INCLUSIVE SUSTAINABLE DATA ECONOMY

2017 SUSTAINABILITY REPORT

ADEC INNOVATIONS
WHERE IMPACT MATTERS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting the **Sustainable Development Goals**.

ABOUT THE THEME

The inclusive sustainable data economy refers to a comprehensive database and monitoring system that allows transformative change in an organization. Establishing a database of information reflects the state and trend of the environment, guiding the private sector on how to address the sustainable development gaps and attain optimum business and economic growth. This solution satisfies the growing private sector while ensuring the inclusion of societal welfare, respect for the carrying capacity of the environment, and advancing leadership and good governance. ADEC Innovations Corporation aids its clients in creating a platform and consolidating information entailing the efficient management of the business operation. It is an inclusive innovation that creates a balance among the facets of sustainability – environment, economy and society.

TABLE OF CONTENTS

EXECUTIVE SUMMARY 4
CEO'S MESSAGE 5
01 BACKGROUND 6
RATIONALE 7
COMPANY'S 2030 STRATEGY 8
02 BUILDING BLOCKS 9
RESPONSIBLE BUSINESS 10
REPORTING GUIDELINES 13
03 VALUE CREATION 14
THE CHALLENGE CONTINUES 15
CREATING VALUE 16
THE ACTORS AND BENEFICIARIES 18
04 BEYOND 30 YEARS 19
ABOUT ADEC 20
BUSINESS CORE 23
OWNERSHIP 25
ADVOCACY, CERTIFICATIONS AND RECOGNITIONS 26
PRODUCTS AND SERVICES 29
GOVERNANCE 30
05 INNOVATIVE INTEGRATION 33
MANAGEMENT SYSTEM AND OPERATION TO IMPROVEMENT MANAGEMENT 34
BUSINESS & CONTROLS 35
RISK MANAGEMENT 37
COMPLIANCE 40
INTERNAL AUDIT 41
IMPROVEMENT MANAGEMENT 42
06 LASTING IMPACT 43
ECONOMIC 44
ENVIRONMENTAL 46
SOCIAL 50
07 FUTURE OF DATA ECONOMY 56
DATA ANALYTICS OUTLOOKS 57
SUSTAINABLE DATA ECONOMY 58
08 ANNEXES 59
ANNEX A UNITED NATIONS GLOBAL COMPACT TEN PRINCIPLES CONTENT INDEX
ANNEX B GLOBAL REPORTING INITIATIVE 2016 STANDARDS CONTENT INDEX
ANNEX C ADEC FINANCIAL STATEMENT

EXECUTIVE SUMMARY

This fourth sustainability report covers the fiscal year 2017, January to December. The report serves as the Communication on Progress (COP) of ADEC Innovations Corporation to the United Nations Global Compact (UNGC). The content of this COP accounts the progress made by the Company over the past year in their efforts to advance the Ten Principles of UNGC, in light of human rights, labor, environment, and anti-corruption. The management approach, strategies, system and practices of the Company in upholding the UNGC principles are presented in the report, with the framework referenced from the Global Reporting Initiative (GRI) 2016 guidelines. ADEC aligns its operation with the UN Agenda 2030 and supports the establishment of an inclusive sustainable data economy that provides a solid foundation for understanding the pillars of sustainability: environment, economy and society.

In 2017, F-I-R-S-T Carbon Solutions changed its name to ADEC Innovations Corporation to better align itself with the rest of the ADEC Innovations Group of Companies. For the past fiscal year, ADEC has assessed the climate strategies and programs of more than 30 businesses through the CDP (formerly Carbon Disclosure Project) methodology. The Company has also increased its affiliations with coalitions, and partnerships with multilateral groups. The ADEC's integrated system on information security, environmental, and quality management continues to conform to international guidelines. ADEC remains steadfast in implementing the labor code including the anti-corruption acts, managing risks, improving transparency and accountability, promoting social and environmental programs, and greening the operation. Because of the effective environmental management programs, ADEC was able to achieve a significant reduction in utility consumption, thus translating to enormous savings. Increased corporate social events were conducted in 2017, with the fun run, tree planting, and #LIT campaign having the most relevant social outcome. No cases of noncompliance, grave misconduct, nor violations against the corporate and national laws was recorded in 2017.

ADEC builds an inclusive sustainable data economy by helping organizations become more efficient and improve their performance through a wide range of scalable sustainable business solutions. Because the data landscape is evolving rapidly, there is a need to shift the directive from mere reporting and archiving of information, to confronting any foreseen challenges through predictive and prescriptive analytics. Establishing a reliable, timely and inclusive data economy ensures that effective decisions are derived to address issues relevant to meeting the Sustainable Development Goals (SDGs).

CEO'S MESSAGE

Dear Fellow Stakeholders:

We are honored to present this fourth annual Sustainability Report for the fiscal year 2017. F-I-R-S-T Carbon Solutions has changed its name to ADEC Innovations Corporation in 2017 as part of the initiative to align itself with the rest of the ADEC Group. In pursuit of sustainability, ADEC has consistently developed innovative solutions that cater to the evolving needs of society and the environment. This report presents the Company's performance over the past year in light of the United Nations Global Compact's (UNGC) Ten Principles, focusing on the four elements of human rights, labor, environment, and anti-corruption. Since 2014, the Company has been enthusiastic in creating sustainable business solutions, which include monitoring, operational and technological platforms that build databases and the capacity of organizations to achieve optimum growth and contribute to the United Nation's Agenda 2030.

As we strive to form sustainable and livable cities for the future, innovating the way we live has become an imperative choice. Coping with the challenges of a disruptive data economy entails solving the environmental and social issues through a different lens. Utilizing the available technological platform, coupled with the Company's expertise built upon over 30 years of experience, ADEC Innovations Corporation aims to create an enabling environment for governments, institutions, coalitions, and businesses to unite and respond to the call towards building resilient cities, and the move against climate change. The road to achieving the massive goals of Agenda 2030 begins with small steps, even as small as consolidating the massive amounts of available information and building up a reliable and timely database that can be used to inform future-looking decisions. The products and services of ADEC include scalable solutions that support clients on their own sustainability journeys. Through ADEC's sustainable business solutions, we enhance the capacity of our clients to achieve efficient operation, reduce wastes, monitor utility consumption, improve their carbon footprint, and ensure compliance with environmental standards and regulations. It is through the combination of technology and professional human intervention that we are able to establish an inclusive sustainable data economy.

Data must be shared. The inclusivity of data encompasses all pillars of sustainability – environment, economy and society – across all sectors. Advancing the best industrial and sustainability practices including strengthening the access to information, exchanging knowledge, and tracking the performance through timely data capture are only few of the measures to take in order to reshape our approach to sustainability. Creating an inclusive and sustainable data economy seals information gaps needed to resolve the current state of society and the environment, through the creation of forward-thinking processes, and enabling stakeholders to make better decisions with long-term impact. An inclusive and sustainable data economy is our response to a livable future.

James M. Donovan
Chief Executive Officer
ADEC Innovations Corporation

01 | BACKGROUND

RATIONALE

ADEC Innovations Corporation advances global sustainable practices by providing professional services, technology solutions, and cost-efficient measures to improve the operational performance of businesses and organizations. Leveraging on its 30 years of expertise, the company fortifies its vision through multi-stakeholder collaboration, fostering responsible growth, and pursuing SDG-oriented goals in the business realm. Since 2014, the Company has been a partner of the UNGC in addressing the challenges affecting our planet and economy based around the four principles of global business, specifically human rights, labor, environment, and anti-corruption. In line with ADEC Innovations Corporation's commitment to the United Nation's Agenda 2030, the company reviews and monitors its operation and communicates its progress through an annual sustainability report.

This Sustainability Report covers the 2017 fiscal year, from January to December, serving as the fourth publication since the inception of its Communication on Progress (COP) in 2014. The report contains the evaluation of the activities and improvements relating to the three pillars of sustainability – economic, environmental, and social, anchored on the company's sustainability vision, values and business core – Ten Principles of UNGC, and the UN Sustainable Development Goals (SDG) and the Company's 2030 strategy. Objectives of this year's sustainability reporting period include:

- Evaluation of the business operation and its alignment with the global business principles of UNGC over the past year, including the significant impacts to the economy, society, and environment;
- New programs, actions, and improvements made to policies and management governing human rights, labor, environment, and anti-corruption; and
- Assessment of the contributions of ADEC Innovations Corporation in growing a sustainable data economy, which is essential in advancing and addressing the Agenda 2030 goals.

ADEC Innovations Corporation consistently reports its progress and monitors its performance, to ensure a lasting positive impact to the sustainability space.

2017 Milestones

In 2017, ADEC Innovations Corporation worked with over 30 businesses to improve their CDP submissions and has continuously collaborated with multi-stakeholders to pursue projects on sustainability. Engagements in 2017 include ADEC's participation in the Third United Nations Environment Assembly (UNEA), hosted by the UN Environment Programme, and held in Nairobi, Kenya in December. The event encouraged the private sector, government, and other organizations to work hand-in-hand in reducing the greenhouse gas (GHG), energy consumption, and waste discharge and emissions, and optimizing resource allocation and performance through data management and regular monitoring of facilities and operations.

COMPANY'S 2030 STRATEGY

ADEC Innovations Corporation recognizes its potential for valuable impact to the UN Agenda 2030 by enabling its clients and partners in forming a comprehensive and cohesive data system that provide information on how to improve consumption and production, reduce hazardous wastes, and formulate cost-efficient measures in maximizing the use of energy and resources.

ADEC Innovations Corporation will continue to expand its services on sustainability and to evaluate the supply chain, environmental impacts, and GHG emissions of both the private and public sectors. The company will continue to invest in cleaner forms of energy and adopt sustainable frameworks, transparent sets of policies and regulations, and rigid evaluation and selection process, from conception to delivery of its products and services.

02 | BUILDING BLOCKS

UNGC Ten Principles

ADEC Innovations Corporation adheres to the Ten Principles of the UNGC governing the spheres of human rights, labor, environment, and anti-corruption. The progress of the company in implementing these global business principles is evaluated within the facets of economy, environment, and society. ADEC Innovations Corporation establishes a sustainable data economy by providing organizations with data management and solutions aimed to address the ever-evolving environmental concerns, social issues, and profitability challenges. Developing a stable, reliable, and consistent data economy allows organizations to ensure compliance and measure their contribution to the achievement of the SDGs.

In response to the Company's commitment to strengthening the four core areas of human rights, labor, environment, and corruption, ADEC Innovations Corporation elevates its reporting process by providing a more adept and comprehensive reporting of its management disclosures and programs. Improving a notch higher than the previous reporting year, this 2017 sustainability report provides an advanced level (**GC Advanced Level**) assessment of the previous year based on the combined minimum requirements and self-assessment on additional advanced criteria, as stipulated in the UNGC COP Policy

THE TEN PRINCIPLES OF THE GLOBAL COMPACT

THE GLOBAL COMPACT
Network Japan
WE SUPPORT

HUMAN RIGHTS

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

Principle 7 Businesses are asked to support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

COP MINIMUM REQUIREMENTS

- Statement of support and expression of interest from the Chief Executive of ADEC Innovations Corporation.
- Description of the practical applications and disclosure of the management approach, actions, programs and systems applied to implement the UNGC principles covering the four areas – human rights, labor, and environment.
- Evaluation of the measured outcomes, consisting of both qualitative and quantitative performance results.

ADDITIONAL ADVANCED CRITERIA

- Translation of the Ten Principles into Strategies and Operations.
- Actions taken in support of the United Nations Goals and Challenges.
- Corporate Sustainability Governance and Leadership.

Global Goals

The Agenda 2030 weaves the vision of having prosperous and peaceful nations in a healthy planet. Together with the 264 targets, the 17 SDGs aim to balance the three elements of sustainability – economic, social, and environment. With this challenging task at hand, ADEC Innovations Corporation creates innovative technological solutions to uphold and advance the chosen SDGs.

Out of the 13 SDGs promoted by global ADEC, ADEC Innovations Corporation streamlines its operation by focusing on the three SDGs geared toward reducing GHG emissions, building sustainable cities through efficient and environment-friendly operation, and collaborating with organizations to maximize the capability of each stakeholders in responding to sustainable development.

Paris Agreement

The Paris Agreement is one of the transformative plans of the United Nations involving governments of its member countries and the business sector in coming up with actions and activities addressing the growing threat of climate change. Countries, including the Philippines, have expressed their participation in defining the targets, policies, and programs for the nationally determined contributions (NDCs). In support of this global pact, the ADEC Innovations Corporation has increased this contribution by providing organizations with energy, air, carbon management and other sustainability management solutions. Collaboration amongst business leaders worldwide could contribute to a significant reduction in GHG.

Business Values

The core business of ADEC Innovations Corporation is deeply rooted in creating a global business that advances sustainable development by optimizing organizational performance and providing innovative sustainable business solutions to governments, enterprises, and coalitions. ADEC partners with the United Nations in addressing the SDGs, helping create a more livable environment for generations to come.

GRI Reporting Guidelines

Consistent with the previous reporting period, the 2017 Sustainability Report references the 2016 GRI Standards for reporting and disclosure of relevant topics on the economy, environment and society that are aligned with the Ten Principles of UNGC. This report provides an evaluation of the Company's past performance in advancing the SDGs in its operation, particularly in light of the human rights, labor, environment, and anti-corruption.

The report observes the Reporting Principles of the 2016 GRI Standards.

- **Accuracy.** The data obtained from each organization are validated prior to reporting, ensuring the integrity of the information and reliability of the measurements and methods applied.
- **Balance.** Contents are presented in an unbiased manner, accounting both the positive aspects of the business, as well as the areas that need improvement and the operational risks involved.
- **Clarity.** Information are organized in a comprehensible form, disclosing the business management risks and controls on a level that can be well-understood by stakeholders and simplifying the presentation of the materiality topics - economic, environmental, and social.
- **Comparability.** Current performance is compared with the outcome of the previous years, reflecting the trend in employment, utility consumption, and other factors of operation.
- **Reliability.** The report is circulated to the management and concerned organizations for review, allowing successive internal and external scrutiny prior to publishing.
- **Timeliness.** The Company is consistent in communicating its progress and submitting the requirements in a timely manner, with this report covering the 2017 fiscal year.

The standard management disclosures of ADEC and impacts of the Company's operation to specific materiality topics – economic, environmental, and social – are summarized in a matrix, citing the sections from which the discussions could be found. The information matrix on the 2016 GRI Standards are attached as **Annex B**.

Scope and Limitations

This Sustainability Report covers the Company's progress and impacts on the economic, environmental and social dimensions over the 2017 fiscal year, with the discussion limited to the operations of ADEC Innovations Corporation in the Philippines only. This report excludes the operation of other global network offices of ADEC in other countries.

A presentation on ADEC's Value Creation and discussion on the Company's contribution to the Future of Data Economy are covered in this 2017 report as well.

