EEI CORPORATION

EEI CORPORATION
Management's Discussion and Analysis
As of 30 September 2008

EEI Corporation registered an unaudited consolidated net income of P363 million for the first nine months of 2008, an increase of 76% from the P207 million it earned during the same period last year. On a per share basis, earnings for the first three quarters amounted to P0.35 during the year, compared to P0.20 in 2007.

Consolidated revenues rose 41% from P5.52 billion in 2007 to P7.77 billion for the period in review.

Production from construction contracts increased 13% from P4.07 billion in 2007 to P4.59 billion. The growth, however, in consolidated revenues is attributable to the pickup of the overseas construction operations which reflects the company's shift and concentration of its project assets and manpower to the international markets. EEI has a current manpower complement of 18,000 people, more than half of which are deployed overseas. About 1,400 are in the Goro Nickel Mining project in New Caledonia and around 8,000 are in various projects of Al Rushaid Construction Co. in the Kingdom of Saudi Arabia (KSA).

Revenues from services, principally attributable to EEI's 100%-owned company EEI New Caledonie (NC), leaped 165% from P0.79 billion for the first three quarters last year to P2.09 billion this year.

In KSA, EEI's 49%-owned joint venture Al Rushaid Construction Corporation (ARCC) obtained additional work package for Eastern Petrochemical Company (also known as Sharq) which brings its total contract with Sharq to US$318 million. During the year, ARCC also secured new contracts with Saudi Aramco for the flare tips projects, the new Shuqaiq power and desalination plant of the Mitsubishi Heavy Industries (MHI) and another MHI project for the replacement of boiler tubes in the Qurrayah power plant. The total contract value of these new projects is approximately US$275 million. This brings orders backlog to $391 million as of September 2008.

On the domestic front, the Company won orders and contracts aggregately valued (at net selling price) of P2.2 billion in the first three quarters of 2008, lower than the P2.4 billion for the same period last year. Orders backlog (excluding ARCC) decreased from P4.6 billion at the end of September 2007 to P3.2 billion this year.

Among the significant orders acquired by the Company is the joint venture project with Hanjin Heavy Industries & Construction Co. Ltd. (Hanjin) for the construction of Berth 6 of the Manila International Container Terminal of Philippine global port operator International Container Terminal Services Inc. (ICTSI). EEI has a 30% stake in the P2.84 billion project while Hanjin has 70%.

Another major project garnered is the Piperack Modules fabrication work for Stone Webster Asia Inc. worth Sing $57 million. The fabrication work forms part of the Singapore Parallel Train (SPT) Olefins Recovery Project at Jurong Island Singapore being built for Exxon Mobil Chemical Asia Pacific.

The Company also won contracts for the construction of the Biscom Sugar Refinery of the Chan group, additional work packages for the fly-over ramp IV-A of the NAIA 3 Expressway project of the Department of Public Works and Highways, the sub-structure and civil works for the GA Skysuites project and the Petro FCC revamping and BTX projects for the petrochemical downstream facilities of the Petron Refinery in Bataan for Daelim of Korea.

The Company is currently completing the St. Francis Shang Towers of Kuok Properties, the GA 2 Tower of Globe Asiatique, the Mandarin Square Building in the Binondo district and the Makati Medical Center Annex building. Likewise also underway are various projects for Japan Gas Corp. (JGC) in the Coral Bay Mining project in Rio Tuba, Palawan as well as other fabrication works for ISGEC John Thompson and Taiyo Nippon Sanso Phils.

Consolidated costs increased 38% to P6.58 billion in the first nine months of 2008 from P4.78 billion in 2007. Finance costs likewise went up 56% from P124.24 million in 2007 to P194.03 million this year. Provision for consolidated income tax increased from P97 million as of Sept. 2007 to P141 million for the same period of 2008.

All significant elements of income or loss arose from our continuing operations.

Healthy financial results from operations contributed to gains in EEI's balance sheet. Total assets stood at P7.24 billion as of the end of September 2008, an increase of 11% from P6.52 billion last year-end.

On the asset side, current assets increased 6% from P4.85 billion as of end December 2007 to P5.14 billion as of September this year. This was brought about principally by the 22% rise in cash and cash equivalents from P659 million as at the end of 2007 to P802 million as of the end of September 2008. Receivables likewise went up 11% from P1.91 billion as of December 2007 to P2.11 billion as of September 2008. Costs and estimated earnings in excess of billings on uncompleted contracts declined 9% from P1.19 billion as of December 2007 to P1.08 billion as of September 2008.

Total non-current assets grew 26% from P1.67 billion last year to P2.10 billion as of the end of the third quarter of 2008. The increase was the result of the significant rise in investments in associates and joint ventures because of the Company's drive towards overseas markets and the growth in property, plant and equipment due to the equipment re-fleeting program and upgrading of the fabrication shop.

On the other hand, current liabilities stood at P4.11 billion at the end of September 2008, up 12% compared to P3.67 billion as of end 2007. The increase was attributable to the 33% rise in bank loans from P1.07 billion as of December 2007 to P1.42 billion in 2008. Accounts payables and accrued expenses likewise increased 36% from P1.47 billion last year to P2.00 billion as of the end of September 2008.

There are no known trends or commitments other than those presented in the financial statements, which may have material impact on the Company's liquidity. Furthermore, there are no material commitments for capital expenditures.

Stockholders' equity stood at P2.56 billion, up 14% from P2.25 billion as of end of last year. Retained earnings grew 39% from P802 million to P1.11 billion as of the end of September 2008 as a result of the positive income during the period.

The Company issued and paid cash dividend of P0.05 per share to shareholders of record as of July 15, 2008 last August 8, 2008. The total dividend pay-out amounted to P51.8 million.

The Company is cautiously optimistic about its prospects and is anticipated to perform according to over-all targets for the year 2008. It had acquired sufficient orders during the first half from both the domestic and overseas fronts to enable it to book its target production for the year.

EEI has also continued to leverage its strengths and well-deserved reputation in industrial and electro-mechanical construction and quality and on-time project delivery in the Kingdom of Saudi Arabia to earn new orders and contracts from global Engineering, Procurement and Construction (EPC) gas companies. The Company will continue to pursue other major mineral, petrochemical and oil refinery projects in the Middle East and other parts of the world.

Management continues to exercise financial prudence and implement cost-management and productivity improvement programs to manage the risks arising from the global financial turmoil and the anticipated slowdown in the construction market.