

COVER SHEET

SEC Registration Number

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Company Name

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Principal Office (No./Street/Barangay/City/Town/Province)

N	o	.		1	2		M	a	n	g	g	a	h	a	n		S	t	r	e	e	t	,		B	a	g	u	m
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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

<u>eeicenter@eei.com.ph</u>

Company's Telephone Number/s

635-0843 to 49

Mobile Number

N/A

No. of Stockholders

3,192

Annual Meeting
Month/Day

July 01

Fiscal Year
Month/Day

September 30

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Atty. George Ryan T. Hipolito

Email Address

grthipolito@eei.com.ph

Telephone Number/s

635-0851 to 56

Mobile Number

N/A

Contact Person's Address

No. 12 Manggahan St., Bagumbayan, Quezon City, Metro Manila, Philippines

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (a)-1 (b) (2) THEREUNDER

1. For the quarterly period ended **September 30, 2016**
2. SEC Identification No. **937**
3. BIR Tax Identification No. **000-391-438**
4. Exact Name of Registrant as specified in its charter - **EEl Corporation**
5. Province, Country or other Jurisdiction of Incorporation or Organization
Quezon City, Philippines
6. Industry Classification Code (SEC use only)
7. Address of Registrant's Principal Office/Postal Code
No. 12 Manggahan St., Bagumbayan, Quezon City 1110
8. Registrant's Telephone Number, including Area Code
(02) 635-08-43
9. Former Name, Former Address, and Former Fiscal Year, if changed since last report
Not Applicable

10. Securities Registered pursuant to Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding	
Common shares - ₱1 par value	No. of shares	Amount
Authorized	2,000,000,000	2,000,000,000
Issued and Outstanding	1,036,281,485	1,036,281,485

11. Are any or all of these securities are listed on the Philippine Stock Exchange?

Yes No

12. Indicate by check mark whether the Registrant.

(a) has filed all the reports required under Section 17 of the Securities Regulation Code and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months:

Yes No

(b) has been subject to such filing requirements for the past 90 days.

Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The interim Consolidated Financial Statements - EEI Corporation and Subsidiaries – September 30, 2016 with comparative figures for the period ended December 31, 2015 and September 30, 2015. Cash Flows and Schedule of Aging of Accounts Receivable is incorporated by reference as Exhibit 1.

Item 2. Management's Discussion and Analysis

EEI CORPORATION and SUBSIDIARIES Management's Discussion and Analysis As at September 30, 2016

Results of Operations

EEI Corporation's consolidated revenues for the first nine months of 2016 were posted at P10.18 billion. This reflects a 26% decline amounting to P3.58 billion compared to its 2015 performance for the same period. This is mainly a result of the lower production level represented by the value of domestic construction contracts which at P10.28 billion for the first three quarters in 2016, was 23% lower compared to the P13.43 billion recorded in 2015. Specifically, EEI Corporation's Skyway project encountered a right of way issue which slowed its progress. The MRT7 project could not begin on time as EEI's client had to address inquiries and demands from the Quezon City local government. Meanwhile, the progress of Panglao airport project was hindered by recently communicated mandated changes to design and materials. Lastly, EEI's FDC large power plant project in Villanueva, Misamis Oriental have contributed less revenue this year than in the same period last year as the project reaches completion.

Revenue from services decreased by 23% due to reduced delivery of electricity. EEI Power conducted repairs and maintenance works on its 15MW Peaking Power Plant in Tagum City, Davao del Norte in the early part of the year, while demand for its peaking power turned out to be lower in the latter part of the year. On the other hand, revenue from merchandise sales declined by 36% due to lower sales volume delivered by Equipment Engineers, Inc.

Further contributing to the decline in the Company's total revenues was its P1 billion share in the net loss reported by Al Rushaid Construction Company (ARCC), EEI's 49%-owned joint venture in the Kingdom of Saudi Arabia. ARCC has made provisions for probable losses due to delays in a major project, caused by delayed delivery of owner supplied materials and equipment, and the inability of the client to allow access to work sites due to delayed completion of civil works by other subcontractors. Earlier this year, ARCC entered into a settlement agreement with the client as part of its effort to recover the losses incurred. Recently, however, ARCC filed a notice of dispute for client's non-completion of civil works, non-delivery of materials and diversion of EEI's workforce to other areas as these client actions or shortcomings led to ARCC's non-attainment of the September 30 deadline under the compromise settlement agreement.

Direct labor and indirect cost will significantly increase due to non-achievement of target scheduled mechanical completion of September 30, 2016, now moved to December 31, 2016. As such, additional provisions were made by ARCC for this problematic project.

For the period, the total costs and expenses associated with the Company's revenue streams at ₱9.61 billion was 24% lower than that of 2015's, matching the cumulative decline in the revenues.

For the nine months ending September 30, 2016, EEI registered an unaudited consolidated net loss of ₱313.83 million, compared to the ₱120.86 million earned for the same period in 2015 as summarized below:

(In Thousand Pesos)	For the nine months ended September 30	
	<u>2016</u>	<u>2015</u>
Income from Philippine Operations	-₱ 687,653	₱ 972,529
Equity Net Loss of Al Rushaid Construction Co. Ltd.	<u>(1,020,969)</u>	<u>(697,998)</u>
Pretax Income (Loss)	(333,316)	274,531
Provision for IncomeTax	184,710	293,271
Benefits from IncomeTax	<u>(204,194)</u>	<u>(139,600)</u>
Net Income (Loss)	₱ <u>(313,832)</u>	₱ <u>120,860</u>
Earnings (Loss) Per Share	₱ <u>(0.30)</u>	₱ <u>0.12</u>

Financial Position

EEI's total assets as of September 30, 2016 were at ₱22.02 billion, slightly lower than the 2015 yearend level of ₱22.46 billion. Cash and cash equivalents declined by 49% to ₱645.19 million after the purchase of ₱615 million worth of transportation and construction equipment intended for new projects. Receivables stood at ₱6.78 billion, 7% higher than the December 31, 2015 level which was at ₱6.34 billion. Total current assets decreased by 3% to ₱14.43 billion in the 9-month period while total non-current assets decreased by 1% to ₱7.59 billion.

EEI's total current liabilities stood at ₱14.34 billion, a 2% increase during the nine-month period. The significant increase of ₱1.18 billion or 24% in billings in excess of costs and estimated earnings on uncompleted contracts account was due to contract deposit received from a big ticket infrastructure project awarded early part of the year. Accounts payable decreased by 12% to ₱4.78 billion for the period in review due to settlement of various accounts. Bank loans, both short term and long term, cumulatively decreased by ₱479.29 million as a result of payment of maturing loans and of amortizations.

EEI's total equity decreased during the period by 7%, from ₱6.78 billion to ₱6.30 billion, mostly from the 10% reduction in retained earnings as a result of the ₱313.83 million net loss incurred for the nine month period, and dividend declared and paid amounting to ₱207.26 million.

The Company's book value per share, which ended at ₱6.54 at the end of 2015, stood at ₱6.08 as of September 30, 2016. The debt to equity ratio was 2.49:1 on a consolidated basis for the period under review, versus the 2.31:1 registered as at December 31, 2015.

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.

Operating Highlights

In the first three quarters of 2016, EEI won the contracts to design and construct the *MRT 7 Civil Works Package and for the Interfacing/Integration of Civil Works with the Systems Contractor based on High Level Interfaces Delineation* for Universal LRT Corporation; to *expand the Bocaue Toll Plaza Barrier* for Manila North Tollways Corporation; for the *improvement of the power distribution system* for Petron Corporation in Limay, Bataan; to construct *Coast Residences* for SMDC in Pasay City; to construct the *MIT Malayan Colleges* in Davao City; and for the construction of a *Glass Manufacturing Plant* for San Miguel-Yamamura.

Building projects which have been completed are Megaworld's *Uptown Parade* in Bonifacio Global City and the *Admiral Bay Suites* for Admiral Realty Company, Inc. in Malate, Manila.

The building projects that the Company are still working on are the following: six projects for Megaworld Corporation namely, the *One Eastwood Avenue Tower 1 and Tower 2* in Eastwood City, Quezon City, the *Noble Place* in Binondo, Manila, the *Uptown Mall and BPO Offices; Uptown Towers 3 and 4* and the *Bayshore 6 Cluster* in Pasay City; five projects for SM Development Corporation, namely the *Wind Residences Towers 4 and 5* in Tagaytay City; the *Green Residences* in Manila City; *Air Residences* in Makati City; *Fame Residences 1* in Mandaluyong City; *Beacon Tower 3* of New Pacific Resources Management, Inc. in Makati City; Monte de Tesoro's *Ore Central* in Bonifacio Global City in Taguig; the *Corporate Center and Skysuites* of Double Dragon Properties Corp. in Quezon City; the *Grand Hyatt Center* of Bonifacio Landmark Realty and Development Corporation in Bonifacio Global City, Taguig ; the *Filinvest Festival Supermall Expansion* of Filinvest Land, Inc. in Alabang, Muntinlupa City; *Finance Center* of Daiichi Properties, Inc. in Bonifacio Global City, Taguig; the *GGLC Aeropark Quad 1 (Phase 1)* of Global Gateway Development Corporation in Clark, Angeles, Pampanga and the *ETY Building* of Enrique T. Yuchengco, Inc. in Binondo, Manila.

Infrastructure projects in progress are the following: *Runway Extension of Caticlan Airport* of Transaire Development Holdings Corporation in Malay, Aklan; the *Communication, Navigation and Surveillance/Air Traffic Management Systems Development* of the Department of Transportation and Communication under Sumitomo Corporation; *Sections 3 & 4 of the Skyway Stage 3* of San Miguel Corporation/Citra Central Expressway Partnership; and the *New Bohol (Panglao) Airport* of the Chiyoda-Mitsubishi Corporation joint venture in Bohol.

Electromechanical projects that were completed during the period were the *Condensed Milk Plant and Milk Powdered Plant* of Alaska Milk Corporation in San Pedro, Laguna, the *San Gabriel 450 MW Combined Cycle Power Plant* for Siemens, Inc in Batangas City, and the *MARIS Optimisation Project* of Century Drilling and Energy Services (NZ) Ltd.

Electromechanical projects currently in-progress are the *3x135 MW Coal-fired Power Plant* for FDC Utilities in the Phividec Industrial Estate in Misamis Oriental, *Therma Visayas Energy Project* for Galing Power and Energy Construction Co., Ltd. in Cebu City, and the *Pagbilao Power Plant Unit 3- Mechanical Package 1* for Daelim Philippines, Inc. in Pagbilao, Quezon Province. In the Kingdom of Saudi Arabia, ARCC won the *SAFCO IV Reliability Improvement project* under e-TEC Arabia Limited Co., as it continues to work on *Rabigh*

Independent Power Plant 2 for Petrorabigh under Samsung C&T; the *Jazan Refinery and Terminal* of Saudi Aramco under Daewoo; *SPOF Phase 1 Procurement and Construction* for Rabigh Arabian Water and Electricity Company under JGC Gulf International Co., Ltd.; *Marjan and Zuluf TP9* for Saudi Aramco under Star; *Safanivah Works* for Saudi Aramco; *Yanpet U10 Convection Upgrade Works* for Yanpet Saudi-Yanbu Petrochemical Company under e-TEC Arabia Limited Co.; *Mechanical Works for the Naphtha and Aromatic Package* of the Rabigh II Refining and Petrochemical project of the Saudi Aramco and Sumitomo Chemical Co. joint venture under SAIPEM construction of the *240MW Petrorabigh Power and Steam Generating Plant* under Mitsubishi Heavy Industry; maintenance contract of the *Saudi Aramco Total Refining and Petrochemical Company's Refinery* in a joint venture with Sankyu of Japan; the *Affiliate Wide EO Reactors Replacement* under Dragados, *Retrofit and Upgrade Construction Works* at the Saudi Aramco Ras Tanura Refinery. In addition, ARCC was also contracted to provide manpower for several support services, retrofits, piping fabrication, and shutdown works for Saudi Aramco, SABIC, and other clients in the Kingdom.

Outlook

As of September 30, 2016, the Company's unworked portion of existing contracts amounted to ₱55.55 billion including ARCC's unworked portion of ₱7.56 billion.

There has been a notable increase in power plants that EEI has been working on over the last few years. There have also been more infrastructure projects, and the new government administration is expected to continue to push for infrastructure development. In view of these trends and expectations, the Company has been preparing itself with the necessary resources to take on these types of work as it continues with its skills training and productivity improvement programs, and as it continues to complete its fleet of heavy equipment.

In the Kingdom of Saudi Arabia (KSA), the prices of crude oil are seen to continue at low levels in the short to medium term. The decline in revenues has prompted the Saudi government to cut spending, as initiatives towards growing the non-oil sectors and implementing tax reforms continue. Analysts consider the uncertainties about future oil prices and escalations of regional tensions to be among those that may have an impact on the KSA's economic growth.

In light of the unfavorable developments in its joint venture in the KSA, coupled with the falling oil prices which could result in a slowdown of construction activity in the petrochemical industry, the Company is intensifying its pursuit of large infrastructure, power, and industrial projects in other industries, not just in the KSA but in other countries and most especially, in the domestic market.

The backlog of existing projects is healthy, and overall, EEI expects a robust performance in its domestic operations driven by buildings, large infrastructure and industrial projects in its pipeline. It foresees more projects, especially from high probability winnable prospects currently being pursued. There is also optimism in the business opportunities outside the Philippines and the KSA, and the fruition of the development works being undertaken by its local subsidiaries.

EEI Power Corporation has already been reaping from its 20% stake in PetroWind Energy, Inc. and its 44% stake in PetroSolar Corporation.

With this outlook, the Company believes that it will achieve sustained growth in the medium term.

