Sec. 19 (d), R.A. No. 10149

³⁵ Sec. 19 (e), R.A. No. 10149

³⁶ Sec. 19 (a), R.A. No. 10149

³⁷ Sec. 19 (c) R.A. No. 10149

prudent manner and with due regard to the interests of all stakeholders.³⁸ Consequently, members of the Board and officers shall deal fairly with NORTHRAIL's employees, suppliers and other stakeholders. No member of the Board or Officer may take unfair advantage of NORTHRAIL's employees, suppliers and other stakeholders through manipulation, concealment, abuse of confidential or privileged information, misrepresentation of material facts, or any other unfair dealing practice.

VII

OBLIGATIONS OF NORTHRAIL TO DIRECTORS AND OFFICERS

7.1. *Providing Staff Support to Directors.* NORTHRAIL shall, as appropriate, provide independent board members with technical support staff to assist them in performing their duties. Independent board members may, when necessary, also request and receive support from officers, employees or outside professionals such as auditors, advisers and counsel to perform such duties. NORTHRAIL shall cover the reasonable expenses of providing such support.

7.2. *Obtaining Director's and Officers' Liability Insurance (DOLI).* The authority to provide the DOLI for members of GOCC's governing Boards and for officers is stipulated under Section 32 of the Code of Corporate Governance.

7.2.1. *Purpose.* 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 the BCDA 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 for BCDA to obtain DOLI coverage for itself and the BCDA Board and Officers against contingent claims and liabilities that may arise from, as well as expenses that may be incurred in prosecuting, the actions that may be filed against BCDA arising from the actions of the BCDA Board and/or Officers that may cause loss or damage to third parties.³⁹

7.2.2. *Definition and Scope.* The DOLI Policy is an insurance cover designed to protect the Government-Owned and Controlled Corporation (GOCC), Government Financial Institution (GFI), agency, or commission and its directors/trustees and officers against the cost of litigation and liability in the course of performing the official acts of its governing Board and Management.

7.2.3 *Procurement.* Procurement of DOLI coverage is subject to public bidding for private insurers, pursuant to all applicable procurement laws, rules

³⁸ Taken from Sec. II (2)(a), SEC Code of Corporate Governance, SEC MC No.2, s. 2002

³⁹ Sec. 32 of the GCG Code of Corporate Governance for GOCCs

and regulations, Republic Act 9184, and Administrative Order No. 33, or through direct contracting with GSIS.

7.2.4 Directors' and Officers' Liability Fund (DOLF). In the event that NORTHRAIL finds itself in a situation where under the mandates of its corporate charter, obtaining DOLI coverage from accredited insurance providers may not be feasible because the premium costs may have proven to be prohibitive for NORTHRAIL's situation that a procurement process would not attract accredited insurance providers, or that the reimbursement process afforded by the insurance company may be a long and tedious process that undermines the annual budget of NORTHRAIL,⁴⁰ NORTHRAIL may establish a DOLF (The Fund) as an alternative to obtaining a DOLI coverage, based on actuarial and feasibility studies commissioned by the Board. The DOLF (The Fund) is a trust fund which provides indemnity coverage for NORTHRAIL and the members of its Board of Directors who are either Appointive Directors or Ex-Officio Directors and its Officers who are either Board Officers, Executive Officers or Bids and Awards Committee (BAC) members (the "Beneficiaries") who are sued or included as parties to any action or proceeding against the NORTHRAIL pursuant to provisions of law, executive order or regulation or by reason of their being Directors or Officers of the NORTHRAIL.

1. **Funding.** The funding of the DOLF shall be determined by the Actuarial Advisor and payment of the benefits thereunder shall be provided for through the medium of a Fund held by a Trustee under an appropriate Trust Agreement. The contributions to the Fund so created together with gains and losses realized and unrealized plus contributed accrued liabilities, if any, shall constitute the Fund.
2. **Valuation.** The contributions to the Fund shall be actuarially determined at least once every two or three years.
3. **Administration and Management.** The DOLF shall be administered by a Trustee appointed by NORTHRAIL who shall be responsible for the general administration and management of the Fund. The NORTHRAIL Board may appoint a Board of Trustees that will coordinate with the Trustee in the implementation of the DOLF. The Trustee may seek the advice of counsel and may appoint an investment manager or managers to manage the Fund, an independent accountant to audit the Fund and an actuary to value the Fund. Fees and expenses incurred in the investing and accounting and / or actuarial audit, amendment and other services for the DOLF may be charged to the Fund.
4. **Trust Agreement.** The NORTHRAIL Board shall appoint a government bank as trustee. The powers, authorities and discretion necessary or expedient for the Trustee to perform its duties shall be expressed in the Trust Agreement executed by NORTHRAIL and the duly appointed entity.

⁴⁰ GCG MC No. 2012-10 (re-issued) re: Directors' and Officers' Liability Insurance (DOLI)

5. **Board of Trustees.** The duties of the Board of Trustees shall consist of the following functions solely as they relate to the DOLF:

1. Enact and implement the rules and procedures in filling applications for benefits, for furnishing proofs necessary to establish the eligibility of the claimant and the claim.
2. Recommend to the Trustee the appropriate payment of the amount due to a claimant in accordance less accountabilities to NORTHRAIL.