Methodology

The materiality topics highlighted in the 2017 report were adopted from last year's list to achieve continuity and draw any trends relevant for assessment. Similar to the previous year, the discussion and specific disclosures and materiality assessments were clustered around the three pillars of sustainable development – economic, environmental, and social. Impacts, outcome and best practices of the 2015 and 2016 operations served as the benchmark of ADEC Innovations Corporation in delivering better services and improving its operation in 2017. ADEC Innovations Corporation conducted consultations and group discussions with the major stakeholders including the organizational entity management – finance, purchasing, human resource, legal, internal audit, research and development, compliance office, facilities group and operation team. Results of the information and data gathering activities were weaved to form a cohesive overview of the ADEC Innovations Corporation's performance over the past year. Discussions under the clustered materiality topics have been defined along the principles of human rights, labor, environment and anti-corruption, and aligned with the SDGs pursued by the Company – sustainable cities (SDG 11), climate action (SDG 13), and partnerships (SDG 17). Rounds of reviews involving the departmental heads, senior management, and United States office of sustainability were conducted to verify the information and ensure the quality of the assessment.

The audited financial statement, attached as **Annex C,** reflects the stability of the Company despite the business challenges.

03 | VALUE CREATION

THE CHALLENGE CONTINUES

Current challenges on sustainable cities and climate change persist in the modern world. Inhumane practices, misuse of resources, unsustainable models of living, and lack of transparent governance structures have led to significant impacts that put pressure on governments, society, and the private sector to rethink and improve their operations. ADEC Innovations Corporation streamlines its processes to contribute to addressing these challenges.

CREATING VALUE

ADEC Innovations Corporation creates value by advancing the SDGs in its operation, focusing on the three impact areas: sustainable cities (SDG 11), climate action (SDG 13), and partnerships (SDG 17). The Company provides its clients with technology solutions to monitor GHG emissions, waste management, electricity and water consumption, and other possible methods to optimize the operation of businesses, cities, and other types of organizations.

SDG Focus Impact Areas

ADEC Innovations Corporation helps organizations transform the way they operate through software and data management solutions, and professional services. By focusing on the three areas, ADEC hopes to continuously contribute to public welfare and ecological balance. The interaction between the ADEC's business and the respective pillars of sustainability, the significant activities for each relationship, the outcome, and the value drawn from each chain are summarized in the next page. Each chain of solutions, outcome and value created contribute to the attainment of the SDG Focus

Created values propelling the SDG thrusts

BUSINESS, ECONOMY AND ENVIRONMENT			
Sustainability Business Solutions	**Solutions**	• Software solutions and data management • Energy monitoring and waste management programs • Environment-related risk mitigation and environmental compliance • Supply-chain monitoring and performance management • GHG management strategies • Climate change strategies and programs, including CDP scoring	
	Outcome	• Integrated data system • Reductions in GHG emission, waste generation, air and water pollution • Maximized use of resources • Optimum utility consumption • Reduced operational and environmental costs • Improved sustainability performance • Green supply chain	
	Value Created	• Energy and operational efficiency • Profitable growth • Long-term economic and environment impacts	

BUSINESS AND SOCIETY			
Social Capital and Network	**Solutions**	• Integration across ADEC Innovations Group of Companies • Improvement Management System (feedback mechanism • Public-Private Partnerships • Collaboration and engagement with organizations and multistakeholder groups • Corporate Social Responsibility programs • Capacity-building	
	Outcome	• Realization of one vision • Business sector representation • Associations and affiliations • Employee empowerment	
	Value Created	• Customer satisfaction • Long-term social impact • Empowerment	

THE ACTORS AND BENEFICIARIES

The products and services of ADEC cater to the three actors: (1) the government, (2) the enterprise, and (3) the coalitions. With the adoption of the sustainability business solutions, the Company aims to create a lasting impact on the three beneficiaries: (1) the environment, (2) the clients (which may also be the actors), and (3) the society or public in general.

04 | BEYOND 30 YEARS

ABOUT ADEC

ADEC Innovations Group of Companies, including ADEC Innovations Corporation, has been a provider of a comprehensive array of sustainable business solutions that respond to the environmental, social, governance thrust of the world's leading organizations for more than 30 years.

Who We Are

ADEC Innovations Corporation is the leading energy management and sustainability solutions experts, helping organizations, businesses and industries achieve sustainable and optimum operation that is hand-in-hand with their profitable growth. The Company provides innovative sustainability consulting services, software solutions, and data management, as well as share with its global client base the best sustainable practices to address the environmental and compliance challenges and improve their financial, social and environmental performance.

What We Do

ADEC Innovations Corporation provides a wide range of scalable sustainability solutions through consulting, software development, reprographics, and processing services.

Sustainability, Environmental and Energy Consulting

The Company has been advancing sustainability in the business sector by providing scalable technologies and strategies to attain efficient operations, profitable growth, and the creation of an enabling environment for the stakeholders. ADEC works with their clients in developing solutions that allow them to maximize their resources, reduce costs, address environmental impacts, and increase productivity. Professional services include:

- Business Case Development
- Business Intelligence
- Environmental Due Diligence
- Energy Management
- Environmental Impacts
- Market & Regulatory Guidance
- Performance Management
- Program Design & Management
- Resource Use Analysis
- Scope 3 Reporting
- Site Assessments
- Strategy Deployment

Energy Monitoring and Management Software

ADEC supports the sustainability initiatives of its clients by providing innovative software solutions to track the progress, evaluate the milestones, and report the outcome of an organization's performance. Monitoring equipment, platforms and programs are customized to meet the requirements of clients and to comply with environmental standards, allowing them to measure internal operations, including utility consumption and waste generation. The automated energy, sustainability metrics, and supply chain programs of ADEC provides cost-effective measures that help businesses attain optimum performance and maximize resources.

Reprographics

ADEC's pool of experts consists of the word processors, editors, graphic artists, and specialists that deliver well-integrated reprographic solutions. Advanced scalable technologies and model-based solutions are provided to reduce the operational head cost and excessive use of raw materials. Software solutions offered by ADEC include geographic information services, and use of the latest Window version, Ricoh systems, and CAD applications.

Data Processing Services

ADEC offers back-office support and data-extensive activities to scale up a client's operation and supplement the data processing and management system of the business. Data processing is streamlined with internationally-recognized expertise to deliver end-to-end solutions including transaction data administration, document management, data system conversion, rebate processing and utility processing. ADEC has developed MetricsTRAC™, a tool that can consolidate data and provide visual representation of the collected information.

Where We Are

ADEC Innovations Corporation was registered in the Philippines as F-I-R-S-T Carbon Solutions in 1996 and changed its name in 2016. ADEC has a total of 13 offices across the regions of North America, Europe, Africa, Australia, and Asia.

Philippines (Principal Business)

26th Floor, Philippine AXA Life Centre
Sen. Gil Puyat Avenue, Makati City

> The Company's presence is felt across the globe through project engagements in different countries, providing professional services to clients across various sectors.

How We Started

Established in 2009, ADEC Innovations Corporation (formerly F-I-R-S-T Carbon Solutions), provides carbon management services and environmental data management solutions for private sector, governments, and coalitions across the globe.

It is part of ADEC Innovations Group of Companies, which offers back-office support to improve the operations and scale-up the business of Fortune 500 companies. Today, the group has diversified into the sustainability space, expanding the sustainability programs to include not only carbon emissions measurement, but also energy-efficient measures and supply chain solutions among others.

1998
START OF THE JOURNEY
Parent Company was established

2009
F-I-R-S-T CARBON SOLUTIONS FOUNDED
F-I-R-S-T Carbon Solutions (FCS) is established as an energy and sustainability management company

2010
EXPANSIONS AND EXTENSIONS
ADEC acquires the First Carbon ghgTrack™ software and expanded its operation in China

2011
AWARDS AND ACKNOWLEDGMENT
FCS is chosen by CDP as the Supply Chain Scoring Partner

2013
REVOLUTIONIZING SUSTAINABILITY
ADEC launches Supply-Link, expands regulatory compliance services, and brings global solutions

2015
FORGING PARTNERSHIPS
ADEC collaborates with UNEP, confirming the CEO, James Donovan, as the Team Leader of the Data Group for GEO 6

2017
SUSTAINABILITY GLOBAL LEADERS
FCS changed its name to ADEC Innovations Corporation, continuously developing global sustainability business solutions

BUSINESS CORE

Over the years, ADEC Innovations has come a long way in the sphere of sustainability, earning ISO certifications, receiving awards, building a pool of credible environmental experts, and creating partnerships with various companies and organizations across the globe. In 2010, the Company acquired a leading environmental software company and expanded its operation in China. ADEC Innovations was selected as a CDP Supply Chan Scoring Partner in 2011, helping 1,300 companies understand the impacts of climate change across the supply chain. With the growing network of the Company, it has revolutionized the facets of sustainability, and engaged with organizations and global institutions, including United Nations, in extending the horizon of data and knowledge for the Agenda 2030.

Vision and Mission

ADEC Innovations Corporation is aligned with the Vision and Mission of the ADEC Innovations Group of Companies. ADEC envisions itself as a global leader in the realm of sustainability by providing an enabling environment for the business sectors through sustainable business solutions. The Company aims to empower organizations, governments, and the private sector through the co-creation of innovative solutions, supplemented by a holistic set of services that would help them reach optimum growth and performance. ADEC accomplishes its mission by offering fully integrated services that cater to various types of industries. The solutions include data management, software, and professional expertise geared towards delivering the following outcome:

- Greenhouse (GHG) gas emission reduction
- Air pollution reduction
- Business sustainability and mitigation of environment-related business risks
- Compliance with national and local standards
- Optimum business operation and organizational performance
- General wellbeing of stakeholders

Transforming organizations into sustainable operation is at the very core of ADEC's business.

Core Values

ADEC Innovations Corporation is anchored on its five CERTIC Principles, maintaining the highest level of operational standards and excellence, and adhering to human rights and labor laws. With a business founded on values and quality service, ADEC has refined its focus over the years and developed a system of excellence. CERTIC values are inculcated within its employees and integrated in the culture and operational system of the company. Driven by the CERTIC core values, clients and stakeholders could be assured of a holistic approach to solving the challenges of business.

C	**Customer Focus** Continuously understanding the unique needs of our clients, enabling us to deliver unparalleled customer solutions through our world-class services.
E	**Excellence** Being dynamic, innovative and passionate for learning, fuelling our relentless pursuit to achieve the highest levels of standards in everything we do.
R	**Respect** Treating stakeholders, clients, employees, suppliers and community with courtesy and compassion.
T	**Teamwork** Proactively working together and being accountable to each other to achieve our goals.
I	**Integrity** Advocating honesty in our workplace by doing the right thing even when no one is looking.
C	**Commitment** Making things happen by creatively maximizing our resources to ensure each other's success.

OWNERSHIP

ADEC Innovations Corporation is shared by three companies, with REDECS Green Holdings Corporation (REDECS) owning 60% of the shares. REDECS is a Philippine-registered business entity engaged in property disposal. The remaining 40% is equally shared between ADEC Innovations, Ltd. (formerly ADEC Solutions, Ltd.) and JICA BPO Holding Ltd.

ADEC receives trickle financial support from the private sector and organizations, and none from the government.

Ownership Structure
(as of December 2017)

Associations

ADEC Innovations Corporation and its affiliate companies under ADEC group have strengthened partnerships with various multilateral organizations, providing support and consultation on the role of big data as one of the novel environmental assessment tools that would aid in bridging data and information gaps. Since 2015, ADEC has been involved in various engagements with the United Nations in advancing sustainable development. As part of the Business Advisory Board of the United Nations Economic Commission for Europe (UNECE), James Donovan, the CEO of ADEC Innovations Group of Companies, progressively promotes Public-Private Partnerships (PPP) across the countries, fortifying the role of the private sector in addressing the SDG gaps. In 2017, Mr. Donovan was assigned by the United Nations Environment Programme (UNEP) as the Coordinating Lead Author of the Data and Knowledge Chapter for the 6th Global Environment Outlook (GEO 6) which presents the current state and trends in the environment as well as the outlooks and pathways towards achieving a sustainable governance. Through the collaboration of authors, scientists and experts across the globe, UNEP aims to release the GEO 6 report that would support governments in drawing decisions and drafting policies based on scientifically-sound evidences and environmental assessments. ADEC has been actively participating in the United Nations Environment Assembly (UNEA) since its membership to the Stakeholder Group in 2016.

ADEC is associated with coalitions that have advocacies in the field of business, innovation, green building, healthcare, sustainability, and information technology. The newest addition to the list of affiliations of ADEC include the Philippine Management Association of the Philippines (PMAP) and World Association of Non-Governmental Organizations (WANGO).

ASSOCIATION OR AFFILIATION	STATUS
CDP (formerly Carbon Disclosure Project)	*One of CDP's scoring partners and go-to solutions provider
British Chamber of Commerce Philippines (BCCP)	Active member
Australian-New Zealand Chamber of Commerce (ANZ Chamber)	Active member
American Chamber of Commerce (AMCHAM)	Active member
Australia Philippines Business Council (APBC)	Active member
Healthcare Information Management Outsourcing Association of the Philippines (HIMOAP)	Active member
IT & Business Process Association Philippines (IBPAP)	Active member
United Nations Environment Assembly (UNEA) Stakeholders Group	Active member
Philippine Management Association of the Philippines (PMAP)	Active member
World Association of Non-Governmental Organizations (WANGO)	Active member

ADEC has also teamed up with consultancy firms and engineering software companies in developing supplemental solutions, adding more value to the services they currently provide to their clients. Partnering with organizations over the past years has equipped the Company with the right blend of experience and technology to cater to the needs and requirements of the clients.

CDP — DRIVING SUSTAINABLE ECONOMIES

Climate change

TÜVRheinland

Third party audit

ETICA AMBIENTE

Sustainability management

CSR ASIA

Sustainable business

LCM

Energy, economic & ecological

BLUE SNOW — Building for Sustainability

Energy Efficiency

UNITED REGISTRAR OF SYSTEMS — URS — ISO 9001

Third party audit

Accreditation

ADEC Innovations Corporation fosters excellence and quality in delivering the best products and solutions to its clients. Over the years, ADEC has received numerous accreditations, recognitions, and certifications for pursuing the global standards on information, environmental, and quality management. The Company has also acquired software licenses, and has been accredited as a scoring partner and consultant for environmental services. The list of certifications and licenses from industries and international organizations given to ADEC, including through its affiliate company, AMDATEX, are provided below.

CDP Accredited Provider

- Global scoring partner for supply chain since 2011
- Scoring partner for investor programs since 2012
- Climate and water related strategy and action
- Gold Consultancy Partner across all countries of operation
- Silver Software Partner
- Response Check Consultant

Information Security Management Systems (ISMS) (ISO/IEC 27001:2013)

- Data receipt and downloading
- Data research, evaluation, analysis, and abstracting
- Data conversion and entry, and data uploading
- Response Check Consultant

GSA Contract for ADEC Innovations Corporation ghgTrack™

- License for ADEC Innovations Corporation ghgTrack ™ and the software implementation
- Bug fixes, upgrades to functionality and usability
- Customer service
- Software Maintenance as a Service

Sedex Member Ethical Trade Audit (SMETA) assessed

- Supplier ethical data exchange
- Responsible sourcing data on supply chains

Environmental Management System (EMS) (ISO 14001:2015)

- Identification and analysis of environmental aspects
- Establishment of objectives, targets, and programs
- Management and reduction of environmental impacts
- Compliance to applicable legal and environmental
- regulatory requirements

Quality Management System (QMS) (ISO 9001:2015)

- For the provision of global business process outsourcing services
- Continuous improvement

GSA Contract for Consulting Services

- Advice, assistance, guidance or counselling on energy related projects
- Assistance to agencies in adhering to energy legislation and policy

Recognitions

ADEC Innovations Corporation, its mother company and its affiliates, has been recognized by both local and international award-giving bodies over the years. Recently, the Company was nominated for different awards, across categories involving leadership, sustainability, environmental advocacy, and innovation initiatives.