PART II – OTHER INFORMATION

None

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant – **EEI CORPORATION**



ATTY. GEORGE RYAN T. HIPOLITO
Assistant Vice President,
Corporate Secretary and
Compliance Officer



REBECCA R. TONGSON
Vice President and Controller

Date: November 14, 2016

Exhibit 1

E EI CORPORATION AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

**September 30, 2016 & 2015 (Unaudited)
and
December 31, 2015 (Audited)**

EEI CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

At September 30, 2016 and December 31, 2015

(In Thousand Pesos)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Cash and cash equivalents	P645,191	P1,270,242
Receivables	6,783,657	6,339,948
Due from related parties	94,348	74,552
Costs and estimated earnings in excess of billings on uncompleted contracts	5,775,334	5,946,504
Inventories	494,104	448,318
Other current assets	636,506	720,822
Total Current Assets	14,429,140	14,800,386
Noncurrent Assets		
Investments in associates and joint ventures	1,438,604	2,097,507
Available-for-sale securities	369,531	370,456
Property and equipment	4,529,015	4,357,138
Investment properties	203,497	231,228
Deferred tax assets - net	474,785	278,126
Other noncurrent assets	576,695	329,612
Total Noncurrent Assets	7,592,127	7,664,067
	P22,021,267	P22,464,453
LIABILITIES AND EQUITY		
Bank loans	P3,065,000	P3,330,000
Accounts payable and accrued expenses	4,780,468	5,404,104
Due to related parties	26,796	37,352
Billings in excess of costs and estimated earnings on uncompleted contracts	6,182,293	5,002,222
Current portion of long-term debt	285,714	285,714
Total Current Liabilities	14,340,270	14,059,392
Noncurrent Liabilities		
Long-term debt - net of current portion	1,285,714	1,500,000
Retirement liabilities - net	92,653	123,819
Total Noncurrent Liabilities	1,378,367	1,623,819
Total Liabilities	15,718,637	15,683,211
Equity		
Capital Stock	1,036,401	1,036,401
Additional paid-in capital	477,037	477,037
Cumulative translation adjustments	221,698	178,297
Retained earnings	4,680,446	5,201,534
Actuarial losses on retirement liability	(114,785)	(114,785)
Net unrealized gains on available-for-sale securities	5,554	6,479
Treasury stock	(3,721)	(3,721)
Total Equity	6,302,630	6,781,242
	P22,021,267	P22,464,453

EEI CORPORATION AND SUBSIDIARIES**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

For the periods ended September 30, 2016 and 2015

(In Thousand Pesos Except Earnings Per Share)

	JULY TO SEPT.		JAN. TO SEPT.	
	2016	2015	2016	2015
REVENUE				
Construction contracts	₱3,496,867	₱5,033,037	₱10,284,528	₱13,431,321
Services	213,435	251,867	617,600	804,895
Merchandise sales	30,572	76,331	142,016	223,053
Real estate sales	-	-	8,923	7,998
	3,740,874	5,361,235	11,053,067	14,467,267
Equity in net losses of associates and joint ventures	(748,170)	(816,253)	(942,415)	(722,477)
Interest income	12,193	6,635	35,945	19,545
Other income (loss) - net	12,193	(24,755)	35,863	(681)
	3,017,090	4,526,862	10,182,460	13,763,654
COSTS AND EXPENSES				
Construction contracts	3,020,085	4,350,779	8,953,298	11,966,227
Services	183,942	184,067	520,420	555,222
Merchandise sales	33,976	65,016	128,256	184,602
Real estate sales	-	-	7,441	5,654
	3,238,003	4,599,862	9,609,415	12,711,705
Selling and administrative expenses	265,879	226,599	780,658	678,771
Interest expense	35,360	33,944	125,703	98,647
	3,539,242	4,860,405	10,515,776	13,489,123
INCOME (LOSS) BEFORE INCOME TAX	(522,152)	(333,543)	(333,316)	274,531
PROVISION FOR (BENEFITS FROM) INCOME TAX	(84,462)	(19,348)	(19,484)	153,671
NET INCOME (LOSS)	(₱437,690)	(₱314,195)	(₱313,832)	₱120,860
Earnings (Loss) Per Share	(₱0.42)	(₱0.30)	(₱0.30)	₱0.12

EEI CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the periods ended September 30, 2016 and 2015

(In Thousand Pesos)

	JULY TO SEPT.		JANUARY TO SEPT.	
	2016	2015	2016	2015
NET INCOME (LOSS)	(P437,690)	(P314,195)	(P313,832)	P120,860
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Cumulative translation adjustments	51,530	110,277	43,401	150,389
Net unrealized losses on available-for-sale				
Securities	(1,720)	(3,155)	(925)	(2,183)
TOTAL COMPREHENSIVE INCOME (LOSS)	(P387,880)	(P207,073)	(P271,356)	P269,066

EEI CORPORATION AND SUBSIDIARIES**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the periods ended September 30, 2016 and 2015

(In Thousand Pesos)

	Sept. 30, 2016	Sept. 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(P333,316)	P274,531
Adjustments for:		
Interest expense	125,703	98,647
Depreciation and amortization	466,675	362,096
Unrealized foreign exchange gain - net	29,339	60,854
Gain on sale of investment properties	(9,866)	(3,733)
Gain on sale of property and equipment	(11,522)	(1,089)
Equity in net losses of associates	942,415	722,477
Dividend income	(34)	(7,818)
Interest income	(35,945)	(19,545)
Operating income before changes in working capital	1,173,449	1,486,420
Decrease (increase) in:		
Receivables	(463,710)	(1,886,774)
Costs and estimated earnings in excess of billings on uncompleted contracts	171,170	(701,072)
Inventories	(45,785)	31,195
Other current assets	84,316	(47,651)
Increase (decrease) in:		
Accounts payable and accrued expenses	(471,168)	286,964
Billings in excess of costs and estimated earnings on uncompleted contracts	1,180,071	2,186,161
Net cash flows from operations	1,628,343	1,355,243
Interest received	36,150	21,336
Interest paid	(126,735)	(97,371)
Income taxes paid	(173,674)	(24,933)
Net cash provided by operating activities	1,364,084	1,254,275
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of:		
Investment properties	31,917	23,392
Property and equipment	12,006	3,773
Net reductions in (additions to):		
Available-for-sale securities	-	13,620
Investments in associates and joint ventures	(269,452)	(416,485)
Property and equipment	(639,037)	(770,575)
Investment properties	5,681	1,809
Other noncurrent assets	(443,742)	73,630
Dividends received	34	7,818
Net cash flows used in investing activities	(1,302,593)	(1,063,018)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Bank loans	15,385,000	5,785,000
Long-term debt	-	1,446,429
Payments of:		
Bank loans	(15,650,000)	(6,650,000)
Long-term debt	(214,286)	(553,627)
Cash dividends paid	(207,256)	(207,280)
Net cash used in financing activities	(686,542)	(179,478)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(625,051)	11,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,270,242	563,849
CASH AND CASH EQUIVALENTS AT END OF SEPTEMBER	P645,191	P575,628

EEI CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the periods ended September 30, 2016 and 2015

(In Thousand Pesos)

	Capital Stock	Additional Paid-In Capital	Cumulative Translation Adjustments	Retained Earnings	Actuarial Losses on Retirement Liability	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Treasury Stock	Total
For the Period Ended September 30, 2016								
Balances at beginning of year	₱1,036,401	₱477,037	₱178,297	₱5,201,534	(₱114,785)	₱6,479	(₱3,721)	₱6,781,242
Net income	-	-	-	(313,832)	-	-	-	(313,832)
Other comprehensive income (loss)	-	-	43,401	-	-	(925)	-	42,476
Total comprehensive income (loss)	-	-	43,401	(313,832)	-	(925)	-	(271,356)
Dividends declared	-	-	-	(207,256)	-	-	-	(207,256)
Balances at end of period	₱1,036,401	₱477,037	₱221,698	₱4,680,446	(₱114,785)	₱5,554	(₱3,721)	₱6,302,630
For the Period Ended September 30, 2015								
Balances at beginning of year	₱1,036,401	₱477,037	₱17,423	₱5,206,080	(₱83,134)	₱9,372	(₱3,721)	₱6,659,458
Net income	-	-	-	120,860	-	-	-	120,860
Other comprehensive income (loss)	-	-	150,389	-	-	(2,183)	-	148,206
Total comprehensive income (loss)	-	-	150,389	120,860	-	(2,183)	-	269,066
Dividends declared	-	-	-	(207,280)	-	-	-	(207,280)
Balances at end of period	₱1,036,401	₱477,037	₱167,812	₱5,119,660	(₱83,134)	₱7,189	(₱3,721)	₱6,721,244

EEI CORPORATION AND SUBSIDIARIES**AGING OF TRADE AND RETENTION RECEIVABLES****As at September 30, 2016**

(In Thousand Pesos)

	Current	30 Days	60 Days	90 Days	120 Days/ Over	Total
EEI Corporation	3,967,117	556,243	435,702	94,136	562,913	5,616,111
Equipment Engineers, Inc.	16,113	6,129	10,473	4,295	29,946	66,956
EEI Realty Corporation	49,172	258	3,522	166	2,662	55,780
Gulf Asia International Corporation	29,940	6,247	6,498	2,250	11,264	56,199
EEI Power Corporation	3	-	-	-	15,186	15,189
EEI Construction and Marine, Inc.	26,125	11,800	1,210	-	4,887	44,022
Others	-	-	-	-	9,578	9,578
Total	4,088,470	580,677	457,405	100,847	636,436	5,863,835

EEI CORPORATION AND SUBSIDIARIES
SEGMENT INFORMATION (UNAUDITED)
For the periods ended September 30, 2016 and 2015

(In Thousand Pesos)

	2016				
	Domestic	Foreign	Combined	Elimination	Consolidated
Assets					
Current assets	₱14,669,475	₱6,783,180	₱21,452,655	(₱7,023,515)	₱14,429,140
Noncurrent assets	8,371,147	1,848,271	10,219,418	(2,627,291)	7,592,127
Total Assets	₱23,040,622	₱8,631,451	₱31,672,073	(9,650,806)	₱22,021,267
Liabilities					
Current liabilities	₱14,907,018	₱6,419,927	₱21,326,945	(₱6,986,675)	₱14,340,270
Noncurrent liabilities	1,378,367	927,127	2,305,494	(927,127)	1,378,367
Total Liabilities	₱16,285,385	₱7,347,054	₱23,632,439	(₱7,913,802)	₱15,718,637
Revenue	₱ 11,334,159	₱6,041,521	₱17,375,680	(₱6,322,613)	₱11,053,067
Direct cost	(9,890,506)	(7,602,697)	(17,493,203)	7,883,788	(9,609,415)
Operating expense	(773,822)	(451,341)	(1,225,163)	444,505	(780,658)
Interest expense	(127,166)	-	(127,166)	1,463	(125,703)
Share in net income (losses) of associates and joint ventures	78,553	-	78,553	(1,020,969)	(942,415)
Other income (charges)	125,636	(80,294)	45,342	26,466	71,808
Share of ARCC's net loss	-	1,062,641	1,062,641	(1,062,641)	-
Income (loss) before tax	746,854	(1,030,170)	(283,316)	(50,000)	(333,316)
Provision for (benefits from) income tax	184,710	(204,194)	19,484	-	19,484
Net income (Loss)	₱562,144	(₱825,976)	(₱263,832)	(₱50,000)	(₱313,832)
Cash flows arising from:					
Operating activities	948,764	(₱1,418,915)	(₱470,151)	₱1,834,235	1,364,084
Investing activities	(874,405)	1,235,143	360,738	(1,663,331)	(1,302,593)
Financing activities	(686,542)	16,590	(669,952)	(16,590)	(686,542)

	2015				
	Domestic	Foreign	Combined	Elimination	Consolidated
Assets					
Current assets	₱14,662,289	₱9,108,672	₱23,770,961	(₱9,265,474)	₱14,505,487
Noncurrent assets	7,056,656	3,035,992	10,092,648	(3,553,032)	6,539,616
Total Assets	₱21,718,945	₱12,144,664	₱33,863,609	(12,818,506)	₱21,045,103
Liabilities					
Current liabilities	₱14,333,566	₱6,453,329	₱20,786,895	(₱8,120,431)	₱12,666,464
Noncurrent liabilities	1,657,394	975,663	2,633,057	(975,663)	1,657,394
Total Liabilities	₱15,990,960	₱7,428,992	₱23,419,952	(₱9,096,094)	₱14,323,858
Revenue	₱14,573,521	₱9,760,978	₱24,334,499	(₱9,867,232)	₱14,467,267
Direct cost	(12,822,137)	(10,479,187)	(23,301,324)	10,589,619	(12,711,705)
Operating expense	(672,601)	(859,438)	(1,532,039)	853,268	(678,771)
Interest expense	(101,045)	-	(101,045)	2,398	(98,647)
Share in net losses of associates and joint ventures	(24,479)	-	(24,479)	(697,998)	(722,477)
Other income (charges)	18,041	154,390	172,431	(153,567)	18,864
Share of ARCC's net loss	-	726,488	726,488	(726,488)	-
Income (loss) before tax	971,300	(696,769)	274,531	-	274,531
Provision for (benefits from) income tax	293,271	(139,600)	153,671	-	153,671
Net income (loss)	₱678,029	(₱557,169)	₱120,860	₱-	₱120,860
Cash flows arising from:					
Operating activities	₱1,453,429	(₱794,779)	₱658,650	₱595,625	₱1,254,275
Investing activities	(1,246,270)	274,171	(972,099)	(90,919)	(1,063,018)
Financing activities	(179,478)	462,966	283,488	(462,966)	(179,478)

Key Performance Indicators

The most significant key indicators of future performance of the Company are the following:

1. **Construction contracts and orders** – denote the value of construction projects won by the Company. Work to be done on these projects determines its revenue potential. In our domestic market, contracts and orders increase during an expansionary period when private business is on an investment mode, with significant capital expenditures allotted for new capacity and expansion and upgrading, and when government is spending for physical infrastructure.

