2005 Year-End Results

Profit & Loss Account on IFRS basis

(Million Euros)	Dec 05	Dec 04 (*)	%
REVENUES	**1,165.3**	**1,052.2**	**11%**
EXPENSES (ex - Operating leases)	**(816.1)**	**(756.4)**	**8%**
EBITDAR	**349.2**	**295.8**	**18%**
Rental expenses	(61.1)	(56.8)	
EBITDA	**288.1**	**239.0**	**21%**
Depreciation and amortisation	(109.3)	(107.6)	
EBIT	**178.8**	**131.3**	**36%**
Total financial profit/(loss)	**(76.4)**	**(79.5)**	**-4%**
Profit/(loss) from equity investments	(1.4)	0.5	
Continuing EBT	**100.9**	**52.3**	**93%**
Discontinuing Operations	0.0	0.0	
Profit before taxes and minorities	100.9	52.3	
Net Profit	**92.0**	**45.9**	**101%**
Net Profit attributable	**90.1**	**43.9**	**105%**

(*) Audited Pro-forma

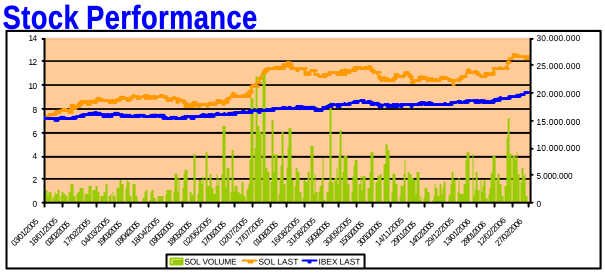
Operational Ratios

	Dec 05	Dec 04 (*)	%
RevPAR	48.1	44.8	7.4%
EBITDAR MARGIN	30.0%	28.1%	185 bp
EBITDA MARGIN	24.7%	22.7%	201 bp
EBT MARGIN	8.7%	5.0%	369 bp
NET PROFIT MARGIN	7.7%	4.2%	356 bp

Financial Ratios

	Dec 05	Dec 04 (*)	%
EBITDA / NET INTEREST	3.9x	3.0x	30.3%
EBIT / NET INTEREST	2.4x	1.7x	47.1%

Stock Performance



Average Daily Volume 2006 (€)	4.031.842
2006 High, February 13th	12,64
2006 Low, January 18th	10.54
Historical High, Jun 9th 2000	€ 14.28
Market cap Feb 27th 06 (€ 12.32)	2.276.449.893

Highlights

EBITDA and Net Profit increase by 21% and 105%

Evolution in 2005 is explained by: a) the progressive positive evolution of the Hotel Division where RevPAR has increased by 7.4%, especially in Spanish cities where Ebitda has improved every quarter throughout the year, and b) asset rotation that generated 60 million Euros of Ebitda versus last year's 14 million, together with c) Sol Melia Vacation Club where revenues have gone up by 118%.

Outlook 2006: General Optimism

Growth in 2006 is expected to be driven by:

a) the performance of the Sol Melia Vacation Club in the Caribbean and the launch of its operations in Europe,

b) the reduction of Financial Expenses

c) the results of the asset rotation strategy, and

d) the upward trend in the hotel cycle in all the Company's markets

Regarding the latter point, in the **European City Division** the ongoing recovery of average room rates in Spanish cities should benefit the Company's margins. The scenario derived from oversupply seen over the last couple of years seems to be over. The **European Resort** business is witnessing a strong pick-up in demand from Germany, Benelux and, to a lesser extent, the UK market for summer season 2006. This Division will progressively improve from a low Q1 due to the timing of the Easter holidays. In the Caribbean, the positive outlook for Puerto Rico, Cuba and, more importantly, the Dominican Republic, together with the opening of the Paradisus Palma Real (350) should fuel a positive performance in the **Americas Division** in H1. In Cancun, although two properties remain closed following Hurricane Wilma, the loss of profit is covered by insurance and therefore no major impact on the P&L should occur in 2006 other than that derived from the return of tourists to the area.