Year 2017	• CleanChain, named as Sustainability Product of the Year by the Business Intelligence Group, an organization that honors the best sustainability practices of the business sector, recognizing for-profit and not-for-profit organizations
	• CleanChain, awarded the 2017 Green Supply Chain Award from Supply & Demand Chain Executive for the product's positive impact to the environment and contribution to achieving the sustainability goals
Year 2016	• ADEC Innovations' CEO, James M. Donovan, recognized as the JLL Expatriate Executive of the Year at the Asia CEO Awards
Year 2014	• ADEC Innovations won in the Business Responsibility & Ethics category and received a special citation in the "Energy Management" category at the 1st Sustainable Business Awards Philippines.
	• ADEC Innovations Corporation' affiliate technology company, the Envirosite Corporation, bagged the Oracle Technology Company of the Year Award at the Asia CEO Awards.
	• ADEC Innovations Corporation' CEO, James M. Donovan, received the South-South and Triangular Cooperation Visionary Award from the United Nations Office for South-South Cooperation at the Global South-South Development Expo held in Washington DC.
Year 2013	• ADEC Innovations Corporation' CEO, James M. Donovan, along with Carol S. Esguerra, received the Executive Leadership Team of the Year Award at the Asia CEO Awards.
Year 2011	• ADEC Innovations Corporation won the "Most Innovative Company of the Year" at the 5th ICT International Awards Philippines.
Year 2010	• ADEC Innovations Corporation won the Best Eco-Industrial Service at the 2010 Philippine International Eco-Show Awards

Globally Accessible Information System and Technology Platform

METRICSTRAC
AN ADEC INNOVATION

MetricsTRAC™ is a software-as-a-service (SaaS) technology platform containing a suite of Environmental, Social and Governance (ESG) applications that measures carbon footprint, provides information on the impacts of business operation, and manages data. Its highly scalable and customizable feature maximizes resource use, reduces operational costs and improves sustainability performance.

Integrated Software and Data Bureau

CLEANCHAIN
AN ADEC INNOVATION

CleanChain™ is a data supply system that has consolidated operational and personnel information sourced from retail brands, suppliers and factory managers by the data bureaus. Verified data serve as benchmarks for industries and non-governmental organizations (NGOs). CleanChain™ monitors the quality of supply, water and energy consumption, waste generated, staff performance, and other key elements in the supply chain.

Large Scale Business and Knowledge Processing

CDPINSIGHTS
AN ADEC INNOVATION

ADEC is the CDP (formerly known as the Carbon Disclosure Project) scoring Gold partner for the global Supply Chain program since 2011, as well as for the S&P 500, FTSE 350, Canada and Benelux, India, Southeast Asia, and Nordic regions. ADEC has evaluated more than 11,000 disclosures and responses against the CDP methodology, and has established a database and standard dashboard which are accessible 24 hours a day and 7 days a week. ADEC utilizes a platform that allows organizations to monitor CDP scores, assess with previous results, and obtain a copy of performance review report, helping clients to improve their climate change strategies and programs.

GOVERNANCE

Governance Structure & Directors

The Board of Directors oversee the operation of ADEC Innovations Corporation, with the core business managed by the four committees. With the assistance of the Senior Management, the Chief Executive Officer aligns the operations with the organization's vision, ensuring their harmonious cooperation towards the achievement of the company's overall goals.

Board of Directors

The Board of Directors ensure the general welfare of the Company and its stakeholders, while maintaining sustainable growth and remaining competitive in the market. This independent body monitors the overall operation of ADEC, tracks the progress of the Management, and scrutinizes the judicious implementation of Company rules and regulations. The Board has an internal control of the Company and observes the selection process in choosing the most credible leadership through an inclusive participatory plan. In collaboration with the Management, the Company conducts an annual business operation and strategic plan review.

James Michael Donovan
Chief Executive Officer

Mr. Donovan was elected as Chairman of the Board in 2013. He is concurrently the CEO of ADEC Innovations and likewise, the President and Co-founder of F-I-R-S-T Carbon Solutions in USA, Australia, and the United Kingdom. He also worked as Vice President of Lehman Brothers Investment Bank Ltd. from 1989-1991 and Vice President of Daiwa Securities from 1993 to 1996.

Carolina Esguerra
Chief Financial Officer

Ms. Esguerra is concurrently the Chief Financial Officer and Director of REDECS Green Holdings Corporation, JICA BPO Holdings Limited and ADEC Innovations. She is also a co-founder of F-I-R-S-T Carbon Solutions in the USA, Australia and the United Kingdom.

VICENTE P. REVENTAR III
CHAIRMAN OF THE BOARD

Mr. Reventar has been a Director of the Company since 2011, and concurrently, the Chairman of the Department of Quantitative Management and Information Technology at John Gokongwei School of Management, Ateneo de Manila University, where he has been a faculty member for almost 40 years. He was the President of SVI Technologies from 1997 to 2003 and served as Senior Vice President for the Home Development Mutual Fund from 1981 to 1996.

JOSE RENATO T. BADELLES
DIRECTOR

Mr. Badelles is a Director of the company and is the President and Director of AMDATEX Las Piñas Services, Inc., and AMDATEX Services Corp.

DONALD R. FELBAUM
INDEPENDENT DIRECTOR

Mr. Felbaum was elected as an Independent Director of the Company in 2012. He is also an Independent Director of Merlin Philippines, Blue Cross Philippines, SPi Global and Integra Business Processing Solutions Inc, and the Managing Director of OPTEL Ltd. He is also the Vice President of PAMURI and an Ex-Officio of AMCHAM.

SHERWIN JOHN Y. LIM
INDEPENDENT DIRECTOR

Mr. Lim was elected as an Independent Director of the Company in 2012. He is concurrently the President of Asian Bonded Customs Warehouse Corporation. Previously, he was a Director of Taiga Building Products.

Board Committees

Executive Committee

The Executive Committee makes the high-level decisions in the Company, whenever the need arises. The Board of Director observes the procedures that have created the executive committee. By virtue of the Corporate By-Laws and in accordance with the Corporation Code of the Philippines, the Executive Committee may convene and act upon any decisions through majority voting.

Nomination, Election and Governance Committee

The nomination, election, and governance committee monitor the electoral and appointment process of the next leaders and management of the Company, making sure that no conflict of interest is involved in line with the appointment. Nominees are screened and evaluated based on their credentials, track records, performance, values and integrity, which may contribute to the growth of the Company. This committee establishes the performance evaluation scheme and hones the skills of succeeding leaders by providing leadership programs before they assume office.

Remuneration Committee

This committee screens the remuneration package policy for the directors and officers, ensuring transparency within the process and across departments. The Chairman of the Board and two directors of the committee ensures that the package offered is commensurate to the credentials and performance of the managers. A separate committee composed of two directors and headed by the Vice Chairman reviews the remuneration package given to the Chairman of the Board to avoid conflict of interest.

Audit and Risk Committee

The audit and risk committee scrutinize the internal operation system, assessing any oversight on financial, internal control, audit, and monitoring of compliance with both local and international standards. The committee is composed of accounting, audit, finance and legal professionals who evaluates the engagements and operations of the Company in terms of conformance to environmental, information and management guidelines.

05 | INNOVATIVE INTEGRATION

MANAGEMENT SYSTEM AND OPERATION

The Management guides each organizational entity in implementing the procedures on business operation including risk management, compliance, internal audit, and improvement management. Internal evaluation is conducted by the executives to monitor the Company's exposure and vulnerability to risks, and externally by third party auditors. An external rating agency scrutinizes the financial statement and stability of ADEC as part of the due diligence process. Please see attached **Annex C** for the ADEC Innovations Corporation audited financial report for 2017.

Organizational System

ADEC implements the highest quality control and participation amongst its clients in delivering quality services and products. The senior management monitors the operation of the organizational entities to ensure that procedures are observed and the culture of innovation is embedded in the business. The product and management flow involve the: (1) evaluation of the requirements of the client through consultation; (2) using the necessary manpower, trainings and resources to deliver the requirements; (3) translation of client's expectations into a tangible platform; and (4) performance tracking to determine the longevity of the client's operation. Strategic plans are deployed to maintain and regulate the quality of product and service flow.

Process and Management Flow

ADEC follows a Project Lifecycle Management framework to continuously develop and improve the products and services, with each phase shaping the product according to the expectations and requirements of the clients. Project management utilizes a platform that engages the project team and various departments and organizational entities, weaving the functional efforts of the management and integrity of the system. Adherence to this improvement cycle strengthens value to the delivery.

Project Lifecycle Management Framework

ADEC has an established Performance Management, Improvement and Monitoring Systems that assists in the business operation, delivering quality and excellence to its clients. The Company measures its performance through identified key metrics and ensures the compliance of its products to quality standards. ADEC has a client feedback system that measures client satisfaction based on the results of an online survey and identifies any existing performance gaps that need to be acted upon.

ADEC conducts regular audits to make sure that the procedures and business operation are aligned with the policies on quality, environmental, and information security management. As part of the Company's commitment to excellence, a performance evaluation mechanism is initiated to advance product development, cater to new opportunities, and address any non-conformance issues.

Risk Assessment

Risk assessment is conducted to identify any potential risks to the business and be able to address them early on. All offices of The ADEC Innovations Group of Companies, including ADEC Innovations Corporation, conform to the guidelines of the International Organization for Standardization (ISO), with stakeholder consultation and monitoring both forming significant facets of the ISO 3100:2009 framework.

Transparency through Relations

Investor Relations

ADEC Innovations has been a provider of a comprehensive array of sustainable business solutions that respond to the environmental, social, governance thrust of the world's leading organizations for more than 30 years.

Media Relations

The Company has established a good reputation among its clients, customers, and stakeholders with the aid of media. The Company recognizes the significant role of media in promoting transparency and accountability. The Management optimizes the potential of media as a conduit of information by sending out at least two exposures a month and conducting media rounds.

Risk Management Standard Framework

Business Risks

ADEC encounters a variety of risks as it progresses in the field of sustainability and grows its market. The main types of risks managed in 2017 include market and credit risk. Together with the Board of Directors - Risk, risk management measures are implemented and coordinated with the ADEC Innovations Group of Companies, together with the Board of Directors. The Company is not involved in speculative financial trading of assets. The risks to which ADEC is exposed to are described below.

Market Risk

Foreign currency risk

Although most of the ADEC transactions are held in the Philippines, exposures of the Company to foreign currency risks arise from the Company's overseas sales in the United States, New Zealand, and Australia. Foreign exchange rates fluctuate which makes the Company vulnerable to risks in translating the foreign currency assets into Philippine Peso.

The 2017 audited financial statement of ADEC reveals that no outstanding financial liabilities denominated in foreign currency was noted in 2017.

Interest rate risk

The interest rate risk is not material for the Company. The financial instruments of the company are not subjected to floating interest rate, except money in banks.

Credit Risk

Credit risk arises from the failure of a third party to discharge an obligation to the Company. Exposure to such kind of risk is related to the Company's financial instruments derived from the granting of advances to affiliated parties and acknowledgement of receivables from the clients. Since ADEC has partnered with reputable banks that have high credit ratings, the vulnerability of the Company to credit risk is almost negligible.

ADEC is in good credit standing as none of the financial assets are secured by collateral or other credit enhancements. Part of the mitigation measures for the credit risks includes the regularly monitoring of the Company's receivables and the timing of collections.

Liquidity Risk

The maximum liquidity risks determined for the fiscal year 2017 include trades and other payables, financial instruments due to a related party, other current liabilities, and security deposits.

To manage the liquidity risks, the cashflows are monitored regularly and the liquidity needs are identified on a day-to-day, week-to-week, and monthly basis.

Natural Disaster Risk

The Philippine headquarter is prone to natural disasters such as typhoon and earthquake, therefore posing risks to the business operation.

ADEC has a Business Continuity Management Plan that covers the measures and preparedness response should an emergency or disaster occur. The plan provides a guide on how to make the business become more resilient during periods of calamity or unforeseen natural events.

Technological Competition Risk

In the age of emerging data and technological revolution, market competition rises in terms of providing technological advantage, processing, and analysis.

With a growing competition, ADEC marks its edge by providing innovative and scalable sustainable business solutions that cater to the clients' needs, address the sustainability gaps, increase organizational function and efficiency, and ensure profitability.

Information Security Risk

ADEC's system is exposed to data security issues and breaches, which may possibly disrupt both the local and global operation. The Company is accountable for the data and knowledge exchange and transmission of information from the client to the system. Unauthorized disclosures may lead to negative publicity, legal complaints, penalties, and other damages.

ADEC has a department that acts on any foreseen risks to data and information security, providing mitigating measures to address or prevent them.

Internal Control Mechanism against Risks

Leaders from each division, business units, and subsidiary implement the internal control mechanism to reduce, control or address the risks involved in the operational environment.

- Board oversees the management and supervision of the company.
- Management directly manages and operates the organizational entities.
- Management information and risk management reporting systems support the organizational and procedural mechanisms.
- Independent audit party monitors and evaluates the effectiveness and efficiency of the company's operations.

The management collaborates to orchestrate and harmonize the system of the Company and shield it against any forms of risks. The Executive Board of the Company oversees the implementation of the internal control mechanisms. Members of the Board convene to make decisions involving major issues, appointment of leaders, and review of policies and programs for the employees. The Chief Internal Auditor leads the internal audit committee in evaluating the organizational and operational controls based on the set of professional practices and Committee of Sponsoring Organization of the Treadway Commission (COSO) framework, and in compliance to the ISO standards.

Lines of Defense

The internal control system of ADEC has three lines of defense against risks: Level 1 – Operations; Level 2 – Risk and Compliance; and Level 3 – Internal Audit. The operations manager tracks the internal control, information technology, and application which form the first line of defense. A bottom-up approach is applied to risk management, starting from the operation of the business units and reaching the central processes such as production and legal actions. Risks are also controlled across the organizational hierarchy. In the second line of defense, any oversight from the first screening is evaluated. Vulnerability of the Company to potential risks on legal, financial and compliance matters are scrutinized and controlled through the functions of the second line of defense, Risk and Compliance. The last line of defense is managed by the Internal IMS Audit that provides mitigation, addresses the identified risks, ensures the quality of governance within the organization, dissects the risk management and internal controls based on the highest level of independence and objectivity.

COSO Enterprise Management Framework

Three-Line Defense Mechanism

COMPLIANCE

ADEC Innovations Corporation has access to the certifications and accreditations of its affiliate company, AMDATEX. ADEC Innovations Group of Companies, including ADEC Innovations Corporation, has established an integrated system on environmental management, information security, quality management, and ethical trade.

ISO 14001:2015, Environmental Management System (EMS)

The Environmental Management System (EMS) aims to advance environmental protection through the optimum use of resources, promotion of best practices, energy conservation, and waste management, in accordance to international standards (ISO 14001:2015). The Environmental Policy of ADEC sets the guidelines for managing the environmental programs which include the:

- Integration of profitability and sustainability;
- Compliance with all relevant environmental laws and regulations;
- Management of environmental risks through waste reduction and resource optimization;
- Proper use, storage, and disposal of hazardous materials;
- Environmental emergency preparedness and response; and
- Continuous improvement of environmental management through a periodic review.

ISO/IEC 27001:2013, Information Security Management Systems (ISMS)

The Information Security Management System (ISMS) reduces the risks of unauthorized access, use, and disclosure, covering the Company's services, research, communication, administration, and applications. Information assets are secured, monitored, controlled and protected by adhering to ISO/IEC 27001:2013 requirements. ADEC commits to a continuously revolving information security measures, supported by a reliable technology. The ISMS is implemented in all affiliated companies, business units and departments, with the high level of commitment originating from the management through the following measures:

- Preservation of confidentiality and protection of information integrity;
- Provision of information accessibility to trusted and authorized personnel;
- Consistent fulfillment of information security requirements of stakeholders;
- Institutionalized business continuity management, ensuring business resiliency;
- Measurement and analysis of ISMS performance and effective treatment of risks;
- Training and engagement of employees and stakeholders; and
- Continuous improvement of the ISMS that supports the operational strategy

ISO 9001:2015, Quality Management System (QMS)

The Quality Management System (QMS) harmonizes the operation of the Company to ensure quality output and service to clients, with the system anchored to customer satisfaction, and is based on the international standards (ISO 9001:2015). ADEC has guidelines in monitoring, maintaining and improving the quality from beginning to end, directing the business operation towards excellence in delivering sustainable business solutions. Guided by the Company's values, commitment to quality, and excellence is best exemplified through:

- Satisfaction of customer requirements based on a Service Level Agreement;
- Adoption of emerging trends in technology;
- Compliance with the regulatory requirements and conformance to international standards;
- Adoption of best industrial and sustainability practices;
- Setting of targets and conduct of regular reviews of performance based on risk-based approach;
- Stakeholder engagement and participation from the employees; and
- Promoting continuous development.

Sedex Member Ethical Trade Audit (SMETA)

Sedex Member Ethical Trade Audit focuses on the good trading practices of a business. It is not considered as a certification, but an audit procedure that leads to acceptable high-quality outcome for retailers and trading corporations. The SMETA centers on health and safety, labor standards, environment, and business ethics.

INTERNAL AUDIT

ADEC's internal audit encompasses human relations, confidentiality, values, proficiency, and supervision requirements. The Internal Integrated Management System (IMS) Auditors tracks the compliance of the Company to policies and regulatory standards and procedures, based on the International Professional Practices Framework. They ensure that all affiliates, divisions, business units and departments adhere to the international standards on environmental management (ISO 14001:2015), information security management (ISO/IEC 27001:2013), and quality management (ISO 9001:2015). The annual internal management audits are conducted based on the procedural framework of planning, audit, recording, and reporting of findings. Internal IMS audits are also held should there be any encountered issues on delivery and customer satisfaction that requires investigation or needs immediate resolution.

External party auditors deal with any residual oversights of the internal IMS audit. ADEC commissions a third-party auditor to scrutinize the financial statements of the Company.

IMPROVEMENT MANAGEMENT

ADEC promotes transparency, accountability, and open communication across all levels of the organization. The Company has established an Improvement Management System (IMS) which is a communication platform that addresses non-conformance and grievance. It is an interactive platform that receives, stores, and monitors the issues, concerns, and complaints raised by the employees. Employees may elevate any issues concerning, but not limited to, fraud, information and infrastructure security, and other auditable matters. Reporting could be done through various media that are integrated into the system, including online, telephone, and email or post. Concerns are forwarded to the corresponding organizational entity for further evaluation and resolution. The matter is elevated to the Management, depending on the extent of the subject matter and level of office of the complainant.

The IMS covers the organization's operation, services and product delivery. The system is guided by a Systems Management Procedure that describes the level of access and operating measures on identifying the root of problems and mitigating them. Improving the system and resolving the issues are based on the Improvement Management Framework that defines the course of action, problem identification, assessment, and review of corrective action.

Improvement Management Framework

06 | LASTING IMPACT

Conformance to Labor Laws

ADEC Innovations Corporation establishes a working environment that respects the rights, cares for the welfare, and encourages the growth of its employees. Company programs, compensation, and benefits conform to the national laws and regulations on employment, including the Labor Code and Corporate Code of the Philippines. ADEC upholds gender equality and respect for diversity, observing that all employees receive fair wage and have normal working hours to attain work-life balance.

The Company instills discipline amongst its employees by strictly implementing the Code of Discipline which contains guidelines on proper decorum, prohibitions, and sanctions for any violation. Personnel are briefed on the Company policies through an orientation prior to onboarding. No grave violations on the labor code has been reported in 2017.

ADEC has a fair salary structure which is commensurate to the skill set, educational attainment, professional background, and other qualifications of the employee. Wages are based on the national minimum rates but are at par with the competitive market pricing and adjusted to perceived inflation rate. Provision for full-time employees include a health care program for them and one dependent, government-mandated benefits, and leaves including parental leave. As for the retirement package, employees retiring at the age of 60 are entitled to an amount equivalent to 100% of the average monthly basic salary during the last 12 months of credited service.

Hiring of new employees depend on the strategic position of the Company, operational and financial capacity, and projected return on investment.

Anti-Bribery and Anti-Corruption

ADEC Innovations Corporation maintains a fair, authentic, lawful, and ethical business deals, partnerships, and engagements with its clients. All employees, contractors, and affiliates of the Company are expected to act with proper decorum and to not engage in any bribery or corruption practices. They are held accountable for the outcome of their actions and behaviors with regard to client encounter and transactions. As specified in the Corporate Anti-Bribery and Anti-Corruption Policy, employees are prohibited from doing the following:

- Taking and receiving any bribes and kickbacks from persons with whom the Company has business dealings;
- Offering and/or receiving gifts, hospitality tokens, rewards, benefits or incentives from an official in duty; and
- Performing any insider trading or participation in transactions that may jeopardize the interests of the Company.

ADEC conducts risk assessment on all processes and operations, safeguarding the integrity of business and people. The Company embraces zero tolerance against bribery and corruption, and engages its employees and stakeholders through activities, including circulation of corporate communications, orientation of new hires, and reporting of any incident involving unlawful acts. The Management protects the interest of employees who refused to take part in bribery or corruption, and who have reported any suspicious cases of such offenses. No related cases of bribery, corruption or major misdemeanor has been cited since 2017.

Procurement Practices

The procurement practices of ADEC Innovations Corporation adheres to the national regulations, and global principles of ethics, ecology, social, and good governance. ADEC Innovations Group of Companies has a Global Policy that streamlines the procurement of materials, goods, and services across all companies, subsidiaries, and affiliated parties, from the initial purchase, up to the delivery. The Policy describes the rules and regulations for modernization, globalization, and standardization of the purchasing activities across the subsidiaries and affiliated parties of the ADEC Innovations Group of Companies. Procedures and strategies on procurement, screening of suppliers, budget allocation, and monitoring of expenditures are anchored on the principles and standards of ethical purchasing conduct:

- Transparency in the purchasing process and implementation of contract agreements;
- Competitiveness in providing equal opportunity to all private entities who are qualified to supply the goods and services;
- Streamlining of the purchasing process to create a simple but innovative, effective and efficient procedure;
- Accountability of all those involved in the procurement process; and
- Monitoring of the purchasing process and implementation.

The purchasing team ensures the secured and timely delivery of supply, contributing to quality services and products. In collaboration with the suppliers, the Company leverages on the available network and depends on the economic scale.

Local Supplier Allocation and Accreditation

The Company engages the services of local communities as suppliers. Local suppliers are accredited based on their capability and capacity to provide excellent materials and services, compliance with the Corporate Policy on procurement, credibility and reputation. Although not all suppliers have the capacity to deliver the global requirements of the clients, ninety-eight percent (98%) of the Company's spending is allocated to local supplies who have the enthusiasm to become global partners. With this allocation, the Company is able to contribute to the local and regional economic growth and development.

The vendor and supplier accreditation of the Company is aligned with the national policies, regulatory requirements, standards, and procedures. The commitment and compliance to the Corporate Policy are communicated during the pre-qualification and accreditation stages, and reflected in the contract obligations prior to mobilization. Suppliers are screened based on the offered competitive pricing, quality of goods and service, prompt delivery, and service responsiveness.

Stable Revenue

Compared to the previous fiscal year, ADEC's income at the end of the year decreased by 28% in 2017 (Php 2,167,949 or equivalent to $ 41,700). However, the Company remains secured and stable by addressing the loss with the improvement of the current process, pursuing excellence despite the rigid market competition on data analytics. Liquidity of assets does not pose any risks to the business operation. The Company would continue to provide scalable sustainable business solutions for the advancement of innovation in the sphere of sustainability.

Supply Chain

Developing sustainable business solutions involve three phases: (1) procurement, (2) development, and (3) delivery, which support the quality of products and services, from inception to delivery. During the procurement phase, a consultation with the client is conducted to determine the requirements and to propose the most feasible and sustainable solution. Suppliers deliver the raw materials including the operating equipment at the procurement stage. The Company guides and tracks the performance of its suppliers and checks their conformance with the environmental, quality and information standards through a Supplier Assessment metrics. Potential risks of engagement with the suppliers are identified at the early stage of the project to ensure quality and compliance. Identification of any potential impacts of the project to the environment, stakeholders, and business operation is conducted early on. After careful scrutiny, the most efficient and sustainable solutions are developed with outmost excellence based on the best understanding of client's requirements. The ease of integration with any foreseen technological advancement in addressing the environmental, social, and governance concerns of the clients is also considered in creating the product. The sustainability business solution is subjected to pilot testing and quality assurance and control procedures prior to deployment.

None of the supplier engagements showed potential negative impacts to the environment based on the 2017 assessment.

ADEC's Supply Chain Framework

Sustainability Programs

ADEC implements sustainability programs, giving priority to the review and strict implementation of environmental policy, monitoring of utility and resources consumption, and compliance with environmental standards. The Company's energy, water, and waste management programs have resulted to increased operational efficiency over the years.

Energy Management Program

The Company regularly monitors the energy consumption of the facilities, tracking the electricity expenditure per month. The large discrepancy between the average electricity consumption in 2016 and 2017 could be attributed to the co-location of the ADEC Innovations Group of Companies, including ADEC Innovations Corporation, and the internal mobilization that occurred within the last quarter of 2016. The transfer of ADEC's office to a new building and the allocation to a smaller working area have significantly contributed to the reduction in electricity consumption. In addition to this internal arrangement, the conservation efforts of the Company such as the use of energy-efficient lights and environment-friendly air conditioning units have increased the electricity savings in 2017. The Company has also been consistently circulating communications and posting energy-saving reminders near the electricity fixtures to encourage the active participation of its employees to the energy management program.

ADEC Annual Average Electricity Consumption (2014-2017)

The Company was able to save as much as 80% energy in 2017 because of the internal movement and collective efforts of the management and employees. This has been a significant energy reduction compared to the previous reporting year of 19%. Monthly utility readings from 2014 to 2017 showed a decreasing trend in energy consumption, reflecting the Company's maximized use of utilities and increased energy efficiency in 2017.

ADEC Monthly Electricity Consumption (2015-2017)

Water Management Program

ADEC tracks the water usage of the facility on a monthly basis. Comparing the recent consumption with last year's performance, a significant decrease in water consumption has been reported, amounting to savings of 86% or an average volume of 376 cu.m. Effective water reduction strategies include the re-use of water in sanitation activities, domestic cleaning, and gardening, provision for waterless urinals, inspection of water fixtures for leaks, and regular maintenance of the facilities. The internal mobilization that occurred in the last quarter of 2016 and the management efforts of the Company have led to efficient water consumption.

ADEC Annual Average Water Consumption (2015-2017)

ADEC Monthly Water Consumption (2015-2017)

Waste Management Program

The waste management scheme of ADEC includes the solid wastes segregation, initial treatment of liquid waste from the kitchen through grease traps and use of recycled treated sewage water in gardening. ADEC compels its employees to observe the waste segregation policy and prohibition of littering as stipulated in the Code of Discipline. A designated Pollution Control Officer (PCO) ensures the compliance of the Company to environmental laws and regulations.

Compliance with Environmental Regulations

ADEC Innovations Corporation consistently adheres to the commitment stated in the Environmental Compliance Certificate (ECC) issued by the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR-EMB) of the Philippines, which includes the renewal of effluent and emission permits, submission of self-assessment and monitoring reports to the governmental body, and evaluating the compliance of facilities and operation to regulatory standards. The PCO monitors the operation of the Company, safeguarding the integrity of the environment, and welfare of people against any potential risks.

Advocacies and Partnerships

ADEC Innovations Corporation has partnered with various foundations, multi-stakeholder organizations, and cities in advancing the SDGs, helping them realize the value of data and technological solutions in addressing the current environmental challenges. The presence of ADEC during the 3rd UNEA in 2017, held in Nairobi, raised awareness on the role of private sector and utilizing the potential of big data and analytics in pursuing transformative change. Since 2015, ADEC has also been offering sustainable business solutions to the initiatives of the City Government of Makati on climate change action. The local government has established a GHG inventory of the facilities and establishments within the jurisdiction of the Makati City through the MetricsTRAC™ platform. The City has also encouraged the participation of the private sector in monitoring their emissions. These small steps may be a giant leap towards sustainability. ADEC believes in the power of co-creating solutions with both the public and private sector, and walking hand-in-hand with the institutions in developing viable and environmentally-sound solutions that bridge the SDG gaps.

Employment

Employment in ADEC Innovations Corporation provides equal opportunity to men and women, with a total of 94 personnel across the technical and internal support departments. Of the total number of employees, more than half are women (52%) which indicates their expanding role in the business sector. Majority of the employees are within the age bracket of 20 to 29 years old (52%), while those that are 30 and above compose 9% of the workforce. The employment demographics of ADEC Innovations Corporation in 2017 is presented

Distribution of Employment by Age and Gender

GENDER	AGE				TOTAL
	20 to 29 years	30 to 39 years	40 to 49 years	50 years & above	
Male	21	13	4	4	42
Female	28	11	9	4	52
TOTAL	49	24	13	8	**94**

Employment by Gender

Employment by Age Group

Ninety-six percent (96%) of the workforce have a permanent tenure, while the remaining 4% are probationary. Majority of the regular employees are below 30 years. Those who are aged 50 years old and above have rendered several years of loyal service to the company, and maybe retiring at a later stage.

Employment Tenure by Age

TENURE	AGE			TOTAL
	Under 30 years	30 to 50 years	Above 50 years	
Permanet	47	35	8	90
Temporary	2	2	0	4
TOTAL	49	37	8	**94**

Employment by Tenure

The Company prioritizes local hiring. Only 1% of the population is comprised of foreign-hired managers. No incidents of discrimination were reported in 2017, thus reflecting that diversity and inclusion are being practiced in the company.

Employee Engagement and Development

The Company encourages the participation of employees in activities and programs that cater to development, promote equality, encourages team play and leadership, and advocates environmental and social awareness. In 2017, ADEC prepared various engagements for the employees, promoting growth and nourishing relationships across the organization.

Learning and Development

Various trainings and workshops, ranging from leadership to skills enhancement, are provided to the employees. These trainings depend on their needs and the results of the needs assessments. Internal and external trainings are available for technical and personal development, equipping the employees with the required skills set, bridging any technical gaps, and molding their character as they pursue the vision of the Company. Trainings are developed, applied and evaluated based on the Corporate Learning and Development Guidelines.