In our overseas markets, orders tend to rise when investors (quasi private/government entities) and corporations invest on new upstream and downstream petroleum facilities and new power and mining facilities. This usually happens during a period of prolonged high price of oil or basic metals/minerals which encourages capacity expansion projects and spurs new infrastructure projects in the host countries. The regime of high petroleum and metal prices in the past has spurred increased construction activities in the Middle East, East Asia and Africa. But when the price of oil and precious metals go down, projects for expansion are sometimes put on hold.

2. **Production** – represents the value of construction work accomplished by the Company during the period in review. It is synonymous to sales revenue since these are recognized at the value corresponding to the percentage of completion of the projects and orders. Production is determined by capacity in terms of manpower, equipment and management resources, and higher productivity of the factors of production. These translate to better financial performance.
3. **Orders backlog** – corresponds to the value of unfinished portions of projects; thus providing a measure of the near-term future source of production and revenues of the Company. Backlog has a tendency to increase during times when private companies (both local and foreign) are on an expansionary cycle, as they undertake capital expansion and/or modernization of their respective factories and plants. It also occurs when national and local government is on a pump priming mode of investing on infrastructure. Bigger backlog means a probability of higher profit in the future.
4. **Liquidity** – refers to existing cash and cash resources and the capability of the Company to quickly draw financial resources (such as working capital and other credit lines) to fund operations and construction activities. This ability to deploy financial resources is critical in fulfilling its contract obligations and ensuring the operational and financial viability of the Company.

EEI CORPORATION AND SUBSIDIARIES

Corporate Information

EEI Corporation (the Parent Company) is a stock corporation incorporated on April 17, 1931 under the laws of the Philippines. The Parent Company is a subsidiary of House of Investments, Inc., which is also incorporated in the Philippines. The ultimate parent company of EEI Corporation and its subsidiaries (collectively referred to as the Group) is Pan Malayan Management and Investment Corporation (PMMIC).

As amended on July 15, 1980, the term of the Corporation was extended for another fifty (50) years from and after April 17, 1981.

On July 4, 2014, the Board of Directors (BOD) approved the change of principal office address of the Parent Company to No. 12 Manggahan Street, Bagumbayan, Quezon City, Metro Manila, Philippines.

The Parent Company's shares of stock are listed and are currently trading at the Philippine Stock Exchange (PSE).

The Parent Company is engaged in general contracting and construction equipment rental. The Parent Company's subsidiaries, associate and joint venture are mainly involved in the provision of manpower services, construction, trading of construction equipment and parts, power generation, steel fabrication and real estate.

The accompanying interim consolidated financial statements of the Group were approved and authorized for issue by its BOD on November 10, 2016.

Item 1. Financial Statements Required Under SRC Rule 68.1

5. Earnings Per Share

The following table presents information necessary to calculate basic earnings per share:

(In Thousand Pesos)	As at 09.30.16	As at 09.30.15
Net Income	112,024	120,860
Issued and subscribed shares	1,036,401	1,036,401
Earnings per share	P0.108	P0.117

6. The accompanying interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

7.a Basis of Preparation

The accompanying interim consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) securities which have been measured at fair value. The accompanying interim consolidated financial statements are presented in Philippine Peso (₱), which is also the Parent Company's functional currency. Except as indicated, all amounts are rounded off to the nearest peso.

Statement of Compliance

The accompanying interim consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation and Investments in Subsidiaries

The consolidated interim financial statements include the Parent Company and the following companies that it controls:

	Place of Incorporation	Effective Percentage of Ownership		
		Sept. 2016	Dec. 2015	Dec. 2014
EEI Limited and Subsidiaries				
(formerly EEI BVI Ltd.)	British Virgin Islands	100	100	100
Clear Jewel Investments, Ltd. (CJIL)	British Virgin Islands	100	100	100
Nimaridge Investments, Ltd. & Subsidiary	British Virgin Islands	100	100	100
EEI (PNG) Ltd.	Papua New Guinea	100	100	100
	United States of			
EEI Corporation (Guam), Inc.	America	100	100	100
EEI Construction and Marine, Inc. (EEI Marine)	Philippines	100	100	100
EEI Realty Corporation (EEI Realty)	Philippines	100	100	100
EEI Subic Corporation	Philippines	100	100	100
Equipment Engineers, Inc. (EE)	Philippines	100	100	100
EEI Power Corporation (EEI Power)	Philippines	100	100	100
Gulf Asia International Corporation (GAIC)	Philippines	100	100	100
GAIC Professional Services, Inc. (GAPSI)	Philippines	100	100	100
GAIC Manpower Services, Inc. (GAMSI)	Philippines	100	100	100
Bagumbayan Eqpt. & Industrial Products, Inc.	Philippines	100	100	100
Philmark, Inc.	Philippines	100	100	100
Philrock Construction and Services, Inc.	Philippines	100	100	100

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b) exposure, or rights, to variable returns from its involvement with the investee; and
- c) the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a) the contractual arrangement with the other vote holders of the investee;
- b) rights arising from other contractual arrangements; and
- c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretations that will become effective January 1, 2016. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on the Group's consolidated financial statements.

The following new standards and amendments issued by the International Accounting Standards Board (IASB) were already adopted by the Financial Reporting Standards Council (FRSC) but are still for approval by Board of Accountancy (BOA).

- *PAS 1, Presentation of financial statements - Disclosure Initiative (Amendments)*
The amendments clarify the materiality requirements in PAS 1 that entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions. These also clarify that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated; entities have flexibility as to the order in which they present the notes to financial statements; and the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. For additional subtotals presented in the statement of profit or loss and OCI, line items should be presented to reconcile any such subtotals with the subtotals or totals currently required in PFRS for such statement. These amendments affect disclosures only and will have no impact on the Group's consolidated financial position and performance.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- *PAS 16 and PAS 41, Agriculture: Bearer Plants (Amendments)*
The amendments clarify that an entity can elect to use the fair value of the bearer plants at the beginning of the earliest period presented in those financial statements as the deemed cost at that date. For first-time PFRS adopters, bearer plants are items of property, plant and equipment. Consequently, the deemed cost exemptions provided for property, plant and equipment in PFRS 1, *First-time Adoption of International Financial Reporting Standards*, are available for bearer plants. The amendments shall be applied retrospectively, with early application permitted. These amendments will have no impact on the Group's consolidated financial position and performance.

- *PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
 The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These amendments will have no significant impact on the Group's consolidated financial position and performance.
- *PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception (Amendments)*
 The amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity (IE) that measures all of its subsidiaries at fair value. Only a subsidiary of an IE that is not an IE itself and that provides support services to the IE is consolidated. An investor is allowed to retain the fair value measurement applied by the IE associate or joint venture to its interests in subsidiaries when applying the equity method. The amendments shall be applied retrospectively, with early application permitted. These amendments will have no impact on the Group's consolidated financial position and performance.
- *PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
 These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. These amendments will have no significant impact on the Group's consolidated financial position or performance.
- *PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
 The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not

expected to have any impact to the Group.

- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of consolidated financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.This amendment affects disclosure only and had no impact on the Group's consolidated financial position and performance.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment has no impact on the Group's consolidated financial position or performance.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of

the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and had no impact on the Group's consolidated financial position or performance.

- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment had no impact on the Group's financial position or performance.

- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments affect disclosures only and had no impact on the Group's consolidated financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3.
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The amendment will had no impact on the Group's consolidated financial position or performance.

- *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Group's consolidated financial position or performance.
- *PAS 40, Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment had no significant impact on the Group's consolidated financial position or performance.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment will have no significant impact on the Group's consolidated financial position or performance.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment will have no significant impact on the Group's consolidated financial position or performance.
- *PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

The amendment will have no significant impact on the Group's consolidated financial position or performance.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*
 This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment will have no significant impact on the Group's consolidated financial position or performance.
- PAS 34, *Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'*
 The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment will have no impact on the Group's consolidated financial position or performance.

Effective in 2018

- PFRS 9, *Financial Instruments*
 In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

- PFRS 9, *Financial Instruments: Classification and Measurement*
 PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value

through profit or loss. For FVO liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

The Group will assess the impact of PFRS 9 in its financial statements upon completion of all phases of PFRS 9.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Philippine Interpretation, which may be early applied, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion.

Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of the interpretation will have no impact on the Group's consolidated financial position or performance as the Group is not engaged in real estate businesses.

The following new standard issued by the IASB has not yet been adopted by the FRSC

- *IFRS 15, Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Effective in 2019

- *IFRS 16, Leases*
On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Summary of Significant Accounting Policies

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. In arrangements where the Group is acting as principal to its customers, revenue is recognized on a gross basis. However, if the Group is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue. The following specific recognition criteria must also be met before revenue is recognized:

Construction Contracts

Revenue from construction contracts are recognized using the percentage of completion method of accounting. Under this method, revenues are generally measured on the basis of estimated completion of the physical proportion of the contract work. Revenue from labor supply contracts with project management and supervision are recognized on the basis of man-hours spent.

Contract costs include direct materials, labor costs and indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized immediately when it is probable that the total contract costs will exceed the total contract revenues. The amount of such loss is determined irrespective of: (a) whether or not work has commenced on the contract; (b) the stage of completion of contract work; or (c) the amount of profits expected to arise on other contracts. Changes in contract performance, contract conditions and estimated profitability, including those arising from penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins, are recognized in the year in which the changes are determined.

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents total contract costs incurred and estimated earnings recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of total contract costs incurred and estimated earnings recognized. Retention receivables are included in the trade receivable account, which is shown as part of the receivables account in the consolidated statement of financial position.

Services

Revenue is recognized as the related services are rendered.

Revenue derived from the generation and/or supply of electricity is recognized based on the actual delivery of electricity as agreed upon between parties.

Merchandise Sales

Revenue from merchandise sales is normally recognized when the buyer accepts delivery and when installation and inspection are complete. However, revenue is recognized immediately upon the buyer's acceptance of delivery when the installation process is simple in nature.

Equipment rental

Revenue from equipment rental arises from the Group's equipment that are being held for rentals. Revenue is recognized as it accrues.

Real Estate Sales

Revenue on sale of raw parcels of land with no future obligation to develop the property is recognized using the full accrual method. Sale of developed lots and residential units is accounted for using the full accrual method of accounting. Under this method, the revenue is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed their acceptance of the related loan applications after the same have been delivered to and approved by either the banks or other financing institutions for externally financed accounts; and (b) the down payment comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

If any of the criteria under the full accrual method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is recognized as deposit from customers presented under the "Customers' deposits" account in the liabilities section of the consolidated statement of financial position.

Cancellation of Real Estate Sales

Income from cancellation of real estate sales is recognized once the sale has been cancelled and the related refundable portions of paid amortizations have been paid to the buyer. This is included in the "Other income" account under the statements of income. Such is also recognized, subject to the provisions of Republic Act 6552, Realty Installment Buyer Act, upon prescription of the period for the payment of required amortizations from defaulting buyers.

Cost of Real Estate Sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property and an allocation of any non-specific cost based on the relative size of the property sold.

Interest Income

Revenue is recognized as interest accrues (using the EIR method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established, which is generally when BOD approves the dividend. This is included in the "Other income" account under the statements of income.

Expenses

Selling and administrative expenses are expenses that arise in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventories, supplies, property and equipment and investment properties. Expenses are recognized in the parent company statement of income as incurred.

Current versus Non-current Classification

The Parent Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Parent Company classifies all other liabilities as non-current.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Assets and Financial Liabilities

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. The Group follows the settlement date accounting where an asset to be received and liability to be paid are recognized on the settlement date and derecognition of an asset that is sold and the recognition of a receivable from the buyer are recognized on the settlement date.

Initial Recognition of Financial Assets and Financial Liabilities

All financial assets and financial liabilities are initially recognized at fair value. Except for securities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS securities, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets and financial liabilities at FVPL and HTM investments as at September 30, 2016 and December 31, 2015.

Determination of Fair Value

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

'Day 1' Difference

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model

value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the EIR method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and include fees that are an integral part of the EIR and transaction costs. Long-term receivables are valued using the discounted cash flow methodology. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables which are expected to be realized within twelve months from the reporting date are classified under current assets. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables principally include Cash and cash equivalents, Receivables, Consultancy fees, Other receivables, Due from related parties, Miscellaneous deposits and Receivable from EEI Retirement Fund Inc. (EEI-RFI)

AFS Securities

AFS securities are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. After initial recognition, AFS securities are measured at fair value with gains or losses being recognized as a separate component of the equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the equity is included in the consolidated statement of income. AFS securities which are expected to be sold within twelve months from the reporting date are classified under current assets. Otherwise, these are classified as noncurrent assets.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, except for investments in unquoted AFS securities, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. In the absence of a reliable basis of determining fair value, investments in unquoted AFS securities are carried at cost less allowance for impairment losses, if any.

The Group's AFS securities represent investments in quoted and unquoted golf club and equity shares.

Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These liabilities are carried at cost or amortized cost in the consolidated statement of financial position. Amortization is determined using EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the EIR. Other financial liabilities which are expected to be settled within twelve months from the reporting date are classified under current liabilities. Otherwise,

these are classified as noncurrent liabilities. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized.

This accounting policy relates to the consolidated statement of financial position captions Bank loans, Accounts payable and accrued expenses, Due to related parties and long-term debt and lease liability under other noncurrent liabilities.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's 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 EIR (that is, the EIR computed at initial recognition). 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 the consolidated statement of income. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent period, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Securities

For AFS securities, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS securities, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income is removed from equity and recognized in the consolidated statement of income.

Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (a) the rights to receive cash flows from the asset have expired; or (b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

Inventories are stated at the lower of cost and net realizable value (NRV). Cost includes purchase price and other costs directly attributable to its acquisition such as non-refundable taxes, handling and transportation cost. The cost of real estate inventories includes (a) land cost; (b) freehold and leasehold rights for land; (c) amounts paid to contractors for construction; (d) borrowing costs, planning and design cost, cost of site preparation, professional fees, property taxes, construction overheads and other related costs that are directly attributable in bringing the real estate inventories to its intended condition.

Cost of inventories is generally determined using the moving-average method, except for land inventory of EEI Realty and cost of equipment inventories of Equipment Engineers, which is accounted for using the specific identification method. NRV is the selling price in the ordinary course of business, based on the market prices at the

reporting date and discounted for the time value of money if material, less the estimated costs of completion of inventories and the estimated costs necessary to sell.

Nonrefundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

Value-Added Tax (VAT)

The input value-added tax pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group. The outstanding balance is included under "Accounts and other payables" account while the input VAT is included under "Other current assets" account.

Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments of insurance premiums, rents and others. It is included as part of other current assets in the consolidated statement of financial position.

Other Current Assets

Other current assets pertain to other resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group within the reporting period.

Investments in Associates and Joint Ventures

The Group has 49% investment in Al-Rushaid Construction Company Limited (ARCC) which is incorporated and based in the Kingdom of Saudi Arabia and is currently accounted for as an associate. ECW Joint Venture, Inc. (ECW), a joint venture between EEI Corporation and Walter Construction Group Limited, has been dormant since December 2002 and a certificate of business retirement was issued in October 2015.

In 2013, the Group acquired 20% stake in Petro Wind Energy, Inc. (PWEI) and was accounted for as an associate. In 2014, investment in PWEI is accounted as joint venture due to change in equity ownership in PWEI after the Shareholders Agreement became in effect.

In 2015, the Group acquired 44% stake in PetroSolar Corporation (PSoC) and was accounted for as an associate.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in associates and joint ventures which are jointly controlled entities are accounted for under the equity method of accounting. Under this method, the cost of investment is increased or decreased by the equity in the associate and joint venture's net earnings or losses since the date of acquisition and reduced by dividends received. Unrealized intercompany profits are eliminated up to the extent of the proportionate share thereof.

The reporting dates and the accounting policies of the associate and joint venture conform to those used by the Group for like transactions and events in similar circumstances.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost, less accumulated depreciation and amortization and impairment loss, if any. Land is carried at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged to operation in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Number of years
Machinery, tools and construction equipment	1 - 20
Buildings and improvements	10 - 20
Furniture, fixtures and office equipment	3 - 5
Transportation and service equipment	5

Amortization of leasehold improvements is computed over the estimated useful life of the improvement or term of the lease, whichever is shorter.

Construction in progress represents property and equipment under construction and is stated at cost. This includes cost of construction and equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the consolidated statement of income in the year the asset is derecognized.

When assets are retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year-end.

Investment Properties

Investment properties, except for land, are stated at cost less accumulated depreciation and impairment loss, if any, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Land is carried at cost less any impairment in value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property or inventory, the deemed cost for subsequent accounting is the carrying value of the investment property transferred at the date of change in use. If owner-occupied property or inventory becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment or inventory, respectively, up to the date of change in use.

Depreciation is computed using the straight-line method over the estimated useful life of 15 to 20 years.

Software Costs

Software costs are stated at cost less accumulated amortization and any impairment in value. Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of 3 years.

Costs associated with developing and maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any.

Impairment of Non-financial Assets

For property, plant and equipment, software costs, investments in associate and joint venture and investment properties, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Borrowing Costs

Interest and other related financing charges on borrowed funds used to finance property development are capitalized as part of development costs (included under "Inventories" account) and the acquisition and construction of a qualifying asset (included under "Construction in progress" account in property, plant and equipment) are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the asset for its intended use are in progress. It is suspended during extended periods in which active development is interrupted and ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. The capitalization for inventories account is based on the weighted average borrowing cost and specific borrowing for property, plant and equipment.

The borrowing costs capitalized as part of property, plant and equipment are amortized using the straight-line method over the estimated useful lives of the assets. If after capitalization of the borrowing costs, the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded in the consolidated statement of income.

All other borrowing costs are expensed in the period in which they occur.

Interest expense on loans and borrowings is recognized using the EIR method over the term of the loans and borrowings.

Foreign Currency-denominated Transactions and Translation

The interim consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate as at the reporting date. All differences are taken to consolidated statement of income. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items

measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Group's subsidiaries, EEI Limited and Subsidiaries are United States Dollar, Singaporean Dollar and Saudi Arabia Riyal. As at reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Group (the Philippine Peso) at the closing rate as at the reporting date, and the consolidated statement of income accounts are translated at monthly weighted average exchange rate. The exchange differences arising on the translation of foreign subsidiaries are taken directly to a separate component of equity under cumulative translation adjustments account while the exchange differences arising from translation of financial statements of its associate is included as part of investments in associate under the caption equity in cumulative translation adjustments account.

Upon disposal of a foreign subsidiary, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

Retirement Cost

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- a) Service cost
- b) Net interest on the net defined benefit liability or asset
- c) Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantially enacted as at reporting date.

Deferred Tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from excess

MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on taxable temporary differences associated with investments in domestic subsidiaries, associate and interest in joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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 used. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted as at the reporting date.

Deferred tax relating to items recognized outside profit or loss do not affect the statement of income. These deferred tax items are recognized in correlation to the underlying transactions either in other comprehensive income or directly in equity.

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

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the lease property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in consolidated statement of income.

Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases of the Group represent those under which substantially all the risks and benefits of ownership of the assets remain with the lessor. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Provisions

Provisions are recognized when (a) the Parent Company has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Stock Option Plan

No benefit expense is recognized relative to the shares issued under the stock options plan. When the shares related to the stock options plan are subscribed, these are treated as capital stock issuances. The stock option plan is exempt from PFRS 2, *Share-based Payment*.

Events after the Reporting Date

Any post year-end events up to the date of auditor's report that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material, in notes the consolidated financial statements.

Basic and Diluted Earnings Per Share

Basic earnings per share is computed by dividing net income applicable to common shares by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any subsequent stock dividends. Diluted earnings per share, if applicable, is computed by dividing net income applicable to common shares by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed exercise of stock options and retroactive effect of stock dividends declared.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial

information on business segments is presented in page 15 of the interim consolidated financial statements.

Equity

The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity.

Retained earnings represent accumulated earnings of the Group less dividends declared and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retrospectively. The individual accumulated retained earnings of the subsidiaries are available for dividends when they are declared by the subsidiaries as approved by their respective BOD. Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares.

Other Comprehensive Income

OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS. The Group's OCI in September 30, 2016 and December 31, 2015 pertains to: a) cumulative translation adjustments; and (b) net unrealized losses on available for sale securities which can be recycled to profit and loss.

Significant Accounting Judgments and Estimates

The preparation of the interim consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable. 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.

The following presents a summary of these significant accounting judgments and estimates:

Judgments

Going concern

The management of the Group has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Group is not aware of any material uncertainties that may cast significant doubts upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Impairment of financial assets

In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated. This observable data may include adverse changes in payment status of borrowings in a group, or national or local economic conditions that correlate with defaults on assets in the portfolio.

Fair value of AFS securities

The Group treats AFS securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six months for quoted securities. In addition, the Parent Company evaluates other factors, including the future cash flows and the discount factors of these securities. The fair value of the quoted AFS securities as at September 30, 2016 and December 31, 2015 amounted to ₱19.0 million and ₱19.9 million, respectively.

Classification of leases

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized.

The Group also has lease agreements where it has determined that the risks and rewards related to the leased assets are retained with the lessors. Such leases are accounted for as operating leases.

Operating Lease - Group as Lessee

The Group has entered into various commercial property leases on its administrative office locations with EEI-RFI, a related party. The Group assessed that it does not have the risk and rewards of ownership of the leased asset primarily because the lease term is not for the major part of the economic life of the asset and at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

Determination of control in Investment in Subsidiaries

The Group determined that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

Determination of significant influence in Investment in Associates

The Group determined that it exercises significant influence over its associates by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and other contractual terms.

Classification of joint arrangements

The Group's investments in joint ventures are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Determination of functional currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

- a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b) the currency in which funds from financing activities are generated; and
- c) the currency in which receipts from operating activities are usually retained.

The Group's interim consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency.

Contingencies

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Estimates

Determination of Fair Value of Financial Assets and Financial Liabilities

The fair value determinations for financial assets and financial liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. The fair value of quoted AFS securities as at September 30, 2016 and December 31, 2015 amounted to ₱19.0 million and ₱19.9 million, respectively.

Revenue and Cost Recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's construction revenue is recognized based on the percentage of completion measured principally on the basis of the estimated completion of a physical proportion of the contract work. The revenue and related cost recognized for 2016 and 2015 are based on management's best estimate and have met the requirements set forth in PAS 11. When the total contract cost exceeds the total contract revenue, the Company recognizes expected losses which are recognized as an expense immediately in the statement of income.

As at September 30, 2016 and December 31, 2015, the costs and estimated earnings in excess of billings on uncompleted contracts amounted to ₱5.8 billion and ₱5.9 billion, respectively, and billings in excess of costs and estimated earnings on uncompleted contracts amounted to ₱6.2 billion and ₱5.0 billion, respectively.

Estimating Realizability of Claims and Change Orders

The Group maintains as claims and change order assets when it is probable that these assets will be realized. The amount and timing of recorded expenses would differ if the Group made different estimates.

Estimating Recoverability of Savings and Overrun

The percentage of completion and the revenue to recognize are determined by the Group on the basis of a large number of estimates. Consequently, the Group has implemented an internal financial budgeting and reporting system. In particular, the Group reviews each month the estimates of contract revenue and contract costs as the contract progresses.

Estimating Recoveries

The Group recognizes recoveries when negotiations have reached an advanced stage such that it is probable that the customer will accept it and the amount that it is probable will be accepted by the customer can be measured reliably.

Estimate on when the Buyer's Investment is Qualified for Revenue Recognition on Real Estate Sales

The Group requires a certain percentage estimate on when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group and warrant revenue recognition. The Group estimated a certain percentage of downpayment of the total selling price received from the buyer. It is at this level of investment that it is highly probable that the buyer will commit to the sale transaction, and thus, it is probable that economic benefits will flow to the Group.

Estimating Allowance for Doubtful Accounts

The Group maintains allowances for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowances on a continuous basis or those with existing allowances needing reversals. The amount of timing and recorded expenses and reversal of existing allowances for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for doubtful accounts would increase recorded operating expenses and decrease current assets and otherwise for reversals.

The outstanding balance of receivables, net of allowance for doubtful accounts, as at September 30, 2016 and December 31, 2015 amounted to ₱6.8 billion and ₱6.3 billion, respectively.

Estimating NRV of Inventories

The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only up to the extent of their original acquisition costs.

The carrying values of inventories as at September 30, 2016 and December 31, 2015 amounted to ₱494.1 million and ₱448.3 million, respectively.

Valuation of unquoted AFS equity securities

Unquoted AFS equity securities are carried at cost less any impairment. Unquoted AFS equity securities amounted to ₱350.5 million as at September 30, 2016 and December 31, 2015.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, not for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as at reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Software Costs

The Group estimated the useful lives of its property and equipment, investment properties and software costs based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of these assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in estimated useful lives of these assets would increase recorded depreciation and amortization expense and decrease noncurrent assets.

The book value of the depreciable property and equipment, investment properties and software costs as at September 30, 2016 and December 31, 2015 are as follows:

(In Thousand Pesos)	09.30.16	12.31.15
Property, plant and equipment	₱3,225,426	₱3,854,153
Investment properties	198,112	231,228
Software costs	2,540	6,141

Impairment of Non-financial Asset

The Group assesses impairment on non-financial assets (i.e., property, plant and equipment, investments in associate and joint venture and investment properties) whenever events or changes in circumstances indicate that the carrying amount of a non-financial asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

In 2016 and 2015, no impairment loss was recognized by the Group on investment properties.

The carrying values of the Group's non-financial assets follow:

(In Thousand Pesos)	09.30.16	12.31.15
Property, plant and equipment	₱4,529,015	₱4,357,138
Investments in associates and joint ventures	1,970,925	2,097,507
Investment properties	203,497	231,228
Software costs	2,540	6,141

Retirement Cost

The determination of the obligation and retirement cost are dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, actual returns on plan assets and salary increase rates. In accordance with PAS 19R, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement and other retirement obligations. Net retirement liability amounted to ₱92.7 million and ₱123.8 million as at September 30, 2016 and December 31, 2015, respectively.

Deferred Tax Assets

The Group reviews the carrying amounts of deferred taxes of each entity in the Group at each reporting date and reduces deferred tax assets 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 assets to be utilized.

Net deferred tax assets recognized by the Group amounted to P474.8 million and P278.1 million as at September 30, 2016 and December 31, 2015, respectively.

Contingencies

The Group is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and based upon an analysis of potential results. The Group currently does not believe that these proceedings will have material adverse effect on its consolidated financial position. It is possible, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

7.b We have nothing to disclose in notes to financial statements regarding seasonality or cyclicity as it has no material effect on our interim operations.

