EEI Corporation
Company Profile

EEI Corporation was founded in 1931. Through the years, the Company expanded into the provision of general contract and specialty construction services, and has been involved in the construction and erection of large-scale heavy and light industrial projects, infrastructure and property development projects both in the Philippines and abroad.

EEI has an unmatched track record as one of the country's leading construction companies. Its shares are listed on the Philippine Stock Exchange.

The Company is a member of the Yuchengco Group of Companies, a leading diversified conglomerate with interests in banking, financial and insurance services, education and property development.

Contents

Our Cover

EEI Corporation's journey has gone full circle. This is because of coherent and consistent strategy that has primed and put the Company in position to the next level of growth.

The Company's drive to achieve its goals is dramatized in the cover photograph of the plant modular assembly, which was fabricated at the Batangas Shop, being lifted and loaded to the cargo vessel for shipment to New Caledonia. As insets are photographs of the NAIA 3 Expressway fly-over, the 210 MW STEAG State Power Plant, Ayala's *Two Serendra* condominium complex and the Pilipinas Kao manufacturing plant, just some of the EEI's landmark projects last year, that typifies how it is Creating the Future.

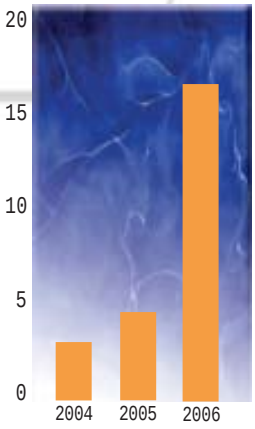
Financial Highlights

EEI Corporation and Subsidiaries

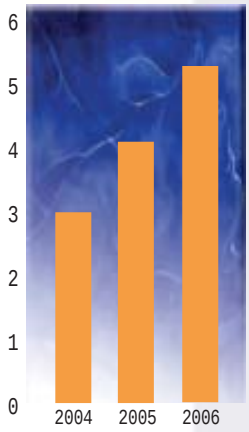
In Million Pesos, except financial ratios and per share data

	2006	2005
For the Year		
Revenues	5,259	4,175
EBITDA	523	345
Net income	200	62
Earnings per Share	0.219	0.068
At Year End		
Total Assets	5,636	5,593
Cash and Cash Equivalents	814	228
Bank Loans	848	1.305
Stockholders' Equity	1,506	1,315
Financial Ratios		
Current Ratio	1.21	0.97
Debt-to-Equity Ratio	2.74 : 1.00	3.25 : 1.00
Book Value per Share	1.65	1.44

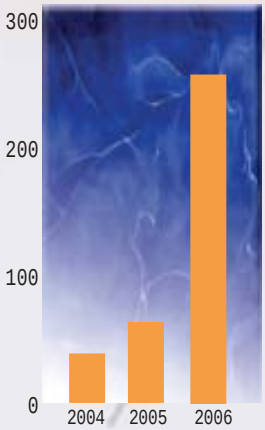
Orders Acquired



Revenues



Income Before Tax



Creating the Future

The best way to ensure the future is to create it.

Thriving in a turbulent local business environment and a volatile global market means having the ability, foresight and resolve to create the future.

From 1999 to 2003, EEI had to endure the prolonged economic downturn and recession in the construction industry. Through that difficult period, your Management persevered, kept its focus and worked on strengthening the Company's business fundamentals.

The effort to enhance our technological focus around our core competencies and to build a lean yet effective organization has borne fruit.

We are on the threshold of the next level of growth and take-off.

EEI's Senior Management Team: (From left) President and CEO Roberto Jose L. Castillo, SVP and CFO Gaudencio S. Hernandez, SVP Construction Division Clarito M. Ilustre, SVP Middle East Operations Antonio S. Pascua and SVP Administration and Legal Ferdinand G. Villafuerte

Our Leadership Promise

World-Class... anywhere, everywhere

EEI has distinguished itself in its mastery of world-class construction management and competencies.

It possesses the expertise, capability and technical resources to undertake a broad range of construction projects anywhere in the world.

Our presence in the Middle East and other markets through business alliances with local partners and through global Engineering, Procurement and Construction (EPC) players contributes toward making EEI a truly global Philippine contractor.

Our vision is to attain stature as the first global Philippine construction company.

The broadest range of
construction expertise & experience

With our reputation for world-class construction expertise and our resolve to be cost-competitive, the EEI of today is able to take on projects at the scale, complexity and range of work specialization required by proponents and principals, anywhere in the world...

PEOPLE:
our competitive advantage

Dedicated. Committed to Excellence & Quality.
Working as one to Make a Difference.

The EEI advantage is its front-line workers and engineers.

They are the Company's pride because of their exceptional industry and technical skills honed in different projects in different locations, both here in the Philippines and abroad.

Message to Shareholders

EEI Chairman of the Board Rizalino S. Navarro and President and CEO Roberto Jose L. Castillo

CREATING THE FUTURE

Your Company staged a solid push in 2006 and registered record financial growth during the year.

EEI's consolidated net income increased more than three-fold to P200 million on the back of the 26% expansion in consolidated revenues to P5.26 billion. We booked orders and contracts in the domestic and overseas markets worth P16.30 billion in 2006, more than a three-fold leap over the P4.50 billion in 2005.

We have patiently and resolutely prepared EEI for this record performance. The dividends of our strategies and efforts to create our future are finally paying off.

The Philippine Economy

The country began the year on a note of optimism, but as has been the pattern over the last three years, destabilization attempts threatened to negate the gains that had been achieved. However, the Government's political will and determination to push reforms coupled with the business sector's resilience and focus to pursue business plans and investments surmounted the challenges this time.

The Philippine economy registered a growth of over 6.0 % in Gross National Product (GNP) in 2006.

Unlike in the past when growth favored only a few sectors, the growth in 2006 was fundamentals-driven and more broadly based. The public sector and the consumer economy were more robust as they were boosted by healthy fiscal position and revenue collections, on the one hand, and higher employment levels and increased export receipts and overseas remittances on the other. More importantly, confidence and optimism have been restored.

The government delivered on its promise to reduce the budget deficit, paving the way for credit rating upgrades and lower inflation and interest rates. Direct and portfolio investments picked up while the peso appreciated sharply in view of the positive macro-economic picture.

To cap the year, the government paid the $220 million in remaining debt to the International Monetary Fund, and led the way for an early exit from the IMF monitoring arrangement after many decades.

Financial Performance

We have gained definite and concrete strides in 2006.

Reflecting our underlying strength and the healthy economy, consolidated revenues rose 26% to P5.259 billion due to robust across-the-board growth in production from construction projects, real estate sales, recruitment services and fabrication works.

EEI won construction projects worth nearly P7 billion in the Philippines during the year, compared to P3 billion in 2005. Construction orders amounting to about US$ 200 million were also acquired in the overseas market, principally by the AI

Rushaid Construction Corporation, our 49% joint venture company in the Kingdom of Saudi Arabia.

Our operating cash flows remained strong, with earnings before interest, taxes, depreciation and amortization (EBITDA) of P523 million in 2006, compared to P345 million the previous year.

The Company realized P198 million in equity in the net earnings of affiliates, principally from ARCC, nearly double the P112 million registered in 2005.

Consolidated net income before tax amounted to P251 million, a 365% leap from 2005. We ended the year with consolidated net income after tax of P200 million, or P0.219 per share.

We have taken firm steps to strengthen the Company's financial condition and reinforce our cash position.

Total assets stood at P5.636 billion as of December 31, 2006.

Cash and cash equivalents leaped to P814 million mainly due to the cash proceeds from the sale of property.

Total current liabilities went down by 14% due to the significant decrease in bank loans from P1,305 million to P848 million. We have made headway in reducing indebtedness, with debt-to-equity ratio improving from 3.25 : 1.00 in 2005 to 2.74 : 1.00.

Stockholders equity increased 14% from P1.315 billion as of the end of 2005 to P1.506 billion.

Building the EEI of the Future

The road to recovery has been a long and arduous climb, and our journey has gone full circle.

From the boom years in the 1990s, the country underwent a long period of political turmoil and economic stagnation as business confidence and investments plummeted.

Yet, your Management maintained its business focus and undertook business structuring to streamline operations and reinforce the Company to withstand the prevailing economic environment.

During this period, we took advantage of the slowdown in business activity to strengthen our project management capability and business processes, and to build a lean yet effective organization consistent with the end goal of strengthening our competitiveness.

More important than the structural changes was the shift in the mindset of our people. The result was an increased sense of urgency and a stronger commitment to uplift the quality and excellence of our products and services so as to improve customer satisfaction and our reliability to deliver projects of top quality and on time.

Our people rallied behind Management's decisions. There was a cognizance of the primacy of keeping the EEI ship afloat and viable, and for this we salute our people.

In 2006, to complete our re-structuring program, we began the process of financial revitalization to recapitalize the business and strengthen its financial position. We undertook three key initiatives during the year.

First, we sold the Company's property in Quezon City and Batangas to the Company employees' retirement fund which enabled us to get cash infusion that in turn gave us the resources to partially pre-pay our debt.

Second, we undertook a quasi-reorganization which enabled us to eliminate accumulated deficit as of December 31, 2005 by applying P363 million from additional paid-in capital to the parent company's deficit. This resulted in the positive impact in the consolidated balance sheet with ending balance of P498 million in the retained earnings account.

Third, we set the stage in 2006 for the launching of our P540 million stock rights offering (SRO) in March 2007 involving the sale of 120,000,000 primary common shares. This enabled us to raise fresh funds for debt payments and project working capital requirements.

As has become evident, these well-studied strategies have prepared and reinforced EEI in time for the economic turn-around to put it on the next level of growth for the future.

2006 Business Directions

With the dramatic expansion of project orders and positive business prospects, the Company began to gear up its organization to expand its production capability and beef up support functions.

At the start of 2006, the Company faced a manpower mobilization challenge that had not been seen in more than a decade. Within the year, there was a need to mobilize the 6,000 manpower requirement of the Sharq and Goro projects, and thousands more for domestic electro-mechanical, industrial, building and infrastructure projects now underway.

We accelerated personnel recruitment, orientation, and training of project superintendents, foremen, engineers, commercial and quality assurance staff, and skilled technical workers. Close to 2,000 employees and technical personnel were trained in 2006 alone.

An equipment re-fleeting program was likewise initiated for tower cranes, heavy and light materials cranes and

handling machinery to raise our production capacity and our capability to serve the growing construction market.

We continued to strive for higher operating efficiencies in 2006. We realized significant savings from construction materials and inventories through better procurement and materials management practices.

Our thrust in the near-term is to draw even higher efficiencies and better performance across our construction operations through end-to-end supply chain management. This involves the total management and mobilization of materials, personnel and equipment, without sacrifice in cost and management controls.

Likewise, we are improving our ability to effectively secure financial resources to fund our higher level of project activities which is critical at this point in the business cycle.

In this light, we will continue to step up the recruitment of key managerial staff to strengthen our capability in supply chain management, treasury and cash management, marketing and engineering.

Prospects

The economy is moving forward. In particular, the domestic construction market remains vigorous and vibrant, highlighted by the stable public sector fiscal position and expectations of stronger infrastructure expenditures in 2007 and beyond.

The bidding and start-up of new key projects in mass rail transport systems, airports and seaports, bridges and roadways is anticipated to roll-out after the elections. Right-of-way problems and disputes are being resolved, which should set the stage for the next round of boom in infrastructure construction.

Property development continues to be robust, with landmark office and residential projects up-and-coming or underway in Makati, Ortigas and Fort Bonifacio. The housing backlog and new demand for condominiums have combined to further improve the sector's outlook in the near-term.

The recovery in heavy and light industries has visibly firmed up as capital expansion and investments have resumed with a more stable government and political climate and higher corporate profits.

Construction of new power generation facilities has commenced as verified by our participation in the 210 MW coal-fired power plant of Kawasaki in Misamis province in Mindanao. We aim to leverage our major role and vast experience in the power sector as new projects come on stream.

On the international front, the economic boom in the Middle East has translated to large-scale investments and expansion of petroleum production and distribution facilities, including ethylene and downstream petro-chemical plants.

Similarly, the continued high worldwide metal prices has created a surge in new mining projects not only in the Philippines but also in Africa and the South Pacific.

The business frontier, once bleak and gloomy, has indeed turned around, and we are positioned to take an active part in exploiting the opportunities in the construction industry, wherever these may be around the world.

The bright prospects of the Company have been recognized by the Philippine stock market. EEI share price increased nearly three-fold from a low of P1.08 to closing price of P3.15 at the end of the year.

Conclusion

Our underlying faith that the EEI organization will pull through has been vindicated.

Faced with the adversities and negative economic environment of the past, your Company pursued its strategies and game plan with unequivocal and unrelenting resolve. Our effort to sharpen our business focus has positioned EEI for the next level of growth.

While we recognize our accomplishments, your Management remains vigilant and will continue to oversee the EEI enterprise with financial prudence and the assurance that controls will be in place to ensure competitiveness.

The results we delivered would not have been possible without the unqualified and unstinting guidance of our Board of Directors, the support of our stockholders, the dedication and commitment of our employees, and the full confidence and trust of our customers.

To all, we extend our appreciation and assurance that EEI will push ahead in creating the future.

RIZALINO S. NAVARRO
Chairman of the Board

ROBERTO JOSE L. CASTILLO
President and CEO

Review of Operations

The Pilipinas Kao manufacturing complex in Misamis Oriental, Mindanao

Malayan Colleges in Cabuyao, Laguna

Construction grew at a faster pace of 4% in 2006 compared to 2005 on the back of increased public sector construction expenditures by the government and the resurgence of the industrial sector and continued vigorous activity in property development.

EEI took advantage of its well-established position in the industrial market and its reputation as general contractor for high-rise building projects.

The Unilab Small Volume Plant building in Laguna

EEI sustained its drive to be a major force in property construction. It is currently undertaking high-rise projects that include *The Residences at Greenbelt* and three phases of *Two Serendra* of Ayala Land, the *Fairways Tower* of Philtown and the *GA 2 Tower* of Globe Asiatique in Mandaluyong City.

Towards the end of 2006, it was awarded the general construction contract for the plush twin-towers *St. Francis Shang Towers* of Kuok Properties. This is a landmark project for EEI as it earns the distinction of constructing the 60-storey twin tower project, reputedly the tallest buildings in the country when completed.

The Company is also currently constructing the Malayan Colleges building and the NYK Maritime School in Laguna.

Likewise, it was involved in constructing various packages of key infrastructure projects, notably the New Iloilo Airport, the Subic-Clark-Tarlac Expressway, the NAIA 3 Skyway elevated access ramps 1 and 4, and three terminal stations of the LRT 1 expansion project. The Company is undertaking four different work packages in the Subic-Clark-Tarlac project.

The Company also acquired during the year in review the sub-contract for civil, erection and electro-mechanical works for the Petro Fluid Catalytic Cracker (FCC) project of Daelim of Korea for the Petron Refinery in Bataan. Under the terms of the sub-contract agreement, Daelim contracted EEI to undertake revamping and installation works for the said facility. The Petro FCC project will modernize the catalytic cracking facility of the Petron refinery.

Moreover, it won the project for the civil, structural, electro-mechanical and piping works for the Japan Gas Corporation's Coral Bay Nickel Mining project in Rio Tuba, Palawan. This is the second mining construction project awarded by JGC/Coral Bay to EEI in Palawan.

The Company is likewise involved in the planning and engineering, structural and electro-mechanical works in the Apex Mining project of Teresa Crew Gold in southern Mindanao.

Before the end of the year, EEI completed the construction of the 210 MW Mindanao Coal-Fired power plant in Misamis Oriental, the Northern Negros Geothermal Project (Fluid Collection and Reinjection System) of the PNOC-EDC, the

From Left: Construction Division's AVP for Infrastructure Hans Christian Lopez, VP for Buildings and Infrastructure Oscar D. Mercado and AVP for Buildings Albert Saringo, with the NAIA 3 Expressway elevated ramp in the background.

The Greenbelt Residences Esperanza Tower in Greenbelt, Makati City is nearing completion

Pilipinas Kao Plant in Jasaan, Misamis Oriental and the Unilab Small Volume Solids Plant in Laguna.

During the year, EEI's 49 percent owned subsidiary, Al Rushaid Construction Corporation (ARCC), obtained the contract for the erection and installation of furnaces and balance of plant works of the new ethylene plant of the Eastern Petrochemical Company (Sharq) in the new Jubail Olefins Complex in the Kingdom of Saudi Arabia.

The Furnace contract through Shaw Stone & Webster of the United Kingdom, a leading global Engineering, Procurement and Construction (EPC) company, engaged the Company to undertake the erection of eight (8) pyrolysis furnaces, including piping and structural works, electrical and instrumentation installations, and commissioning works.

The balance-of-plant contract involves the construction and erection of piperacks and piping facilities; installation of process, electrical and instrumentation equipment; and commissioning works in the 1.3 million tons per year ethylene plant.

This new Middle East contract is one of the largest-ever awarded in recent years to a Philippine contractor. It will also be one of the biggest in terms of manpower deployment to a foreign country.

The Company is also currently the major subcontractor for the Inco Goro Nickel Mining Project in New Caledonia where it is undertaking on-site piping, electro-mechanical and structural erection of the plant and related facilities. A new corporation was formed based in this country to undertake the project.

TOP-RANK HIGH-RISE AND INFRASTRUCTURE PROJECTS

(Top to bottom).
(1) The Serendra Project Phase 1B of Ayala Land that was completed and turned over before the end of 2006.
(2) The NYK Maritime School Mariner building in Laguna.
(3) Fairways Tower in Fort Bonifacio

210 MW STEAG State Power Plant, Mindanao

Gumain Bridge, which when completed will stand as tall as an 8-storey building, in the Subic-Clark-Tarlac Expressway

In addition, EEI's Batangas Fabrication shop is likewise undertaking off-site construction of plant modular assemblies for the Goro mining facility.

Domestic construction is anticipated to grow in the near term due to the much-improved fiscal position of the Government.

The mining industry continues to have a positive outlook because of the high prices of metals and other minerals. EEI intends to actively participate in the bidding for greenfield and expansion projects of the mining players.

Possibilities and opportunities abound in the international market. The Company's sights are trained at projects on the drawing board in Bahrain and Qatar in the Middle East, Singapore, Australia, Guam, Micronesia and Madagascar in Africa.

EEI plans to maximize its extensive experience in the nickel mining and processing plants in the country and abroad to showcase its capability in mining projects in other parts of the world.

Likewise, in the countries where it is exploring opportunities, it is counting on its experience and track record in global contracting and its satisfactory relations with global Engineering, Procurement and Construction (EPC) players with whom it has worked over the last 25 years.

(From left) AVP for Materials Frederic R. Pada III, AVP for Equipment Services and Rental Orlando Lina and AVP for Marketing Ferdinand Del Prado, with the Unilab Small Volume Plant building in the background.

Management is confident in the Company's short to medium-term prospects. The positive economic fundamentals obtaining in the country, brought about by the favorable fiscal position, strong investments and healthy personal consumption expenditures, augur well for favorable EEI performance in 2007.

Subsidiary Operations

Equipment Engineers, Inc.

Equipment Engineers, Inc.,(EE) the Company's equipment and machinery subsidiary, posted positive top-line financial performance in 2006. Revenues increased 19% to P161 million from P135 million in 2005 as a result of higher service contract and merchandise sales in the construction, mining and power industries.

EE obtained orders for the supply of Ametek transient recorders to Transco and Meralco; heavy equipment such as Hyundai loaders and excavators to Hanjin Industries, ReadyCon and local government units; BTI rock breakers and parts to Philex Mining and Cetco's bentonite waterproofing products to Weltanchaung and other property developers.

Other major orders obtained were from the major petroleum companies such as Caltex Phils. for the supply of Wayne dispensing pumps and Pilipinas Shell for UPP pipes.

From left: VP for Engineering and Marketing Norman K. Macapagal (currently on assignment as Project Director of the Inco Goro Nickel Project in New Caledonia), AVP for Electro-Mechanical Hipolito P. Punzalan (also detailed in the Inco Goro Nickel project), VP for Electro-Mechanical and Industrial Construction Leon J. Cruz, and AVP for Industrial Projects Nathaniel A. Tagudin, with a photograph of on-going the Sulphuric Acid Plant under construction at the Inco Goro Nickel Project as backdrop.

CUSTOMER SATISFACTION.
The Company's Engineering and Marketing staff work closely with clients in planning and configuring the different construction activities so that EEI can deliver the project of outstanding quality and on schedule.

The growth in durables equipment expenditures in 2006 is anticipated to extend to 2007. Prospects for 2007 and beyond look promising as EE embarks on thrusts to strengthen its position as a preferred total solutions provider of the leading companies in the construction, property development, power, mining, cement, petroleum and other industries.

EE is continuing to strengthen its product portfolio, control costs and improve its supply chain expertise to better serve its customers.

EEI Power Corporation

EEI Power Corporation was affected by the prolonged high petroleum prices in 2006, which impacted negatively on the oil-fired power plants under its operations management.

Revenues went down to P51 million, while net income amounted to P2.1 million, slightly below the previous year.

Sales income from Mariwasa Siam Ceramics declined and power sales from the Creative Diecast Philippines Corp. was flat during the year. This negated the positive impact from the acquisition of a special project, the growth in the operations of another client and increased income from the power generator and supplies sales business.

EEI Power aims to expand its marketing efforts to provincial islands and the missionary areas under the National Power Corporation SPUG program which remains subsidized and where incomes are more stable. It expects the acquisition of at least one new domestic operation and management (O & M) account in 2007.

It likewise plans to tap power plant O & M and Build-Operate-and-Transfer opportunities in the Micronesian and other South Pacific islands.

It is now seriously looking into the possibility of setting up alliances with principals engaged in the manufacture and provision of renewable power generation systems and services which has slowly but surely become a viable alternative in view of the prevailing high oil prices.

EEI Construction and Marine, Inc.

EEI Construction & Marine, Inc. (ECMI) continued to be affected by tempered investment spending by

From Left: AVP for Management Information System - PCCD Andres S. Sarmiento, AVP - Internal Audit Lourdes Avila, VP for Human Resources Divina F. Munji and VP and Controller Manuel R. De Jesus

Global Class
Total Construction Solutions

The stacker assembly constructed on-site in New Caledonia

Loading of modular boiler assemblies fabricated at the Batangas Fabrication Shop for shipment to New Caledonia

The Inco Goro Nickel Mining and Refining Project in New Caledonia demonstrates EEI's broad capability to serve its customers.

The Company is undertaking two clusters of the construction. The first involves the civil, structural and electro-mechanical construction in the mining site in New Caledonia. The construction team is composed of more than 500 engineers, quality assurance staff and frontline technical and construction workers.

The second part of the project involves the off-site fabrication and assembly of boiler and other assemblies for the nickel refinery plant in the EEI fabrication shop in Bauan, Batangas. In this aspect, modules of the plant, including electrical and mechanical parts and instrumentations, are assembled in the fabrication shop.

The completed modular assemblies are transported to the Goro mining plant site. Proof positive that EEI provides total solutions to clients.

the country's petroleum companies.

ECMI recorded revenues of P81 million, a decline from 2005 because of reduced orders and production. Sustained cost management resulted in a gross profit of P24 million and net income of P5 million in 2006. The continuing effort of rigid project planning and cost management yielded positive productivity improvements.

Orders for the fabrication of overhead and underground tanks from Petron Corporation, Pilipinas Shell, Total Petroleum and the new players declined to 95 UGT and OHT tanks during the period in review.

However, repairs and off-site tank construction and erection works were undertaken for Pilipinas Shell and Chevron. Various tank erection projects were also awarded by EEI Construction Division.

ECMI concentrated on enhancing its cost-competitiveness to strengthen efficiencies and its ability to tap projects, particularly the growing clientele of EEI Construction Division.

The ruling to phase out and relocate the Pandacan depot terminal used by the petroleum corporations present opportunities to ECMI in the near to medium term.

Opportunities remain in the mining industry which continues to expand. Because of its well-earned reputation for quality, ECMI is in a position to take advantage of higher business volume when the prospects come in 2007 and beyond.

EEI Realty Corporation

EEI Realty Corporation (EEI Realty) successfully achieved a clear and decisive turn-around in 2006.

Building on the momentum beginning the last quarter of 2005, EEI Realty capitalized on the resurgent real estate market. Revenues increased 64% from P76 million in 2005 to P125 million. This resulted in a net income after tax of P13 million -- a turn-around and improvement over the net loss in 2005.

The *Suburbia East* continued to provide the impetus for EEI Realty's noteworthy performance. Phases 1 and 2 have been virtually sold out. Site development and civil works of Phase 2 was already 67% complete by the end of 2006.

The development timetable is on schedule for completion by August 2007.

Meanwhile, preparations are underway for *Suburbia East's* Phase 3, consisting of residential 2 to 3 storey single-detached units with 3-4 bedrooms, two-car garages, decorative fencing and other amenities. It will be ready for offering in the first semester of 2007.

EEI Realty has likewise maintained its collaboration in the Ayala-Greenfield Estates which delivered according to expectations over the last few years.

The joint venture project with Robinsons Homes, Inc. in Tanza, Cavite was re-launched as *Manchester Midlands*. Market response has been favorable.

Negotiations are on-going with ECMI for the re-development of its property in Bagong Ilog, Pasig City into a residential village, a riverfront park and flea market.

EEI Realty looks forward to a better performance in 2007 because of the continued improvement in the general economy and strong overseas remittances and increased spending from the May election. The market has been fueled by strong demand from Filipino overseas professionals and US Balikbayan retirees.

OFFERING RELIABLE AND COST-EFFECTIVE SOLUTIONS TO CLIENTS.

Gulf Asia International Corporation

Gulf Asia International Corporation (GAIC) – EEI's professional outsourced services and manpower subsidiary – continued to deliver positive performance and sustained its growth path for the past six years.

GAIC posted net income of P13 million. Consolidated revenues grew from P195 million to P206 million on the back of strong labor market in

EEI constructed the runways, apron and taxiways of the New Iloilo Airport.

Equipment Engineers VP and General Manager Herminio R. Morelos and AVP for Marketing Raymond E. Calma

the Middle East and landing of new clients in other parts of the world.

Orders registered strong growth due to the EEI manpower requirements for the Sharq project in the Kingdom of Saudi Arabia and for the Goro Nickel project in New Caledonia. GAIC mobilized 597 engineers and technical workers for these EEI overseas projects.

Improvements were likewise gained from the deployment of manpower for existing customers in Libya, the Middle East, Malaysia, Kazakhstan, Singapore and other Asian countries. Moreover, new client accounts were landed in Dubai, Abu Dhabi, Cuba, Indonesia and Qatar.

GAIC Manpower Services, Inc. (GAMSI) – GAIC's domestic manpower supply subsidiary – continues to be the largest revenue contributor to the group.

GAMSI's revenues increased 26% to P120 million because of the acquisition of new accounts, principally corporations outside the YGC Group. Net income was maintained at P5.4 million.

It now has a client base of 57 companies operating in a total of 52 locations, majority of which are for on-site maintenance contracts manned by its workforce of 871 employees.

GAIC Professional Services, Inc. (GAPSI) –GAIC's 100% owned subsidiary providing business process outsourced services for finance and accounting, payrolling, money sorting, collection and other similar services — likewise exceeded expectations.

On the whole, the business outlook continues to be positive and bright for the entire GAIC group.

Exploratory negotiations are underway with

PRECISION CONSTRUCTION. *The lifting and erection of the curved pre-cast girders for the NAIA 3 Expressway fly-over ramp was implemented with a clearance for error of just one (1) meter because of an existing structure at the project site at the Villamor Air Base interchange of the South Luzon Expressway.*

From Left: EEI Realty General Manager Larry J. Ardina, Gulf Asia International Corp.VP-General Manager Ricardo C. Reyes and EEI Construction and Marine VP - General Manager Romulo R. Fernandez

Our PEOPLE

Passing on the Mastery to the Next Generation

Joel Ravelo retired last year after 27 years of service as Structural Foreman. His last project assignment was for the construction of KHI Mindanao Power Plant.

But he has rejoined the Company as consultant in the Crafts Training Center which provides high-grade training in technical skills such as welding, steel work, electrical, mechanical, instrumentation and other competencies needed in projects.

He now passes on the proficiencies and values that he learned in the school of hard knocks as worker and foreman to the hundreds of new employees who have been hired by the Company for its numerous projects.

Joel (shown in white shirt in the photograph above) is part of the team of former managers and employees who have stayed on to pass on their expertise and knowledge.

The EEI training program is anchored on its Crafts Training Center and seven co-operating training centers operated by the Technical Education & Skills Development Authority and private institutions. Close to 2,000 EEI employees and prospective workers were trained in 2006.

OUTSTANDING EMPLOYEES

The Company recognizes the employees and workers who exemplify the EEI spirit of excellence and values of integrity, dedication and industry.

Through the yearly Outstanding Employees Awards, the Company acknowledges and honors the contribution of exempary workers. The three 2005 Outstanding Employee Awardees, two of whom now work in the Inco Goro Nickel Project in New Caledonia, are shown in the three bottom photographs.

Cable-rack assembly constructed and fitted out in the Inco Goro project in New Caledonia.

prospective principals in Canada to tap the large demand for technical personnel in this country.

GAIC is likewise in talks with existing and new principals to expand its labor supply business in Qatar, United Arab Emirates, Saudi Arabia and Kuwait. Market development is also being stepped up in Australia and the United States.

On the other hand, GAMSI and GAPSI are aggressively working on new prospective clients while exploring the regional markets in the south, principally, Bacolod, Cebu, Iloilo and Cagayan de Oro.

Moreover, both are expanding into the provision of new classes of manpower services, principally for promotional merchandisers, factory workers and supermarket cashiers and related personnel.

A Subic-Clark-Tarlac Expressway interchange being constructed by EEI.

EEI Corporation

Business Groups & Capability

HEAVY INDUSTRY

Power Generating Plants
- Oil
- Gas
- Coal
- Diesel
- Combined Cycle
- Geothermal
- Hydroelectric

Power Transmission

Cement Plants
Mining Facilities

Oil and Gas Plants
- Petroleum and Gas Refineries
- Gas Oil Separators
- Desalters
- Petrochemical Plants
- Bulk Storage Facilities
- Distribution Facilities

210 MW KHI Mindanao Power Plant

LIGHT INDUSTRY

- Food and Beverage
- Chemical Plants
- Semiconductors
- Automotive, Textile
- Pulp and Paper,Glass
- Packaging

SMC P.E.T production plant

BUILDINGS AND PROPERTY DEVELOPMENT

- Office/Residential Condominium Buildings
- Mixed-Use Developments
  (Malls, Car Parks, Exhibition Halls)
- Schools and Hospitals
- Amusement and Leisure Parks
- Housing
- Industrial Parks

Malayan Colleges, Laguna

INFRASTRUCTURE

- Roads and Bridges
- Seaports and Airports
- Mass Transport and Railways
- Telecommunications
- Irrigation and Flood Control
- Desalination Plants
- Water Distribution
- Sewerage and Wastewater Treatment Plants

NAIA 3 Expressway Ramp Flyover

STEEL FABRICATION

- Modular Assemblies
- Structural Fabrication
- Pressure Vessels
- Non-Pressure Vessels
- Piping
- Mechanical Ducts
- Pipe Rack

The EEI Fabrication Shop is ISO 9001:2000 certified

Modular Assembly Facility in Fabrication Shop

Board of Directors

RIZALINO S. NAVARRO
Chairman of the Board

PERRY Y. UY
Vice Chairman

ROBERTO JOSE L. CASTILLO
President and CEO

FILEMON T. BERBA, JR.
Director

HELEN Y. DEE
Director

ERNESTO S. DE CASTRO
Director

ROBERTO F. DE OCAMPO
Director

TEODORO Q. PEÑA
Director

WILFRIDO E. SANCHEZ
Director

Officers

Roberto Jose L. Castillo
President and CEO

Clarito M. Ilustre
Senior Vice President
and General Manager
Construction Division

Antonio S. Pascua
Senior Vice President
and General Manager
Middle East Operations

Gaudencio S. Hernandez, Jr.
Senior Vice President
and Chief Finance Officer

Ferdinand G. Villafuerte
Senior Vice President
Administration and Legal
and Corporate Secretary

VICE PRESIDENTS

Leon J. Cruz
Vice President
Electro-Mechanical and Industrial

Norman K. Macapagal
Vice President
Marketing and Engineering

Divina F. Munji
Vice President
Human Resources

Manuel R. De Jesus
Vice President/Controller

Mercado T. Magno
Vice President
Operations - KSA

Oscar D. Mercado
Vice President
Buildings & Infrastructure

ASSISTANT VICE PRESIDENTS

Lourdes R. Avila
AVP - Internal Audit

Ferdinand M. Del Prado
AVP - CD Marketing

Orlando F. Lina
AVP - CD Equipment Services & Rental

Hans Christian O. Lopez
AVP - CD Operations - Infrastructure

Frederick R. Pada III
AVP - CD Materials

Hipolito P. Punzalan
AVP - CD Operations - Electro-Mechanical

Alberto C. Saringo
AVP - CD Operations - Buildings

Andres S. Sarmiento
AVP - MIS/PCCD

Nathaniel A. Tagudin
AVP - CD Operations - Industrial

SUBSIDIARIES

Larry J. Ardina
General Manager
EEI Realty Corporation

Romulo R. Fernandez
Vice President & General Manager
EEI Construction & Marine. Inc.

Herminio R. Morelos
Vice President & General Manager
Equipment Engineers, Inc. and
EEI Power Corporation

Raymond E. Calma
Asst. Vice President - Marketing
Equipment Engineers, Inc.

Ricardo C. Reyes
Vice President & General Manager
Gulf Asia International Corp.

Directory & Corporate Information

EEI CORPORATION

Executive Offices
12 Manggahan Street. Bagumbayan,
Quezon City 1110, Philippines
Telephone No.: (632) 635-0843
Facsimile Nos: (632) 635-0861
(632) 635-0609; (632) 635-0612
e-mail address: **eeicenter@eei.com.ph**

Marketing Department
12 Manggahan St., Bagumbayan,
Quezon City 1110, Philippines
Direct Line: (632) 635-0817;
(632) 636-5372; (632) 635-3626
e-mail address: **ferdy@eei.com.ph**

SUBSIDIARIES

EEI Construction and Marine Inc.
2 A. Z. Avis Sr. Street, Bagong Ilog
Pasig City 1600, Philippines
Telephone Nos: (632) 671-1217 to 18
Facsimile No. (632) 671-1240
e-mail address: **rrf@eei.com.ph**

EEI Power Corporation
12 Manggahan Street. Bagumbayan,
Quezon City 1110, Philippines
Telephone Nos: (632) 635-0843 / 49
Facsimile Nos: (632) 635-0975
e-mail address: **epc-smp@eei.com.ph**

EEI Realty Corporation
12 Manggahan Street, Bagumbayan
Quezon City 1110, Philippines
Telephone Nos: (632) 634-7191-92
Facsimile Nos: (632) 634-7192
e-mail address: **eeirealty@eei.com.ph**

Equipment Engineers, Inc.
12 Manggahan Street, Bagumbayan
Quezon City 1110, Philippines
Telephone Nos: (632) 635-0843 to 49
Facsimile Nos(632): (632) 635 – 0975
e-mail address: **hmorelos@eei.com.ph**

Gulf Asia International Corp.
GAIC Manpower ServicesInc.
GAICProfessional Services, Inc.

Ground Floor, Topy Building No.3
Economia St, Bagumbayan
Quezon City 1110, Philippines
Telephone Nos: (632) 633-8606
(632) 635-7419
Facsimile Nos: (632) 635-4770
E-mail address: **gaic@skyinet.net**

Cebu Regional Office
352 V. Rama Avenue, Cebu City
Telephone Nos: (032) 262-9435
Facsimile Nos: (032) 262-9434
E-mail address: **eei@skyinet.net**

Construction Fabrication Shop
Barangay Sta. Maria, Bauan, Batangas
Telephone Nos: (6343)727-1601 to 03
(6343) 727-1271
Facsimile Nos: (043)727-1727

OVERSEAS JOINT VENTURE

Al-Rushaid Construction Co., Ltd.
P.O. Box 31688 Al-Khobar 31952 K.S.A.
Telephone Nos: (09663)864-3569
(09663)898-4049
Facsimile Nos: (09663)864-6345
E-mail Address: **aspascua@arcc-eei.com**

WEBPAGE ADDRESS
www.eei.com.ph

E-MAIL ADDRESS
eeicenter@eei.com.ph

MAILING ADDRESSES
P.O. Box 287 ACPO
Cubao Quezon City, Philippines

P.O. Box 7160 Domestic Airport
Post Office
3120 Pasay City, Philippines

CORPORATE INFORMATION

BANKERS

Bank of Philippine Islands
BPI Family Savings Bank
Calyon Corporate and Investment Bank
China Banking Corporation
Development Bank of the Philippines
Equitable PCI Bank
International Exchange Bank
Land Bank of the Philippines
Philippine National Bank
Rizal Commercial Banking Corp.
RCBC Savings Bank
Societe General Caledonniene de Banque
Union Bank of the Philippines
United Coconut Planters Bank

TRUSTEES
Rizal Commercial Banking Corporation

AUDITORS
Sycip Gorres Velayo & Co.
Certified Public Accountants

LEGAL COUNSEL
Poblador, Bautista and Reyes

STOCK LISTING
Philippine Stock Exchange, Inc.

TRANSFER AGENT
Rizal Commercial Banking Corp.

Financial Section

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of EEI Corporation is responsible for all information and representations contained in the consolidated balance sheets as of and for the years ended December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, 2005 and 2004, and the summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders have examined the financial statements of the company and its subsidiaries in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such audit, in the attached report to the stockholders and Board of Directors.

RIZALINO S. NAVARRO	**ROBERTO JOSE L. CASTILLO**	**GAUDENCIO S. HERNANDEZ**
Chairman	President	Senior Vice President
Board of Directors	& Chief Executive Officer	& Chief Finance Officer

INDEPENDENT AUDITORS' REPORT

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

The Stockholders and the Board of Directors
EEI Corporation
No.12 Manggahan Street
Bagumbayan, Quezon City

We have audited the accompanying financial statements of EEI Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

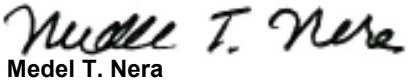
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EEI Corporation and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Medel T. Nera
Partner
CPA Certificate No. 31835
SEC Accreditation No. 0089-AR-1
Tax Identification No. 113-423-143
PTR No. 0267370, January 2, 2007, Makati City

March 2, 2007

EEI CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	**₱814,092,510**	₱228,360,808
Receivables - net (Notes 5, 14 and 28)	**1,922,703,485**	1,512,996,104
Due from associates - net (Notes 24 and 28)	**49,093,950**	115,903,944
Contract jobs in progress	**642,780,539**	957,045,981
Inventories - net (Notes 6 and 14)	**620,504,381**	765,111,524
Available-for-sale securities - current portion (Notes 3, 10 and 28)	**58,734,354**	58,484,354
Other current assets (Notes 7 and 28)	**227,873,289**	231,556,819
	4,335,782,508	3,869,459,534
Land classified as held for sale (Note 8)	**–**	164,573,937
Total Current Assets	**4,335,782,508**	4,034,033,471
Noncurrent Assets		
Investments in associates and joint ventures (Note 9)	**278,661,597**	218,447,822
Available-for-sale securities - net of current portion (Notes 3, 10 and 28)	**24,609,559**	25,009,559
Property, plant and equipment - net (Notes 3, 11, 14 and 16)		
At cost	**192,840,956**	339,369,867
At revalued amounts	**24,738,068**	676,243,568
Investment property (Note 12)	**209,995,386**	204,946,386
Deferred income tax (Notes 3 and 23)	**55,910,313**	42,988,377
Other noncurrent assets (Notes 13 and 28)	**513,862,896**	51,515,120
Total Noncurrent Assets	**1,300,618,775**	1,558,520,699
	₱5,636,401,283	₱5,592,554,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 14, 28 and 29)	**₱847,648,655**	₱1,305,244,017
Accounts payable and accrued expenses (Notes 6, 15, 25 and 28)	**1,335,243,882**	1,115,412,005
Income tax payable	**30,522,010**	2,834,098
Due to related parties (Notes 24 and 28)	**159,255,674**	247,441,121
Customers' deposits and advance billings	**1,196,776,845**	1,278,325,963
Current portion of long-term debt (Notes 16, 28 and 29)	**27,121,306**	222,305,371
Total Current Liabilities	**3,596,568,372**	4,171,562,575
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16, 28 and 29)	**515,000,000**	83,021,277
Deferred income tax (Note 23)	**16,547,047**	22,576,714
Other noncurrent liabilities	**2,249,768**	–
Total Noncurrent Liabilities	**533,796,815**	105,597,991
Total Liabilities	**4,130,365,187**	4,277,160,566

(Forward)

	December 31	
	2006	2005
Stockholders' Equity		
Capital stock	**₱914,761,519**	₱914,739,919
Additional paid in capital (Note 31)	**65,434,383**	428,843,920
Cumulative translation adjustment (Note 9)	**31,292,363**	40,895,965
Retained earnings (deficit) (Note 31)	**498,268,621**	(65,365,410)
Treasury stock	**(3,720,790)**	(3,720,790)
Total Stockholders' Equity	**1,506,036,096**	1,315,393,604
	₱5,636,401,283	₱5,592,554,170

See accompanying Notes to Consolidated Financial Statements.