In 2017, a total of 868 manhours were spent by the senior leaders on both internal and external trainings, involving technical, skills, personal development, leadership, health and safety, and other functional courses. This translates to an average of 9 hours per employee per year. Fifty-four percent (54%) who attended the trainings were male, and 46% were female.

With the theme, "Six Thinking Hats", the training held amongst the Management Team in 2017 had drawn the leadership potentials of the participants and prepared them for the upcoming challenges ahead of them.

Leadership Training, with the theme "Six Thinking Hats"

Communication Platform

ADEC Innovations Corporation strengthens the management-employee relationship and encourages inclusive participation amongst employees through different avenues. Town hall meetings are conducted to serve as venue for airing any concerns to the Management. A grievance mechanism platform is available, known as the Improvement Management System, which aims to promote transparency and accountability. With a feedback system in place, employees are assured that issues and concerns will be addressed. No grave issues were recorded by the Board of Management in 2017.

Employees are allowed to exercise their right to peaceful assembly. However, ADEC prohibits unlawful acts that elicit rebellion amongst co-workers, cause damage to property, and the use of Company resources for personal gain, as stipulated in the Employee Handbook.

Employee Recognition and Engagement

ADEC Innovations Corporation recognizes the significant contributions of its employees in the realization of the Company's vision. The ADEC Innovations Group of Companies celebrates the commitment and perseverance of its employees through an Annual Service Awarding Ceremony. In 2017, loyalty awards were given to employees who have given an exemplary performance for the past 15, 10 and 5 years.

Other employee engagement activities in 2017 include the corporate-wide celebration of special occasions, namely New Year's Day, Valentine's Day, a special tribute to mothers and fathers, building friendships, and Halloween. Pocket activities were held within each major event which showcased the talents of the employees and others that aimed to build camaraderie. Other events that made an impact to the community include the Fun Run and Sports Fest that promoted health and wellness, work-life balance, and teamwork.

Run for Impact 2017

Leadership Training, with the theme "Six Thinking Hats"

Community Initiatives

Liter of Light: Lighting Up Lives

ADEC Foundation, the non-profit arm of the ADEC Innovations Group of Companies, partnered with MyShelter Foundation in 2016, with the goal of contributing towards their Liter of Light initiative. This project aims to light the homes of underprivileged families living in the outskirts of the Philippines. In 2017, the Company launched the #LIT Campaign to encourage its employees to support the advocacy. The first chosen beneficiary for the #LIT Campaign was the Hinguiwin Elementary School in Padre Burgos, Quezon. Employees volunteered to assemble the solar-powered lamps using recycled materials. These were given out as an alternative light sources to selected students of Hinguiwin. In addition to the solar lamps, the employees also held a donation drive for school supplies, raincoats, meals, and additional raw materials for the lamps.

> "As our organization strives to deliver solutions to achieve Sustainable Development, it is important that our members, from top management down to every associate, know the importance of our advocacies and find ways to integrate them into their everyday lives."
>
> **– James Donovan, ADEC CEO**

The Hinguiwin Elementary School is only the first leg of the #LIT Campaign which is expected to occur every quarter. The United Nations recognizes the contribution of the Liter of Light project to the attainment of the SDGs. For ADEC, its collaboration with MyShelter is one of the highlights of its Corporate Social Responsibility Initiatives, which continues to transform the lives of people from the unprivileged sector through the creative use of resources.

#LIT Campaign in Hinguiwin Elementary School, Quezon

Tree Planting

In cooperation with the Haribon Foundation, the ADEC Innovations Group of Companies, including ADEC Innovations Corporation, conducted a tree planting activity in Mt. Banahaw - San Cristobal Protected Landscape in San Pablo, Laguna on August 5, 2017. With the theme "Contree-bute", volunteers trekked for an hour to reach the second and third levels of the mountain side to plant Mahogany seedlings. The planting activity served as a campaign that aimed to shine a spotlight on the significant role of trees in reducing the impact of climate change by replenishing the lost vegetation due to the practice of kaingin in the area. The almost 11,000-hectare area of Mt. Banahaw - San Cristobal Protected Landscape is the second largest protected area in the Calabarzon Region, bordering the provinces of Laguna and Quezon.

Tree planting activity

ADEC's Volunteer as Treebute in Mt. Banahaw - San Cristobal, Laguna

Customer Satisfaction

ADEC Innovations Corporation measures its impact on the industry through a periodic client survey feedback. The Company derives insight from this feedback mechanism, serving as a valuable measurement of performance. The survey shows the areas for improvement, identifies any gaps, provides a rating of the client's satisfaction level, and gauges the productivity of the Company. The outcome of the feedback system sets the direction for the next steps of the Company in revolutionizing the way products and services are delivered, upholding excellence in providing the finest experience to its clients worldwide.

Industry

- Associations
- Commercial Real Estate
- Consumer Products
- Developers
- Education
- Finance
- Food Products
- Government
- Healthcare
- Hospitality
- Industrial
- Insurance
- Manufacturing
- Municipality
- Packaging
- Retail
- Restaurants
- Telecommunications

Focus Area

- Sustainability
- Energy Management
- Environmental
- Due Diligence and Entitlements
- Supply Chain
- CDP

- Consulting
- Software
- Reprographics
- Data Processing

Products and services undergo quality assurance and risk assessment to ensure client's value for money, as well as determine any health and safety, environmental, and social impacts of the projects. ADEC's customer system is available 24 hours a day and 7 days a week, to listen and respond to the concerns and queries of the end-users of the products. The Company communicates and assists its clients and partners through the different media available, from conferencing to face-to-face meetings. Online self-help tools are also within the reach of ADEC's clients for easier communication and minimal product concerns.

Compliance with Data Privacy, Security and Storage

The intricately structured information system management and procedures shield the business from any unauthorized access, damage, and loss. The operational systems and information security measures of the Company are anchored on international guidelines (ISO/IEC 27001:2013) and aligned with the requirements of the Philippine Corporation Code and the Securities and Exchange Commission. Compliance is strictly monitored, from creation and authentication of data, to transfer and archiving of the information. The Management engages the participation of employees in conscientiously guarding information and upholding data privacy, security and storage through orientations and the circulation of regular reminders. The Company values the involvement of its employees and stakeholders in maintaining the integrity of the information system management.

07 | FUTURE OF DATA ECONOMY

DATA ANALYTICS OUTLOOKS

The data landscape is evolving rapidly, together with the rising challenges on sustainability. As the magnitude of data becomes unsurmountable, data management alone is insufficient to capture the full potential of data assets. It is imperative that governments, organizations, and the business sector evaluate their current position and capabilities in order to be able to cope with this shift in the data landscape. With the disruptive data economy and the boom in the growth of technology, mere reporting and conventional data repository methods may not be enough for decisions makers to become well-informed regarding issues around sustain efficiency, attaining profitable growth, and addressing the SDG gaps. Predictive and prescriptive analyses are relevant in creating scenarios that would serve as a foundation for decision-making and addressing the current and foreseen economic, environmental, and social challenges. Companies will be able to move from simply answering the question: "What happened?", and on to using the most recent technology and analytics to develop strategies for a more pro-active approach in order to respond to the question: "How do you make it happen?"

Evolution of Data Landscape

ADEC replicates and aligns its operation to the technological advancement and evolution of data analytics. The Company continues to innovate and develop strategies to better cope with the fast-paced data landscape.

Source: ASI Business Solutions, Inc., 2017, Presentation by CPCU Society in April 2015 and ADEC Innovations, 2017

SUSTAINABLE DATA ECONOMY

Data analytics could shed light on how to maximize resources, reduce operational costs, generate savings, increase profitability, maintain compliance, and give room for innovative measures on sustainability. Establishing an inclusive data economy that cuts across all sectors and responds to all the facets of sustainability could provide solutions to the emerging data issues, including information disparity. ADEC supports the growing need to not only build a trusted database, but also utilize reliable and timely data to advance an efficient and sustainable operation. The participation of organizations and the business sector in establishing a sustainable data economy could lead to effective decisions that embody solutions at the grass-roots level. ADEC Innovations Corporation recognizes that an inclusive sustainable data economy is at the heart of realizing the vision of true sustainability.

08 | ANNEXES

Annex A

UNITED NATIONS GLOBAL COMPACT

TEN PRINCIPLES CONTENT INDEX

UNITED NATIONS GLOBAL COMPACT TEN PRINCIPLES CONTENT INDEX

UNITED NATIONS GLOBAL COMPACT Ten Principles		COMMITMENT Cross reference to the Section	Page
HUMAN RIGHTS			
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
Principle 2	Businesses should ensure that they are not com plicit in hum an rights abuses	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
		06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Communication-Platform	52
LABOUR			
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Communication-Platform	52
Principle 4	Businesses should uphold the elimination of all form s of forced and com pulsory labour	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
Principle 5	Businesses should uphold the effective abolition of child labour	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
Principle 6	Businesses should uphold the elim ination of discrim ination in respect of employment and occupation	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
		06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Communication-Platform	52
ENVIRONMENT			
Principle 7	Businesses are asked to support a precautionary approach to environmental challenges	03 VALUE CREATION	15 - 18
		04 LASTING IMPACT ABOUT ADEC BUSINESS CORE ADVOCACY, CERTIFICATIONS & RECOGNITIONS	20 - 22 23 - 24 26 - 28
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility	06 LASTING IMPACT ENVIRONMENTAL	46 - 49
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies	04 BEYOND 30 YEARS PRODUCTS AND SERVICES	29
		06 LASTING IMPACT ENVIRONMENTAL: Supply Chain	46
		06 LASTING IMPACT SOCIAL: Customer Satisfaction	55
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery	04 BEYOND 30 YEARS Governance	30
		04 INNOVATIVE INTEGRATION MANAGEMENT SYSTEM AND OPERATION RISK MANAGEMENT COMPLIANCE INTERNAL AUDIT IMPROVEMENT MANAGEMENT	34 - 42
		06 LASTING IMPACT ECONOMIC: Anti-Bribery and Anti-Corruption ECONOMIC: Procurement Practices ECONOMIC: Local Supplier Allocation and Accreditation	44 45 45

Annex B

GLOBAL REPORTING INITIATIVE

2016 STANDARDS CONTENT INDEX

GLOBAL REPORTING INITIATIVE 2016 STANDARDS CONTENT INDEX

	GLOBAL REPORTING INITIATIVE 2016 GRI STANDARDS		COMMITMENT Cross reference to the Section	Page
	ORGANIZATIONAL PROFILE			
ORGANIZATIONAL PROFILE	102-1	Name of the Organization	04 BEYOND 30 YEARS ABOUT ADEC: Who We Are	20
	102-2	Activities, primary brands, products, and services	04 BEYOND 30 YEARS ABOUT ADEC: What We Do PRODUCTS AND SERVICES	20 29
	102-3	Location of headquarters	04 BEYOND 30 YEARS ABOUT ADEC: Where We Are	21
	102-4	Location of operations	04 BEYOND 30 YEARS ABOUT ADEC: Where We Are	21
	102-5	Ownership and legal form	04 BEYOND 30 YEARS OWNERSHIP	25
	102-6	Markets served	06 LASTING IMPACT SOCIAL: Customer Satisfaction	55
	102-7	Scale of the organization	06 LASTING IMPACT SOCIAL: Employment	50
	102-8	Information on employees and other workers	06 LASTING IMPACT SOCIAL: Employment	50
	102-9	Supply chain	06 LASTING IMPACT ENVIRONMENTAL: Supply Chain	46
	102-10	Significant changes to the organization and its supply chain	01 BACKGROUND RATIONALE: 2017 Milestones	7
	102-11	Precautionary Principle or approach	02 BUILDING BLOCKS RESPONSIBLE BUSINESS	12
			04 BEYOND 30 YEARS BUSINESS CORE	23
	102-12	External initiatives	06 LASTING IMPACT SOCIAL: Community Initiatives	53 - 54
	102-13	Membership of associations	04 BEYOND 30 YEARS ADVOCACY, CERTIFICATIONS AND RECOGNITIONS: Associations	26 - 27
	STRATEGY			
	102-14	Statement from senior decision-maker	CEO'S MESSAGE	5
	102-15	Key impacts, risks, and opportunities	05 INNOVATIVE INTEGRATION MANAGEMENT SYSTEM AND OPERATION	34 - 42
	ETHICS AND INTEGRITY			
	102-16	Values, principles, standards, and norms of behavior	02 BUILDING BLOCKS RESPONSIBLE BUSINESS	10 - 12
			04 BEYOND 30 YEARS BUSINESS CORE	23 - 24
	102-17	Mechanisms for advice and concerns about ethics	05 INNOVATIVE INTEGRATION IMPROVEMENT MANAGEMENT	42
			06 LASTING IMPACT SOCIAL - Communication Platform	52

	GLOBAL REPORTING INITIATIVE 2016 GRI STANDARDS		COMMITMENT Cross reference to the Section	Page
ORGANIZATIONAL PROFILE	GOVERNANCE			
	102-18	Governance structure	04 BEYOND 30 YEARS GOVERNANCE	30 - 32
	102-19	Delegating authority	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	102-20	Executive-level responsibility for economic, environmental, and social topics	04 BEYOND 30 YEARS GOVERNANCE	30 - 32
	102-22	Composition of the highest governance body and its committees	04 BEYOND 30 YEARS GOVERNANCE	30 - 32
	102-23	Chair of the highest governance body	04 BEYOND 30 YEARS GOVERNANCE: Board of Directors	31 - 32
	102-24	Nominating and selecting the highest governance body	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	102-25	Conflicts of interest	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	102-26	Role of highest governance body in setting purpose, values, and strategy	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	102-27	Collective knowledge of highest governance body	04 BEYOND 30 YEARS GOVERNANCE	30 - 32
	102-28	Evaluating the highest governance body's performance	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	102-29	Identifying and managing economic, environmental, and social impacts	04 BEYOND 30 YEARS GOVERNANCE	30 -32
			05 INNOVATIVE INTEGRATION COMPLIANCE	40
	102-30	Effectiveness of risk management processes	05 INNOVATIVE INTEGRATION RISK MANAGEMENT	37 -39
	102-33	Effectiveness of risk management processes	05 INNOVATIVE INTEGRATION IMPROVEMENT MANAGEMENT	42
			06 LASTING IMPACT SOCIAL - Communication-Platform	52
	102-34	Nature and total number of critical concerns	05 INNOVATIVE INTEGRATION IMPROVEMENT MANAGEMENT	42
			06 LASTING IMPACT SOCIAL - Communication-Platform	52
	102-35	Remuneration policies	06 LASTING IMPACT ECONOMIC: Conformance to Labor Law	44
	102-36	Process for determining remuneration	04 BEYOND 30 YEARS GOVERNANCE: Board Committees	32
	STAKEHOLDER ENGAGEMENT			
	102-43	Approach to stakeholder engagement	01 BACKGROUND REPORTING GUIDELINES: Methodology	13
	102-44	Key topics and concerns raised	02 BUILDING BLOCKS REPORTING GUIDELINES: Methodology	13