7.c Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents:

Cash and cash equivalents

(In Thousand Pesos)	09.30.16	12.31.15
Cash on hand	1,676	4,176
Cash in banks	642,418	1,264,988
Short-term investments	1,097	1,078
	645,191	1,270,242

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

Receivables

(In Thousand Pesos)	09.30.16	12.31.15
Trade receivables	2,836,411	2,779,374
Retention receivables	3,027,424	2,522,017
Advances to suppliers and subcontractors	612,615	738,101
Consultancy fees	296,389	289,689
Advances to officers and employees	20,820	20,191
Other receivables	89,865	90,455
	6,883,524	6,439,827
Less: Allowance for doubtful accounts	99,867	99,879
	6,783,657	6,339,948

Inventories

(In Thousand Pesos)	09.30.16	12.31.15
Land at cost	360,624	350,048
At NRV :		
Merchandise	82,976	35,969
Spare parts and supplies	38,176	33,896
Construction materials	12,328	28,405
	494,104	448,318

Other current assets

(In Thousand Pesos)	09.30.16	12.31.15
Input value-added tax	376,109	452,810
Receivable from EEI Retirement Fund Inc.	10,252	117,361
Prepaid taxes	133,144	39,024
Prepaid expenses	58,793	57,137
Miscellaneous deposits	49,633	46,340
Restricted cash investment	7,218	6,711
Supplies and others	1,357	1,439
	636,506	720,822

Investments in associates and joint ventures

(In Thousand Pesos)	09.30.16	12.31.15
Acquisition cost:		
Balance at beginning of year	651,674	269,223
Additions	-	382,451
Balance at end of period	651,674	651,674
Accumulated equity in net earnings:		
Balance at beginning of year	845,313	1,690,056
Equity in net loss	(942,415)	(844,743)
Balance at end of period	(97,102)	845,313
Subtotal	554,572	1,496,987
Cumulative translation adjustments	95,754	81,694
Advances in joint venture	788,278	518,826
	1,438,604	2,097,507

Available-for-sale securities

(In Thousand Pesos)	09.30.16	12.31.15
Quoted shares	19,001	19,926
Unquoted shares	350,530	350,530
	369,531	370,456

Rollforward analysis of this account follows:

	09.30.16	12.31.15
Balance at beginning of year	370,456	149,689
Addition	-	237,660
Reduction	-	(14,000)
Net unrealized gain (loss) recognized in other comprehensive income	(925)	(2,893)
	369,531	370,456

Property, plant and equipment

(In Thousand Pesos)	09.30.16	12.31.15
At cost:		
Machinery, tools & construction equipment	4,541,794	4,160,011
Land, buildings and improvements	992,065	985,553
Transportation and service equipment	895,138	689,432
Furniture, fixtures and office equipment	670,156	659,981
	7,099,153	6,494,977
Less: Accumulated depreciation & amortization	2,575,116	2,144,800
	4,524,037	4,350,177
Construction in progress	4,978	6,961
	4,529,015	4,357,138

Other noncurrent assets

(In Thousand Pesos)	09.30.16	12.31.15
Receivable from customer	344,260	162,326
Receivable from EEI-RFI - net	223,000	156,000
Software cost	2,540	6,141
Others	6,895	5,145
	576,695	329,612

Bank loans

(In Thousand Pesos)	09.30.16	12.31.15
Unsecured bank loans	3,065,000	3,330,000

Bank loans consist of unsecured Peso-denominated short term loans from local banks with annual interest rates ranging from 2.40% to 2.50% and 2.25% to 2.60% as at September 30, 2016 and December 31, 2015, respectively.

Accounts payable and accrued expenses

(In Thousand Pesos)	09.30.16	12.31.15
Accounts payable	3,007,742	3,629,946
Retention payable	613,282	624,088
Deferred output taxes	594,690	545,790
Accrued expenses	305,717	190,816
Output taxes payable	101,627	247,721
Advances from joint venture partners	32,382	32,382
Others	125,028	133,361
	4,780,468	5,404,104

Long-term debt

(In Thousand Pesos)	09.30.16	12.31.15
Parent Company		
a. Fixed-rate corporate promissory notes with effective annual interest rates of 5.1875% on first draw down and 5.1667% on second draw down in February 2014, and 4.8% on subsequent drawdowns starting May 2015 for seven (7) years.	1,142,857	1,303,571
EEl Power Corporation		
b. Peso-denominated seven (7) year term loan, payable quarterly starting November 2015 with annual interest rate of 4.8%.	428,571	482,143
Less: Current portion	285,714	285,714
	1,285,714	1,500,000

7.d There was no change in amount reported in prior financial year that have material effect in the current interim period.

7.e As at September 30, 2016, availment of loans amounted to ₱15.4 billion while repayment is ₱15.9 billion.

7.f The BOD of the Parent Company in its meeting held on March 4, 2016 declared a cash dividend of ₱0.20 per share to common stockholders of record broken down as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
April 08, 2016	April 29, 2016	₱0.10 per share
September 01, 2016	September 26, 2016	₱0.10 per share
	Total	₱0.20 per share

7.g Segment Information - Please refer to page 15.

7.h There was no material event subsequent to the end of the interim financial period that has not been reflected in the interim consolidated financial statements.

7.i There was no material change in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

7.j There was no material change in contingent liabilities or contingent assets since the last annual statement of financial position.

7.k Commitments and Contingencies

a.) Surety Arrangement and Guarantees

The Company is contingently liable for guarantees arising in the ordinary course of business, including performance, surety and warranty bonds for various construction projects amounting to ₱5.3 billion and ₱5.2 billion as at September 30, 2016 and December 31, 2015, respectively.

Also, the Company issued a Parent Company Guarantee for the repayment of a 7-year long-term loan granted to its subsidiary by a local bank with an outstanding balance of ₱428.5 million and ₱482.1 million as at September 30, 2016 and December 31, 2015, respectively.

b.) Standby Letters of Credit

The Company has outstanding irrevocable domestic standby letters of credit amounting to ₱11.7 billion and ₱8.9 billion as at September 30, 2016 and December 31, 2015, respectively, from local banks which are used for bidding, guarantees for the down payments received and performance security from its ongoing construction projects, also has outstanding irrevocable foreign standby letters of credit amounting to USD 0.452 million and JPY13.4 million as at September 30, 2016 and USD 0.429 million and JPY13.4 million as at December 31, 2015.

c.) Contingencies

There are pending legal cases against the Group that are being contested by the Group and its legal counsels. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position. Management and its legal counsels believe that the final resolutions of these cases will not have a material effect on the consolidated financial position and operating results of the Group.

7.1 Market Information

Quarterly high, low and closing prices of the Company:

2016	High	Low	Close
January – March	7.75	5.20	7.60
April – June	8.02	7.08	7.69
July - September	10.16	7.35	7.75
2015	High	Low	Close
January – March	11.22	9.54	9.99
April – June	10.60	8.86	9.82
July – September	10.36	7.58	7.58
October - December	8.05	4.54	5.40

As at November 11, 2016, EEI shares were traded at its highest for the price of Php6.99, lowest for Php6.85 and closed at Php6.88.

Related Party Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the normal course of business, the Group enters into various significant transactions with related parties. Significant transactions with related parties consist mainly of advances and reimbursement of expenses, administrative service agreements and sales and purchases of construction materials and services at market prices.

The outstanding balances and transactions with related parties as at September 30, 2016 and December 31, 2015 consist of the following:

(In Thousand Pesos)		September 30, 2016		
Category	Amount / Transactions	Due from (Due to)	Terms	Conditions
Group's Parent Company				
a. Due from related parties	P-	P7,887	Non-interest bearing	Unsecured, no impairment
Service revenue	10,777	-	-	-
b. Due to related parties	-	(20,826)	Non-interest bearing	Unsecured
Management fee	2,085	-	-	-
Associate				
a. Due from related parties	-	1,004	Non-interest bearing	Unsecured, no impairment
b. Due to related parties	-	(379)	Non-interest bearing	Unsecured
Entities under the common control of the Parent Company				
a. Due from related parties	-	16,981	Non-interest bearing	Unsecured, no impairment
Service revenue	50,271	-	-	-
Other income	13	-	-	-
b. Due to related parties	-	(309)	Non-interest bearing	Unsecured
Entities under the common control of PMMIC				
a. Due from related parties	-	68,477	Non-interest bearing	Unsecured, no impairment
Service revenue	166,261	-	-	-
Other income	232	-	-	-
b. Due to related parties	-	(5,271)	Non-interest bearing;	Unsecured
c. Cash & cash equivalents	-	518,488	Interest bearing; 0.20% - 0.25% per annum	Unsecured, no impairment
Interest income	4,137	-	-	-
Other affiliates				
d. Receivable from EEI-RFI	-	233,252	Interest bearing, 5% per annum	Secured, no impairment
Payable to EEI-RFI	-	-	-	-
Rental expense	39,070	-	Non-interest bearing	Unsecured
Interest income	9,271	-	-	-

(In Thousand Pesos)		December 31, 2015		
Category	Amount / Transactions	Due from (Due to)	Terms	Conditions
Group's Parent Company				
a. Due from related parties	–	₱3,825	Non-interest bearing	Unsecured, no impairment
Service revenue	11,584	–	–	–
b. Due to related parties	–	(33,413)	Non-interest bearing	Unsecured
Management fee	2,143	–	Non-interest bearing	–
Associate				
a. Due from related parties	–	989	Non-interest bearing	Unsecured, net of impairment of ₱36.4 million
Service revenue	142	–	–	–
b. Due to related parties	–	(370)	Non-interest bearing	Unsecured
Entities under the common control of the Parent Company				
a. Due from related parties	–	11,667	Non-interest bearing	Unsecured, net of impairment of ₱0.5 million
Service revenue	56,968	–	–	–
Other income	98	–	–	–
b. Due to related parties	–	(504)	Non-interest bearing	Unsecured
Entities under the common control of PMMIC				
a. Due from related parties	–	58,071	Non-interest bearing	Unsecured, no impairment
Service revenue	175,324	–	–	–
Other income	190	–	–	–
b. Due to related parties	–	(3,065)	Non-interest bearing;	Unsecured
c. Rental expense	281	–	–	–
Interest expense – finance lease	4	–	–	–
d. Cash and cash equivalents	–	949,806	Interest bearing; 0.20% - 0.25% per annum	Unsecured, no impairment
Interest income	2,464	–	–	–
Other affiliates				
e. Receivable from EEI-RFI	–	273,362	Interest bearing, 5% per annum	Secured, no impairment
Payable to EEI-RFI	–	–	–	–
Rental expense	49,613	–	Non-interest bearing	Unsecured
Interest income	16,269	–	–	–

Related parties categorized above include (a) the Group's parent company which is the House of Investments, Inc. (HI) (b) the Group's associate (c) entities under common control of the Group's parent company which pertain to the transactions between HI and its subsidiaries and (d) entities under common control of PMMIC, the Group's ultimate parent company, which relates to the transactions PMMIC and its subsidiaries.

Below are the Group's transactions with related parties as presented on the above tabular schedule:

- a. As at September 30, 2016 and December 31, 2015 the outstanding intercompany receivables presented under "Due from related parties" account in the consolidated statements of financial position amounted to ₱94.3 million and ₱74.6 million, respectively. The receivable from related parties arises from janitorial services rendered by GAMS I to the Group's affiliates. The service revenue earned from janitorial services rendered as at September 30, 2016 and December 31, 2015 amounted to ₱227.3 million and ₱244.0 million, respectively.

As at September 30, 2016 and December 31, 2015, income earned from GAMS I from entities under common control of Group's Parent Company and PMMIC arising from mark-up on supplies provided recorded under "Other income" account amounted to ₱0.2 million and ₱0.3 million, respectively.

- b. As at September 30, 2016 and December 31, 2015 the outstanding intercompany payables presented under "Due to related parties" account in the consolidated statements of financial position amounted to ₱26.8 million and ₱37.4 million, respectively.

The Parent Company availed of management services offered by HI. Monthly management fee of ₱0.3 million, charged to operations amounted to ₱2.1 million as at September 30, 2016 and December 31, 2015.

- c. In 2007, the Group entered into various lease agreements with MRC and FMLFC, entities under common control. The terms shall be for 4 to 5 years and payable monthly based on the due dates set forth in the contracts without the necessity of any formal demand. Said lease agreement expired in December 2015.
- d. On June 13, 2012, EEI Power entered into a 6.5% per annum fixed-rate term loan in the aggregate principal amount of ₱385 million with Rizal Commercial Banking Corporation (RCBC) to finance the acquisition, design, construction, operation of the 15MW diesel generator set to be installed in Tagum, Davao del Norte. This was repaid in August 2015. Interest expense pertaining to these borrowings amounted to nil and ₱18.3 million as at September 30, 2016 and December 31, 2015, respectively.
- e. The Group maintains cash and cash equivalents with its affiliated bank. Interest income related to these deposits amounted to ₱4.14 million and ₱2.5 million as at September 30, 2016 and December 31, 2015, respectively with same interest rate of 2% to 2.5% per annum.
- f. In 2006, the Parent Company sold parcels of land to EEI-RFI, a trustee of the Parent Company employee's retirement fund. The Fund is managed by RCBC Trust and Investment Division. The receivables are interest bearing with rate of 5% per annum as at September 30, 2016 and December 31, 2015.

Starting January 2007, the Parent Company and EEI-RFI entered into operating lease agreement for the said land and improvements. The terms are for one year and renewable at the option of the Parent Company provided that for each and every renewal, the monthly rentals shall be increased at 5% per year. Rental for the property amounted to ₱39.1 million and ₱49.6 million which is charged to rental expense in the consolidated statements of income as at September 30, 2016 and December 31, 2015, respectively.

In 2013, the receivable from the Fund amounting to ₱390.0 million was restructured and reclassified to other noncurrent assets with fixed 5% interest rate per annum. Outstanding receivables as at September 30, 2016 amounted to ₱233.3 million, of which ₱223 million are classified as other noncurrent assets and ₱10.3 as other current assets vs. ₱273.4 million as at December 31, 2015.

