Sol Meliá

COMISION NACIONAL DEL MERCADO DE VALORES
20 NOV. 2006
REGISTRO DE ENTRADA
Nº 2006 ... 116688

CNMV
Registro de Auditorías Emisores
Nº 9614

SOL MELIA
Gremio Toneleros,24
Polígono Son Castelló
07009 Palma de Mallorca

CNMV Registros
Pº de la Castellana 15 2ª Planta
28046 Madrid

Muy señores nuestros,

Adjunto les remito original de la memoria auditada de SOL Melia Finance, LTD.
Sin otro particular, se despide atentamente,

Maria Aranzazu Sánchez-Flor
Directora de Mercado de Capitales

Gremio Toneleros, 24. Polígono Son Castelló. 07009 Palma de Mallorca. Baleares. ESPAÑA
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SOL MELIÁ FINANCE, LTD.

Cayman Islands

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Financial Statements
December 31, 2005
together with
Independent Auditors' Report

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
Sol Meliá Finance, Ltd.

We have audited the accompanying balance sheet of Sol Meliá Finance Limited (the "Company") as of December 31, 2005, and the related statements of income, cash flows and changes in shareholder's equity 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audits 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. as of December 31, 2005, and the results of its operations, the changes in its shareholder's equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

June 12, 2006

SOL MELIÁ FINANCE LTD.

Balance sheets as of December 31, 2005 and 2004
(Currency - Euros)

ASSETS	2005	2004
CASH AND BANKS	102,980	80,684
CREDITS (Note 3)	101,532,364	100,980,773
Total	101,635,344	101,061,457

LIABILITIES AND SHAREHOLDER'S EQUITY	2005	2004
ACCOUNTS PAYABLE	14,115	13,959
PREFERENCE SHARES (Note 5)	101,526,352	100,970,454
EQUITY (Note 4)-		
Share capital, US $1 face value, 50,000 authorised subscribed shares in circulation	59,715	59,715
Reserves	17,329	8,926
Result for the year	17,833	8,403
	94,877	77,044
Total	101,635,344	101,061,457

The accompanying Notes 1 to 8 are an integral part of these financial statements.

SOL MELIÁ FINANCE LTD.

Statement of income,
for the years ended December 31, 2005 and 2004
(Currency - Euros)

	2005	2004
INTEREST AND OTHER INCOME:		
Financial income (Notes 2 and 3)	8,955,788	8,919,649
Other financial income	-	3,108
	8,955,788	8,922,757
INTEREST AND OTHER EXPENSES:		
Other operating expenses	(9,525)	(17,527)
Financial expenses (Notes 2 and 5)	(590,899)	(559,612)
Financial expenses (Dividends preference shares – Note 5)	(8,337,131)	(8,337,131)
	(8,937,555)	(8,914,270)
FOREIGN EXCHANGE GAINS (LOSSES)		
Exchange gains	-	-
Exchange losses	(400)	(84)
	(400)	(84)
PROFIT FOR THE YEAR	17,833	8,403

The accompanying Notes 1 to 8 are an integral part of these financial statements.

SOL MELIÁ FINANCE LTD.

Statements of Cash Flows
for the years ended as of December 31, 2005 and 2004
(Currency - Euros)

	2005	2004
Cash flows		
Cash flows from operating activities		
Net income for the year	17,833	8,403
Adjustment for:		
Financial income (Notes 2 and 3)	(8,955,788)	(8,922,757)
Financial expenses (Notes 2 and 5)	8,928,030	8,896,743
	(9,925)	(17,611)
Increase/(decrease) of short-term accounts payable	156	7,491
Net cash provided by operating activities	(9,769)	(10,120)
Cash flows from investment activities		
Interest collected	8,404,197	8,407,305
Cash flows from financing activities		
Interest paid	(8,372,132)	(8,373,631)
Net increase in cash and cash equivalents	22,296	23,554
Cash and cash equivalents, beginning of the year	80,684	57,130
Cash and cash equivalents, end of the year	102,980	80,684

The accompanying Notes 1 to 8 are an integral part of these financial statements.

SOL MELIÁ FINANCE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Currency - Euros)

	December 31, 2003	Application of 2003 result	2004 result	December 31, 2004	Application of 2004 result	2005 Result	December 31, 2005
Capital	59,715			59,715			59,715
Reserves	(13,886)	22,812		8,926	8,403		17,329
Result	22,812	(22,812)	8,403	8,403	(8,403)	17,833	17,833
Total	68,641		8,403	77,044		17,833	94,877

The accompanying notes 1 to 8 are an integral part of these financial statements.

Notes to financial statements

For the year ended December 31, 2005

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 has no employees.

The Company invests 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. The Company's registered address is Ugland House, South Church Street, Pox 309, George Town, Gran Cayman, Cayman Islands.

These Financial Statements were prepared 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

The accompanying financial statements have been prepared based on the Company's accounting records as of December 31, 2005 and 2004. The financial statements have been prepared in accordance with the International Financial Reporting Standards and their interpretations. The financial statements are expressed in Euros, the currency in which the Company operates and records its accounts.

Comparison of information

In accordance with International Financial Reporting Standards, for comparative purposes, for each of the captions presented in the balance sheet, the profit and loss account and the cash flow statement, in addition to the figures of 2005, those of 2004 have been included.

NOTE 2 BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES (CONTINUED)

Use of judgements and estimates in the preparation of the financial statements

The information included in the financial statements is the responsibility of the Company's Directors. For the preparation of certain information included in these annual accounts, the Directors have used judgments and estimates based on hypotheses which affect the application of the criteria and accounting principles and the amounts of the assets, liabilities, revenues, expenses and commitments included therewithin. The most significant estimates used in the preparation of these annual accounts refer to the determination of the fair value indicated in Note 7. The estimates and hypotheses used are based on historical experience and on other factors which have been considered as the most reasonable at the present moment and which are periodically reviewed. If, as a consequence of these reviews or future events, a change occurred in said estimates, its effect would be registered in the profit and loss account for the relevant period or for successive periods.

NOTE 2 BASIS OF PRESENTATION AND ACCOUNTING PRINCIPLES (CONTINUED)

The significant accounting policies are:

a) Cash and banks

This caption includes the balances in the bank accounts.

b) Receivables

Receivables are recorded for the amount of the principal, less the amount invoiced to the debtor on the formalisation date as opening commission, valued at amortised cost on the basis of the effective interest rate. The invoiced amount tallies with the cost borne by the company in the issue of the preference shares.

Credit risk and interest rate risk are perfectly covered by the guarantee granted by Sol Meliá, S.A. and due to the dates and interest rates agreed for this loan tallying with those set out for the preference shares. The maturity/reimbursement dates have also been adjusted.

c) Preference shares

The Directors record preference shares as a financial liability according to their issue conditions and therefore they are valued at their amortised cost in accordance with the operation's initial effective interest rate.

d) Recognition of income and expenses

Financial income and expenses of the credits and preference shares are charged to the profit and loss accounts according to their effective interest rate. The remaining income and expenses are charge to the profit and loss account using the accrual method of accounting.

NOTE 3 LONG TERM RECEIVABLES

Long term receivables corresponds to a credit granted, with a contract signed on April 26, 2002, between Sol Meliá Finance, Ltd. and Sol Meliá Europe, B.V. (also a subsidiary of Sol Meliá, S.A.) for the same amount as that the preference shares issue, i.e. 106,886,300 euros. 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 instalments as the payments of the preference share dividends and expires in the middle of 2012.

For the aforementioned credit, Sol Meliá Finance, Ltd. charged an opening commission to Sol Meliá Europe, B.V. for an amount of 7,346,300 Euros. This amount is considered to be directly attributable to the operation and therefore it is used to calculate the operation's effective rate.

NOTE 4 SHAREHOLDER'S EQUITY

Share capital

As of December 31, 2005 and 2004, the Company's share capital consisted of 50,000 ordinary 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 50,000 ordinary shares with a nominal value of US$ 1.00 each.

The conversion of the ordinary share capital to Euros has been carried out at the exchange rate valid on the date of subscription.

NOTE 5 PREFERENCE SHARES

This caption of the balance sheet consists of 1,068,863 Series A preference shares with par value of 100 euros each.

In April 2002, 1,500,000 preference shares with a par value of 100 euros each and extendable up to 3,000,000 were issued, 1,068,863 of which were completely subscribed and paid up.

NOTE 5 PREFERENCE SHARES (CONTINUED)

These shares entitle holders to receive non-cumulative preferential cash dividends, at an annual interest rate of 7.80% (8.03% APR) during the first 10 years, starting from the end of the first natural quarter corresponding to the issue date, and following this 10 year period, a three month Euribor variable dividend plus a 5% differential, with an annual minimum of 12.30%. This will be payable quarterly on March 31, June 30, September 30 and December 31 each year.

The payment depends on the existence of sufficient Distributable Profit, which is 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:

- the payment of the unpaid accrued dividends corresponding to the most recent accrual quarter.

- 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.

- the liquidation quota that corresponds to each Series A preference share in the case of liquidation, and that will be equal to 100 euros per share plus the unpaid accrued dividends.

- 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 2005 was 8,337,131 euros and is recorded under the "Financial expenses" caption of the profit and loss account. There are no accrued dividends pending payment as of December 31, 2005. These distributed dividends have been approved by the Board of Shareholders on January 30, 2006.

Series A Preference Shares are listed on the A.I.A.F. fixed securities market in Madrid, Spain. As of December 29, 2005, which was the date of said share's most recent quotation, their market value per share was 100%.

NOTE 5 PREFERENCE SHARES (CONTINUED)

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

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

NOTE 6 TAX MATTERS

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

NOTE 7 BREAKDOWN OF FAIR VALUE OF FINANCIAL INSTRUMENTS

International Accounting Standard nº 32 "Financial Instruments: Presentation and Breakdown", requires the breakdown of the information relating to the fair value of those financial instruments, recognised or not in the financial statements, of which it is considered viable to estimate the value. The fair value of the long-term receivables and the preferential shares, having deducted the formalisation and issue income and expenses of both, respectively, is similar to the value recorded in the balance sheet at December 31, 2004 and 2005. In any case, given that the amount, interest rate and maturity of the credit and the preference shares are practically the same, any variation in the fair values of both items would be compensated.

NOTE 8 OTHER BREAKDOWNS

The Company does not incur any significant interest, credit or exchange risks as a consequence of the correlation between assets and liabilities. The control of these risks is the responsibility of Sol Meliá, S.A., the Parent Company of the Group to which the Company belongs.

In the Cayman Islands, on March 31, 2006 the Company's Directors present these financial statements which consist of 1 page of Balance Sheet, 1 page of Profit and Loss Accounts, 1 page of Statements of Cash Flows, 1 page of Statements of Changes in Shareholder's Equity for the years ended December 31, 2005 and 2004 and 7 pages of Notes to Financial Statements. This final page has been signed by a member of the Board of Directors.

Sebastian Escarrer Jaume