Net debt reduction of 113 million Euros (-10%)

Net debt has gone down by 113 million Euros (-116 million in 2004) while Total Net Capex amounts to 75 million Euros. Likewise, Net Interest Expenses have decreased by 9%. Further debt reduction is forecasted in 2006 derived from the generation of free cash flow and asset rotation enabling the Company to have a highly comfortable situation not only at the net debt to total asset value level, but also at the financial ratios level.

Sol Melia's 50th Anniversary

This year, the Company is proud to announce its 50th anniversary and expect to celebrate it with a positive performance for the year, something which will encourage Sol Melia to continue to exhibit its passion for service for many years to come.

investors.relations@solmelia.com
SOL MELIÁ
Gremio Toneleros, 24
07009 Palma de Mallorca
Tel.: +34 971 22 45 43

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1. Letter from the E. V. P. Communications

Dear friend,

Sol Meliá is pleased to release its 2005 results reporting a 11%, 21% and 105% increase at the Revenues, Ebitda and Net Profit attributable levels respectively. The evolution of the Asset Management Division throughout the year (which includes the Sol Melia Vacation Club (SMVC)), together with the progressive positive evolution of the Hotel Divisions are behind said increases. This latest effect explains the performance of the Company on a quarterly basis when excluding the Ebitda generated by asset rotation (Q1: -11%; Q2: -7%; Q3: +9%; Q4: +15%)

... Recovery of Hotel Business explains growth in the second half...

Regarding the hotel business, on page 6 of this report we have prepared a full explanation of the evolution of Sol Meliá's performance, in which we highlight the quarterly recovery of the Spanish city hotel segment (+ 3.5% up to December versus a 1.1% increase in Spain overall according to Deloitte&Touche), the strength of the European city segment outside Spain, led by London and Milan, and the positive summer season in 2005. In the Americas, a positive underlying performance in the Caribbean in spite of a sequence of hurricanes throughout the year, along with our newest incorporation in Puerto Rico and the recovery of GM Caracas, largely explains the increase.

In relation to the asset management business in 2005, asset rotation activity has generated 60 million Euros of Ebitda derived from the disposal of four hotels. Additionally, the Sol Meliá Vacation Club (SMVC) improved its performance thanks to the good underlying business in those programmes started in 2004 in Mexico and the Dominican Republic, as well as the launch of vacation club activities in Puerto Rico.

With regard to the outlook for 2006, major Travel and Tourism players and institutions are showing a general stream of optimism in all the major markets where Sol Meliá is present.

... recovery of the Spanish cities. Average prices improvement in 06...

Regarding the outlook of Sol Meliá's main divisions: the evolution of the **European City Division** will be driven by the continued recovery in Spanish cities already seen throughout 2005. The supply increase seen over the last couple of years is progressively being absorbed while the new capacity coming into the market in the main cities will arrive at a much slower pace from 2006 onwards. This confirms the scenario that Sol Meliá envisaged one year ago and included in our "2004 Year-End" report. Additionally, Spanish macroeconomic indicators support the recovery of the business. At the corporate level, we are witnessing an increase in business groups, congresses and conventions. This should give comfort to the Spanish operators for the positive ongoing evolution throughout the year that should enable us to see RevPAR increases driven by higher average room rates, therefore improving margins and profitability of the Division. As for the operation outside Spain, prospects remain positive with the Meliá White House (London) and the Meliá Milano leading the way.

... positive outlook for summer season ...

Prospects for the **European Resort Division** are positive. The Company is monitoring a positive trend in bookings from Germany, Benelux and, to a lesser extent, the UK, which make us feel more confident than ever about the summer season in Spain although monitoring a difficult Q1 in the Canary Islands. The performance of the Division will improve each quarter from a low Q1, negatively skewed as well by the timing of the Easter holidays.

Sol Meliá will continue to benefit from further increases in direct sales in short-haul destinations thanks to the transformation of the package industry. This trend is already reflected in the bookings through channels owned and operated by the company, including solmelia.com. The development of the "Flintstone Land" themed areas concept has proven to be successful as a differential feature versus our competitors and also an additional source of revenue. With eight additional resorts in 2005, the Company now offers twelve hotels where the concept has been developed. Additionally, the reopening of the Meliá Gorriones, (575) in Fuerteventura (Canary Islands) following a major refurbishment process should also make a difference.

Outlook for the **Americas** remain healthy due to the increase in willingness to go on holiday of North Americans in an environment of positive macroeconomic indicators. Additionally, the weakness of the US dollar along with the recovery / increase of certain southern American feeder markets will highly benefit Caribbean destinations where Sol Meliá has a strong presence and where we have seen an important increase of charter air flights in 2006, i.e.: Punta Cana (Dominican Republic), Los Cabos and Vallarta (Mexico) and Puerto Rico. Sol Melia's booking pace reports, confirm such trend for the first half of the year.

...Robust prospects in Latin America and the Caribbean...

As for the impact of Hurricane Wilma in Cancun, the openings schedule has evolved as advanced in last quarterly report with the Gran Meliá Cancun to be opened in March and the Meliá Turquesa during the third quarter after an extensive renovation.

... Asset rotation pays-off ...

With regards to the asset rotation, the reallocation of the proceeds derived from the disposal of non-strategic and underperforming hotels into faster-growing businesses and regions, creates immediate value while benefiting growth of the Company in the long-term. Taking into consideration the activity carried out in 2005, the Company lost 4 million Euros of cash flow-Ebitda derived from the 124 million Euros sales, while incorporating 18 million thanks to the acquisitions for 125 million Euros of Tenerife Sol S.A. (Canary Islands), the Paradisus Palma Real (Dominican Republic) and the development of the SMVC in Puerto Rico. The project in Punta Cana includes 350-room resort, 372 additional units for the Sol Meliá Vacation Club (SMVC) plus 200,000 square metres of land for potential future development.

In relation to the outlook for the asset management business, Sol Meliá aims to execute the committed 100 million Euros of **asset rotation** on the sell side as part of our recurrent activity. The Company is finalizing the development of a Paradisus project in the Canary Islands with third parties generating Ebitda in the asset management division in this first quarter through the sale of a plot of land to the joint venture. Further asset rotation will occur throughout the year. Additionally the Asset Management team is working on the maximization of alternative revenue streams in our existing hotels either through owned initiatives or teaming up with leading players while complementing the respective brands by developing car parks, spas, commercial leases, etc.

... condo-hotels development ...

As for the **condo-hotel business**, in January, and after a process of Sales and Marketing activities in the country, Sol Meliá has started to sell existing units at the Paradisus Puerto Rico as part of the total of 144 units, at a price between 320,000 and 350,000 US dollars. These condo-units will be sold within two years. Through the sale of condo-hotel units the company also recovers part of the capital invested and, along with the new owner, participates in the net profit generated by the condo-hotel unit.

... launching of SMVC in Europe following success in the Caribbean ...

As mentioned previously, following the launch of its operations in Mexico, Dominican Republic, Puerto Rico and Panama, the **Sol Melia Vacation Club** has now been launched in Europe. It has started in the Meliá Tamarindos (Gran Canaria, Canary Islands) and the Gran Meliá Salinas (Lanzarote, Canary Islands), while vacation club sales will begin in additional properties in Spain. Sales offices will be open in Madrid, Barcelona and the Canary Islands. In the Americas, the Meliá Cozumel and the Paradisus Palma Real will also start their vacation club programmes in Mexico and the Dominican Republic respectively. Again, the Vacation Club business brings to Sol Meliá not only the fastest growing business in our industry while at the same time creating synergies with the hotel business, but it also enhances the return on Assets of the whole Sol Meliá group via the use of existing rooms and the profitability of this business in itself.

...refinancing of the 340 million Euros bond ...

At the financial level, on February 9th 2006 the Company refinanced the 340 million Euros maturity of the 5-year bond (6.25% fixed - coupon) issued within the framework of the EMTN programme. As reported in "2004 Year-End Results" this refinancing was partly assured one year ago with a syndicate loan for 175 million Euros. This 5-year maturity loan holds an interest rate indexed to Euribor with a spread that varies between 0.6% and 1.0% depending on a financial ratios matrix. The remaining amount was largely paid with funds from operations. With this, Sol Melia demonstrates its capacity to accomplish its maturity schedule and refinancing at favourable conditions which enable us to reduce our average interest cost from 6.1% to 5.5%, representing 11 million Euros of savings on an annual basis at the financial result level. From a maturity schedule standpoint, the refinancing improves the mid-length of the debt from 6 to 8 years. No other major maturity will occur up until the end of 2008 with the 5 years maturity 150 million Euros exchangeable bond.

In 2006, the Company expects an additional debt reduction for the third consecutive year which will allow us to finalize our debt reduction within the framework of our 3-year Strategic Plan. This, will enable us to have a highly comfortable financial situation in terms of leverage, interest cover and Ebitda to Net Debt, not to mention in relation to the asset base.

From the beginning of the year until the release of this report, Sol Melia's shares have risen in value by 15%. It is the aim of this management team to reduce the 30% discount between the NNAV (18 Euros per share and the share price via the proactive management of the 4 billion worth of owned hotels. This asset management which includes a) asset rotation, b) Sol Melia Vacation Club and c) condo-hotels together with the good performance of our Hotel Business in all divisions will enable to achieve this goal.

... Brand Equity benefits both businesses ...

The development of Brand Equity and its attributes will benefit both the Hotel and Asset Management businesses. The capacity of the Company to identify current and future customer expectations and position our brands to meet those needs is a key factor for us to add value at any hotel, vacation club, or condo-hotel development. Thus the importance for us to be constantly innovating, differentiating and providing better quality service and value than ever. For this purpose the Company has separated the Sales and Marketing Division, leaving the latter the goal of increasing the value of our brands in the medium and long term.

We are proud to be celebrating our 50th anniversary this year more focused on our vocation as hoteliers than ever and looking at the next 50 years with enthusiasm and with confidence in the travel and tourism industry.

Best Regards,

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

Information on Operations

2.1 Hotel Performance

RevPAR for owned and leased hotels has increased by 7.4%. This positive evolution in 2005 is largely explained by the progressive quarterly improvement in the Spanish city hotels and the positive RevPAR growth in the European Resort Division during the summer season. Both European divisions report a combined RevPAR increase of 4.4% (+2.5% in occupancy). The performance of the Americas Division, where RevPAR has increased by 26%, is also behind positive consolidated RevPAR growth.

In the **European Resort Division,** RevPAR has increased by 2.9% up to December (Meliá: +2.5%; Sol: +3.0%) thanks to the positive performance of the Spanish resorts. By region, RevPAR in the Balearic Islands and Southern Spain increased by 5.0% and 3.7% respectively during 2005. The resilience of the domestic feeder market together with the positive evolution of the UK market and the recovery of the German market to Mallorca largely explains the growth. The growth in direct sales, the majority of them through solmelia.com (+48.7% up to December), is also a factor behind the RevPAR increase.

RevPAR in the **European City Division** has increased by 4.8% up to December thanks to the good performance of the hotels in major European cities like London and Milan, with 8.9% and 6.7% RevPAR increases respectively. The recovery of occupancies (+4.5%) has enabled Spanish city hotels to increase RevPAR by 3.5% at the accumulated level (Meliá: +3.5%; Tryp: +3.4%), which compares with a 1.1% increase in Spain overall according to the latest Deloitte&Touche (D&T) Survey figures. As advanced in previous reports, Madrid (+2.5% according to D&T) and Palma are driving this growth, with +6.3% and +10.0% RevPAR increases respectively.

In Q4 the RevPAR increased by 5.6% thanks to the evolution of Spanish cities where RevPAR grew by +5.7% (Q1: -4.8%; Q2: +5.9%; Q3:+6.2%). By city, Valencia (+25.7%), Malaga (+23.0%) and Madrid (+10.0%) largely explain the growth thanks also in part to the recovery of congresses, conventions and business groups.