Other related party transactions follow:

(In Thousand Pesos)	September 30, 2016			
	Amount / Transactions	Due from (Due to)	Terms	Conditions
Associates and Other Affiliates				
a. Petro Wind Energy, Inc.	P-	P323,770	Interest bearing	Unsecured, no impairment
b. Enrique T. Yuchengco, Inc.	271,522	66,706	Non-interest bearing	Unsecured, no impairment
c. Malayan Colleges Mindanao	-	34,352	Non-interest bearing	Unsecured, no impairment

(In Thousand Pesos)	December 31, 2015			
	Amount / Transactions	Due from (Due to)	Terms	Conditions
Associates and Other Affiliates				
a. Petro Wind Energy, Inc.	P273,072	P343,463	Non-interest bearing	Unsecured, no impairment
b. Enrique T. Yuchengco, Inc.	144,109	36,677	Non-interest bearing	Unsecured, no impairment
c. Malayan Colleges Laguna, Inc.	176,162	23,843	Non-interest bearing	Unsecured, no impairment
d. Malayan Insurance Co., Inc.	-	1,500	Non-interest bearing	Unsecured, no impairment

- a. On August 1, 2013, the Parent Company was contracted by PetroWind Energy, Inc (PWEI) for the construction of 18 units WTG foundations, roadways and temporary landing pad intended for the 36MW Nabas Wind Power Project (NWPP) in Nabas, Aklan. The contract price increased from ₱656.8 million to ₱1.1 billion. As at December 31, 2015 PWEI advances to EEI amounted to ₱100.39 million. The outstanding receivables amounted to ₱323.8 million and ₱343.5 million as at September 30, 2016 and December 31, 2015, respectively. The project was completed in April 30, 2015.
- b. On April 27, 2015, the Parent Company was contracted by Enrique T. Yuchengco, Inc. for the general construction of ETY Building in Binondo, Manila amounting to ₱743 million. As at September 30, 2016, the project is 63.10% completed. Outstanding receivables as at September 30, 2016 and December 31, 2015 amounted to ₱66.7 million and ₱36.7 million, respectively.
- c. On July 8, 2014, the Parent Company was engaged by Malayan Colleges Laguna for the construction of its 3-Storey Building in Cabuyao, Laguna. Contract price amounted to ₱175.0 million and was completed in August 25, 2015. Outstanding receivables was nil as at September 30, 2016 and ₱23.8 million as at December 31, 2015.
- d. On January 30, 2014, the Parent Company was engaged by Malayan Insurance Company, Inc. for the rectification works of Malayan Plaza amounting ₱15 million. EEI completed the project on November 08, 2014. Outstanding receivables as at September 30, 2016 and December 31, 2015 amounted to nil and ₱1.5 million, respectively.
- e. On July 19, 2016, the Parent Company was engaged by Malayan Colleges Mindanao (A MAPUA School, Inc.) for the Bored Piling Works located in Talomo, Ma-a, Davao City. Contract price amounted to ₱171.8 million and target completion date is five (5) calendar months from September 15, 2016. Outstanding receivables as at September 30, 2016 is ₱34.4 million.

Item 2 **Management's Discussion and Analysis (MDA) of Financial Position and Results of Operations.**

2.e. Material change/s (5% or more) from period to period in one or more line items of the issuer's financial statements.

Statements of Financial Position			Increase (Decrease)	
	09.30.16 (Unaudited)	12.31.15 (Audited)	Amount	%
(In Thousand Pesos)				
Cash and cash equivalents	645,191	1,270,242	(625,051)	-49%
Receivables	6,783,657	6,339,948	443,709	7%
Due from related parties	94,348	74,552	19,796	27%
Inventories	494,104	448,318	45,786	10%
Other current assets	636,506	720,822	(85,316)	-12%
Investments in associates and joint ventures	1,438,604	2,097,507	(658,903)	-31%
Investment properties	203,497	231,228	(27,732)	-12%
Deferred tax assets	474,785	278,126	196,659	71%
Other noncurrent assets	576,695	329,612	247,083	75%
Bank loans	3,065,000	3,330,000	(265,000)	-8%
Accounts payable and accrued expenses	4,780,468	5,404,104	(623,636)	-12%
Due to related parties	26,796	37,352	(10,556)	-28%
Billings in excess of costs & estimated earnings on uncompleted contracts	6,182,293	5,002,222	1,180,071	24%
Long-term debt – net of current portion	1,285,714	1,500,000	(214,286)	-14%
Retirement liability	92,653	123,819	(31,166)	-25%
Cumulative translation adjustments	221,698	178,297	43,401	24%
Net unrealized gains on available-for sale securities	5,554	6,479	(925)	-14%

Statements of Income	For the period ending		Increase (Decrease)	
	09.30.16 (Unaudited)	09.30.15 (Unaudited)	Amount	%
(In Thousand Pesos)				
Revenue on construction contracts	10,284,528	13,431,321	(3,146,793)	-23%
Revenue on services	617,600	804,895	(187,295)	-23%
Revenue on merchandise sales	142,016	223,053	(81,037)	-36%
Revenue on real estate sales	8,923	7,998	925	12%
Cost of construction contracts	8,953,298	11,966,227	(3,012,929)	-25%
Cost of services	520,420	621,248	(100,828)	-16%
Cost of merchandise sales	128,256	184,602	(56,346)	-31%
Cost of real estate sales	7,441	5,654	1,787	32%
Equity in net earnings (loss) of associates and joint ventures	(942,415)	(722,477)	219,938	30%
Interest income	35,945	19,545	16,400	84%
Other income	35,863	(681)	36,544	5366%
Selling and administrative expenses	780,658	678,771	101,887	15%
Interest expense – short term debt	88,879	49,510	39,369	80%
Interest expense – long term debt	36,824	26,456	10,368	39%
Provision for income tax	(19,484)	153,671	(173,155)	-113%

EEI CORPORATION AND SUBSIDIARIES
ANALYTICAL REVIEW
September 30, 2016

Consolidated Statement of Financial Position Accounts

Cash and cash equivalents

Cash and cash equivalents decreased by ₱625 million or 49% due to purchase of various transportation and construction equipment intended for the newly awarded projects amounting to ₱615 million.

Receivables

The receivables grew by of ₱443.7 million or 7% due to substantial increase in retention receivables from various customers, particularly Citra Central Expressway Corporation, Galing Power & Energy Const. Co., Inc. and Global Gateway Development Corporation.

Due from related parties

The increase of ₱19.8 million or 27% was mainly due to higher janitorial services rendered by GAIC Manpower Services, Inc. (GAMSI), a local subsidiary of EEI Corporation, to various companies under Yuchengco Group.

Inventories

The net increase of ₱45.7 million or 10% was due to higher purchases of petroleum parts and fireproofing materials amounting to ₱43 million by Equipment Engineers, Inc., another local subsidiary of EEI Corporation.

Other current assets

The decrease of ₱84.3 million or 12% was mainly due to the reclassification of loan of EEI Retirement Fund Inc. (EEI RFI) to noncurrent assets amounting to ₱67 million, as a result of restructuring agreement between the parent company and EEI RFI.

Investments in associates and joint ventures

The net decrease of this account of ₱658.9 million or 31% is attributed to the following:

- Share in the net loss of Al-Rushaid Construction Co. Ltd. (ARCC), an associate of EEI Limited, a foreign subsidiary of EEI Corporation - ₱1 billion.
- Additional advances made to ARCC amounting to ₱269.5 million
- 20% equity in net earnings of PetroWind Energy, Inc. amounting to ₱23.9 million, and
- 44% equity in net earnings of PetroSolar Corporation amounting to ₱54.7 million.

Investment properties

The decrease of ₱27.7 million or 12% was attributable to the sale of five (5) condominium units and six (6) parking lot spaces in Fairways Tower, Taguig City; fifteen (15) parcel of lots in Itogon, Ifugao; three (3) parking lot spaces in Manggahan Village, Quezon City and forty four (44) memorial lots at Golden Haven Memorial Park in Las Pinas City.

Deferred tax assets

The increase of ₱196.7 million or 71% resulted mainly from the increase in tax effect on the NOLCO from foreign entity of ₱168.4 million to ₱378.8 million for the nine month period.

Other noncurrent assets

The account grew by ₱247.1 million or 75% mainly due to advances to one project owner by Parent Company which is subject to liquidation after project completion.

Bank loans

The net decrease of ₱265 million or 8% was due to payment of maturing loans during the period.

Accounts payable and accrued expenses

The net decrease of ₱623.6 million or 12% was mainly due to settlement of various accounts incurred during the period.

Due to related parties

The net decrease of ₱10.5 million or 28% was mainly due to fewer purchases of transportation equipment from Isuzu Manila, a related party.

Billings in excess of costs and estimated earnings on uncompleted contracts

The significant increase of ₱1.2 billion or 24% is attributable mainly to contract deposits and unrecouped down payments from newly awarded projects and on-going domestic projects such as *MRT 7 Project* for Universal LRT Corporation (BVI) Limited, *Therma Visayas Project Energy Mechanical Works* for Galing Power & Energy Construction Co. Inc. in Cebu City; *Power Distribution System Improvement Project* for Petron Corporation in Limay, Bataan; *Bocause Toll Plaza Barrier Expansion Project* for Manila North Tollways Corporation In Bocause, Bulacan; *Fabrication & Delivery of Chimney Liner Cans & Steel Structures for Pagbilao 3 Project* for BEC Specialist Philippines, Inc. in Pagbilao, Quezon; *Coast Residences Project* for SM Development Corp. in Roxas Blvd., Pasay City and *Malayan Colleges Mindanao Project* for Malayan Colleges Mindanao (A Mapua School), Inc. in Talomo, Ma-a, Davao City.

Long-term debt – net of current portion

The decrease of ₱214.3 million or 14% was due to payment of amortization of the seven (7) year long-term debt of ₱1.5 billion by the Parent Company with a local bank.

Retirement liabilities

Higher monthly contributions from ₱7.1 million in 2015 to ₱10.2 million in 2016 reduced the retirement liabilities of the Parent Company by ₱31.2 million or 25%.

Cumulative translation adjustments

The increase of ₱43.4 million or 24% relates mainly to the translation adjustment of the Group's subsidiary investment in ARCC, whose functional currency is Saudi Arabia Riyal (SAR).

Net unrealized gains on available-for-sale securities (AFS)

The net decrease of ₱0.9 million or 14% pertains mainly to the decrease in fair market value of investments in one quoted equity share and two unquoted Golf Club shares.

Consolidated Statement of Income Accounts

Revenue and costs of construction contracts

The decrease in construction contracts revenue amounting ₱3.1 billion or 23% and corresponding decrease in cost of construction amounting ₱3 billion or 25% pertains mainly to the slowdown in reported production for the first 3 quarters of 2016 compared to the same period last year of the following major projects: *Phividec Project* for NEPC Power Construction Corporation in Misamis Oriental; *The New CNS Sumitomo ATM Contract Package 1 and 2* for Sumitomo Corporation; *Uptown Mall Towers 1, 2, 3 & 4* for Megaworld Corporation in Taguig City; *Star Trec Project - Bundle 1B* for Pilipinas Shell Petroleum Corporation in Batangas City; and *Rehabilitation of Condensed Milk Plant and Milk Powdered Plant* for Alaska Milk Corporation in San Pedro, Laguna; and also due to the completion of the following projects in 2015: *Slag Flotation Plant Contract* for Philippine Associated Smelting & Refining Corporation in Isabel, Leyte; *Segment 9 North Link Road Project Phase I* for Manila North Tollways Corporation; *50MW Nabas Wind Power Plant* for Petro Energy Resources Corporation in Nabas, Aklan; *3 Storey Bldg. General Construction Works* for Malayan Colleges Laguna, Inc. in Cabuyao, Laguna; *Therma South BOP Works* for Leighton Contractors Philippines, Inc. in Davao City; *Rehabilitation of Container Yard At Pier 16* for Manila North Harbour Port, Inc. in Manila and *SM200 P1 Sarangani Power Plant-Jetty Works* for Daelim Industrial Co., Ltd. in Sarangani Province.

In addition, right of way issues limited the progress of the construction works for one of our big ticket infrastructure projects.

Revenue and costs of services

The reduction in revenue from services amounting ₱102.5 million or 30% and decrease in its related costs amounting ₱82.6 million or 31% of EEI Power Corp., a local subsidiary, were due to reduced delivery of electricity during the time that repairs and maintenance were being done at the *15 MW Peaking Power Plant* in Tagum City, Davao del Norte.

Revenue and costs of merchandise sales

The decline in revenue from merchandise sales amounting ₱81 million or 36% and its corresponding costs amounting ₱56.3 million or 31% of Equipment Engineers, Inc., were attributable to lower sales volume of various product lines; i.e. waterproofing materials and UPP parts.

Revenue and costs of real estate sales

The increase in revenue from real estate sales amounting ₱0.9 million or 12% and its related costs amounting ₱1.8 million or 32% of EEI Realty Corp., a local subsidiary, were due to sale of two (2) units of house and lots at Suburbia East in Marikina City.

Equity in net losses of associates and joint ventures

The increase of ₱219.9 million or 30% was primarily due to higher net loss reported for the period by ARCC, where the 49% share of the Parent Company amounted to ₱1 billion, tempered by the equity in net earnings from PetroSolar Energy, Inc. amounting to ₱54.7 million and PetroWind Energy, Inc. of ₱23.9 million.

Interest income

Interest income grew by ₱16.4 million or 84% from interest earned on short term investments and from Parent Company's receivables.

Other income

The increase of ₱36.5 million pertains primarily to lower net unrealized loss of ₱1.2 million vs. ₱41 million for the same period in 2015.

Selling and administrative expenses

The increase of ₱101.9 million or 15% was principally due to the following:

1. Personnel related expenses amounting ₱90.5 million
2. Training expenses of ₱10.6 million
3. Donations and contributions of ₱8.5 million

Interest expense

The net increase of ₱27.1 million or 27% was due to higher loan level as of September 2016 amounting to ₱4.6 billion compared to ₱3.8 billion for the same period in 2015.

Provision for income tax

The net decrease of ₱173.2 million or 113% was due to significant losses of ARCC for the period ending September 30, 2016.

Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to raise finances for the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The policies for managing these risks are summarized as follows:

Credit Risk

The exposure to credit risk on its receivables relates primarily to the inability of project owners to fully settle the unpaid balance of contract receivables and other claims owed to the Group. Credit risk is managed in accordance with the Group's credit risk policy which requires the evaluation of the creditworthiness of the project owners by engaging the service of an accredited third party credit analyst.

The Group does not have any significant concentration of credit risk. Its gross maximum exposure to credit risk is equivalent to the carrying value of its financial assets as presented in the consolidated statements of financial position.