EEI CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005	2004
REVENUES			
Construction contracts	**₱4,704,796,222**	₱3,730,351,706	₱2,443,265,017
Services	**355,066,952**	299,340,018	267,059,716
Real estate sales	**124,835,029**	76,091,059	35,866,392
Merchandise sales	**74,675,081**	68,896,507	187,483,826
	5,259,373,284	4,174,679,290	2,933,674,951
COSTS			
Construction contracts (Note 18)	**4,257,169,039**	3,499,959,120	2,097,239,382
Services (Note 19)	**203,154,675**	164,330,730	217,905,578
Real estate sales	**83,176,069**	52,030,965	26,340,422
Merchandise sales (Note 20)	**55,351,972**	71,103,339	173,771,609
	4,598,851,755	3,787,424,154	2,515,256,991
GROSS PROFIT	**660,521,529**	387,255,136	418,417,960
SELLING AND ADMINISTRATIVE EXPENSES (Note 21)	**390,764,132**	300,198,084	372,102,034
INTEREST INCOME	**13,868,944**	6,179,957	12,806,307
OTHER INCOME (Note 24)	**48,289,304**	70,895,571	21,693,865
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 9)	**197,517,178**	112,530,158	245,700,193
OTHER EXPENSE	**(58,649,503)**	(1,726,913)	(59,023,429)
FINANCE COSTS			
Interest expense - short term	**(192,620,045)**	(156,490,735)	(169,058,430)
Interest expense - long term	**(27,150,404)**	(64,611,103)	(67,648,639)
INCOME BEFORE INCOME TAX	**251,012,871**	53,833,987	30,785,793
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**69,739,980**	17,517,382	16,979,660
Deferred	**(18,951,603)**	(26,161,993)	10,935,263
	50,788,377	(8,644,611)	27,914,923
NET INCOME	**₱200,224,494**	₱62,478,598	₱2,870,870
Earnings Per Share - Basic and Diluted (Note 26)	**₱0.2188**	₱0.0683	₱0.0031

See accompanying Notes to Consolidated Financial Statements.

EEI CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2006	2005	2004
CAPITAL STOCK			
Preferred shares - ₱0.50 par value (nonconvertible, noncumulative, nonparticipating and nonvoting) Authorized - 240,000,000 shares			
Common shares - ₱1 par value Authorized - 2,000,000,000 shares			
Issued and subscribed - 915,204,099 shares	**₱933,265,596**	₱933,265,596	₱933,265,596
Subscriptions receivable	**(18,504,077)**	(18,525,677)	(18,525,677)
	914,761,519	914,739,919	914,739,919
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**428,843,920**	428,843,920	428,843,920
Elimination of deficit of the parent company through quasi-reorganization (Note 31)	**(363,409,537)**	–	–
Balance at end of year	**65,434,383**	428,843,920	428,843,920
CUMULATIVE TRANSLATION ADJUSTMENT (Note 9)			
Balance at beginning of year	**40,895,965**	58,656,562	23,633,506
Translation adjustment	**(9,603,602)**	(17,760,597)	35,023,056
Balance at end of year	**31,292,363**	40,895,965	58,656,562
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year	**(65,365,410)**	(90,023,609)	(92,894,479)
Effect of change in accounting for financial instruments	**–**	(15,727,382)	–
	(65,365,410)	(105,750,991)	(92,894,479)
Elimination of deficit of the Parent Company as of December 31, 2005 against the additional paid-in capital through quasi-reorganization (Note 31)	**363,409,537**	–	–
Net income	**200,224,494**	62,478,598	2,870,870
Impact of change in tax rates (Note 23)	**–**	(22,093,017)	–
Balance at end of year	**498,268,621**	(65,365,410)	(90,023,609)
TREASURY STOCK - 119,902 common shares	**(3,720,790)**	(3,720,790)	(3,720,790)
	₱1,506,036,096	₱1,315,393,604	₱1,308,496,002

See accompanying Notes to Consolidated Financial Statements.

EEI CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱251,012,871**	₱53,833,987	₱30,785,793
Adjustments for:			
Interest expense	**219,770,449**	221,101,838	236,707,069
Equity in net earnings of associates and joint ventures (Note 9)	**(197,517,178)**	(112,530,158)	(245,700,193)
Depreciation and amortization (Note 11)	**66,165,850**	76,476,324	104,867,090
Interest income	**(13,868,944)**	(6,179,957)	(12,806,307)
Gain on sale of land classified as held for sale and property, plant and equipment	**(32,624,729)**	(37,972,685)	–
Operating income before changes in working capital	**292,938,319**	194,729,349	113,853,452
Decrease (increase) in:			
Receivables	**(414,666,442)**	(366,724,047)	306,816,468
Due from associates	**66,809,994**	12,846,551	–
Contract jobs in progress	**314,265,442**	(229,164,077)	(426,410,242)
Inventories	**144,607,143**	39,142,269	27,632,699
Other current assets	**3,833,530**	(14,169,119)	(64,569,667)
Increase (decrease) in:			
Accounts payable and accrued expenses	**226,304,677**	322,107,850	226,142,187
Customers' deposits and advance billings	**(81,549,118)**	150,145,405	244,143,927
Net cash generated from operations	**552,543,545**	108,914,181	427,608,824
Interest received	**13,779,005**	6,179,957	14,236,033
Interest paid	**(254,091,989)**	(213,481,163)	(206,046,813)
Income taxes paid	**(42,052,068)**	(1,530,651)	(3,240,499)
Net cash provided by (used in) operating activities	**270,178,493**	(99,917,676)	232,557,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of:			
Property and equipment	**18,055,356**	18,289,161	27,063,402
Available for sale securities	**–**	9,944,886	–
Net reduction in (additions to):			
Investments in associates and joint ventures	**62,693,133**	107,962,322	54,963,967
Property, plant and equipment (Note 11)	**(59,904,121)**	(24,237,767)	(46,115,862)
Other non-current assets (Notes 13)	**6,341,724**	(5,302,224)	(26,400,505)
Dividend received	**65,006,668**	–	–
Net cash provided by investing activities before proceeds from sale of land classified as held for sale	**92,192,760**	106,656,378	9,511,002
Proceeds from sale of land classified as held for sale (Note 24)	**532,325,000**	–	–
Net cash provided by investing activities	**624,517,760**	106,656,378	9,511,002
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments of):			
Due to related parties	**(88,185,447)**	101,111,121	22,703,227
Bank loans and long-term debt	**(220,800,704)**	(71,864,608)	(258,437,476)
Receipt from subscription receivable	**21,600**	–	–
Net cash provided by (used in) financing activities	**(308,964,551)**	29,246,513	(235,734,249)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**585,731,702**	35,985,215	6,334,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**228,360,808**	192,375,593	186,041,295
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 4 and 13)	**₱814,092,510**	₱228,360,808	₱192,375,593

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

EEI Corporation (the Parent Company) is a stock corporation incorporated 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. The registered office address of the Parent Company is No. 12 Manggahan Street, Bagumbayan, Quezon City.

The Parent Company is engaged in general contracting and construction equipment rental. The Parent Company's subsidiaries and associates are mainly involved in the provision of manpower services, construction, trading of construction equipment and parts, power generation, steel fabrication and real estate. The Parent Company's subsidiaries, associates and joint ventures are mainly Philippine companies incorporated in the Philippines. EEI BVI Limited (EEI BVI) and its subsidiary, Clear Jewel International Limited, were incorporated in the British Virgin Islands. EEI Nouvelle Caledonia, another subsidiary of EEI BVI, was incorporated in New Caledonia. Al Rushaid Construction Corporation (ARCC), an associate of EEI BVI, was incorporated in the Kingdom of Saudi Arabia.

The accompanying consolidated financial statements of the Group were approved and authorized for issue by its Board of Directors (BOD) on March 2, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements have been prepared on a historical cost basis, except for land (included under "land classified as held for sale" and "property, plant and equipment"), which is carried at revalued amounts, and available-for-sale (AFS) securities which have been measured at fair value. The accompanying consolidated financial statements are presented in Philippine Peso, which is the Group's presentation and functional currency.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years except for the policy on employee benefits.

The amendments to PAS 19, *Employee Benefits*, resulted to additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ended December 31, 2006, 2005 and 2004 but has not had recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statement of income.

The following new and revised Standards and Philippine Interpretations became effective beginning on January 1, 2006. These new and revised standards and Philippine Interpretations did not have any effect on the consolidated financial statements of the Group.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*, permits an entity to develop an accounting policy for exploration and evaluation of assets without specifically considering the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Error.*

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates,* state that all exchange differences arising from a nonmonetary item that forms part of the Group's net investment in foreign operation are recognized in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated. The Group does not have any nonmonetary item that forms part of a net investment in foreign operations.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement,* (a) *Amendment for financial guarantee contracts,* amended the scope of PAS 39 to require financial guarantee contracts that are not considered as insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18,

Revenue; (b) *Amendment for cashflow hedge accounting of forecast intragroup transaction,* permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedge item in a cashflow, provided that the transaction is denominated in a currency other than the functional currency of an entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income; (c) *Amendment for the fair value option,* restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss (FVPL).

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides for guidance in determining whether arrangements contain a lease to which lease accounting must be applied.

- Philippine Interpretation IFRIC 5, *Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, establishes the accounting treatment for funds established to help finance decommissioning for the Group's assets. The Group does not operate in a country where such funds exist.

- Philippine Interpretation IFRIC 6, *Liabilities Arising from Participating in a Specific Market*, establish the recognition date for liabilities arising from European Union (EU) Directive relating to the disposal of Waste Electrical and Electronic Equipment.

The Group did not early adopt the following new and revised standards that have been approved but are not yet effective in 2006:

- PFRS 7, *Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures*, introduces new disclosures to improve the information about the financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instrument, including specified minimum disclosures about credit risk, liquidity risk, and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. Amendments to PAS 1, introduce disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosure will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The Group will apply PFRS 7 and the amendments to PAS 1 starting January 1, 2007.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies,* becomes effective for financial years beginning on or after May 1, 2006. This Philippine Interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. This Philippine Interpretation will have no impact on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, becomes effective for financial years beginning on or after May 1, 2006. This Philippine Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group expects that the adoption of this Philippine Interpretation will have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* becomes effective for financial years beginning on or after June 1, 2006. This Philippine Interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group expects that the adoption of this Philippine Interpretation will have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, which becomes effective for financial years beginning on or after November 1, 2006, provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to AFS investments. This Philippine Interpretation is not expected to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 11, *PFRS 2: Group and Treasury Share Transactions*, will become effective for financial years beginning on or after March 1, 2007. This Philippine Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. The Group does not expect this Philippine Interpretation to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, will become effective on January 1, 2008. This Philippine Interpretation covers contractual arrangements arising from public-to-private service concessions arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Philippine Interpretation will have no impact on the consolidated financial statements as this is not relevant to the Group's operations.

- PFRS 8, *Operating Segments*, will become effective on January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The Group will adopt PFRS 8 in 2009 and will assess the changes that would be made in segment disclosures.

Basis of Consolidation and Investments in Subsidiaries

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

	Percentages of Ownership		
Subsidiaries	**2006**	2005	2004
EEI BVI and subsidiaries	**100**	100	100
Clear Jewel International, Limited	**100**	100	100
EEI Nouvelle Caledonie	**100**	–	–
EEI Construction and Marine Corporation (EEI Marine)	**100**	100	100
EEI Power Corporation (EEI Power)	**100**	100	100
EEI Realty Corporation (EEI Realty)	**100**	100	100
Equipment Engineers, Inc.	**100**	100	100
Gulf Asia International Corporation and subsidiaries (GAIC)	**100**	100	100
GAIC Professional Services, Inc. (GPSI)	**100**	100	100
GAIC Manpower Services, Inc. (GMSI)	**100**	100	100
Philrock Construction and Services, Inc.	**100**	100	100
Philmark Inc.	**100**	100	100
Bagumbayan Equipment & Industrial Products, Inc.	**100**	100	100

Control is normally evidenced when the Parent Company owns, either directly or indirectly, more than 50% of the voting rights of an investee's capital stock.

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 that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions are eliminated in the consolidated financial statements.

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

Financial assets within the scope of PAS 39, *Financial Instrument: Recognition and Measurement* are classified as either: (a) financial assets at FVPL; (b) loans and receivables; (c) held-to-maturity (HTM) investments; and (d) AFS securities. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. When these are recognized initially, financial assets are measured at fair value, plus, in the case of investments not at FVPL, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets or liabilities at FVPL

Financial assets or financial liabilities at FVPL include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated upon initial recognition as at FVPL. Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Financial assets or liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value on financial assets and liabilities designated as FVPL are recorded in the statement of income. Interest earned or incurred

is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of payment has been established.

The Group has not designated any financial assets and liabilities at FVPL as of December 31, 2006 and 2005.

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 effective interest rate 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 effective interest rate 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.

The Group's loans and receivables principally include trade receivable, retention receivables, and advances to suppliers and subcontractors (see Note 5).

HTM Investments
These represent quoted non-derivative financial resources with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. HTM investments are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using effective interest method.

The Group has no HTM investments as of December 31, 2006 and 2005.

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 stockholders' 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 stockholders' equity is included in the consolidated statement of income. AFS securities which are expected to be sold within twelve months from the balance sheet date are classified under current assets. Otherwise, these are classified as non-current 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 balance sheet date. For investments where there is no active market, except for investments in unquoted equity securities, fair value is determined using valuation techniques. Such techniques include using recent arms-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 equity securities are carried at cost less allowance for impairment losses, if any.

AFS securities in 2006 and 2005 include investments in shares of stock of Hermosa Ecozone Development Corporation and investments in golf and club shares (see Note 10).

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; (b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or (c) the Group has transferred its rights to receive cash flows from the asset 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 expires. 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 amount is recognized in profit or loss.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

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 effective interest rate (that, is, the effective interest rate 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.

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.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset.

AFS securities
If an AFS security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from stockholders' equity to the consolidated statement of income. Reversals with respect of equity instruments classified as AFS are not recognized in the statement of income. Reversals of impairment losses on debt instruments are reversed through income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Inventories
Inventories are stated at the lower of cost and net realizable value (NRV). Cost includes purchase price and other costs directly attributable to the acquisition. Cost of inventories is generally determined using the moving-average method, except for land inventory of EEI Realty, which is accounted for using the specific identification method. NRV is the selling price in the ordinary course of business, less the estimated costs of completion of inventories and the estimated costs necessary to sell.

Investments in Associates and Joint Ventures
Investments in associates and joint ventures 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 associates' net earnings or losses since the dates of acquisitions and reduced by dividends received. Unrealized intercompany profits are eliminated up to the extent of the proportionate share thereof.

The reporting dates of the associates, joint ventures and the Group are identical and the associates and joint ventures' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Land Classified as Held for Sale
Land classified as held for sale is stated at lower of its carrying amount and fair value less cost to sell.

Property, Plant and Equipment
Property, plant and equipment are stated at cost, less accumulated depreciation, amortization and impairment loss, if any, except for land which is carried at revalued amounts. Appraised values are determined by independent firms of appraisers.

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

Machinery, tools and construction equipment	5 - 10 years
Buildings and improvements	20 years
Furniture, fixtures and office equipment	2 - 10 years
Power plant	15 years
Transportation and service equipment	4 years

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

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Minor repairs and maintenance costs are charged to consolidated statement of income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost or revaluation amount and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are reflected in the consolidated statement of income.

Construction in progress represents plant and equipment under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Investment Properties

Investment properties are stated at cost, 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.

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 investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

Impairment of Non-Financial Assets

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.

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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation 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

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the development of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

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 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 contract jobs in progress account represents contract costs and estimated gross margin on uncompleted contracts for billing. Contract retentions are

included in the trade receivable account, which is shown as part of the receivables account in the consolidated balance sheets.

Service and Commission Income
Service and commission income are recognized as the related services are rendered.

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.

Real Estate Sales
Income 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, revenue from the sale of real estate should be recognized when
(a) the Group has transferred to the buyer the significant risks and rewards of ownership of the property; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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' deposit and advance billings" account in the liabilities section of the balance sheets.

Interest Income
Revenue is recognized as interest accrues (using the effective interest rate 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).

Foreign Currency Translation
The consolidated financial statements are presented in Philippine peso, which is the Group'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 at the balance sheet date. All differences are taken to profit or loss. Non-monetary 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 foreign operations, EEI BVI, is the United States Dollar. As at reporting date, the assets and liabilities are translated into the presentation currency of the Group (the Philippine Peso) at the exchange rate at the balance sheet date and, the consolidated statement of income accounts are translated at weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

Retirement Cost
The Group's retirement expense is actuarially determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The accrued retirement liability recognized in the consolidated balance sheet is the present value of benefits payable in the future with respect to services rendered to date and unrecognized actuarial gains and losses reduced by the fair value of plan assets out of which the obligation are to be settled directly and the unamortized additional retirement liability.

Actuarial gains and losses on the excess of the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year over 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date are recognized as income or expense. These actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. The additional retirement liability from the adoption of PAS 19 on January 1, 2005 is amortized over five years.

Income Tax
Current income tax
Current income 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 at balance sheet date.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) 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 carryforward of unused MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates, and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interest in joint ventures, deferred tax liabilities are recognized except where 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 income tax assets is reviewed at each balance sheet 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 income tax asset to be used. Unrecognized deferred income tax assets are reassessed at each balance sheet 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 income 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 at the balance sheet date.

Deferred income tax relating to items in the stockholders' equity is also recognized in the stockholders' equity and not in the consolidated statement of income.

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

Leases
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased 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 charged directly against income.

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Provisions
Provisions are recognized when (a) the Group has a present obligation (legal or constructive) where, 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.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed 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 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.

Subsequent Events
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

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.

3. Significant Accounting Judgments and Estimates

The preparation of the 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.

Estimates and judgments 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

Fair value of unquoted AFS securities

The unquoted AFS securities have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unquoted AFS securities as of December 31, 2006 and 2005 amounted to ₱76,060,215 and ₱76,210,215, respectively (see Note 10).

Operating leases - Group as lessee

The Group has entered into commercial property leases on its administrative office locations and fabrication facilities. The Group has determined that it does not acquire all the significant risks and rewards of ownership of these properties and accordingly, classified the lease as operating leases.

Estimates

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 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.

The amount of timing and recorded expenses 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.

Allowance for doubtful accounts amounted to ₱259,855,061 in 2006 and ₱232,443,445 in 2005. The outstanding balance of receivables as of December 31, 2006 and 2005 amounted to ₱1,922,703,485 and ₱1,512,996,104, respectively (see Note 5).

Estimating useful lives of property, plant and equipment

The Group estimated the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property, plant and equipment 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 the estimated useful lives of property, plant and equipment would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

As of December 31, 2006 and 2005, the net book value of depreciable property, plant and equipment amounted to ₱ 192,840,956 and ₱339,369,867, respectively (see Note 11).

Non-financial asset impairment

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Retirement benefits
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. In accordance with PAS 19, 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 pension and other retirement obligations. Accrued retirement (included in accounts payable and accrued expenses) amounted to ₱72,628,480 and ₱98,911,619 as of December 31, 2006 and 2005 (see Notes 15 and 25).

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each balance sheet 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. However, there is no absolute assurance that each legal entity in the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized. Deferred tax assets recognized amounted to ₱55,910,313 and ₱42,988,377 as of December 31, 2006 and 2005, respectively (see Note 23).

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 is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. 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 (see Note 30).

4. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks	**₱358,086,750**	₱203,381,809
Short-term investments	**456,005,760**	24,978,999
	₱814,092,510	₱228,360,808

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.

5. Receivables

This account consists of:

	2006	2005
Trade receivables (including retention receivable on construction contracts of ₱547,974,580 in 2006 and ₱286,327,901 in 2005) (Note 14)	**₱1,564,421,802**	₱1,226,428,917
Advances to suppliers and subcontractors	**279,399,415**	274,077,998
Refundable from tax authorities	**202,161,637**	132,027,800
Advances to officers and employees	**14,837,712**	25,314,173
Other receivables	**121,737,980**	87,590,661
	2,182,558,546	1,745,439,549
Less allowance for doubtful accounts	**259,855,061**	232,443,445
	₱1,922,703,485	₱1,512,996,104

6. **Inventories**

This account consists of:

	2006	2005
Land at cost	**₱555,166,675**	₱589,148,360
At NRV:		
Merchandise	**45,299,837**	150,718,142
Construction materials	**11,541,191**	13,641,984
Spare parts and supplies	**8,496,678**	11,603,038
	65,337,706	175,963,164
	₱620,504,381	₱765,111,524

The cost of merchandise, construction materials, and spare parts and supplies amounted to ₱124,730,291, ₱16,722,497 and ₱28,370,119, respectively as of December 31, 2006 and ₱176,834,614, ₱16,048,580 and ₱26,830,534, respectively as of December 31, 2005.

Land included in inventories relates to real estate development projects being undertaken by EEI Realty, either on its own or with other parties, as follows:

	2006	2005
Suburbia East	**₱255,148,197**	₱283,171,992
Robinson's Homes, Incorporated (RHI)	**216,298,288**	217,061,244
Greenfield Associates Property Development and Holdings, Inc. (Greenfield)	**43,435,911**	49,828,570
Raw lands	**40,284,279**	39,086,554
	₱555,166,675	₱589,148,360

No borrowing cost was capitalized in 2006 since the proceeds of the loans are disbursed and applied for the purpose of permanent working capital and general corporate requirements. Total interest capitalized as part of land under development amounted to ₱1,646,760 in 2005. Capitalization rates applied were about 11.03% in 2005.

a. EEI Realty has an ongoing project in Suburbia East, Marikina. The master plan for the 98,009 square meters property project was completed and development permit application for the subdivision plan was approved on September 14, 2000 by the city government of Marikina. On May 2, 2002 the Housing and Land Use Regulatory Board issued a Certificate of Registration and License to Sell to EEI Realty for the sale of saleable lots/units with lots in Suburbia East Phase I. Phase I development work has been completed.

b. On April 24, 1998, EEI Realty entered into a joint venture (JV) agreement with RHI to contribute certain parcels of land to the JV for development by RHI into a residential subdivision. Under the JV agreement, the share of EEI Realty and RHI on the saleable lots shall be 40% and 60%, respectively.

   EEI Realty granted RHI the exclusive right to construct housing units on EEI Realty's share of the saleable lots from the JV project and construction of the housing units shall be solely for RHI's account. EEI Realty also granted RHI the exclusive marketing rights over its share of the saleable lots from the JV project. EEI Realty shall reimburse RHI for marketing and administration expense of 10% of the lot selling price deductible from EEI Realty's share on every lot sold.

   In consideration of EEI Realty's entering into the JV Agreement, RHI paid EEI Realty ₱50 million as non-interest bearing cash advance. The cash advance shall be liquidated using the proceeds from sale of the lots allocated to EEI Realty. In 2000, the JV started selling developed lots, the proceeds of which were deducted from the cash advance. As of December 31, 2006 and 2005, the outstanding balance of the cash advance, which is shown as part of accounts payable and accrued expenses account in the consolidated balance sheets, amounted to ₱ 37,527,833 and ₱38,872,280, respectively (see Note 15).

   On July 11, 2005, EEI Realty and RHI mutually agreed to reduce the JV area from 72.79 hectares to 12.89 hectares. The share of EEI Realty and RHI on the saleable lot shall be 25% and 75%, respectively, starting May 1, 2005. The JV area is still being managed by RHI, while the remaining area has been turned over to EEI Realty.

c. The amended Memorandum of Agreement dated April 19, 1999 between EEI Realty and Greenfield provides for the following:

   - Sale of nine parcels of land with a total area of 133,550 square meters by EEI Realty to Greenfield. Payment terms include the turnover of certain developed lots from the nine parcels of land. In 2003, eleven developed lots valued at ₱48,206,695 were transferred to EEI Realty as part of this arrangement.

   - Contribution of parcels of land with a total area of 111,906 square meters by EEI Realty, as its participating interest, in a joint venture project with Greenfield. Under the terms of the agreement, EEI Realty's net

landowner's interest shall be in the form of developed lots for the residential component and golf club shares for the golf course component, and shall be allocated at 30% for EEI Realty and 70% for Greenfield.

7. Other Current Assets

This account consists of:

	2006	2005
Prepaid taxes	**₱122,425,603**	₱71,949,038
Prepaid expenses	**66,325,212**	117,857,992
Miscellaneous deposits	**20,180,611**	14,957,242
Value added tax	**14,182,285**	23,374,218
Supplies and others	**4,759,578**	3,418,329
	₱227,873,289	₱231,556,819

8. Land Classified as Held for Sale

In 2006, the Parent Company sold the land reported under Land Classified as Held for Sale in 2005 and Property, Plant and Equipment (see Notes 11 and 24). The parcels of land sold are located in Manggahan, Quezon City and Bauan, Batangas.

9. Investments in Associates and Joint Ventures

This account consists of:

	2006	2005
Acquisition cost:		
Balance at beginning of year	**₱64,809,856**	₱80,196,219
Disposal and other adjustments during the year	**(8,066,637)**	(15,386,363)
Balance at end of year	**56,743,219**	64,809,856
Accumulated equity in net earnings (losses):		
Balance at beginning of year	**112,742,001**	80,818,745
Equity in net earnings for the year	**197,517,178**	112,530,158
Dividends and disposal during the year	**(119,633,164)**	(80,606,902)
Balance at end of year	**190,626,015**	112,742,001
	247,369,234	177,551,857
Equity in cumulative translation adjustment	**31,292,363**	40,895,965
	₱278,661,597	₱218,447,822

The change in equity in cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign operations, EEI BVI, whose functional currency is the United States dollar.

The investments in associates and joint ventures relate to the following associates and joint ventures:

		Percentage of Ownership		
		2006	2005	2004
EEI-E.E. Black Ltd., a Joint Venture	(E.E. Black)	**60**	60	60
ECW Joint Venture Inc. (ECW)		**50**	50	50
ARCC (operations in Saudi Arabia)		**49**	49	49
SAEI-EEI Construction Corporation	(SECC)	**40**	40	40
C & E Corporation (C&E)		**–**	–	25

On June 10, 2005, the Parent Company subscribed to additional shares of stock of C&E, increasing its share of ownership of C&E from 25% to 35%. On December 21, 2005, the Parent Company sold its entire 35% interest in C&E to Chiyoda Corporation (Japan).

The summarized financial information of associates and joint ventures are as follows:

	2006			
	ARCC	**SECC**	**ECW**	**E.E. Black**
Current assets	**₱1,187,709,892**	**₱116,941,318**	**₱23,633,452**	**₱1,454,687**
Noncurrent assets	**974,567,116**	**–**	**–**	**–**
Total assets	**2,162,277,008**	**116,941,318**	**23,633,452**	**1,454,687**
Current liabilities	**1,077,063,648**	**8,955,462**	**48,938**	**377,707**
Noncurrent liabilities	**589,964,293**	**579,071,077**	**–**	**–**
Total liabilities	**1,667,027,941**	**588,026,539**	**48,938**	**377,707**
Revenues	**1,788,530,791**	**4,483,960**	**642**	**–**
Cost and expenses	**(1,356,979,076)**	**(8,294,764)**	**(20,433)**	**(8,806)**
Net income (loss)	**₱431,551,715**	**(₱3,810,804)**	**(₱19,791)**	**(₱8,806)**

	2005				
	ARCC	SECC	ECW	E.E. Black	C & E
Current assets	₱534,759,006	₱253,688,164	₱23,645,850	₱1,454,907	₱175,177,158
Noncurrent assets	175,388,932	–	–	–	77,637,005
Total assets	710,147,938	253,688,164	23,645,850	1,454,907	252,814,163
Current liabilities	435,791,652	720,962,580	41,546	369,013	90,751,363
Noncurrent liabilities	23,589,839	–	–	–	77,013,271
Total liabilities	459,381,491	720,962,580	41,546	369,013	167,764,634
Revenues	982,155,928	782,000	96,514	33,703	456,871,228
Cost and expenses	(798,020,786)	(60,467,492)	(434,645)	(4,500)	(402,974,699)
Net income (loss)	₱184,135,142	(₱59,685,492)	(₱338,131)	₱29,203	₱53,896,529

The Group's share on the net income of ARCC is subject to 20% Saudi Arabian income taxes.

10. Available-for-Sale Securities

This account consists of investments in equity securities as follows:

	2006	2005
Quoted shares	**₱7,283,698**	₱7,283,698
Unquoted shares	**76,060,215**	76,210,215
	83,343,913	83,493,913
Less current portion	**58,734,354**	58,484,354
	₱24,609,559	₱25,009,559

The current portion of AFS securities relates to investments in shares of stock of Hermosa Ecozone Development Corporation and MYCVP Com. Inc. which are expected to be sold in 2007. The noncurrent portion of AFS securities includes quoted and unquoted golf and club shares.

11. Property, Plant and Equipment

In 2006, the rollforward analysis of this account follows:

	2006						
	Machinery, Tools and Construction Equipment	**Buildings and Improvements**	**Furniture, Fixtures, and Office Equipment**	**Power Plant**	**Transportation and Service Equipment**	**Construction In Progress**	**Total**
Cost							
At beginning of year	₱805,415,350	₱280,313,702	₱81,292,367	₱40,653,590	₱66,408,350	₱8,056,866	**₱1,282,140,225**
Additions	7,574,527	77,857	13,235,807	–	5,555,173	35,710,525	**62,153,889**
Retirements/disposals	(91,329,557)	(191,650,232)	(9,692,971)	–	(9,386,530)	(5,892,946)	**(307,952,236)**
At end of year	721,660,320	88,741,327	84,835,203	40,653,590	62,576,993	37,874,445	**1,036,341,878**
Accumulated Depreciation and Amortization							
At beginning of year	657,458,300	115,112,068	76,247,753	27,913,254	66,038,983	–	**942,770,358**
Additions (Note 22)	46,354,753	9,465,399	5,225,517	2,768,279	2,351,902	–	**66,165,850**
Retirements/disposals	(69,251,233)	(77,105,744)	(9,691,779)	–	(9,386,530)	–	**(165,435,286)**
At end of year	634,561,820	47,471,723	71,781,491	30,681,533	59,004,355	–	**843,500,922**
Net Book Value	₱87,098,500	₱41,269,604	₱13,053,712	₱9,972,057	₱3,572,638	₱37,874,445	**₱192,840,956**

Land at revalued amounts (Note 31)	
Balance at beginning of the year	**₱676,243,568**
Disposal (Notes 8 and 24)	**(651,505,500)**
Balance at end of the year	**₱24,738,068**

In 2005, the rollforward analysis of this account follows:

	2005						
	Machinery, Tools and Construction Equipment	**Buildings and Improvements**	**Furniture, Fixtures, and Office Equipment**	**Power Plant**	**Transportation and Service Equipment**	**Construction In Progress**	**Total**
Cost							
At beginning of year	₱851,042,173	₱282,506,953	₱82,938,857	₱40,653,590	₱69,017,877	₱5,235,627	₱1,331,395,077
Additions	14,616,844	167,256	3,321,175	–	1,302,646	4,829,846	24,237,767
Retirements/transfers	(60,243,667)	(2,360,507)	(4,967,665)	–	(3,912,173)	(2,008,607)	(73,492,619)
At end of year	805,415,350	280,313,702	81,292,367	40,653,590	66,408,350	8,056,866	1,282,140,225
Accumulated Depreciation and Amortization							
At beginning of year	653,529,032	105,738,537	76,777,324	25,183,182	67,269,417	–	928,497,492
Additions (Note 22)	57,458,770	9,422,708	4,358,888	2,730,072	2,505,886	–	76,476,324
Retirements/transfers	(53,529,502)	(49,177)	(4,888,459)	–	(3,736,320)	–	(62,203,458)
At end of year	657,458,300	115,112,068	76,247,753	27,913,254	66,038,983	–	942,770,358
Net Book Value	₱147,957,050	₱165,201,634	₱5,044,614	₱12,740,336	₱369,367	₱8,056,866	₱339,369,867

Land at revalued amounts (Note 31)	
Balance at beginning of the year	₱840,817,505
Reclassification to land classified as held for sale	(164,573,937)
Balance at end of the year	₱676,243,568

The cost of land as of December 31, 2006 and 2005 amounted to ₱24,738,068 and ₱91,467,609, respectively.

12. Investment Property

The rollforward analysis of this account follows:

	2006	2005
Balance at beginning of year	**₱204,946,386**	₱204,946,386
Additions	**5,049,000**	–
Balance at end of year	**₱209,995,386**	₱204,946,386

Investment property represents various parcels of land that was held for capital appreciation. The additions in 2006 represent land acquired during the year.

13. Other Noncurrent Assets

This account consists of:

	2006	2005
Receivable from retirement fund of EEI Corporation (Note 24)	**₱468,689,500**	₱–
Long-term receivables	**26,161,242**	37,400,051
Others	**19,012,154**	14,115,069
	₱513,862,896	₱51,515,120

The receivable from retirement fund of EEI Corporation resulted from the sale of land by the Parent Company to the Fund. The amount is to be paid by the Fund within seven years with interest based on the bank's lending rate prevailing during the period covered (see Notes 8 and 24).

As of December 31, 2006 and 2005, long-term receivables consist of interest-bearing notes with a fifteen-year maturity with step-up interest rates (0% interest for the first five years; 10% on the next five years; and 12% on the remaining life of the term). The effective interest rate of this instrument is 13%.

14. Bank Loans

This account consists of:

	2006	2005
Secured bank loans	**₱637,584,489**	₱1,137,414,017
Unsecured bank loans	**210,064,166**	167,830,000
	₱847,648,655	₱1,305,244,017

Bank loans consist of peso-denominated bank loans with annual interest rates ranging from 10.25% to 15% and 11.25% to 15% in 2006 and 2005, respectively.

As of December 31, 2006, secured bank loans are collateralized by the Group's investment properties and land (included under inventories) amounting to ₱228 million and receivables amounting to ₱428 million (including retention receivables amounting to ₱280 million).

As of December 31, 2005, secured bank loans are collateralized by the Group's construction contracts and mortgages on certain property and equipment with a net book value of ₱380 million, land classified as held for sale at revalued amount of ₱165 million, investment properties amounting to ₱190 million and receivables amounting to ₱437 million (including retention receivables amounting to ₱241 million).

15. Accounts Payable and Accrued Expenses

This account consists of:

	2006	2005
Accounts payable	**₱913,655,977**	₱648,609,422
Accrued expenses	**270,999,605**	303,748,346
Deferred output taxes	**113,060,467**	124,181,957
Advances from joint venture partners (Note 6)	**37,527,833**	38,872,280
	₱1,335,243,882	₱1,115,412,005

Accrued expenses consist of:

	2006	2005
Accrued retirement (Note 25)	**₱72,628,480**	₱98,911,619
SSS and other contributions	**69,434,960**	55,451,578
Withholding taxes and others	**57,118,498**	45,539,240
Accrued salaries and wages	**41,362,269**	32,752,154
Accrued interest	**17,054,522**	58,100,338
Others	**13,400,876**	12,993,417
	₱270,999,605	₱303,748,346

16. **Long-term Debt**

This account consists of:

	2006	2005
Parent Company		
Peso-denominated bank loans, payable in quarterly installments starting in January 2009 with interest based on the bank's internal average lending rate	**₱400,000,000**	₱–
Peso-denominated bank loans, payable in quarterly installments from 2003 to 2007 with interest rates ranging from 8.4% to 15% in 2005	**–**	168,501,514
	400,000,000	168,501,514
EEI Realty		
Peso-denominated bank loan payable semi-annually starting April 2007 with interest based on the bank's internal average lending rate.	**125,000,000**	–
Peso-denominated bank loan payable semi-annually starting January 2004 with annual interest rate at 11.25%	**–**	86,857,143
	125,000,000	86,857,143
EEI Power		
Euro-denominated bank loans		
Commercial loan - payable in 12 semi-annual installments up to May 2007 with interest at EURIBOR plus 1.2%	**17,121,306**	49,967,991
	17,121,306	49,967,991
	542,121,306	305,326,648
Less current portion	**27,121,306**	222,305,371
	₱515,000,000	₱83,021,277

Parent Company
On October 18, 2006, the Parent Company signed a term loan agreement equivalent to ₱400 million with Rizal Commercial Banking Corporation (RCBC). The loan was for a period of five years, inclusive of a two year grace period on principal repayment and an interest based on the bank's internal average lending rate. The proceeds of the loan were used to pay short-term bank loans.

The peso-denominated loans as of December 31, 2006 are collateralized by a chattel mortgage on certain machinery and construction equipment with aggregate net book value of ₱323 million.

The peso-denominated loans as of December 31, 2005 are collateralized by a mortgage on a real estate property with a book value of ₱784 million and a chattel mortgage on certain machinery and construction equipment with aggregate net book value of
₱36 million.

EEI Realty
On October 26, 2006, the EEI Realty signed a term loan agreement equivalent to ₱125 million with RCBC. The loan was for a period of five years, with no grace period on principal repayment and an interest based on the bank's internal average lending rate. The proceeds of the loan were used to pay the remaining balance of long-term debt in 2005 and a portion of short-term bank loans.

The long-term debt is secured by a real estate mortgage on nine parcels of land held for sale and development with aggregate book value of ₱255 million and ₱283 million as of December 31, 2006 and 2005, respectively.

EEI Power
These Euro-denominated bank loans amounting to Euro 265,021 and Euro 795,061 as of December 31, 2006 and 2005, respectively, which were used to finance the acquisition of two 5.2 megawatt diesel generator sets, are secured by a first demand guarantee with a local bank.

The loan agreements covering the loans of the Parent Company, EEI Realty and EEI Power provide certain restrictions with respect to, among others, usage of loan proceeds, disposal of properties given as collateral, guaranty of any debt, change in ownership or management set-up, dividend declaration, merger or consolidation and maintenance of certain financial ratios.

The Group complied with the loan restrictions and requirements.

17. Stock Option Plan

The Parent Company's stock option plan, as amended (Amended Plan), sets aside 35 million common shares for stock options available to regular employees, officers and directors of the Parent Company and its subsidiaries.

Under the Amended Plan, the option or subscription price should be equal to the book value of the Parent Company's common stock but not less than 80% of the average market price quoted in the Philippine Stock Exchange (PSE) for five trading days immediately preceding the grant, but in no case less than the par value. The option or subscription price should be paid over a period of five years in 120 equal semi-monthly installments. Shares acquired under the Amended Plan are subject to a holding period of one year.

A summary of the plan options is shown below.

	Number of Shares
Shares allocated under the Original Stock Option Plan	19,262,500
Shares allocated under the Amended Stock Option Plan	15,737,500
Total shares allocated	35,000,000
Shares subscribed under the Original Stock Option Plan	18,969,491
Shares subscribed under the Amended Stock Option Plan	10,235,328
Total shares subscribed	29,204,819
Shares allocated at end of year	5,795,181

Since 2000, there were no shares under the stock option plan that were granted, forfeited, exercised and expired.

No benefit expense is recognized relative to the shares issued under the stock option plan. When options are exercised, these are treated as capital stock issuances. The last stock option grant was in 1999. The stock option plan is exempt from PFRS 2.

18. Costs of Construction Contracts

This account consists of:

	2006	2005	2004
Labor (Note 25)	**₱1,702,310,246**	₱1,214,708,137	₱645,713,705
Materials	**1,196,538,831**	1,080,999,985	755,724,588
Depreciation and amortization (Note 22)	**45,352,951**	58,572,652	85,152,897
Equipment costs and others	**1,312,967,011**	1,145,678,346	610,648,192
	₱4,257,169,039	₱3,499,959,120	₱2,097,239,382

19. Costs of Services

This account consists of:

	2006	2005	2004
Personnel expenses (Note 25)	**₱166,762,392**	₱148,374,754	₱204,374,282
Materials	**25,999,596**	10,954,430	6,572,195
Depreciation and amortization (Note 22)	**4,318,870**	3,253,104	4,408,953
Others	**6,073,817**	1,748,442	2,550,148
	₱203,154,675	₱164,330,730	₱217,905,578

20. Costs of Merchandise Sales

This account consists of:

	2006	2005	2004
Inventories	**₱50,927,075**	₱59,860,541	₱112,951,546
Personnel expenses (Note 25)	**1,250,742**	3,169,563	20,852,592
Depreciation and amortization (Note 22)	**1,203,635**	2,730,072	1,882,273
Others	**1,970,520**	5,343,163	38,085,198
	₱55,351,972	₱71,103,339	₱173,771,609

21. Selling and Administrative Expenses

This account consists of:

	2006	2005	2004
Personnel expenses (Note 25)	**₱159,847,323**	₱106,595,206	₱154,357,267
Provisions for doubtful accounts, inventory obsolescence and other expenses	**77,571,151**	44,822,775	79,389,473
Travel and transportation	**21,773,292**	18,341,280	23,597,771
Utilities	**21,256,204**	18,920,485	16,534,602
Professional fees	**17,030,549**	18,984,142	9,133,131
Depreciation and amortization (Note 22)	**15,290,432**	11,920,496	13,422,967
Outside services	**9,779,348**	17,570,329	25,302,872
Repairs and maintenance	**8,290,469**	6,545,657	3,808,988
Taxes and licenses	**6,965,511**	6,308,841	6,425,144
Supplies	**5,561,968**	3,999,360	6,273,662
Entertainment, amusement and recreation	**3,484,207**	3,183,782	3,653,287
Rent	**3,415,977**	2,815,072	3,603,117
Others	**40,497,701**	40,190,659	26,599,753
	₱390,764,132	₱300,198,084	₱372,102,034

22. Depreciation and Amortization

Depreciation and amortization are charged to the following accounts:

	2006	2005	2004
Cost of construction contracts (Notes 11 and 18)	**₱45,352,951**	₱58,572,652	₱85,152,897
Cost of services (Notes 11 and 19)	**4,318,870**	3,253,104	4,408,953
Cost of merchandise sold (Notes 11 and 20)	**1,203,635**	2,730,072	1,882,273
Selling and administrative expenses (Notes 11 and 21)	**15,290,394**	11,920,496	13,422,967
	₱66,165,850	₱76,476,324	₱104,867,090

23. Income Taxes

The components of the Group's deferred tax assets and liabilities as of December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets on:		
Allowance for doubtful accounts, inventory obsolescence and other expenses	**₱43,509,060**	₱118,656,514
MCIT	**6,507,165**	12,048,723
Accrued retirement	**3,890,736**	3,562,636
Unrealized foreign currency exchange loss-net	**2,003,352**	132,850
NOLCO	**–**	166,339,517
Revaluation increment in land	**–**	(257,751,863)
	₱55,910,313	₱42,988,377
Deferred tax liabilities on:		
Capitalized borrowing cost	**₱18,573,569**	₱24,603,236
Allowance for doubtful accounts, inventory obsolescence and other expenses	**(96,363)**	(96,363)
Unamortized past service costs	**(893,698)**	(893,698)
MCIT	**(1,036,461)**	(1,036,461)
	₱16,547,047	₱22,576,714

The Group did not recognize deferred tax liabilities on cumulative translation adjustment and equity in net earnings of foreign subsidiaries, since the reversal of these cumulative translation adjustments can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group did not recognize any deferred tax assets on the following temporary differences:

	2006	2005
Allowance for doubtful accounts, inventory obsolescence and others	**₱137,732,687**	₱123,657,728
NOLCO	**5,403,305**	32,447,382
Unrealized foreign currency exchange loss - net	**20,679,836**	19,576,832
MCIT	**10,781,138**	7,408,179
Accrued retirement benefits	**29,113,282**	30,162,733
	₱203,710,248	₱213,252,854

On October 18, 2005, the Supreme Court has rendered its final decision declaring the validity of Republic Act No. 9337 (new EVAT Law) which included, among others, (a) provisions for the increase in corporate income tax rate from 32% to 35% effective November 1, 2005 and later on reducing the rate to 30% effective January 1, 2009 and (b) the change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009.

As a result of the change in tax rate, the increase in the deferred income tax on the revaluation increment in land amounting to ₱22,093,017 in 2005 was charged to the deficit account, since the revaluation increment in land previously classified as part of the stockholders' equity was offset against its deficit during its quasi-reorganization (Note 31).

The Group's NOLCO and MCIT will expire in the following years:

	NOLCO		
	At Gross Amounts	Tax Benefit at 35%	MCIT
2007	₱–	₱–	₱4,265,114
2008	–	–	7,801,325
2009	15,438,011	5,403,305	6,258,325
Total	₱15,438,011	₱5,403,305	₱18,324,764

The following shows the movement of NOLCO and MCIT during the year:

NOLCO	
Beginning of the year	₱567,962,567
Addition	15,438,013
Applied portion	(567,962,569)
	₱15,438,011

MCIT	
Beginning of the year	₱20,493,363
Addition	6,258,325
Expired portion	(8,426,924)
	₱18,324,764

The reconciliation between the statutory and effective income tax rates follows:

	2006	2005	2004
Statutory income tax rate	**35.0%**	32.5%	32.0%
Add (deduct) reconciling items:			
Equity in net earnings of associates and joint ventures	**(27.5)**	(77.6)	(255.4)
Income subjected to final taxes at lower rates	**(0.5)**	(6.0)	(41.6)
Change in unrecognized deferred taxes	**(3.8)**	(5.2)	219.5
Effect of adjustment due to change in statutory tax rate	–	(13.5)	–
Others	**17.0**	53.7	136.2
Effective income tax rate	**20.2%**	(16.1%)	90.7%

24. Related Party Transactions

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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The outstanding balances of related party transactions in the consolidated balance sheets consist of the following:

	2006	2005
Due from associates:		
SECC	**₱42,147,928**	₱341,632,864
ARCC	**6,946,022**	17,193,652
	49,093,950	358,826,516
Less allowance for doubtful accounts	**–**	242,922,572
	49,093,950	₱115,903,944
Receivable from EEI Retirement Fund, Inc. (included in other noncurrent assets) (Note 13)	**468,689,500**	**–**
	₱517,783,450	₱115,903,944
Due to related parties:		
Malayan Colleges, Inc.	**₱138,075,796**	₱147,708,973
House of Investments, Inc. (HI)	**3,161,799**	65,320,786
Landev Corporation (Landev)	**6,830,536**	23,223,819
First Malayan Leasing Finance Corporation	**11,187,543**	11,187,543
	₱159,255,674	₱247,441,121

Entities under due to related parties, except for HI which is the Parent Company of the Group, are considered related parties since these entities are subsidiaries of HI.

In 2006 and 2005, transactions with associates pertain to cash advances and settlement of accounts, which arose from reimbursement of expenses, construction contracts and administrative service agreements.

The amounts due to Malayan Colleges, Inc. consist mainly of cash advances at interest rates per annum of 11.5% and 13%, respectively.

On May 31, 2005, GMSI entered into a deed of assignment (with recourse) with Landev, an affiliate, whereby GMSI assigned to Landev all of its rights in service fees under GMSI's Service Agreement with RCBC Savings Bank (RSB) for

two years amounting to ₱32,786,572. In consideration for such assignment of receivables, GMSI received the present value of the assigned receivables amounting to ₱27,630,352. The deed of assignment provides, among others, a guarantee by GMSI of payment to Landev of any and all sums due under the RSB service agreement amounting to ₱ 1,366,107 per month and collateral in the form of GMSI's receivables from its service agreement with other clients. Interest expense from this financing activity amounted to ₱2,371,852 and ₱2,526,538 in 2006 and 2005, respectively.

On December 29, 2003, EEI BVI and Al Rushaid Investment Corporation, stockholders of ARCC, agreed to provide a term loan to ARCC in the amount of Saudi Riyals (SR)15 million, to be divided in the proportion of the stockholders' equity in ARCC. For this purpose, the outstanding liabilities of ARCC to the stockholders and their subsidiaries, associates and affiliates as of December 31, 2003 were to be converted into a term loan. The stockholders will provide the remaining balance, if any, to ARCC. As agreed, the term loan would not be recalled until the financial position of ARCC has improved and the Board of Directors of ARCC has determined the repayment schedule of the term loan. The term loan shall bear no interest.

Accordingly, in 2004, the Parent Company and GAIC, for a valuable consideration, assigned to EEI BVI their receivables from ARCC amounting to US$493,000 and US$1,303,060, respectively. EEI BVI converted the total amount of US$1,796,060 to a term loan to ARCC after assuming the receivables. As of December 31, 2005, the balance of the term loan to ARCC amounted to ₱17,193,652. The balance of the term loan was fully paid in 2006.

In 2006, the Parent Company sold the land reported under Land Classified as Held for Sale (see Note 8) and land reported under Property, Plant and Equipment (see Note 11) amounting to ₱164,573,937 and ₱651,505,500, respectively to EEI Retirement Fund Inc., as a trustee of EEI Corporation employees retirement fund (the Fund). The Fund is managed by RCBC Trust and Investment Division. The parcels of land sold are located in Manggahan, Quezon City and Bauan, Batangas. The selling price of the land (including improvements) is ₱1,001,014,500 (which is basically the fair market value based on the latest appraisal report of a reputable professional appraiser) and the carrying value of the properties as of the date of the sale is ₱926,647,642 which resulted to a gain, net of related expenses, amounting to ₱46, 518,118 (included in other income). The Fund paid ₱532,325,000 to the Parent Company and the balance of ₱ 468,689,500, included in the other noncurrent assets account, is to be paid by the Fund within seven years with interest based on the bank's lending rate prevailing during the period covered (see Notes 8 and 13). The carrying value of the land, including improvements (reported under land classified as held for sale and property, plant and equipment), includes the revaluation increment of ₱736,433,894 which was credited as revaluation surplus under the stockholders' equity of the balance sheets in previous years. The revaluation surplus was used to wipe out the deficit based on the quasi-reorganization approved by the Securities and Exchange Commission (SEC) in 2003 and 2004 (see Note 31). In January 2007, the Parent Company and EEI Retirement Fund Inc., as a trustee of the Fund, entered into operating lease agreements for lease of land and improvements in Manggahan, Quezon City and Bauan, Batangas. 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 upon mutual agreement of both parties. Annual rental for these properties are still subject to negotiation by both parties.

Compensation of Key Management Personnel of the Group
The remuneration of directors and other members of key management are as follows:

	2006	2005	2004
Short-term benefits	**₱30,570,411**	₱20,980,399	₱20,829,443
Post-employment benefits	**2,558,406**	21,336,826	9,735,034
	₱33,128,817	₱42,317,225	₱30,564,477

25. Retirement Cost

The Parent Company and certain subsidiaries have funded, noncontributory defined benefit pension plans covering substantially all of their employees. Retirement costs are actuarially determined using the projected unit credit method. Retirement expense charged to operations amounted to ₱59,468,419 in 2006 and ₱43,606,850 in 2005.

The following tables summarize the components of the retirement expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the retirement plan.

Retirement expense consists of:

	2006	2005
Current service cost	**₱27,586,641**	₱10,492,724
Interest expense on obligations	**23,611,684**	23,046,978
Expected return on plan assets	**(3,306,481)**	(2,765,707)
Amortization of additional retirement liability	**12,945,678**	12,945,678
Asset ceiling adjustment	**(1,827,694)**	(112,823)
Recognized actuarial losses	**458,591**	–
Total pension expense	**₱59,468,419**	₱43,606,850

The actual return on the plan assets amounted to ₱8,840,090 and ₱2,917,337 in 2006 and 2005, respectively.

The reconciliation of the present value of defined benefit obligation and the accrued retirement (included in accounts payable and accrued expense) in the balance sheets follows:

	2006	2005
Present value of defined benefit obligations	**₱386,086,295**	₱209,509,173
Fair value of plan assets	**(120,238,143)**	(30,611,719)
	265,848,152	178,897,454
Unamortized additional retirement liability	**(38,837,036)**	(51,782,714)
Unrecognized actuarial loss	**(155,065,520)**	(30,581,335)
Net retirement liability	**71,945,596**	96,533,405
Recorded retirement asset	**682,884**	2,378,214
Retirement liability	**₱72,628,480**	₱98,911,619

The discount rate at end of the year decreased from 11.27% in 2005 to 7.50% in 2006. Accordingly, this increased the present value of defined benefit obligation resulting to unrecognized actuarial losses. The excess of the net cumulative unrecognized actuarial losses are amortized over the expected average remaining working lives of the employees participating in the plan (see Note 2).

The Group expects to contribute ₱109,189,871 to fund its defined pension plan in 2007. The contribution to the fund is essential to meet the expected return on the plan assets that will minimize the actuarial losses that form part of the pension expense.

Changes in the present value of defined obligation follow:

	2006	2005
Balance at beginning of year	**₱209,509,173**	₱151,414,507
Interest expense on obligations	**23,611,684**	23,046,978
Current service cost	**27,586,641**	10,492,724
Benefits paid	**(5,097,588)**	(3,028,014)
Actuarial loss	**130,476,385**	27,582,978
Balance at end of year	**₱386,086,295**	₱209,509,173

Changes in the fair value of plan assets follow:

	2006	2005
Balance at beginning of year	**₱32,441,730**	₱26,943,407
Expected return on plan assets	**3,306,481**	2,765,707
Contributions	**84,056,228**	5,209,096
Actuarial gain	**5,533,609**	151,630
Benefits paid	**(5,097,588)**	(2,628,110)
Balance at end of year	**120,240,460**	32,441,730
Accumulated asset ceiling adjustment	**(2,317)**	(1,830,011)
	₱120,238,143	₱30,611,719

The Group's annual contribution to the retirement plan consists of payment covering the current service cost for the year plus amortization of the actuarial accrued liability, interest cost on unfunded liability and actuarial gains or losses.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2006	2005
Deposit in bank	**7%**	9%
Investment	**3%**	85%
Receivables	**1%**	5%
Real and other property owned and acquired	**89%**	1%
	100%	100%

As of December 31, 2006 and 2005, the liabilities related to the plan assets amounted to ₱1,001,686,702 and ₱249,520, respectively.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

Principal actuarial assumptions used to determine pension obligations follow:

	2006	2005
Discount rate		
Beginning of year	**11.27%**	15.22%
End of year	**7.50%**	11.27%
Expected rate of return		
Beginning of year	**10.19%**	10.26%
End of year	**10.19%**	10.19%
Salary increases		
Beginning of year	**8.00%**	8.00%
End of year	**10.00%**	8.00%

Amounts of the deficit on the plan for the current and previous periods are as follows:

	2006	2005
Present value of defined benefit obligation	**(₱386,086,295)**	(₱209,509,173)
Fair value of plan assets	**120,238,143**	30,611,719
Deficit on the plan	**(₱265,848,152)**	(₱178,897,454)

As of December 31, 2006, experience adjustments on plan liabilities amounted to ₱4,096,748, while experience adjustments on plan assets amounted to ₱5,533,609.

Changes in the additional retirement liability arising on the initial adoption of PAS 19 on January 1, 2005 follow:

	2006	2005
Balance at beginning of year	**₱51,782,714**	₱64,728,392
Less amortization during the year	**12,945,678**	12,945,678
Balance at end of year	**₱38,837,036**	₱51,782,714

26. Earnings Per Share

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

	2006	2005	2004
Net income	**₱200,224,494**	₱62,478,598	₱2,870,870
Weighted average number of common shares	**915,204,099**	915,204,099	915,204,099
Earnings per share	**₱0.2188**	₱0.0683	₱0.0031

There are no unexercised stock options and the exercise price is still higher than the average market price during the year making the options anti-dilutive, hence, no diluted earnings per share is calculated.

27. Business Segment Information

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.

Business segments: For management purposes, the Group is organized into two major operating businesses as follows: (a) construction and (b) trading, services and others. The Group's business shown in aggregate as trading, services and others comprise principally of manpower services, real estate sales and sale of electricity. These are the bases upon which the Group reports its primary segment information.

Intersegment transactions: Segment revenues and segment results include transfers between business segments. Such transfers are accounted for at market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

	Construction		Trading, Services and Others		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
				(Amounts in Thousands)				
Revenues								
Domestic	**₱4,393,039**	₱3,199,839	**₱483,900**	₱422,809	**₱–**	₱–	**₱4,876,939**	₱3,622,648
Foreign	**382,434**	357,379	**–**	194,652	**–**	–	**382,434**	552,031
Intersegment revenues	**–**	–	**73,405**	41,342	**(73,405)**	(41,342)	**–**	–
	₱4,775,473	₱3,557,218	**₱557,305**	₱658,803	**(₱73,405)**	(₱41,342)	**₱5,259,373**	₱4,174,679
Net Income (Loss)	**₱264,827**	₱158,970	**(₱35,704)**	(₱858)	**(₱28,899)**	(₱95,633)	**₱200,224**	₱62,479
Other Information								
Segment assets	**₱6,083,486**	₱5,607,172	**₱1,470,408**	₱1,794,892	**(₱1,917,865)**	(₱1,809,510)	**₱5,636,029**	₱5,592,554
Segment liabilities	**4,552,862**	4,128,479	**871,901**	959,103	**(1,294,770)**	(810,421)	**4,129,993**	4,277,161
Investment in associates	**278,662**	218,448	**–**	–	**–**	–	**278,662**	218,448
Share in net earnings of associates	**199,057**	207,113	**–**	1,050	**(1,540)**	(95,633)	**197,517**	112,530
Cash flows arising from:								
Operating activities	**₱324,816**	(₱191,206)	**₱16,624**	₱7,708	**(₱71,262)**	₱83,580	**₱270,178**	(₱99,918)
Investing activities	**890,831**	91,926	**56,985**	68,446	**(323,298)**	(53,716)	**624,518**	106,656
Financing activities	**(308,094)**	82,479	**(41,520)**	(29,525)	**40,649**	(23,707)	**(308,965)**	29,247
Additions to property and equipment	**59,501**	21,333	**2,653**	2,905	**–**	–	**62,154**	24,238
Depreciation and amortization	**57,270**	67,211	**8,896**	9,265	**–**	–	**66,166**	76,476

28. Financial Assets and Liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements. There are no material unrecognized financial assets and liabilities as of December 31, 2006 and 2005.

	2006	
	Carrying values	**Fair values**
Cash and cash equivalents	**₱814,092,510**	**₱814,092,510**
Receivables - net	**1,922,703,485**	**1,922,703,485**
Due from associates - net	**49,093,950**	**49,093,950**
Miscellaneous deposits (included in other current assets)	**20,180,611**	**20,180,611**
Available-for-sale securities	**83,343,913**	**82,411,250**
Receivable from retirement fund and long-term receivables (included in other noncurrent assets)	**494,850,742**	**773,774,886**
Total financial assets	**₱3,384,265,211**	**₱3,662,256,692**
Bank loans	**₱847,648,655**	**₱847,648,655**
Accounts payable and accrued expenses	**1,222,183,415**	**1,222,183,415**
Due to related parties	**159,255,674**	**159,255,674**
Long-term debt	**542,121,306**	**696,943,378**
Total financial liabilities	**₱2,771,209,050**	**₱2,926,031,122**

	2005	
	Carrying values	Fair values
Cash and cash equivalents	₱228,360,808	₱228,360,808
Receivables - net	1,512,996,104	1,512,996,104
Due from associates - net	115,903,944	115,903,944
Miscellaneous deposits (included in other current assets)	14,957,242	14,957,242
Available-for-sale securities	83,493,913	85,294,870
Long-term receivables (included in other noncurrent assets)	37,400,051	34,311,272
Total financial assets	₱1,993,112,062	₱1,991,824,240
Bank loans	₱1,305,244,017	₱1,305,244,017
Accounts payable and accrued expenses	1,115,412,005	1,115,412,005
Due to related parties	247,441,121	247,441,121
Long-term debt	305,326,648	290,631,882
Total financial liabilities	₱2,973,423,791	₱2,958,729,025

Current assets and liabilities
The carrying values of cash and cash equivalents, receivables, due from associates, miscellaneous deposits, bank loans, accounts payable and accrued expenses and due to related parties were assessed to approximate their fair values due to the short-term nature of these accounts.

Available-for-sale securities
The fair values of quoted equity securities are based on quoted market prices. In the absence of a reliable basis of determining fair values, unquoted equity securities are carried at cost net of impairment.

Other noncurrent assets
The fair values of receivables from retirement fund and long-term receivables are estimated as the present value of all future cash flows discounted using the applicable rates for similar loans. Discount rates used ranges from 7.60% to 8.08%

Long-term debt
The fair value is estimated as the present value of all future cash flows discounted using the applicable rates for similar loans. Discount rates used ranges from 7.12% to 7.99%

29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, AFS, bank loans and long-term debt. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group also has various other financial assets and liabilities, which include trade receivables and trade payables.

The main risks arising from the Group's financial instruments are interest risk, liquidity risk, credit risk, and foreign currency risk. The BOD reviews and agrees on the policies for managing these risks, summarized as follows:

Interest Rate Risk
The Group's exposure to market rate risk for changes in interest rates relates primarily to the Group's short-term and long-term obligations. The Group follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities. The Group also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income.

The following table sets out the carrying amount (in thousands), by maturity, of the Group's financial instruments that are exposed to interest rate risk:

							TOTAL	
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	In Euro	In Php
Liabilities:								
Bank loans								
Variable rate								
Philippine Peso	₱847,649	₱–	₱–	₱–	₱–	₱–	–	₱847,649
Interest rate	11.25% to 15%	–	–	–	–	–		
Long-term debt								
Euro notes	Euro 265	–	–	–	–	–	Euro 265	17,121
Interest rate	1.20%	–	–	–	–	–		
Philippine Peso	10,000	10,000	143,333	143,333	218,334	–	–	525,000
Interest rate	11.25%	10.5% to 11.25%	–	–	–	–		
Total Euro notes	Euro 265	–	–	–	–	–	Euro 265	₱17,121
Total in Philippine Peso	₱857,649	₱10,000	₱143,333	₱143,333	₱218,334	₱–	–	₱1,372,649

Liquidity Risk
Short-term funding is obtained to finance cash requirements for operations. Credit lines are obtained from BOD-designated banks at amounts based on financial forecasts approved by BOD.

Credit Risk
The carrying amounts of receivable accounts represent the Group's maximum exposure to credit risk in relation to financial assets. 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 Parent Company. Credit risk is managed in accordance with the Group's credit risk policy which requires the evaluation of the creditworthiness of the project owners such as financial performance for the past three years.

The Group does not have any significant concentration of credit risk. Its maximum exposure to credit risk is equivalent to face amount of its financial assets.

Foreign Currency Risk
Currency risk is the potential decline in the value of the financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the Group's functional currency or will be denominated in such a currency in the planned course of business.

Foreign currency risk is monitored and analyzed systematically and is managed centrally by the central finance department. The Group's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Group believes in ensuring that its foreign currency is at all times within the prescribed limits for companies who are engaged in the same type of business.

As of December 31, 2006 and 2005, the foreign currency-denominated financial liabilities relate to long-term debt due to Credit Lyonnis amounting to Euro265,021 and Euro795,061 which is equivalent to ₱17 million and ₱50 million, respectively.

30. Commitments and Contingencies

a. Surety Arrangement and Guarantees

The Parent Company is a corporate guarantor of credit facilities in favor of AlBank AlSaudi AlFransi for the account of its associate, ARCC, for its Saudi Arabia construction projects up to the extent of the Parent Company's ownership in ARCC.

On February 5, 2005 the Parent Company executed a Deed of Guaranty and Indemnity to AlBank AlSaudi AlFransi for the credit facilities granted to ARCC amounting to SR27.9 million. In 2006, the Deed of Guaranty and Indemnity was not renewed.

The Parent 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 ₱1.5 billion and ₱1.3 billion as of December 31, 2006 and 2005, respectively.

b. Sale of generated power

EEI Power sells exclusively to Creative Diecast Philippines Corporation (CDPC) all the power generated from its one-megawatt bunker C fuel power station for a period of 15 years until 2009, renewable every five years thereafter. CDPC may, at its option, buy the power station commencing at the end of the fifth year at a price to be agreed upon by both parties.

c. Standby Letters of Credit

The Parent Company has outstanding irrevocable domestic standby letters of credit amounting to ₱69.5 million in 2006 and ₱48.7 million in 2005 from local banks which is used for bidding and as a guarantee for the down payments received from its ongoing construction projects.

d. Contingencies

In October 2001, Metro Pacific Corporation (MPC) filed a complaint for arbitration against SECC with the Construction Industry Arbitration Commission. After presentation of evidence, both testimonial and documentary, to support each other's claims and counterclaims, the Arbitral Tribunal rendered a decision in October 2002 awarding MPC liquidated damages against SECC in the amount of ₱617.0 million plus minor claims amounting to ₱ 15.0 million for a total award of ₱632.0 million. SECC, on the other hand, was awarded the unpaid balance amounting to ₱525.0 million.

On April 26, 2005, MPC and SECC entered into a compromise and settlement agreement whereby the parties agreed to a full and complete settlement of claims and counterclaims.

The Parent Company has substantial claims against various parties in connection with completed projects. Majority of these claims came from the Parent Company's various claims for cost of variation orders, time extension, and loss and expense due to prolongation and disturbance costs. Any recoveries from these claims will be reported as income in the year when the realizability of the claims is determined to be virtually certain.

There are pending legal cases against the Parent Company that are being contested by the Parent Company and its legal counsels. Management and its legal counsels believe that the final resolutions of these cases will not have a material effect on the financial position and operating results of the Parent Company.

31. Quasi-Reorganization

On September 6, 2006, the SEC approved the Parent Company's plan for quasi-reorganization eliminating the accumulated deficit as of December 31, 2005 amounting to ₱363,409,537 by applying a portion of the Parent Company's additional paid-in capital of the same amount. The quasi-reorganization was approved subject to the condition that the remaining additional paid-in capital of ₱65,434,383 in the books of the Parent Company after the deficit shall have been offset, will not be used to wipe out losses that may be incurred in the future without prior approval of the SEC.

Since the quasi-reorganization is done based on the account balances of the separate financial statements of the Parent Company, application of this quasi-reorganization to the consolidated financial statements of the Group which has a balance of Deficit of only ₱65,365,410 as of December 31, 2005 resulted to a positive effect (retained earnings) of ₱ 298,044,127.

On September 15, 2003, the SEC approved the Parent Company's plan for quasi-reorganization eliminating the accumulated deficit as of December 31, 2002 amounting to ₱145,945,839 by applying a portion of the Parent Company's revaluation increment in land for the same amount. On January 30, 2004, the SEC approved the Parent Company's plan to undergo quasi-reorganization to wipe out the Parent Company's deficit as of October 31, 2003 amounting to ₱ 586,703,274 against the remaining revaluation increment of ₱590,488,056.

The quasi-reorganization was approved subject to the following conditions:

a. That the remaining revaluation increment of ₱3,784,782 in the books of the Parent Company after the deficit shall have been offset, will not be used to wipe out losses that may be incurred in the future without prior approval of the SEC;

b. That for purposes of dividend declaration, the retained earnings of the Parent Company shall be restricted to the extent of the deficit wiped-out (and not recovered by accumulated depreciation on appraisal increment) by the appraisal surplus;

c. That should the Parent Company's operations improve as of the end of calendar year 2003, the amount of ₱ 586,703,274 in whole or in part shall be reverted to revaluation increment; and

d. That after the quasi-reorganization has been approved and effected, the Parent Company shall disclose in all its consolidated financial statements for a minimum period of at least three years, the mechanics, purpose and effect of such quasi-reorganization, on the financial condition of the Parent Company.

As a result of the recognition and changes on the deferred income tax on the revaluation increment in land, the revaluation increment in land which was used to eliminate its prior deficit balance was reduced to ₱478,682,031 (net of deferred income tax of
₱257,751,863) as of December 31, 2005 (Note 23). Correspondingly, the amount of future retained earnings restricted for dividend declaration had also been reduced to ₱478,682,032.

As of December 31, 2006, the revaluation increment in land was already realized as the land was sold in 2006 to EEI Retirement Fund Inc., as a trustee of the Fund (see Note 24).

32. Subsequent Events

On January 15, 2007, the Parent Company filed with SEC a Registration Statement in accordance with the provisions of the Securities Regulations Code covering additional 120 million common shares issuance via a pre-emptive stock rights offer as approved by the BOD in its meeting on January 2, 2007. On same date, the Parent Company also filed an Application for Listing of the offered 120 million common shares with the PSE. The applications for listing with the PSE and registration statement with the SEC were approved on February 14, 2007 and March 8, 2007, respectively. The offer entitles every existing shareholder as of March 8, 2007 one (1) share for every 7.6257 common shares held at an offer price of ₱4.50 per share. The total 120 million shares offered was fully subscribed with total gross proceeds of ₱ 540 million. The issued shares were listed with the PSE on March 23, 2007.