Regarding the **Americas Division**, 26% RevPAR growth is largely explained by the performance in Mexico, where resorts increased by 18.8%, along with the contribution of the Paradisus Puerto Rico. The recovery of the Gran Meliá Caracas (664) and the Gran Meliá Mofarrej (228) in Sao Paulo (Brazil), where RevPAR increased by 76.8% and 42.4% respectively, also contributed to the improvement.

Table 1: Hotel statistics 05/04 (RevPAR & A.R.R. in Euros)

OWNED & LEASED HOTELS Dec 05/04			*Occupancy*	*RevPAR*	*A.R.R.*
EUROPEAN RESORT		**2005**	71.3%	39.5	55.3
	% o/ 2004		**0.3%**	**2.9%**	**2.6%**
		2004	71.1%	38.3	53.9
EUROPEAN CITY		**2005**	66.5%	54.9	82.5
	% o/ 2004		**4.8%**	**4.8%**	**-0.1%**
		2004	63.5%	52.4	82.6
AMERICAS		**2005**	67.3%	48.40	71.9
	% o/ 2004		**4.9%**	**26.7%**	**20.7%**
		2004	64.2%	38.2	59.5
TOTAL		**2005**	68.4%	48.14	70.4
	% o/ 2004		**3.0%**	**7.4%**	**4.3%**
		2004	66.4%	44.8	67.5

Table 2 shows the breakdown of the components of growth in room revenues at the hotel level for owned and leased hotels taking into account the company as a whole.

Table 2: Breakdown of total room revenues owned/leased hotels 05/04

% Increase Dec 05 / Dec 04	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	2.9%	4.8%	26.7%	7.4%
Available Rooms	-5.2%	-3.0%	-5.6%	-4.2%
Room Revenues	-2.3%	1.5%	19.6%	2.9%

In the **European Resort Division,** the decrease in available rooms is explained by the disposal of the Meliá Torremolinos (290), the disaffiliation of the Sol Brisamar (110) in Fuerteventura (Canary Islands), and the closure of the Sol Gorriones (575) for refurbishment. The closure of this latest property also largely explains the drop in Food and Beverage revenues since the hotel had a high component of this item, as well as the Meliá de Mar, the Sol Balmoral, the Sol Falcó and Sol Trinidad in Mallorca which opened less days in 2005.

In the **European City Division,** the extensive refurbishment which the Reina Victoria hotel in Madrid is undergoing due to its transformation into a Hard Rock Hotel together with the refurbishment process carried out in the Meliá Barcelona has affected total revenues in the division, including Food and Beverage. The decrease in available rooms is explained by the disposal of the Tryp Caballo Blanco (in 2004), the Meliá Las Palmas in the Canary Island and the disaffiliation of two Meliá Boutique Hotels in Switzerland.

In the **Americas** the good performance of the division continues despite the effects of the hurricane. The decrease in available rooms in the Americas Division is explained by less days opened in the hotels affected by Hurricane Wilma.

Table 3: Hotel revenues split 05/04 for owned/leased hotels

Dec 05/04	E.RESORT			E.CITY			AMERICAS			TOTAL		
(Million Euro)	05	%o/04	04	05	%o/04	04	05	%o/04	04	05	%o/04	04
ROOMS	167	-2%	171	296	2%	291	90	20%	75	553	3%	538
F&B	93	-6%	99	106	-1%	107	93	6%	88	292	-1%	294
OTHER REVENUES	12	3%	11	31	12%	28	23	19%	19	66	13%	59
TOTAL REVENUES	272	-3%	282	433	2%	426	206	13%	183	911	2%	890

2.2 Asset Management Performance

The evolution of the Asset Management Division, which includes the asset rotation activity as well as the Sol Melia Vacation Club, has accomplished this year's goal of selling 100 million Euros on an annual basis in the medium term within its asset rotation business.

2.2.1 Asset Rotation

Sol Meliá has executed the sale of 124 million Euros worth of assets while generating 60.0 million of profit for the year-end at a combined EBITDA multiple of 24.6x, which compares with the 7.3 x Ebitda multiple, on the acquisition side.