Credit risk is managed since the titles of the properties sold by the Group from its real estate operations are retained until receivables are fully collected and the fair values of these properties held as collateral are sufficient to cover the carrying values of the receivables.

There can be some credit exposures on project commitments and contingencies as at September 30, 2016 and December 31, 2015 represented by work accomplishments on backlog of projects which are not yet invoiced. These exposures are, however, limited to a few months' work accomplishment as work are frozen as soon as the Group is able to determine that the risk of non-collection materializes. This risk is, however, mitigated by the Group's contractor's lien on the project. A contractor's lien is the legal right of a contractor to take over the project in-progress and has priority in the settlement of contractor's receivables and claims on the project in the event of insolvency of the project owner. The Group assesses that the value of projects in-progress is usually higher than receivables from and future commitments with the project owners.

The analyses of loans and receivables are as follows:

(In Thousand Pesos)	September 30, 2016					Impaired Financial Assets	Total
	Neither Past Due nor Impaired	Past Due but Not Impaired					
		<30 days	30 to <60 days	60 to <90 days	>90 days		
Cash and cash equivalents							
Cash in banks	P642,418	P-	P-	P-	P-	P-	P642,418
Short-term investments	1,097	-	-	-	-	-	1,097
Receivables							
Trade & retention receivables	4,088,471	580,677	457,404	100,847	569,519	66,917	5,863,835
Consultancy fees	-	-	-	-	296,389	-	296,389
Other receivables	36,473	1,523	1,053	1,848	45,501	3,467	89,865
Due from related parties	94,348	-	-	-	-	-	94,348
Miscellaneous deposits	145	-	-	-	45,726	3,762	49,633
Receivable from EEI Retirement Fund Inc.	233,252	-	-	-	-	-	233,252
	P5,096,204	P582,200	P458,457	P102,695	P957,135	P74,146	P7,270,837

December 31, 2015							
(In Thousand Pesos)	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired Financial Assets	Total
		<30 days	30 to <60 days	60 to <90 days	>90 days		
Cash and cash equivalents							
Cash in banks	P1,264,988	P-	P-	P-	P-	P-	P1,264,988
Short-term investments	1,078	-	-	-	-	-	1,078
Receivables							
Trade & retention receivables	3,680,447	609,267	250,612	150,596	543,746	66,723	5,301,391
Consultancy fees	-	-	-	-	289,689	-	289,689
Other receivables	15,924	1,182	1,866	571	66,129	4,784	90,456
Due from related parties	74,552	-	-	-	-	-	74,552
Miscellaneous deposits	9,326	-	-	2,383	34,631	3,762	50,102
Receivable from EEI Retirement Fund, Inc.	273,362	-	-	-	-	-	273,362
	P5,319,677	P610,449	P252,478	P153,550	P934,195	P75,269	P7,345,618

The risk that past due receivables from project owners will not be collected is mitigated by the fact that the Group can resort to carry out its contractor's lien over the project with varying degrees of effectiveness depending on the jurisprudence applicable on or country location of the project. Trade and retention receivables from project owners are normally high standard because of the creditworthiness of project owners and the collection remedy of contractor's lien accorded contractor in certain cases.

The tables below summarize the credit quality of the Group's neither past due nor impaired loans and receivables.

September 30, 2016			
(In Thousand Pesos)	Neither Past Due nor Impaired		Total
	High Grade	Standard Grade	
Cash and cash equivalents			
Cash in banks	P642,418	P-	P642,418
Short-term investments	1,097	-	1,097
Receivables			
Trade & retention receivables	1,345,376	2,743,095	4,088,471
Other receivables	33,500	2,973	36,473
Due from related parties	94,348	-	94,348
Miscellaneous deposits	-	145	145
Receivable from EEI-RFI	233,252	-	233,252
	P2,349,991	P2,746,213	P5,096,204

December 31, 2015			
(In Thousand Pesos)	Neither Past Due nor Impaired		Total
	High Grade	Standard Grade	
Cash and cash equivalents			
Cash in banks	P1,264,988	P-	P1,264,988
Short-term investments	1,078	-	1,078
Receivables			
Trade & retention receivables	1,395,194	2,285,253	3,680,447
Other receivables	14,061	1,863	15,924
Due from related parties	74,552	-	74,552
Miscellaneous deposits	8,280	1,046	9,326
Receivable from EEI-RFI	273,362	-	273,362
	P3,031,515	P2,288,162	P5,319,677

Neither past due nor impaired trade receivables (including retention receivables), consultancy fees, other receivables and miscellaneous deposits are classified into 'high grade' and 'standard grade'. Neither past due nor impaired cash and cash equivalents, due from related parties and receivables from EEI-RFI are normally 'high grade' in nature. The Group sets financial assets as

'high grade' based on the Group's positive collection experience. On the other hand, 'standard grade' are those which have credit history of default in payments.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecasts approved by BOD.

The tables below summarize the maturity profile of the Group's financial assets. The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date.

(In Thousand Pesos)	September 30, 2016				
	On Demand	< 1 year	1 to < 2 years	Over 2 years	Total
Loans and receivables					
Cash and cash equivalents					
Cash on hand and in banks	P644,094	P-	P-	P-	P644,094
Short-term investments	1,097	-	-	-	1,097
Receivables					
Trade & retention receivables	2,826,281	2,916,704	40,141	13,792	5,796,918
Consultancy fees		-	229,530	66,859	296,389
Other receivables	64,140	17,279	4,385	594	86,398
Due from related parties	94,348	-	-	-	94,348
Miscellaneous deposits	30	45,452	389	-	45,871
Receivable from EEI-RFI					
Principal		40,252	45,000	148,000	233,252
Interest		11,463	9,210	12,022	32,695
	3,629,990	3,031,150	328,655	241,267	7,231,062
AFS securities					
Quoted shares	19,001				19,001
Unquoted shares	122	237,280	15,000	98,128	350,530
	19,123	237,280	15,000	98,128	369,531
	P3,649,113	P3,268,430	P343,655	P339,395	P7,600,593

	December 31, 2015				
	On Demand	< 1 year	1 to < 2 years	Over 2 years	Total
Loans and receivables					
Cash and cash equivalents					
Cash on hand and in Banks	P1,269,164	P-	P-	P-	P1,269,164
Short-term investments	1,078	-	-	-	1,078
Receivables					
Trade and retention receivables	2,366,928	2,817,476	15,211	35,053	5,234,667
Consultancy fees	-	289,689	-	-	289,689
Other receivables	14,139	34,376	22,874	14,282	85,671
Due from related parties	74,552	-	-	-	74,552
Miscellaneous deposits	12,107	34,224	9	-	46,340
Receivable from EEI-RFI					
Principal	-	117,361	114,532	41,468	273,361
Interest	-	2,492	8,821	4,209	15,522
	3,737,968	3,295,618	161,447	95,012	7,290,045
AFS securities					
Quoted shares	19,746	180	-	-	19,926
Unquoted shares	122	237,280	15,000	98,128	350,530
	19,868	237,460	15,000	98,128	370,456
	P3,757,836	P3,533,078	P176,447	P193,140	P7,660,501

The tables below summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (both principal and interest).

(In Thousand Pesos)	September 30, 2016				
	On demand	< 1 year	1 to < 2 years	Over 2 years	Total
Accounts payable and accrued expenses	₱516,623	₱2,693,163	₱383,636	₱384,468	₱3,977,890
Bank loans					
Principal	3,025,000	40,000	–	–	3,065,000
Interest	73,096	353	–	–	73,449
Long-term debt					
Peso loan	–	285,714	1,285,714	–	1,571,428
Interest	–	56,579	34,065	–	90,644
Due to related parties	26,796	–	–	–	26,796
	₱3,641,515	₱3,075,809	₱1,703,415	₱384,468	₱8,805,207

	December 31, 2015				
	On demand	< 1 year	1 to < 2 years	Over 2 years	Total
Accounts payable and accrued expenses	₱2,051,816	₱1,623,343	₱655,087	₱3,049	₱4,333,295
Bank loans					
Principal	–	3,330,000	–	–	3,330,000
Interest	–	72,171	–	–	72,171
Long-term debt					
Peso loan	–	307,273	1,179,584	298,857	1,785,714
Interest	–	41,649	–	–	41,649
Due to related parties	37,352	–	–	–	37,352
	₱2,089,168	₱5,374,436	₱1,834,671	₱301,906	₱9,600,181

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates (interest rate risk), foreign exchange rates (foreign currency risk) and market prices (equity price risk).

- *Interest Rate Risk*

The Group's exposure to market rate risk for changes in interest rates relates primarily to the Group's variable short-term and long-term obligations. The Group closely monitors the movements of interest rates, as well as economic factors affecting the trends of these movements. In certain cases, depending on its assessment of future movements of interest rates, the Group would pre-terminate its debt and obtain a new loan facility which provides for either floating or fixed interest rates. This is intended to minimize its financing costs. The Group also monitors its exposure to fluctuations in interest rates by using sensitivity analysis to estimate the impact of interest rate movements on its interest income and expense.

The Group is exposed to receivables and borrowings with fixed interest rates. In 2012, the long-term receivable from EEI-RFI is earning interest based on bank's internal average lending rate. As at September 30, 2016 and December 31, 2015, the outstanding principal amounted to ₱233.25 million and ₱273.36 million, respectively, with fixed interest rate of 5%.

The following tables set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Peso fixed rate receivables

(In Thousand Pesos)	< 1 year	1 to < 2 years	2 to < 3 years	Total
2016	₱40,252	₱45,000	₱148,000	₱233,252
2015	₱117,361	₱114,532	₱41,468	₱273,361

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the Group's profit before tax.

(In Thousand Pesos)	September 30, 2016	
	Increase/decrease in basis points	Effect on profit before tax
Peso fixed rate receivables	+50	₱1,166
	-50	(1,166)

(In Thousand Pesos)	December 31, 2015	
	Increase/decrease in basis points	Effect on profit before tax
Peso fixed rate receivables	+50	₱1,367
	-50	(1,367)

The sensitivity analyses shown above are based on the assumption that interest rate movements will be more likely be limited to a fifty basis point upward or downward fluctuation in both 2016 and 2015. The forecasted movements in percentages of interest rates used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months. The effect on the Group's income statement before tax is computed on the carrying value of the Group's floating rate receivables as at September 30, 2016 and December 31, 2015. There are no other effects of the interest rate sensitivity on the Group's equity other than those already affecting the consolidated statements of income.

- *Foreign Currency Risk*

Currency risk is the potential decline in the value of the financial instruments due to exchange rate fluctuations. The Group's currency arise mainly from cash and receivables which are denominated in a currency other than the Group's functional currency or will be denominated in such a currency.

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar (USD), Singapore dollar (SGD), Euro (EUR) and Japan yen (YEN) currency rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

(In Thousand Pesos)	September 30, 2016	
	Percentage increase/decrease in foreign currency	Effect on profit before tax (in Php)
USD	+1.0%	₱482
YEN	+4.2%	1
EUR	+2.6%	24
SGD	+1.0%	137
USD	-1.0%	(₱482)
YEN	-4.2%	(1)
EUR	-2.6%	(24)
SGD	-1.0%	(137)

(In Thousand Pesos)	December 31, 2015	
	Percentage increase/decrease in foreign currency	Effect on profit before tax (in Php)
USD	+0.5%	₱1,946
YEN	+0.3%	2,722
EUR	+1.3%	76
SGD	+4.8%	408
USD	-0.5%	(₱1,946)
YEN	-0.3%	(2,722)
EUR	-1.3%	(76)
SGD	-4.8%	(408)

The sensitivity analyses shown above are based on the assumption that the movements in US dollars, Japan yen, Euro and Singapore dollars will more likely be limited to the upward or downward fluctuation of 1.0%, 4.2%, 2.6% and 1.0%, respectively, in September 30, 2016 and 0.5%, 0.3%, 1.3% and 4.8% in December 31, 2015.

The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months. The effect on the Group's income before tax is computed on the carrying value of the Group's foreign currency denominated financial assets and financial liabilities as at September 30, 2016 and December 31, 2015.

There are no other effects of the foreign currency sensitivity on the Group's equity other than those already affecting the consolidated statements of income. The Group's exposure to foreign currency changes for all other currencies is not material.

The foreign currency denominated financial assets and financial liabilities in original currencies and equivalents to the functional and presentation currency are as follows:

(In Thousand Pesos)	September 30, 2016					Equivalents in Php
	USD	SGD	EUR	YEN		
Financial assets						
Cash and cash equivalents	\$766	\$S404	€17	¥58		₱52,201
Receivables	198	–	–	–		9,536
	\$964	\$S404	€17	¥58		₱61,737
	December 31, 2015					
(In Thousand Pesos)	USD	SGD	EUR	YEN		Equivalents in Php
Financial assets						
Cash and cash equivalents	\$212	\$S531	€17	¥62,202		₱53,021
Receivables	698	–	41	245,839		131,313
	\$910	\$S531	€58	¥308,041		₱184,334
Financial liabilities						
Accounts payable and accrued expenses	484	9	1	–		23,061
	\$426	\$S522	€57	¥308,041		₱161,273

- *Equity Price Risk*

The Group's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as AFS securities.

Quoted AFS securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The analyses below are performed for reasonably possible movements in the PSE index with all other variables held constant, showing the impact on equity:

(In Thousand Pesos)		September 30, 2016	
Market Index		Change in variable	Effect on equity
PSE		+10%	₱745
		-10%	(745)
Others		+7%	750
		-7%	(750)
(In Thousand Pesos)		December 31, 2015	
Market Index		Change in variable	Effect on equity
PSE		+5%	₱367
		-5%	(367)
Others		+11%	1,100
		-11%	(1,100)

The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted AFS securities will be most likely be limited to an upward or downward fluctuation of 10% and 7% in September 30, 2016 and 5% and 11% in December 31, 2015. The Group, used as basis of these assumptions, the annual percentage change in PSE composite index and annual percentage change of quoted prices as obtained from published quotes of golf and club shares.