VIII

MANAGEMENT

The Management stands as the locus of decision-making for the day-to-day affairs of NORTHRAIL. It determines NORTHRAIL's activities by putting its targets in concrete terms and by implementing basic strategies for achieving these targets. It also puts in place the infrastructure for the corporation's success by establishing the following mechanisms in its organization: (i.) organizational structures that work effectively and efficiently in attaining the goals of the corporation; (ii.) useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach; (iii.) information systems that are defined and aligned with an information technology strategy and the business goals of the corporation; and (iv.) a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the corporation.

8.1. Management should be primarily accountable to the Board. Management is primarily accountable to the Board for the operations of NORTHRAIL. As part of its accountability, it is obligated to provide the Board with complete and adequate information on the operations and affairs of NORTHRAIL in a timely manner.

8.2. Executive Officers. Executive officers of NORTHRAIL down to the third level shall be elected or appointed by the Board. The President shall be authorized by the Board to appoint all others, provided, that all appointments shall be on the basis of merit and fitness and all personnel action shall be in pursuance of the Labor Code of the Philippines, except those co-terminus employees of the members of the Board.

8.2.1. President. The President of NORTHRAIL shall have the following duties and responsibilities:

8.2.1.1. Act as Chief Executive Officer of NORTHRAIL.

8.2.1.2. Execute, administer and implement the policies and measures approved by the Board.

8.2.1.3. Direct and supervise the operations and administration of NORTHRAIL.

8.2.1.4. Represent NORTHRAIL in all dealings with offices, agencies and instrumentalities of the Government and with all persons and entities, public or private, domestic or foreign.

8.2.1.5. Direct and supervise the preparation of the agenda for the meeting of the Board, and to submit for the consideration of the Board such policies and measures necessary to carry out the purpose and objectives of the Articles of Incorporation and By-laws (Corporate Charter).

8.2.1.6. Exercise such other powers and functions provided in the Corporate Charter and as may be vested in him by the Board.

8.2.2. *Vice-President(s)*. The Vice-President shall be responsible for the overall management, implementation and monitoring of specific programs and activities of each department/office under the Group. The Vice-President shall have the following duties and responsibilities:

8.2.2.1. Plan, direct, organize and oversee, and coordinate the entire operations of the Group in accordance with Board directives, in the Corporation's charter and its mandate.

8.2.2.2. Oversee the administration of the corporate policies towards developing medium-range and long-range plans and programs

8.2.2.3. Monitor and evaluate the progress of implementation of the various programs and projects of the Group.

8.2.2.4. Conduct analysis of the corporate activities under the Group, including costs, operations and data forecasting and recommends to the President and Board appropriate measures thereof.

8.2.2.5. See that the President, and the Board of Directors are properly and regularly apprised of the progress of the programs and activities of the Group.

8.2.2.6. Transact official business, for and in behalf of the President with other government and private institutions/organizations or entities within the scope of his/her authority.

8.2.2.7. Recommend to the President/Board of Directors policy advocacies on measures that will help hasten, improve and sustain the implementation of development programs within the scope of authority of his/her authority

8.2.2.8. Perform other tasks assigned by the President and the Board of Directors such as:

8.2.2.8.1 Assist the President in the execution, administration and implementation of the policies and measures approved by the Board.

8.2.2.8.2 Assist the President in directing and supervising the operations and administration of NORTHRAIL.

8.2.2.8.3 Represent NORTHRAIL in all dealings with offices, agencies, and instrumentalities of the government and with all persons and entities, public or private, domestic or foreign, in the absence of the President.

8.2.2.8.4. Oversee the development of the corporate plan and ensure consistency of performance with set targets and goals.

8.2.3. *General Counsel.* The General Counsel (AVP Legal) shall act as the Chief Legal Counsel of NORTHRAIL and shall perform the following duties and responsibilities:

8.2.3.1. Formulate plans, programs, policies and procedures for the prompt, expeditious and just disposition of administrative cases.

8.2.3.2. Formulate plans, procedures for the proper legal documentation of all NORTHRAIL transactions.

8.2.3.3. Undertake the final review of all opinions, contracts and other legal documents prepared by the staff.

8.2.3.4. Formulate plans, policies and procedures on all matters concerning legal research, opinion writing and classification of legal information.

8.2.3.5. Handle complicated legal problems affecting NORTHRAIL.

8.2.3.6. Decide courses of actions to be taken in actual or impending litigations.

8.2.3.7. Review and approve evidence and pleadings to be filed/submitted in court.

8.2.3.8. Administer the formulation and drafting of contracts and other corporate documents.

8.2.3.9. Formulate operating plans for effective litigation proceedings.

8.2.3.10. Review all corporate policies and/or revisions, pleadings and contracts, modifications prepared by the Legal Counsel.

VIII.

MISCELLANEOUS PROVISIONS

9.1. Severability and Construction. Each paragraph, part, term and/or provision of this Manual shall be considered severable, and if, for any reason, any paragraph, part, term and/or provision herein is determined to be invalid or contrary to, or in conflict with, any existing or future law or regulation, such shall not impair the operation of or affect the remaining portions, sections, parts, terms and/or provisions of this Manual.

All captions herein are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof.

9.2. Approval by the GCG. This Manual shall be subject to the review and approval of the GCG the comments and suggestions of which shall form an integral part of this Agreement.

9.3. Effectivity. This Manual shall be effective fifteen (15) days after it is published in the NORTHRAIL website and from the date the formal notice of the GCG approval is received.

Done this ____ day of _____ in the City of _____.

By: