



Press Release

SM Investments Nine-Month 2006 Profits Grow 38% to Php7.5 billion

(13 November 2006. Pasay City, Philippines) Holding company, SM Investments Corporation reported a 38% growth in net income to Php7.5 billion for the first nine months ended September 30, 2006.

Excluding extraordinary items, net recurring income expanded by 22% in the three quarters to Php6 billion.

Consolidated revenues increased by 18% during the period to Php45 billion. Merchandise sales, still mainly from departments stores, grew 7% to Php28.3 billion and accounted for 62% of total revenues in terms of service mix. Rental income, which accounted for 16% of revenues, grew 14% to Php7.5 billion, and revenues from cinema operations rose 24% to Php1.6 billion.

Operating expenses, on the other hand, grew 11% to Php9 billion. The slightly faster growth is attributable to expansion-related expenses as rapid mall and retail expansion were undertaken this year and last. They were, however, largely offset by the decline in expenses in light, water, and maintenance expenses, and marginal increases in rent and outside services.

Operating income grew by 41% to Php13.1 billion. This translates to an operating margin of 29% during the period, compared to 24% last year.

EBITDA increased by 39% to Php15.2 billion, with EBITDA margin at 33%, up from 28% last year.

SM President Mr. Harley Sy said, "The company's third quarter performance is still on track towards achieving our full-year income targets. We are likewise encouraged by the company's operating businesses, which are in line with their respective targets. Growth was achieved despite external challenges such as increased taxation and much higher energy costs. These positive developments further put SM in a position to reap the benefits of a resurgent domestic economy."

SM Investments' Business Profile, January to September 2006

	% of Revenues	% of Net Income
Retail Merchandising*	70%	29%
Shopping Malls	21%	34%
Real Estate	4%	7%
Banking, Financial Services, and others	5%	30%
Total	100%	100%

*Includes SM Department stores only. SEC approval to consolidate SM Supermarkets and Hypermarkets obtained only in the 4th quarter.

The revenue and income profile of SM is expected to drastically change starting in the coming quarter. Following the recent SEC approval, the company anticipates the infusion of 28 SM Supermarkets (including one to open in Angono, Rizal in late November) and 9 Hypermarkets, making the retail sector the largest source of revenues for the holding company with over an 80% revenue contribution. This also makes SM Investments the most dominant retail player in the country.

As of end September 2006, retail merchandising which is chiefly department store sales of Php 28.3 billion, accounted for 70% of total revenues. This was followed by mall operations under SM Prime with a 21% revenue contribution of Php7.5 billion. The rest is accounted for by holdings in banking and property development.

SM Executive Vice President for Finance, Mr. Jose T. Sio said, "With the infusion of SM Supermarkets and Hypermarkets, the company's retail business would significantly broaden our revenue and income base. Furthermore, SM is now positioned for consolidation in its bank holdings. On the property front, it is now starting to realize returns on its initial investments, with bigger projects bringing in bigger results late next year, and onwards."

RETAIL MERCHANDISING

SM Department Stores

SM Department Stores generated sales of Php28.3 billion, up 7% during the period mainly on account of its expansion this year. Its net selling area (NSA) increased by 16% to 343,877 sqm. as it opened four new stores in Sta. Rosa, Clark, SM Mall of Asia, and in the third quarter, in Lipa. Operating expenses, however, grew by a mere 0.15% to Php5.2 billion allowing gross margins to expand to 5.1% from only 3.2% same period last year. As a result, net income stood at Php1.1 billion for a net margin of 3.8%.

EBITDA for department stores reached Php1.9billion, with EBITDA margin improving from 4.6% last year to 6.6% as of end-September this year.

SM Department stores will continue to focus on growth next year with three stores scheduled to open next year. The capex for 2007 is estimated at Php440 million.

MALL OPERATIONS

SM Prime Holdings Inc. (“SMPH”)

SMPH saw an 8.7% increase in net income from mall operations at Php3.9 billion. Gross revenues increased by 20.4% to Php9.4 billion after getting a boost from the opening of new SM Supermalls, namely, SM City Sta. Rosa, SM City Clark , the now famous SM Mall of Asia, and in the third quarter, SM Supercenter Pasig, and SM City Lipa. Operating expenses grew at a rate of 22% to Php4 billion resulting in a 19% growth in operating income to Php5.3 billion.

The opening of SM Supercenter Pasig ushered in a new mall format for SM Prime. A supercenter is a smaller structure, with a GFA of 15,000-20,000 sqm. It mainly houses a hypermarket and a mix of junior anchor stores, food outlets and boutiques. This compares with an SM City which is a full-blown mall of over 70,000 sqm. with a complete mix of major and junior anchor stores such as a department store, a supermarket and/or hypermarket, food outlets, boutiques, and various amusement facilities.

For 2007, SM Prime’s program of growth will consist of expanding three of its existing malls and opening three new malls/retail outlets. The estimated capex is Php7 billion.

BANKING AND FINANCIAL SERVICES

The banking sector provided much excitement for SM as it made a tender offer to buy additional shares of Equitable PCIBank (“EPCIB”) at Php92 per share. The offer resulted in acquiring a total of 26% of the shares outstanding of EPCIB with an offer to buy another 25.4% from the Social Security System upon the resolution of its case involving its holdings of the EPCIB shares pending before the Supreme Court.

As a result, SM now has an effective interest of 55.8% in EPCIB, excluding the SSS shares. The directors of both boards of Equitable PCIBank and Banco de Oro approved on November 6, 2006 the plan to merge the two banks. The merger will result in creating the second largest bank in terms of resources. The merger process is estimated to be completed by the first half of 2007.

Banco De Oro (“BDO”)

SM’s main banking arm, Banco de Oro, now the fifth largest bank in terms of resources, reported profits of Php2.3 billion, up 23% for the period Jan-September 2006. Net interest income grew by 17% to Php5.8 billion. On the other hand, non-interest income amounted to Php3.7 billion for the first nine months of the year, for a hefty growth of 47% during the period.

Operating expenses for the period were up 33%. There were also product and branch expansion efforts undertaken by BDO. From 185 branches as of year-end 2005, total number of branches as of end September 2006 stood at 227. Total resources for the first nine months of 2006 stood at Php290 billion, up by 35.7%.

Equitable PCI Bank (“EPCIB”)

For the nine-month period ending September this year, EPCIB posted a 34% growth in net income of Php2.4 billion. Worth noting is an improvement in ROE from just 8.9% last year to 14.5% this year as management stayed focused on improving the bank’s efficiencies.

Net interest income of Php8.2 billion grew by 2.6% while consolidated resources expanded by 0.3% to Php324 billion. The total number of branches of the bank stood at 444 as of end September 2006.

China Banking Corporation

For the nine-month period ending September this year, China Bank posted earnings of Php 2.5 billion, up 9% for the nine months ending 2006. Net interest income of Php4.4 billion grew modestly by 1.7% while consolidated resources expanded by 10% to Php145 billion. China Bank’s ROE improved further to 15.8% from 15.2% the previous year.

REAL ESTATE AND PROPERTY DEVELOPMENT

Revenues from the sale of real estate saw a 97.2% surge to Php1.5 billion this year. Revenues and profits were mainly derived from residential projects as construction went into full steam particularly for two of SMDC’s projects in Bicutan and Sta. Mesa, and two of Highlands Prime’s projects in Tagaytay Highlands. Meanwhile, development of SM Bay City continues with two additional anchor project in progress, while the masterplan of Hamilo’s Pico de Loro Cove has been completed and ready for execution.

SM Development Corporation (“SMDC”)

SM Development Corporation (“SMDC”) reported an 80.9% increase in net income to Php787 million for the period January to September 2006. More unit sales were booked with the 100% completion of Clusters one and two of Chateau Elysee and the completion rate of 19.6% of Cluster 3 as of end September. Revenues from the sale of condominium units jumped 230% to Php1.3 billion.

Realized gross profit saw a sharp increase of 145% to Php115 million while operating expenses grew at a lower rate of 106% to Php66 million. The monthly take up rate for both projects is 80 to 100 units. SMDC notes that building and selling their products under the SM brand franchise brings with it a lot of goodwill, particularly when selling to overseas Filipino workers.

SM Bay City

SM's most significant property project to date is the SM Bay City, home of the world's third largest mall, the SM Mall of Asia. The 60-hectare urban development project is envisioned to be an alternative business district and a domestic and foreign tourist destination. Following the successful opening of the SM Mall of Asia by SM Prime, SM Investments launched this year the development of two anchor projects both targeted for completion third quarter of 2007: OneEcomCenter is designed to be a hub for business process outsourcing (BPO) firms. The 105,857 square meter building will sit on a 1.17 hectare lot to the right of the Mall of Asia. The building will have a total of 71,934 square meters available for lease. Seven floors will be allotted for office space, and the ground floor for commercial use.

Second is the 46,600-square meter SMX Convention Center, which is located on the left side of the Mall of Asia. This is a three-storey building with a gross floor area of 46,074 sqm. Level 1 is the exhibition area convertible into four halls. Level 2 is mainly a commercial area with a bridgeway that leads to the SM Mall of Asia. Level 3 is a function area with six halls and nine meeting rooms.

Hamilo Coast Project

SM's most unique large-scale development is Hamilo Coast. This is an ecotourism project to develop in phases 5,700 hectares of land by the sea in Nasugbu, Batangas over a 20 to 30 year period. It aims to convert 13 coves into an innovative, integrated network of coastal resort communities, just two and a half hours away from Metro Manila. Hamilo's first cove is targeted to be launched in the first quarter of 2007.

Phase one of the project is Pico de Loro, which covers 40 hectares of resort village development. The masterplan of Pico de Loro, which is designed by Australia- and Dubai-based ML Design and Cadiz International, respectively, includes provisions for a beach club, clusters of residential condominiums, two hotels, restaurants, retail facilities, and sports facilities for swimming, scuba diving, and trekking.

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