	GLOBAL REPORTING INITIATIVE 2016 GRI STANDARDS		COMMITMENT Cross reference to the Section	Page
	REPORTING PRACTICE			
ORGANIZATIONAL PROFILE	102-45	Entities included in the consolidated financial statements	ADEC FINANCIAL STATEMENT	ANNEX C
	102-46	Defining report content and topic Boundaries	02 BUILDING BLOCKS REPORTING GUIDELINES	13
	102-48	Restatements of information	02 BUILDING BLOCKS REPORTING GUIDELINES: Methodology	13
	102-49	Changes in reporting	01 BACKGROUND RATIONALE	7
			02 BUILDING BLOCKS	10 - 13
	102-50	Reporting period	01 BACKGROUND RATIONALE	7
	102-51	Date of most recent report	01 BACKGROUND RATIONALE	7
			02 BUILDING BLOCKS REPORTING GUIDELINES: Methodology	13
	102-52	Reporting cycle	01 BACKGROUND RATIONALE	7
	102-53	Contact point for questions regarding the report	Contact Information and Contact Person	Back Cover
	102-54	Claims of reporting in accordance with the GRI Standards	02 BUILDING BLOCKS REPORTING GUIDELINES: GRI Reporting Guidelines	13
	102-55	GRI content index	GLOBAL REPORTING INITIATIVE 2016 STANDARDS CONTENT INDEX	ANNEX B
ECONOMIC TOPICS	GRI 201: ECONOMIC PERFORMANCE			
	201-1	Direct economic value generated	06 LASTING IMPACT ECONOMIC: Stable Revenue	45
	201-2	Defined benefit plan obligations and other retirement plans	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
	201-3	Financial assistance received from government	04 BEYOND 30 YEARS OWNERSHIP	25
	GRI 202: MARKET PRESENCE			
	201-2	Proportion of senior management hired from the local community	06 LASTING IMPACT SOCIAL: Employment	50
	GRI 204: PROCUREMENT PRACTICES			
	204-1	Proportion of spending on local suppliers	06 LASTING IMPACT ECONOMIC: Local Supplier Allocation and Accreditation	45

	GLOBAL REPORTING INITIATIVE 2016 GRI STANDARDS		COMMITMENT Cross reference to the Section	Page
ECONOMIC TOPICS	GRI 205: ANTI-CORRUPTION			
	205-1	Operations assessed for risks related to corruption	06 LASTING IMPACT ECONOMIC: Anti-Bribery and Anti-Corruption	44
	205-2	Communication and training about anti-corruption policies and procedures	06 LASTING IMPACT ECONOMIC: Anti-Bribery and Anti-Corruption	44
	205-3	Confirmed incidents of corruption and actions taken	06 LASTING IMPACT ECONOMIC: Anti-Bribery and Anti-Corruption	44
ENVIRONMENTAL TOPICS	GRI 302: ENERGY			
	302-1	Energy consumption within the organization	06 LASTING IMPACT ENVIRONMENTAL: Sustainability Programs - Energy Management Program	47
	302-4	Reduction of energy consumption	06 LASTING IMPACT ENVIRONMENTAL: Sustainability Programs - Energy Management Program	47
	GRI 303: WATER			
	303-1	Water withdrawal by source	06 LASTING IMPACT ENVIRONMENTAL: Sustainability Programs - Water Management Program	48
	GRI 307: ENVIRONMENTAL COMPLIANCE			
	307-1	Non-compliance with environmental laws and regulations	06 LASTING IMPACT ENVIRONMENTAL: Compliance with Environmental Regulations	49
	GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT			
	308-1	New suppliers that were screened using environmental criteria	06 LASTING IMPACT ENVIRONMENTAL: Supply Chain	46
	308-2	Negative environmental impacts in the supply chain and actions taken	06 LASTING IMPACT ENVIRONMENTAL: Supply Chain	46
SOCIAL TOPICS	GRI 401: EMPLOYMENT			
	401-2	Benefits provided to full-time employees that are not providedto temporary or part-time employees	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
	GRI 404: TRAINING AND EDUCATION			
	403-1	Average hours of training per year per employee	06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Learning and Development	51
	403-2	Programs for upgrading employee skills and transition assistance programs	06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Learning and Development	51

	GLOBAL REPORTING INITIATIVE 2016 GRI STANDARDS		COMMITMENT Cross reference to the Section	Page
SOCIAL TOPICS	GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
	405-1	Diversity of governance bodies and employees	06 LASTING IMPACT SOCIAL: Employment	50
	GRI 406: NON-DISCRIMINATION			
	406-1	Incidents of discrimination and corrective actions taken	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	50
			06 LASTING IMPACT SOCIAL: Employment	50
	GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	06 LASTING IMPACT SOCIAL: Employee Engagement and Development - Communication Platform	52
	GRI 413: LOCAL COMMUNITIES			
	413-1	Operations with local community engagement, impact assessments, and development programs	06 LASTING IMPACT SOCIAL: Community Initiatives	53 - 54
			06 LASTING IMPACT ENVIRONMENTAL: Advocacies and Partnerships	49
	GRI 416: LOCAL COMMUNITIES			
	416-1	Assessment of the health and safety impacts of product and service categories	06 LASTING IMPACT SOCIAL: Customer Satisfaction	55
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	06 LASTING IMPACT SOCIAL: Customer Satisfaction	55
	GRI 418: CUSTOMER PRIVACY			
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	06 LASTING IMPACT SOCIAL: Compliance with Data Privacy, Security and Storage	55
	GRI 419: SOCIOECONOMIC COMPLIANCE			
	419-1	Non-compliance with laws and regulations in the social and economic area	06 LASTING IMPACT ECONOMIC: Conformance to Labor Laws	44
			06 LASTING IMPACT ECONOMIC: Anti-Bribery and Anti-Corruption	44

Annex C

ADEC FINANCIAL STATEMENT

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
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Report of Independent Auditors

The Board of Directors
ADEC Innovations Corporation
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
26th Floor, Philippine AXA Life Centre
Sen. Gil Puyat Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ADEC Innovations Corporation (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BUREAU OF INTERNAL REVENUE
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30 APR 2018

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 20 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Nelson J. Dinio
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 6616007, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1036-AR-2 (until Mar. 15, 2020)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-32-2016 (Oct. 4, 2016 until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 7, 2018

BUREAU OF INTERNAL REVENUE
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30 APR 2018

ADEC INNOVATIONS CORPORATION
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

SATELLITE OFFICE ALIMALL
Electronic Records Management Division
Securities and Exchange Commission
MAY 04 2018
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

	Notes	2017	2016
ASSETS			
CURRENT ASSETS			
Cash	4	P 2,167,949	P 3,052,618
Trade and other receivables - net	5	45,681,906	47,941,082
Other current assets	6	1,273,588	1,046,970
Total Current Assets		49,123,443	52,040,670
NON-CURRENT ASSETS			
Investment in a subsidiary	7	2,000,000	-
Property and equipment - net	8	6,465	12,782
Security deposits	6	1,571,674	1,571,674
Deferred tax assets - net	13	356,680	-
Total Non-current Assets		3,934,819	1,584,456
TOTAL ASSETS		P 53,058,262	P 53,625,126
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	9	P 6,209,724	P 7,965,337
Due to a related party	14	7,057,297	4,851,608
Income tax payable		76,662	587,039
Other current liabilities		637,341	242,831
Total Current Liabilities		13,981,024	13,646,815
NON-CURRENT LIABILITIES			
Post-employment benefit obligation	12	384,044	480,741
Deferred tax liabilities - net	13	-	383,424
Security deposits	16	958,482	958,481
Total Non-current Liabilities		1,342,526	1,822,646
Total Liabilities		15,323,550	15,469,461
EQUITY			
Capital stock	15	25,750,001	25,750,001
Revaluation reserve		344,909	205,494
Retained earnings		11,639,802	12,200,170
Total Equity		37,734,712	38,155,665
TOTAL LIABILITIES AND EQUITY		P 53,058,262	P 53,625,126

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See Notes to Financial Statements.

ADEC INNOVATIONS CORPORATION
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
SALE OF SERVICES	14	P 9,377,368	P 13,309,973
COST OF SERVICES	10	2,318,724	3,541,337
GROSS PROFIT		7,058,644	9,768,636
OTHER OPERATING EXPENSES	10	(13,531,450)	(15,285,249)
OTHER OPERATING INCOME	11	5,670,676	8,228,730
PROFIT (LOSS) BEFORE TAX		(802,130)	2,712,117
TAX EXPENSE (INCOME)	13	(241,762)	1,084,861
NET PROFIT (LOSS)		(560,368)	1,627,256
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss			
Actuarial gain on remeasurements of post-employment benefit obligation	12	199,165	-
Tax expense	13	(59,750)	-
	12	139,415	-
TOTAL COMPREHENSIVE INCOME (LOSS)		(P 420,953)	P 1,627,256

See Notes to Financial Statements.

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30 APR 2018

ADEC INNOVATIONS CORPORATION
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Revaluation Reserve	Retained Earnings	Total
Balance at January 1, 2017		P 25,750,001	P 205,494	P 12,200,170	P 38,155,665
Total comprehensive income (loss) for the year	12	-	139,415	(560,368)	(420,953)
Balance at December 31, 2017	15	**P 25,750,001**	**P 344,909**	**P 11,639,802**	**P 37,734,712**
Balance at January 1, 2016		P 25,750,001	P 205,494	P 10,572,914	P 36,528,409
Total comprehensive income for the year	12	-	-	1,627,256	1,627,256
Balance at December 31, 2016	15	P 25,750,001	P 205,494	P 12,200,170	P 38,155,665

See Notes to Financial Statements.

RECEIVED

ADEC INNOVATIONS CORPORATION
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		(P 802,130)	P 2,712,117
Adjustments for:			
Unrealized foreign currency exchange loss (gains) - net		215,247	(2,127,701)
Impairment loss on financial assets	5	58,568	-
Interest income	11	(8,954)	(4,626)
Depreciation and amortization	8	8,906	221,969
Operating profit (loss) before working capital changes		(528,363)	801,759
Decrease (increase) in trade and other receivables		2,003,683	(2,262,809)
Decrease (increase) in other current assets		(346,930)	531,965
Increase (decrease) in trade and other payables		(1,755,613)	2,540,531
Increase in other current liabilities		394,510	-
Increase in post-employment benefit obligation		102,468	117,119
Increase in security deposits		-	277,649
Cash generated from (used in) operations		(130,245)	2,006,214
Interest received		8,954	4,626
Cash paid for income taxes		(948,156)	(470,747)
Net Cash From (Used in) Operating Activities		(1,069,447)	1,540,093
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of an investment in a subsidiary	7	(2,000,000)	-
Acquisitions of property and equipment	8	(2,589)	-
Cash Used in Investing Activities		(2,002,589)	-
CASH FLOWS FROM A FINANCING ACTIVITY			
Proceeds from advances obtained from related party	14	2,205,689	146,158
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(18,322)	3,398
NET INCREASE (DECREASE) IN CASH		(884,669)	1,689,649
CASH AT BEGINNING OF YEAR		3,052,618	1,362,969
CASH AT END OF YEAR		P 2,167,949	P 3,052,618

See Notes to Financial Statements.

30 APR 2018

ADEC INNOVATIONS CORPORATION
(Formerly F-I-R-S-T Carbon Solutions Corporation)
[A Subsidiary of REDECS Green Holdings Corporation]
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

ADEC Innovations Corporation (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 25, 2009 and started commercial operations in 2011. It is presently engaged in Information Technology (IT) enabled services, primarily to foreign markets and clients, which include related parties of the Company (see Notes 14.1 and 14.2).

In 2017, the Company acquired ADEC Innovations Knowledge Management Corporation (ADEC KMC) as its subsidiary. ADEC KMC was incorporated on November 15, 2013 and is engaged in providing programs, systems and tools related to business process outsourcing courses and other related courses, professional training in the use of these programs, systems and tools and to offer necessary back office support services to institutions and other entities (see Note 7).

The Company is 60% owned by REDECS Green Holdings Corporation (REDECS or the parent company). The remaining 40% interest is held equally by JICA BPO Holdings Limited (JICA) and ADEC Innovations, Ltd. (ADEC). The parent company is also incorporated in the Philippines and is presently engaged in investing, purchasing, developing, leasing, selling, transferring or otherwise disposing of all properties of every kind, nature and description and wherever situated, including, but not limited to, real estate.

The registered office of the Company, which is also its principal place of business, is located at the 26th Floor, Philippine AXA Life Centre, Sen. Gil Puyat Avenue, Makati City. The registered office and principal place of business of the parent company is located at Bldg. 15 Don Mariano Lim Industrial Compound, Alabang-Zapote, Las Piñas City.

1.2 Change in Corporate Name

On January 4, 2016, the Board of Directors (BOD) approved the change in the Company's corporate name from F-I-R-S-T Carbon Solutions Corporation to ADEC Innovations Corporation. The change was approved by the SEC on April 29, 2016.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Company's BOD on March 7, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation of Financial statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The Company is qualified as a small and medium-sized entity based on the criteria set by the SEC and as defined in the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs). However, the Company opted to avail of the exemption provided by the SEC for mandatory adoption of PFRS for SMEs on the basis of its ultimate plan to become a subsidiary of a foreign parent company (see Note 1.1) reporting under IFRS. In view of the foregoing, the Company's financial statements have been prepared in accordance with PFRS.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on a historical cost basis. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expenses and other comprehensive income in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in these financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Company

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below and in the succeeding page are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. The application of this amendment had no impact on the Company's financial statement.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Company's financial statements.

(b) Effective in 2017 that are not Relevant to the Company

The annual improvement to PFRS 12 (2014-2016 Cycle), *Disclosure of Interest in Other Entities Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale* to existing standard is mandatorily effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Company's financial statements.

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Company's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified that the application of PFRS 9 (2014) has the most impact on the classification and measurement of the Company's financial assets and liabilities. Most of the Company's financial assets are being held to collect the associated cash flows and will continue to be accounted for at amortized cost. A simplified model of recognizing lifetime expected credit losses is applicable as the asset items do not have a significant financing component. For financial liabilities, an amortized cost will be retained.

(ii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management has initially assessed that this standard will not have material effect on the Company's financial statements.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Company's financial statements.

(v) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this new standard in its financial statements.

(vi) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method.

However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

(vii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard in its financial statements.

(viii) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

2.3 Separate Financial Statements and Investment in a Subsidiary

These financial statements are prepared as the Company's separate financial statements. As allowed under existing financial reporting standards, the Company has not presented consolidated financial statements because it is itself a wholly owned subsidiary of REDECS, which will present consolidate financial statements available for public use that comply with PFRS. Moreover, the Company's debt or equity securities are not traded in organized financial market and the Company is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

The Company's investment in a subsidiary is accounted for in these separate financial statements at cost, less any impairment loss (see Note 2.13).

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The Company's financial assets are currently categorized as loans and receivables and are presented as Cash, Trade and Other Receivables and Security Deposits in the statement of financial position. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are subsequently remeasured at amortized cost using the effective interest method for maturities extending beyond one year, less impairment losses, if any. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Other Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.6 Property and Equipment

Property and equipment are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 years
Office equipment	3-5 years
Computer equipment	3 years

Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements of five years or the term of the lease, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and fully amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.7 Financial Liabilities

Financial liabilities of the Company, which include Trade and Other Payables (excluding tax-related liabilities), Due to a Related Party and Security Deposits, are recognized when the Company becomes a party to the contractual terms of the instrument. These are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.8 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.9 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Company for services rendered, excluding value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Sale of services* – Revenue is recognized when the performance of contractually agreed tasks has been completed.

(b) *Interest* – this is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in the statement of comprehensive income upon receipt or consumption of goods, utilization of goods and/or services, or at the date they are incurred.

2.11 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Company as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.12 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.13 Impairment of Non-financial Assets

The Company's investment in a subsidiary, property and equipment and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.14 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.15 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan, a defined contribution plan and other benefits.

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.
The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, if any. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero-coupon government bond as published by Philippine Dealing & Exchange Corporation (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Interest is reported as part of Other Operating Expense or Other Operating Income account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity (i.e., Social Security System). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Trade and Other Payables account at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.16 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Revaluation reserve comprises the accumulated actuarial gains and losses on remeasurements of post-employment benefit obligation, net of applicable tax.

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

(a) Distinction Between Operating and Finance Leases

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's assessment, lease agreements that the Company has entered into are all operating leases.

(b) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 16.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Impairment of Trade and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Company's relationship with the counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5.

(b) Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are analyzed in Note 8. Based on management's assessment as at December 31, 2017 and 2016, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 13.

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized arising from Company's non-financial assets in 2017 and 2016 based on management's evaluation.

(e) *Valuation of Post-employment Benefit Obligation*

The determination of the Company's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 12.2(b).

4. CASH

Cash includes the following as at December 31:

	2017	2016
Cash on hand	P 20,000	P 20,000
Cash in banks	2,147,949	3,032,618
	P 2,167,949	P 3,052,618

Cash in banks generally earn interest at rates based on daily bank deposit rates. Interest income earned is shown as part of Other Operating Income account in the statements of comprehensive income (see Note 11).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as at December 31:

	Note	2017	2016
Trade receivables from:			
Related parties	14.1(b), 14.2(b)	P 44,868,149	P 45,007,744
Third parties		420,068	2,060,556
Other receivables	14.2(d)	452,257	872,782
		45,740,474	47,941,082
Allowance for impairment		(58,568)	-
		P 45,681,906	P 47,941,082

All of the Company's trade and other receivables have been reviewed for indications of impairment. In 2017, certain trade receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized (see Note 10). There was no impairment recognized in 2016.

6. OTHER ASSETS

The composition of this account is shown below.

	Notes	2017	2016
Current:			
Prepaid expenses		P 656,955	P 40,774
Input VAT	20.1(b)	531,031	649,112
Security deposits		85,602	164,836
Deferred input tax		-	192,248
		P 1,273,588	P 1,046,970
Non-current –			
Security deposits	16.1	P 1,571,674	P 1,571,674

7. INVESTMENT IN SUBSIDIARY

On December 9, 2016, the Company entered into an agreement (the Agreement) to subscribe 2,250,000 shares from the proposed increase in authorized capital stock of ADEC KMC, a domestic corporation registered with SEC. However, as of December 31, 2016, certain terms of the Agreement have not yet been executed and the SEC has not yet approved of ADEC KMC's proposed increase in authorized capital stock.

On January 30, 2017, the SEC approved such increase in authorized capital stock. Consequently, the Company paid P2.0 million for the subscription, thereafter. The Company's subscription represented 90% ownership interest in the 2,500,000 outstanding share of stock of ADEC KMC. Accordingly, ADEC KMC became a subsidiary of the Company in 2017.

ADEC KMC is engaged in providing programs, systems and tools related to business process outsourcing courses and other related courses, professional training in the use of these programs, systems and tools and to offer necessary back office support services to institutions and other entities. Its place of incorporation which is its principal place of business is in Alabang Corporate Center, Km. 25, West Service Road Cupang, Muntinlupa City 1770.

8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2017 and 2016 are shown below.

	Computer Equipment	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
December 31, 2017					
Cost	P 4,848,972	P 306,006	P 594,941	P 532,686	P 6,282,605
Accumulated depreciation and amortization	(4,848,972)	(299,911)	(594,571)	(532,686)	(6,276,140)
Net carrying amount	P -	P 6,095	P 370	P -	P 6,465
December 31, 2016					
Cost	P 4,848,972	P 303,417	P 594,941	P 532,686	P 6,280,016
Accumulated depreciation and amortization	(4,844,230)	(296,024)	(594,294)	(532,686)	(6,267,234)
Net carrying amount	P 4,742	P 7,393	P 647	P -	P 12,782
January 1, 2016					
Cost	P 4,848,972	P 303,417	P 594,941	P 532,686	P 6,280,016
Accumulated depreciation and amortization	(4,626,231)	(292,331)	(594,017)	(532,686)	(6,045,265)
Net carrying amount	P 222,741	P 11,086	P 924	P -	P 234,751

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2017 and 2016 is shown below and in the succeeding page.

	Computer Equipment	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 4,742	P 7,393	P 647	P -	P 12,782
Additions	-	2,589	-	-	2,589
Depreciation charges for the year	(4,742)	(3,887)	(277)	-	(8,906)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P -	P 6,095	P 370	P -	P 6,465
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 222,741	P 11,086	P 924	P -	P 234,751
Depreciation charges for the year	(217,999)	(3,693)	(277)	-	(221,969)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 4,742	P 7,393	P 647	P -	P 12,782

The depreciation charges for the years ended December 31, 2017 and 2016 are presented as part of Other Operating Expenses in the statements of comprehensive income (see Note 10).

As of December 31, 2017 and 2016, fully depreciated and fully amortized property and equipment with a total cost of P6.3 million and P5.6 million, respectively, are still used in operations.

9. TRADE AND OTHER PAYABLES

This account consists of the following:

	Note	2017	2016
Trade payables	14.2(a)	P 4,077,673	P 5,925,665
Accrued expenses	14.2(c)	1,764,236	1,394,505
Other current liabilities		367,815	645,167
		P 6,209,724	P 7,965,337

Accrued expenses include unpaid professional fees, rentals and utilities. Other current liabilities primarily consist of payroll-related liabilities and withheld taxes.

The carrying amount of trade and other payables, which are expected to be settled within the next 12 months from the end of the reporting period, is a reasonable approximation of their fair value.

10. COSTS AND OPERATING EXPENSES BY NATURE

The details of expenses by nature are shown below.

	Notes	2017	2016
Rentals	16.1	P 8,502,942	P 8,502,942
Outside services	14.2(a)	2,146,421	3,349,793
Salaries and employee benefits	12.1	2,041,298	1,856,020
Membership dues		1,202,891	1,187,082
Utilities, light and communication		696,016	1,182,278
Repairs and maintenance		442,385	696,797
Professional fees		304,005	920,625
Taxes and licenses	20.1(f)	184,222	187,789
Overhead		172,303	191,544
Interest cost	12.2(b)	20,864	13,963
Depreciation and amortization	8	8,906	221,969
Travel and transportation		7,764	13,709
Trainings and seminar		-	500
Miscellaneous	5	120,157	501,575
		P 15,850,174	P 18,826,586

These expenses are classified in the statements of comprehensive income as follows:

	2017	2016
Cost of services	P 2,318,724	P 3,541,337
Other operating expenses	13,531,450	15,285,249
	P 15,850,174	P 18,826,586

Shown below is the breakdown of cost of services for the years ended December 31.

	Note	2017	2016
Outside services	14.2(a)	P 2,146,421	P 3,349,793
Overhead	14.1(c), 14.2(c)	172,303	191,544
		P 2,318,724	P 3,541,337

11. OTHER OPERATING INCOME

Other operating income includes the following:

	Notes	2017	2016
Rent income	14.2(d), 16.2	P 5,595,226	P 5,840,081
Foreign exchange gains		66,496	2,384,023
Interest income from cash in banks	4	8,954	4,626
		P 5,670,676	P 8,228,730

12. EMPLOYEE BENEFITS

12.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	Notes	2017	2016
Short-term employee benefits		P 1,959,694	P 1,752,864
Post-employment defined benefit	12.2	81,604	103,156
	10	P 2,041,298	P 1,856,020

The amount of salaries and employee benefits expense is presented as part of Other Operating Expenses in the statements of comprehensive income (see Note 10).

12.2 Post-employment Benefit Obligation

(a) Characteristics of the Defined Benefit Plan

Currently, the Company does not yet have a formal post-employment benefit plan. However, it follows the provisions of Republic Act No. 7641 (R.A. 7641), *The Retirement Pay Law*, which is effectively an unfunded, noncontributory post-employment benefit plan covering all regular full-time employees, in recognizing its post-employment benefit obligation.

Under R.A. 7641, the normal retirement age is 60 with a minimum of 5 years of credited service. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

In 2017, the Company obtained an actuarial valuation to determine the amount of its post-employment benefit obligation and the related post-employment benefit expense in accordance with PAS 19 (Revised).

In 2016, the Company opted not to obtain the services of an actuary as management believes that the 2015 actuarial valuation report is still relevant considering that there have been no significant changes on the Company's employee profile.

The amount of post-employment benefit obligation recognized in the statements of financial position amounted to P0.4 million and P0.5 million as of December 31, 2017 and 2016, respectively.

The movements in the present value of the post-employment benefit obligation recognized in the financial statements as of December 31, 2017 and 2016 are as follows:

	Notes		2017		2016
Balance at beginning of year		P	480,741	P	363,622
Current service cost	12.1		81,604		103,156
Interest cost	10		20,864		13,963
Remeasurements – actuarial gains due to:					
Experience adjustments		(	157,393)		-
Changes in financial assumptions		(	41,772)		-
Balance at end of year		P	384,044	P	480,741

The components of amounts recognized in profit or loss and in other comprehensive income for the years ended December 31, 2017 and 2016 in respect of the post-employment defined benefit plan are as follows:

	Notes		2017		2016
Recognized in profit or loss:					
Current service cost		P	81,604	P	103,156
Interest expense	10		20,864		13,963
		P	102,468	P	117,119
Recognized in other comprehensive income:					
Actuarial gain due to:					
Experience adjustments		P	157,393	P	-
Changes in financial assumptions			41,772		-
Tax expense	13	(	59,750)		-
		P	139,415	P	-

The interest expense is included under Other Operating Expense account in the statements of comprehensive income (see Note 10).

In determining the amount of the post-employment benefit obligation in 2017 and 2016, the following actuarial assumptions were used:

	2017	2016
Discount rate	**4.09%**	4.34%
Expected rate of salary increases	**2.00%**	7.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is three years for both males and females in 2017 and 2016. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Benefit Obligation

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Change in assumption	Impact on post-employment obligation	
		Increase in assumption	Decrease in assumption
December 31, 2017			
Discount rate	**100 bp**	**Decrease by 3.0%**	**Increase by 3.2%**
Salary increase rate	**100 bp**	**Increase by 2.2%**	**Decrease by 2.1%**
December 31, 2016			
Discount rate	100 bp	Decrease by 8.5%	Increase by 9.8%
Salary increase rate	100 bp	Increase by 8.3%	Decrease by 7.5%

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated using the projected unit credit method at end of the reporting period) has been applied as when calculating the pension liability recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

As at December 31, 2017, the Company is yet to determine how much and when to fund a post-employment benefit plan.

13. TAXES

The components of tax expense (income) as reported in the statements of comprehensive income are as follows:

	2017	2016
Reported in profit or loss:		
Current tax expense		
Regular corporate income tax (RCIT) at 30%	P 556,529	P 1,214,511
Final tax at 20% and 7.5%	1,563	818
	558,092	1,215,329
Deferred tax income relating to origination and reversal of temporary differences	(799,854)	(130,468)
	(P 241,762)	P 1,084,861
Reported in other comprehensive income –		
Deferred tax expense relating to origination of temporary differences (see Note 12.2)	P 59,750	P -

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rate to tax expense (income) reported in profit or loss is presented below.

	2017	2016
Tax on pretax profit (loss) at 30%	(P 240,639)	P 813,635
Adjustment for income subjected to lower tax rates	(1,123)	(570)
Tax effect of non-deductible expense	-	271,796
	(P 241,762)	P 1,084,861

The net deferred tax liabilities relates to the following as at December 31:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income	
	2017	2016	2017	2016	2017	2016
Deferred tax liabilities:						
Rental receivable – PAS 17	P 61,599	P 61,599	P -	P 61,599	P -	P -
Unrealized foreign currency exchange gain	-	637,291	(637,291)	452	-	-
	61,599	698,890	(637,291)	62,051	-	-
Deferred tax assets:						
Rental payable – PAS 17	(220,921)	(171,243)	(49,678)	(157,383)	-	-
Retirement benefit obligation	(115,214)	(144,223)	(30,741)	(35,136)	59,750	-
Unrealized foreign currency exchange loss	(64,574)	-	(64,574)	-	-	-
Impairment losses on trade receivables	(17,570)	-	(17,570)	-	-	-
	(418,279)	(315,466)	(162,563)	(192,519)	59,750	-
Deferred tax liabilities (assets) – net	(P 356,680)	P 383,424				
Deferred tax expense (income)			(P 799,854)	(P 130,468)	P 59,750	P -

The Company is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported in 2017 and 2016 as the RCIT was higher than MCIT in both years.

In 2017 and 2016, the Company opted to continue claiming itemized deductions in computing for its income tax due.

14. RELATED PARTY TRANSACTIONS

The Company's related parties include its stockholder, subsidiary, related parties under common ownership, Company's key management personnel and others as described in as described below.

The summary of the Company's transactions and outstanding balances with its related parties follows:

Related Party Category	Note	Amount of Transactions 2017	Amount of Transactions 2016	Outstanding Balances 2017	Outstanding Balances 2016
Stockholder:					
Rendering of services	14.1(b)	P 2,118,253	P 3,412,685	P 27,223,636	P 27,399,641
Advances received (paid) - net	14.1(a)	2,205,689	146,158	(7,057,297)	(4,851,608)
Accommodation of expenses	14.1(c)	129,431	146,158	-	-
Related Parties Under Common Ownership:					
Rendering of services	14.2(b)	P 6,000,000	P 6,060,000	P 17,644,513	P 17,608,103
Purchase of services	14.2(a)	2,146,421	3,349,793	(4,077,673)	(5,854,510)
Accommodation of expenses	14.2(c)	42,872	37,986	(295,057)	(91,537)
Rental	14.2(d)	379,575	404,880	37,044	35,280
Reimbursement of expenses		-	159,937	-	159,937

Related Party Category	Note	Amount of Transactions 2017	Amount of Transactions 2016	Outstanding Balances 2017	Outstanding Balances 2016
Key Management Personnel					
Compensation	14.3	**P 1,732,332**	P 1,560,000	**P** 1,732,332	P 1,560,000

All of the Company's receivables from related parties have been reviewed for indications of impairment. Based on management's assessment, no impairment losses are required to be recognized on these receivables at the end of each reporting period. Moreover, these receivables from related parties and advances from and payables to related parties are unsecured, noninterest-bearing and usually repaid in cash within 12 months.

The following are the details of such transactions:

14.1 Transaction with a Stockholder

(a) Advances of Funds

The Company obtains advances from ADEC primarily for working capital requirements. The outstanding balance of such advances is presented as Due to a Related Party in the statements of financial position.

The movements in the Due to a Related Party account are presented below.