The impact of sensitivity of equity prices on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at September 30, 2016 and December 31, 2015.

The Group considers total equity as its capital.

The Group monitors capital using a debt-to-equity ratio, which is total liabilities divided by total equity. Although some of the Group's loan agreements with banks provide for a maximum debt-to-equity ratio of 3:1, the Group's policy is to maintain it at a lower ratio.

(In Thousand Pesos)	September 30, 2016	December 31, 2015
Current liabilities	₱14,340,270	₱ 14,059,392
Noncurrent liabilities	1,378,367	1,623,819
Total liabilities (a)	15,718,637	15,683,211
Equity (b)	6,302,630	6,781,242
Debt to Equity Ratio (a/b)	2.49:1	2.31:1

Signed:


REBECCA R. TONGSON
VP & CONTROLLER

EEI CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON SRC RULE 68 AS AMENDED

September 30, 2016

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68, as Amended (2011) that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets

The Group is not required to disclose the financial assets in equity securities as the total available-for-sale securities amounting ₱369.5 million do not constitute 5% or more of the total noncurrent assets of the Group as at September 30, 2016.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Below is the schedule of advances to officers and employees of the Group with balances above ₱100,000 as at September 30, 2016:

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of period
Macapagal, Norman K. (Senior Vice President)	₱1,532,053	₱23,688	(₱4,129)	₱1,551,612
Mercado, Oscar D. (Senior Vice President)	1,453,861	9,113	(21,451)	1,441,523
Cabrera, Lovette O. (Project Manager)	159,546	-	(159,546)	-
San Miguel, Simon Elmer D. (Asst. Vice President)	489,035	-	(489,035)	-
Villarin, Pantaleon T. Jr. (Manager)	168,289	-	(168,289)	-
Alonzo, Antonina J. (Group Supervisor)	121,292	-	-	121,292
Canero, Raul C. (Supervisor)	117,460	-	-	117,460
Burgos, Manuel B. (Construction Manager)	108,150	19,043	(19,043)	108,150
Zulueta, Reynaldo S. (Accounting Supervisor)	101,197	-	(81,267)	19,930
Albarda, Joh Christian (Junior Cost Engineer)	209,959	-	(27,374)	182,585
Largosta, Christopher M. (Accounting Supervisor)	198,846	-	(37,176)	161,670
Sunga, Renato Z. (HRD Training Supervisor)	107,321	-	(29,037)	78,284
Edorot, Rico C. (Construction Superintendent)	131,477	-	-	131,477
Matibag, Jun E. (Rigger A)	173,582	-	(29,000)	144,582
Bernal, Edgardo A. (Group Supervisor)	125,549	-	-	125,549
Cadiz, Cirilo Victoriano L. (Supervisor)	113,333	-	(38,000)	75,333
Alcaraz, Jimmy S. (Supervisor, MEPF)	204,207	3,739	(24,765)	183,181
Bondoc, Alberto D. (Foreman, Gen. Strct'l)	116,980	-	(116,980)	-
Bundalian, Rolando S. (Manager, Equipment)	101,760	12,350	(12,350)	101,760
Duran, Roque C. (Foreman, Welding)	109,453	285,187	(394,640)	-
Encila, William L. (Supervisor, Forms & Scaf)	144,516	10,000	(38,729)	115,787
Manalo, Noelito D. (Driver, HDE-Crane)	326,975	-	(326,975)	-
Agtoto, Jerry O. (Project Manager)	-	101,300	(101,300)	-
Cafe, Antonio V. (Project Manager)	-	324,804	(324,804)	-
Temptra Georgia M. (Accounting Manager)	-	1,100,000	(790,333)	309,667
Lalisan, Bernabe O. (Foreman, Scaffolding)	-	175,634	(4,449)	171,185
Tamos Jr. Eduardo C. (Foreman, Equipt./Tools Ctrl)	-	139,945	(10,500)	129,445
Constantino, Edwin P. (VP-CPO)	-	395,234	(266,263)	128,972
Cruz Garizaldy F. (AVP-Sales & Marketing)	-	535,152	-	535,152
Realin, Marco Dindo H. (Product Manager III)	-	929,405	(261,000)	668,405
Reyes, Roberto B. (Support Group Head)	-	730,000	(183,000)	547,000
	₱6,314,841	₱4,794,595	(₱3,959,436)	₱7,150,000

The amounts of advances to officers and employees as shown above are classified under current assets. There were no amounts written off during the year.

Schedule C. Amounts Receivable from/Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements

The following is the schedule of receivables from related parties, which are eliminated in the consolidated financial statements as at September 30, 2016:

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts Collected	Balance at end of period
EI Realty Corp	₱62,430,584	₱636,482	(₱4,282,520)	₱58,784,546
EI Power Corp.	26,495,321	762,035	(146,830)	27,110,526
Gulf Asia International Corp.	17,584,340	1,241,780	(6,699,347)	12,126,773
GAIC Manpower Services Inc.	5,213	82,679	(82,173)	5,719
Philrock Construction & Services, Inc.	42,114,096	-	-	42,114,096
Philmark, Inc.	33,704,596	-	-	33,704,596
Equipment Engineers, Inc.	15,484,878	54,129,831	(5,018,122)	64,596,587
EI Construction & Marine, Inc.	7,943,769	4,828,869	(5,460,986)	7,311,652
EI Corporation (GUAM) Inc.	2,308,868	-	(10,084)	2,298,784
Bagumbayan Equipment Industrial Products, Inc.	38,525	44	(38,569)	-
TOTAL	₱208,110,190	₱61,681,720	(₱21,738,631)	₱248,053,279

The amounts of receivables from related parties as shown above are expected to be realized within twelve months from the reporting date and are classified under current assets. There were no amounts written off during the year.

The following is the schedule of payable to related parties, which are eliminated in the interim consolidated financial statements as at September 30, 2016:

Name and Designation of Creditor	Balance at beginning of year	Additions	Amounts Paid	Balance at end of period
EI Limited (formerly EI BVI Ltd.)	₱279,707,893	₱3,346,462	(₱252,952,042)	₱30,102,313
EI Construction & Marine, Inc.	209,799,236	229,645,950	(260,565,458)	178,879,728
Equipment Engineers, Inc.	122,650,579	93,340,794	(195,569,770)	20,421,603
EI Subic Corporation	89,079,662	-	-	89,079,662
Gulf Asia International Corp.	971,737	13,926,120	(14,858,851)	39,006
GAIC Manpower Services Inc.	1,709,114	3,091,251	(3,967,381)	832,984
Bagumbayan Equipment Industrial Products, Inc.	1,522,150	20,943	(63,068)	1,480,025
EI Realty Corp	947,347	1,976,804	(2,924,151)	-
EI Power Corp.	12,791	-	(12,791)	-
EI Nouvelle Calédonie	2,107,840	-	(2,107,840)	-
TOTAL	₱708,508,349	₱345,348,324	(₱733,021,352)	₱320,835,321

The amounts of payable to related parties as shown above are expected to be realized within twelve months from the reporting date and are classified under current liabilities. There were no amounts written off during the year.

Schedule D. Intangible Asset

The Group has intangible asset amounting P2.5 million as at September 30, 2016.

Description	Beginning balance	Additions of cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Software Cost (included in "Other Noncurrent Asset" account in the statement of financial position	P6,141,131	-	(P3,601,052)	-	-	P2,540,079

Schedule E. Long-term Debt

Below is the schedule of long-term debt of the Group:

Type of Obligation	Amount	Current	Noncurrent	Collateral
Parent Company				
Fixed-rate corporate promissory notes with effective annual interest of 5.1875% on first draw down and 5.1667% on second draw down in February 2014, and 4.8% on subsequent drawdowns starting May 2015 for seven (7) years.	P1,142,857,143	P214,285,714	P928,571,429	Clean/No Collateral
EEl Power				
Peso-denominated seven (7) year term loan, payable quarterly starting November 2015 with interest of 4.8% per annum.	428,571,428	71,428,571	357,142,857	Clean/No Collateral
	P1,571,428,571	P285,714,285	P1,285,714,286	

Schedule F. Indebtedness to Related Parties (Long Term Loans from Related Companies)

There are no indebtedness to related parties as at September 30, 2016.

Schedule G. Guarantees of Securities of Other Issuers

There are no guarantees of securities of other issuing entities by the Group as at September 30, 2016.

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, Officers and Employees	Others
Common Shares	2,000,000,000	1,036,281,485	35,000,000	605,367,942	3,571,740	427,341,803
Preferred Shares	240,000,000	-	-	-	-	-

EI CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS AT SEPTEMBER 30, 2016 and DECEMBER 31, 2015

Financial Soundness Indicator

Below are the financial ratios that are relevant to the Group for the period ended September 30, 2016 and December 31, 2015:

Financial ratios		09.30.16	12.31.15
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<u>1.01:1</u>	<u>1.05:1</u>
Solvency ratio	$\frac{\text{Net income plus depreciation}}{\text{Total liabilities}}$	<u>0.01:1</u>	<u>0.05:1</u>
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	<u>2.49:1</u>	<u>2.31:1</u>
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	<u>3.49:1</u>	<u>3.31:1</u>
Interest rate coverage ratio	$\frac{\text{EBIT*}}{\text{Interest expense}}$	<u>-1.76:1</u>	<u>4.41:1</u>
Return on assets	$\frac{\text{Net income}}{\text{Average total assets}}$	<u>-1%</u>	<u>1%</u>
Return on equity	$\frac{\text{Net income}}{\text{Average total equity}}$	<u>-5%</u>	<u>3%</u>

**Earnings before interest and taxes (EBIT)*

EI CORPORATION**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION
AS AT SEPTEMBER 30, 2016**

Unappropriated Retained Earnings of the Parent Company, <i>as adjusted to available for dividend distribution, beginning</i>	P2,783,560,189
Add: Net income actually earned/realized during the period	415,814,328
Less: Dividend declarations during the period	207,256,297
Treasury stock	3,720,790

Total Parent Company Unappropriated Retained Earnings Available For Dividend Distribution, End	P2,988,397,430
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EEI CORPORATION AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PFRS AS AT SEPTEMBER 30, 2016

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as at September 30, 2016:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
PFRSs Practice Statement Management Commentary				√
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			√
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			√
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			√
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			√
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			√
	Amendments to PFRS 1: Government Loans			√
PFRS 2	Share-based Payment			√
	Amendments to PFRS 2: Vesting Conditions and Cancellations			√
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			√
PFRS 3 (Revised)	Business Combinations			√
PFRS 4	Insurance Contracts			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			√
PFRS 6	Exploration for and Evaluation of Mineral Resources			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2016		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
PFRS 8	Operating Segments	√		
PFRS 9	Financial Instruments		√	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		√	
	New Hedge Accounting Requirements		√	
PFRS 10	Consolidated Financial Statements	√		
	Amendments to PFRS 10: Investment Entities			√
PFRS 11	Joint Arrangements	√		
PFRS 12	Disclosure of Interests in Other Entities	√		
	Amendments to PFRS 12: Investment Entities			√
PFRS 13	Fair Value Measurement	√		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	√		
PAS 2	Inventories	√		
PAS 7	Statement of Cash Flows	√		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√		
PAS 10	Events after the Reporting Date	√		
PAS 11	Construction Contracts	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2016		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	√		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			√
PAS 16	Property, Plant and Equipment	√		
PAS 17	Leases	√		
PAS 18	Revenue	√		
PAS 19 (Amended)	Employee Benefits	√		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			√
PAS 21	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment: Net Investment in a Foreign Operation			√
PAS 23 (Revised)	Borrowing Costs	√		
PAS 24 (Revised)	Related Party Disclosures	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			√
PAS 27	Consolidated and Separate Financial Statements	√		
PAS 27 (Amended)	Separate Financial Statements			√
	Amendments to PAS 27: Investment Entities			√
PAS 28 (Amended)	Investments in Associates and Joint Ventures	√		
PAS 29	Financial Reporting in Hyperinflationary Economies			√
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendment to PAS 32: Classification of Rights Issues			√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		√	
PAS 33	Earnings per Share	√		
PAS 34	Interim Financial Reporting	√		
PAS 36	Impairment of Assets	√		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√		
PAS 38	Intangible Assets	√		
	Amendments to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2016		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	√		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			√
	Amendments to PAS 39: The Fair Value Option			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			√
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			√
	Amendment to PAS 39: Eligible Hedged Items			√
	Amendments to PAS 39: Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting			√
PAS 40	Investment Property	√		
PAS 41	Agriculture			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			√
IFRIC 4	Determining Whether an Arrangement Contains a Lease	√		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			√
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			√
IFRIC 8	Scope of PFRS 2			√
IFRIC 9	Reassessment of Embedded Derivatives			√
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			√
IFRIC 10	Interim Financial Reporting and Impairment			√
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			√
IFRIC 12	Service Concession Arrangements			√
IFRIC 13	Customer Loyalty Programmes			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			√
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			√
IFRIC 17	Distributions of Non-cash Assets to Owners			√
IFRIC 18	Transfers of Assets from Customers			√
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			√
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
IFRIC 21	Levies			√
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC-12	Consolidation - Special Purpose Entities			√
	Amendment to SIC - 12: Scope of SIC 12			√
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			√
SIC-15	Operating Leases - Incentives			√
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			√
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			√
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			√
SIC-29	Service Concession Arrangements: Disclosures.			√
SIC-31	Revenue - Barter Transactions Involving Advertising Services			√
SIC-32	Intangible Assets - Web Site Costs			√

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the period ended September 30, 2016.

Standards tagged as “Not adopted” are standards issued but not yet effective as at September 30, 2016. The Group will adopt the Standards and Interpretations when these become effective.

EEI CORPORATION AND SUBSIDIARIES

MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

Group Structure

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as at September 30, 2016:

