

SOL MELIÁ FINANCE LTD  
Cayman Islands

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Financial Statements  
December 31, 2002  
together with Independent Auditors' Report



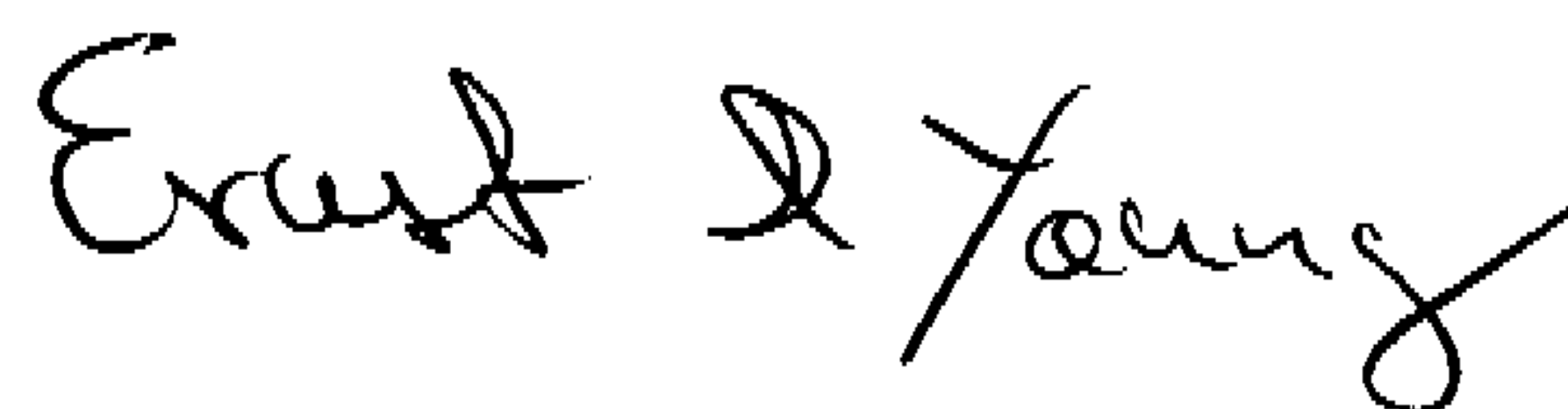
## Independent Auditors' Report

The Board of Directors  
Sol Meliá Finance, Ltd.

We have audited the accompanying financial statements of Sol Meliá Finance, Ltd., as of December 31, 2002, which comprise the balance sheet, the related statements of income and retained earnings, the statements of cash flows, the statements of changes in equity and the related notes thereto for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. On March 26, 2002 we issued an audit report for the financial statements as of December 31, 2001, in which we expressed a favourable opinion.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sol Meliá Finance, Ltd. at December 31, 2002, and the results of its operations, and its cash flows for the year then ended in accordance with International Accounting Standards.



November 21, 2003



SOL MELIÁ FINANCE LTD.

Statements of income and retained earnings,  
for the years ended December 31, 2002 and 2001 (notes 1 and 2)  
(Currency - Euros)

	<u>2002</u>	<u>2001</u>
Retained earnings, beginning of year	<u>(6,751)</u>	<u>-</u>
<b>INTEREST AND OTHER INCOME:</b>		
Other operating income	-	-
Interest income (Note 2 and 3)	<u>6,178,302</u>	<u>96</u>
	<u>6,178,302</u>	<u>96</u>
<b>INTEREST AND OTHER EXPENSES:</b>		
Other operating expenses	(34,307)	(2,776)
Interest expense (Note 2)	<u>(495,672)</u>	<u>(45)</u>
	<u>(529,979)</u>	<u>(2,821)</u>
<b>FOREIGN EXCHANGE (LOSS) INCOME:</b>		
Exchange gains	364	79
Exchange losses	<u>(1,537)</u>	<u>(4,105)</u>
	(1,173)	(4,026)
<b>NET INCOME</b>	5,647,150	(6,751)
INTERIM DIVIDENDS (Note 4)	<u>(5,654,285)</u>	<u>-</u>
<b>RETAINED EARNINGS, end of year</b>	<u>(13,886)</u>	<u>(6,751)</u>

The accompanying Notes 1 to 5 are an integral part of these statements of income.

SOL MELIÁ FINANCE LTD.

Statements of Cash Flows  
for the years ended as of December 31, 2002 and 2001 (Notes 1 and 2)  
(Currency - Euros)

	<u>2002</u>	<u>2001</u>
<b>Cash flows from operating activities</b>		
Net income for the year	5,647,150	(6,751)
Adjustments to reconcile net income to net cash provided by in operating activities		
Changes in operating assets and liabilities		
Increase in deferred charges	(6,858,648)	(24,988)
Increase in accounts payable	12,700	2,822
Increase in deferred income	6,857,996	-
Decrease/(Increase) in accounts receivables	<u>2,822</u>	<u>(2,822)</u>
Net cash provided by operating activities	5,662,020	(31,739)
<b>Cash flows from financing activities</b>		
Issue of common shares	-	59,715
Issue of Series A preference shares	106,886,300	-
Dividends paid	(5,654,285)	-
Long term receivables conceded	<u>(106,886,300)</u>	<u>-</u>
Net cash provided by financing activities	<u>(5,654,285)</u>	<u>59,715</u>
Net increase in cash and cash equivalents	7,735	27,976
Cash and cash equivalents, beginning of the year	<u>27,976</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>35,711</u></u>	<u><u>27,976</u></u>

The accompanying Notes 1 to 5 are an integral part of these statements of cash flows.

SOL MELIÁ FINANCE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001  
(NOTES 1 AND 2)  
(Euros)

	<u>2002</u>	<u>2001</u>
<b>Number of authorized and issued common shares-</b>		
Balance at the end of the year	50,000	50,000
<b>Number of issued Preference Shares-</b>		
Balance at the end of the year	1,068,863	1,068,863
<b>Par value per share-</b>		
Common Shares (US \$ 1)	1	1
Series A Preference Shares (Euro 100)	100	100
<b>Common stock-</b>		
Balance at beginning of the year	59,715	-
Constitution of Company	-	59,715
Balance at the end of the year	59,715	59,715
<b>Preference stock-</b>		
Balance at the beginning of the year	-	-
Issue of Series A preference shares	106,886,300	-
Balance at the end of the year	<u>106,886,300</u>	<u>-</u>
<b>Retained earnings-</b>		
Balance at beginning of year	(6,751)	-
Net income for the period	5,647,150	(6,751)
Dividends	<u>(5,654,285)</u>	<u>-</u>
Balance at end of year	<u>(13,886)</u>	<u>(6,751)</u>

The accompanying notes 1 to 5 are an integral part of these statements.



SOL MELIÁ FINANCE LTD.

Notes to financial statements

For the year ended December 31, 2002

NOTE 1 COMPANY DESCRIPTION

Sol Meliá Finance, Ltd. (the "Company"), was incorporated on June 29, 2001 under the laws of the Cayman Islands.

The Company is a wholly-owned subsidiary of Sol Meliá, S.A., (Parent) indirectly through other Companies, created to issue preference shares and place the funds as receivables in the Parent.

The Company substantially invests all of its assets in Long Term Receivables with its Parent through the Group Company, Sol Meliá Europe, B.V. Accordingly, there is a concentration of credit risk with the Parent.

The Company is registered in the Cayman Islands' Company Register.

These Financial Statements were authorized for issue by the Directors and they will be approved by the shareholders meeting in the near future..

NOTE 2 BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES

Basis of presentation  
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The accompanying financial statements have been prepared based on the Company's accounting records as of December 31, 2002 and 2001. The financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee. The financial statements are expressed in Euros, the currency in which the Company operates and records its accounts. The significant accounting policies are:

## Accounting policies

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### a) Disclosure about Fair Value of Financial Instruments

International Accounting Standard n° 32, "Financial Instruments: Disclosure and Presentation", requires the disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practicable to estimate the value. The carrying amount of cash approximates fair value due to demand maturity of the balance. (The fair value of Long Term Receivables and Preference Shares approximates to 107 million Euros as of December 31, 2002).

### b) Deferred charges

Deferred charges are mainly due to the cost of the issue of preference shares. Deferred charges are amortized over ten years from the issue date. Following this period, the preference shares may be redeemed. Amortization of approximately €488,000 is expensed in 2002. This amount is included under the "Interest expense" caption in the accompanying statements of income.

### c) Cash and Cash Equivalents

Cash and Cash Equivalents includes balances in bank accounts.

### d) Long Term Receivables-

Receivables are recorded at the principal amount.

Interest rate and credit risk have been perfectly hedged due to the guarantee granted by Sol Meliá, S.A. and the linkage of the interest rates on assets and dividend rate on Preference Shares. Maturity/redemption dates are also matched to hedge interest rate and credit risk.

The Company invests substantially all of its assets in Long Term Receivables with Sol Meliá Europe, B.V. Accordingly, there is a concentration of credit risk with this Company.

### e) Deferred Income

This mainly corresponds to the commission charges for opening a credit facility granted to Sol Meliá Europe, B.V. (note 3). This income is included in the liabilities caption (deferred income) and is amortised and released to the results (financial income) over a period of 10 years. Following this period, the preference shares can be redeemed. The results for the year amount to approximately 488,000 Euros.



f) Recognition of income and expenses

Income and expenses are calculated using the accrual method of accounting. The caption "Interest income" of the statement of income include the interests of the Long Term Receivables accrued during the years ended 2002.

g) Foreign currency transactions-

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

NOTE 3 LONG TERM RECEIVABLES

This corresponds to a credit granted, with a contract signed on April 26, 2002, by Sol Meliá Finance, Ltd. to Sol Meliá Europe, B.V.(a Company which is also a wholly-owned subsidiary of Sol Meliá, S.A.) for the same amount as that of issuing the preference shares i.e. 106,886,300. In turn, Sol Meliá Europe, B.V. lends this amount to Sol Meliá, S.A. This credit has an interest rate of 7.83% to be paid quarterly in the same installments as the payments of the preference share dividends and expires on June 30, 2012.

For the aforementioned credit, Sol Meliá Finance, Ltd. has charged an opening commission to Sol Meliá Europe, B.V. for an amount of 7,346,300 Euros. This amount is equal to the cost of issuing the preference shares.

This income is included in the liabilities caption as Deferred Income and is recorded in results for the duration of the credit (10 years). The income recognised in the period, for an amount of 488,304 Euros, is recorded under the "Interest Income" caption in the statements of income as of December 31, 2002.

## NOTE 4      SHAREHOLDER'S EQUITY

### Common stock -----

As of December 31, 2002 and 2001, the Company's capital stock consisted of 50,000 shares, of US\$ 1.00 par value each. All the shares are owned by Sol Meliá Investment, N.V., a subsidiary which is 100% owned by Sol Meliá, S.A.

Sol Meliá Finance Ltd.'s authorised share capital is made up of:

- a) 50,000 ordinary shares with a nominal value of US\$ 1.00 each.
- b) 5,000,000 preference shares with a nominal value of Euros 100 each (of which an amount of 1,068,863 shares have been issued and paid).

The conversion of the common stock to Euros is carried out at the exchange rate valid on the date of subscription.

### Euro Series A Preference Shares -----

The Series A Preference Shares Issue is divided into 1,068,863 shares, which have been fully paid, of a nominal or par value of Euro 100 each. These shares entitle holders to receive non-cumulative preferential cash dividends, at a rate of 7.80% over twelve months (8.03% TAE) during the first 10 years and following this 10 year period, a three month Euribor variable dividend plus a 5 points differential, with an annual minimum of 12.30%. This will be payable quarterly on March 31, June 30, September 30 and December 31 beginning in June, 2002.

The payment depends on the existence of sufficient Distributable Profit, known as the net consolidated profit of the Sol Meliá Group and the freely distributable consolidated reserves of the Sol Meliá Group, excluding the reserves for reinvestment in the Canary Islands, the revaluation reserves and the share premium.

Sol Meliá guarantees irrevocably and jointly:

- a) the payment of the unpaid accrued dividends, corresponding to the previous quarter.
- b) the cost of amortisation of the Series A preference shares that are amortised by the issuer and that will be 100 Euros per share plus the unpaid accrued dividends.
- c) the Liquidation Quota that corresponds to each share in case of liquidation, and that will be 100 Euros per share plus the unpaid accrued dividends.
- d) any additional amounts that the issuer or Sol Meliá must pay.

These preference shares were issued in April, 2002 for an unlimited period. Nonetheless, they can be totally or partially redeemed, if the issuer so wishes, at any time after the tenth year following the issue date. In this case the nominal value plus the amount of the unpaid accrued dividends at the amortisation date must be paid.

The aggregate amount of the Preference Shares dividends accrued during 2002 was €5,654,285, and is recorded under the "Interim dividends" caption of the statement of income and retained earnings as of December 31, 2002. There are no accrued dividends pending payment as of December 31, 2002. The interim dividends have been overpaid for an amount of euros 13.886 because of an error in the initial estimation. The dividend will be formalised in the near future for the final distribution.

Series A Preference Shares are listed on the A.I.A.F. Market in Madrid, Spain. As of December 31, 2002 their market value per share was 100%.

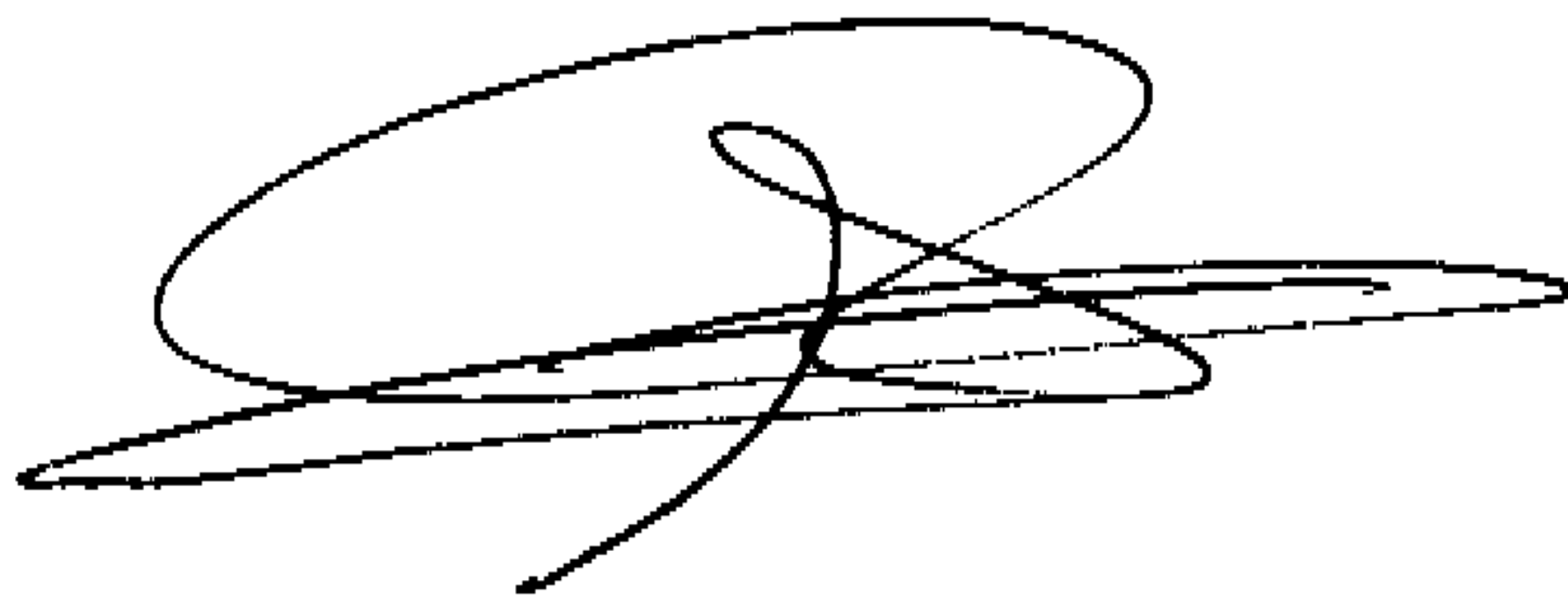
Series A Preference Shares do not allow voting rights (i.e.: attendance to Shareholders' meetings), except for:

- Unpayment of four consecutive dividends,
- Changes in bylaws of the Company that affect the Series A Preference Shares' rights,
- Agreements for dissolution of the Company.

#### NOTE 5      TAX MATTERS

At the present, no income, profit, capital or capital gain taxes are levied in the Cayman Islands and, accordingly, no provision for such taxes has been recorded in the accompanying financial statements.

In the Cayman Islands, on November 21, 2003 the Company's Directors present these financial statements which consist of 1 page of Balance Sheets, 1 page of Statements of Income and Retained Earnings, 1 page of Statements of Cash Flows, 1 page of Statements of Changes in Shareholder's Equity for the Years Ended December 31, 2002 and 2001 and 5 pages of Notes to Financial Statements. This final page has been signed by a member of the Board of Directors



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