	2017	2016
Balance at beginning of year	**P 4,851,608**	P 4,705,450
Additions	**2,205,689**	146,158
Balance at end of year	**P 7,057,297**	P 4,851,608

(b) Rendering of Services

Starting February 2011, ADEC engaged the Company to avail of the Company's different services as enumerated in the table below. Services rendered are usually based on monthly service fees, as agreed between the parties, in addition to consulting services rendered. The details of the transactions with ADEC are presented below.

	2017	2016
Greenhouse gas track	**P 2,118,253**	P 2,002,105
Web services	**-**	1,410,580
	P 2,118,253	P 3,412,685

Revenues recognized from the above transactions are included as part of Sale of Services account in the statements of comprehensive income.

The outstanding receivables from services rendered to ADEC as at December 31, 2017 and 2016 are presented as part of Trade receivables from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 5).

(c) Accommodation of Expenses

Transactions with ADEC also include accommodation of expenses such as software subscription and other operating expenses incurred in relation to the services provided by the Company. These expenses are appropriately recognized as part of Cost of Services in the statements of comprehensive income.

There were no outstanding payables from these transactions as at December 31, 2017 and 2016.

14.2 Transactions with Related Parties Under Common Ownership

(a) Purchase of Services

The services provided by the Company to its customers are subcontracted with Amdatex Las Piñas Services, Inc. (ALPSI), which provides support services for software development, web services and other related services necessary to bring the Company's projects into completion. The cost of services recognized from these transactions is presented as Outside services under the Cost of Services account in the statements of comprehensive income (see Note 10).

The outstanding payable as at December 31, 2017 and 2016 is presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 9).

(b) Rendering of Services

The Company and ALPSI also entered into a Management Service Agreement (MSA) in which the Company will provide ALPSI sustainability and environmental management program suitable to address the needs of ALPSI. The revenues recognized from these MSA services are shown as part of Sale of Services in the statements of comprehensive income. The outstanding receivable as of December 31, 2017 and 2016 are presented as part of Trade receivables from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 5).

In 2013, the Company and FCS International, Inc. (FCS International) entered into a service agreement whereby the Company shall provide FCS International professional services including, but not limited to: telecommunications; management functions; marketing and design; research, reproduction and publications; information technology support and infrastructure improvements; proposal team support; and other similar or related activities. There were no services rendered to FCS International in 2017 and 2016. The outstanding receivable both amounting to P16.5 million in 2017 and 2016 is presented as part of Trade receivables from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 5). The movement in the outstanding balance was due to foreign currency translation adjustment.

(c) Accommodation of Expenses

Transactions with ALPSI also include accommodation of expenses such as utilities, supplies, repairs and other operating expenses incurred in relation to the services provided by ALPSI, which are to be reimbursed by the Company to ALPSI. These expenses are appropriately recognized either as part of Cost of Services or Other Operating Expenses in the statements of comprehensive income.

The outstanding payable as at December 31, 2017and 2016 is presented as part of Accrued expenses under the Trade and Other Payables account in the statements of financial position (see Note 9).

(d) Rental of Office and Parking Space

In 2015, the Company renewed its non-cancellable lease agreement with Pharma KPO Corporation for the lease of an office space. The revenues recognized from the lease are included as part of Rent Income under Other Operating Income account in the statements of comprehensive income (see Note 11). The outstanding balance as at December 31, 2017 and 2016 is presented as part of Other receivables under the Trade and Other Receivables account in the statements of financial position (see Note 5).

14.3 Key Management Personnel Compensation

The key management personnel received a total compensation amounting to P1.7 million and P1.6 million in 2017 and 2016, respectively.

15. CAPITAL STOCK

The details of the Company's capital stock as of December 31, 2017 and 2016 are shown below.

	Shares	Amount
Authorized – at P1 par value	100,000,000	P 100,000,000
Issued and outstanding	25,750,001	P 25,750,001

As at December 31, 2017 and 2016, the Company has three stockholders owning 100 or more shares each of the Company's capital stock.

16. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

16.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under a non-cancellable operating lease covering certain office space and facilities. In December 2015, the Company renewed its lease contract for its office space which has a term of four years, with renewal options, and includes an annual escalation rate of 5%. The Company was required to make security deposits amounting to P1.6 million in connection with the lease, which shall answer for any default and any rental obligations or damages it may cause on the leased premises, but shall be refunded at the end of the lease term in case no defaults or damage is caused upon by the Company. The deposits are recognized as Security Deposits under Non-current Assets section in the statements of financial position (see Note 6). As at December 31, 2017 and 2016, the Company has met all the requirements of the lease contract.

The future minimum rentals payable under this non-cancellable operating lease are as follows:

	2017	2016
Within one year	**P 8,714,319**	P 8,337,346
After one year but not more than five years	**8,319,390**	17,033,709
	P 17,033,709	P 25,371,055

Total rental expense from this operating lease both amounting to P8.5 million in 2017 and 2016 is presented as Rentals under Other Operating Expenses in the statements of comprehensive income (see Note 10).

16.2 Operating Lease Commitments – Company as Lessor

Starting July 2012, the Company became a lessor under a non-cancellable operating sublease covering certain office space and facilities [see Note 14.2(d)]. The sublease contract was renewed in December 2015, for a term of four years, with renewal options, and includes an annual escalation rate of 5%.

Moreover, in December 2015, the Company renewed another sublease agreement covering certain office space and facilities for a term of three years, with an escalation rate of 5% each year. In connection with the sublease, the Company received P0.7 million in 2014 and an additional P0.3 million in 2016 representing the security deposit which shall be refunded to the sublessee at the end of the contract. The security deposit is presented as part of Security Deposits under the Non-current Liabilities section in the statements of financial position.

The future minimum rent receivables under these non-cancellable operating leases are as follows:

	2017	2016
Within one year	P 4,273,217	P 4,421,973
After one year but not more than five years	382,019	4,655,236
	P 4,655,236	P 9,077,209

Total rent income from the operating leases amounting to P5.6 million and P5.8 million for the years ended December 31, 2017 and 2016, respectively, is shown as Rent Income and is presented under Other Operating Income in the statements of comprehensive income (see Note 11).

16.3 Others

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements because the possible outflow of economic resources as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Company's financial statements.

17. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial instruments. The main type of risks are market risk and credit risk.

The Company's risk management is coordinated with its parent company in close cooperation with the BOD.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

17.1 Market Risk

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise from the Company's overseas sale of services which are primarily denominated in United States (U.S.) dollars. The Company also holds U.S. dollar-denominated cash in banks.

Foreign currency-denominated financial assets translated into Philippine peso at their respective closing rates amount to P44.7 million and P44.3 million as at December 31, 2017 and 2016, respectively. As of the same period, the Company has no outstanding financial liabilities denominated in foreign currency. The sensitivity analysis of the Company's profit before tax arising from its financial assets and the U.S. dollar-Philippine peso exchange rate assumes a reasonably possible change in rate of +/-10.77 and +/-9.45% in 2017 and 2016, respectively. These percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months estimated at a 99% confidence level. If the Philippine peso has strengthened against the U.S. dollar, with all the variables held constant, the Company's loss before tax would have increased by P4.8 million in 2017 and profit before tax in 2016 would have decreased by P4.2 million in 2016. Conversely, if the Philippine peso has weakened by the same percentages during the same period, loss before tax in 2017 would decreased and profit before tax in 2016 would have increased by the same amount.

(b) Interest Rate Risk

The Company has no financial instruments subject to floating interest rate, except cash in banks, which historically has shown small changes in interest rates. As such, the Company's management believes that the interest rate risk is not material.

17.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk with respect to financial instruments arising from granting of advances to related parties, recognition of receivables from customers as a result of services rendered and placing of deposits with banks.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as at December 31, 2017 and 2016 as shown in the detailed analysis provided in the notes to the financial statements, as summarized below.

	Notes	2017	2016
Cash	4	**P 2,167,949**	P 3,052,618
Trade and other receivables	5	**45,681,906**	47,941,082
Security deposits	6	**1,657,276**	1,736,510
		P 49,507,131	P 52,730,210

The Company's management considers that all the above financial assets at the end of each reporting period under review, are of good credit quality. None of the financial assets are secured by collateral or other credit enhancements.

The credit risk for Cash is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution. On the other hand, 99% and 94% of the Company's Trade and Other Receivables as at December 31, 2017 and 2016, respectively, are due from related parties [see Note 14.1(b) and 14.2(b)]. The Company mitigates the concentration of its credit risk by regularly monitoring the age of its receivables from these customers and ensuring that collections are received within the agreed credit period.

Security deposits were provided by the Company to lessors in relation to lease agreements covering certain office facilities (see Note 16.1). These security deposits are refundable at the end of the lease term and the Company only deals with lessors that are reputable.

Some of the unimpaired trade receivables are past due as at December 31, 2017 and 2016. The trade receivables that are past due but not impaired are as follows:

	2017	2016
Not more than three months	P 1,475,766	P 1,435,160
More than three months but not more than six months	524,192	333,372
More than six months but not more than one year	1,048,383	5,829,198
More than one year	41,681,980	35,614,361
	P 44,730,321	P 43,212,091

No other financial assets are past due at the end of the reporting period.

17.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The following are the Company's maximum liquidity risks as at December 31, 2017 and 2016, and are shown under the current liabilities section in the statements of financial position.

	Notes	2017	2016
Trade and other payables	9	P 6,052,090	P 7,491,576
Due to a related party	14	7,057,297	4,851,608
Other current liabilities		637,341	242,831
Security deposit	16.2	958,482	958,481
		P 14,705,210	P 13,544,496

18. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

18.1 Carrying Amounts and Fair values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	2017 Carrying Amount	2017 Fair Values	2016 Carrying Amount	2016 Fair Values
Financial Assets					
Loans and receivables:					
Cash	4	P 2,167,949	P 2,167,949	P 3,052,618	P 3,052,618
Trade and other receivables	5	45,681,906	45,681,906	47,941,082	47,941,082
Security deposits	6	1,657,276	1,657,276	1,736,510	1,736,510
		P 49,507,131	P 49,507,131	P 52,730,210	P 52,730,210
Financial Liabilities					
At amortized cost:					
Trade and other payables	9	P 6,052,090	P 6,052,090	P 7,491,576	P 7,491,576
Due to a related party	14	7,057,297	7,057,297	4,851,608	4,851,608
Other current liabilities		637,341	637,341	242,831	242,831
Security deposit	16	958,482	958,482	958,481	958,481
		P 14,705,210	P 14,705,210	P 13,544,496	P 13,544,496

See Notes 2.4 and 2.7 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 17.

18.2 Fair Value Hierarchy and Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

Financial assets and financial liabilities measured at fair value are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Management considers that due to short duration of the Company's financial assets, such as cash and receivables, and financial liabilities, such as due to a related party and trade and other payables, measured at amortized costs, their fair values as of December 31, 2017 and 2016 approximates their carrying amounts; hence, these financial assets and financial liabilities are classified under Level 1.

The fair value of the Company's security deposits which are classified under Level 3 are recognized at amortized cost using effective interest rate at the time of payment of the deposits. Such rate is derived from the interest rate of a zero coupon government bond, as published by PDEX, which has the same term to maturity approximating the term of the related lease contracts (see Note 6).

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

18.3 Offsetting of Financial Assets and Financial Liabilities

The Company has not set off financial instruments in 2017 and 2016 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis. As such, the Company's outstanding receivables from related parties amounting to P44.9 million and P45.2 million as of December 31, 2017 and 2016, respectively, and the Company's outstanding liabilities to related parties amounting to P11.4 million and P10.8 million as of December 31, 2017 and 2016, respectively, are stated at gross. However, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through the approval of both parties' BOD and stockholders (see Notes 5, 9 and 14).

19. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to stockholders by pricing its services commensurate with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized below.

	2017	2016
Total liabilities	P 15,323,550	P 15,469,461
Total equity	37,734,712	38,155,665
Debt-to-equity ratio	0.41:1	0.41:1

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt.

20. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

20.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) Output VAT

In 2017, the Company declared output VAT on rendering of services as follows:

	Tax Base	Output VAT
Vatable services	P 14,262,972	P 1,711,557
Zero-rated services	783,624	-
	P 15,046,596	P 1,711,557

The Company's zero-rated VAT services were determined pursuant to Section 108 (B), *Zero-rated VAT on sale of services and use or lease of properties,* of the 1997 National Internal Revenue Code.

The tax base of the zero-rated services are included as part of Sale of Services while the Vatable sales are included as part of either Sale of Services or Other Operating Income in the 2017 statement of comprehensive income. The tax bases for Sale of Services and Other Operating Income are based on the Company's gross receipts for the year; hence, may not be the same as the amounts reported in the 2017 statement of comprehensive income. An equivalent amount of input VAT is applied against the amount of output VAT; hence, the outstanding balance of VAT payable is nil as at December 31, 2017.

(b) Input VAT

The movements in input VAT in 2017 are summarized below.

Balance at beginning of year	P 649,112
Domestic purchase of services	1,453,505
Domestic purchases of goods other than capital goods	4,507
Domestic purchase of capital goods	311
Gov't related input tax charged to Expense	(75,152)
Applied against output VAT	(1,501,252)
Balance at end of year	P 531,031

The outstanding input VAT amounting to P531,031 as at December 31, 2017 is presented under the Other Current Assets account in the 2017 statement of financial position (see Note 6).

(c) *Taxes on Importation*

The Company did not have any importations in 2017.

(d) *Excise Tax*

The Company did not have any transactions in 2017 which are subject to excise tax.

(e) *Documentary Stamp Tax*

The Company paid P389 of documentary stamp tax (DST) in 2017.

(f) *Taxes and Licenses*

Details of taxes and licenses are as follows:

Business permits	P	163,060
Community tax certificate		8,078
Annual Registration		500
Others		12,584
	P	184,222

The amount of taxes and licenses is presented as part of Other Operating Expenses in the 2017 statement of comprehensive income (see Note 10).

(g) *Withholding Taxes*

Details of total withholding taxes for the year ended December 31, 2017 are shown below.

Expanded	P	475,661
Compensation and employee benefits		391,231
	P	866,892

The Company has no income payments that are subject to final withholding tax.

(h) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2017, the Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

20.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, these may not be the same as the amounts reflected in the 2017 statement of comprehensive income.

(a) *Taxable Revenues*

The Company's taxable revenues for the year ended December 31, 2017, which are presented as Sale of Services in the 2017 statement of comprehensive income and are subject to the regular tax rate, amounted to P9,377,368.

(b) *Deductible Cost of Services*

Cost of services, which are deductible under the regular tax rate for the year ended December 31, 2017, comprises the following:

Outside services	P	2,146,421
Overhead		172,303
	P	2,318,724

(c) *Taxable Non-operating and Other Income*

The details of taxable non-operating and other income in 2017 which are subject to regular tax rate are shown below.

Rentals	P	5,595,226
Realized foreign exchange gains		2,124,303
Others		281,743
	P	8,001,272

(d) *Itemized Deductions*

The amounts of itemized deductions which are deductible under the regular tax rate for the year ended December 31, 2017 are as follows:

Rental	P	8,337,347
Salaries and employee benefits		1,959,694
Membership dues		1,202,891
Utilities, light and communication		696,016
Repairs and maintenance		442,385
Professional fees		304,005
Taxes and licenses		184,222
Office supplies		28,244
Depreciation and amortization		8,906
Travel and transportation		7,764
Representation and entertainment		2,348
Miscellaneous		30,998
	P	13,204,820

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