Table 4: Asset Rotation

SELL SIDE

ASSET	LOCATION	ROOMS	PRICE	EV/EBITDA (x)	Ebitda Asset Rot.
Tryp Macarena	Sevilla (Spain)	329	42,000,000	19.0	24,152,508
Melia Las Palmas	Canary Islands (Spain)	310	34,000,000	23.4	16,844,735
50% Melia Zaragoza [1]	Zaragoza (Spain)	247	21,250,000	25.7	8,701,868
Melia Torremolinos	Costa del Sol (Spain)	283	23,000,000	61.6	16,781,884
Tryp Alcano	Granada (Spain)	97	3,700,000	16.7	2,146,542
TOTAL		**1,266**	**123,950,000**	**24.6**	**68,627,537**

[1] Although the transaction generates a latent profit of 17.4 million Euros, it will not be reflected in our P&L account as the joint venture will be fully consolidated and the total Ebitda for Asset Rotation is 60.0 million of Euros.

BUY SIDE

ASSET	LOCATION	ROOMS	PRICE	EV/EBITDA (x)
50% Tenerife Sol Society	Tenerife (Spain)	1,215	28,700,000	7.0
Paradisus Palma Real	Punta Cana (Dom. Rep)	350	88,000,000	9.8
SMVC Puerto Rico Phase	Puerto Rico	27	8,000,000	2
TOTAL		**1,565**	**124,700,000**	**7.3**

Within the strategic framework of asset management, and as announced in previous releases, the Company has sold:

In the first quarter of 2005, the **Tryp Macarena** (329) hotel whose sale represented 42 million Euros and 24 million Euros of profit at 19.0x Ebitda multiple. The Company will maintain a 25 years lease contract plus an option of 10 additional years. Lease expenses include a 5.25% fixed rate payment on the price of sale plus a variable lease expense of 50% of the remaining EBITDA following the first payment.

In the third quarter the **Meliá Las Palmas,** (310 rooms) in the Canary Islands, has been sold for 34 million Euros, achieving a 23.4x Ebitda multiple and generating 16.8 million Euros of profit. Sol Meliá has agreed a 10 year management contract plus an option for 5 additional years.

Also in the third quarter, the 50% stake of the **Meliá Zaragoza** (247) in Zaragoza has been sold to Spanish building company Grupo Horcona for a full hotel value of 42.5 million Euros at 26x Ebitda multiple. The Company will maintain a 50% stake in the hotel and a 40 years management contract. The JV is analysing ways to improve profitability per square metre by developing 60 residential units. Although the transaction generates a latent profit of 17.4 million Euros, it will not be reflected in our P&L account as the joint venture will be fully consolidated. Further projects are being studied with the same partner in existing plots of land controlled by Sol Meliá.

In the fourth quarter, the **Meliá Torremolinos** (283) hotel has been sold for 23 million Euros at a 61.6x Ebitda multiple, generating 16.7 million Euros of capital gains. The sale was primarily motivated because the hotel was not reaching the minimum quality standards of the Meliá brand.

As well as the Meliá Torremolinos, the **Tryp Alcano** (97) in Granada has been sold in the fourth quarter for 3.7 million Euros at a 16.7X Ebitda multiple, generating 2.1 million Euros of capital gains.

On the acquisition side, the Company achieved a 100% stake in the company **Tenerife Sol S.A**. following the acquisition of the 50% stake in the hands of third parties (My Travel). This company is the owner of three of Sol Melia's hotels in the Canary Islands with 1,215 rooms: **Sol Tenerife** (522), **Sol Jandiamar** (363) and **Sol Lanzarote** (330). Total transaction represents 28.7 million Euros at a 7.0x Ebitda multiple. Additionally, the deal is positive from a fiscal standpoint as it enables using part of the fiscal reserves in the Canary Islands.

In addition to this, Sol Meliá acquired 70% of the company **ALCAJAN XXI S.L.** (owner of the **Paradisus Palma Real**) from G.I. CARTERA, S.A. – a subsidiary of Caja de Ahorros del Mediterráneo (CAM) – for 10.2 million Euros. After finalising the purchase, Sol Meliá owns 100% of the share capital of the mentioned company. The entire project involved an investment of 88 million Euros, 50 million of which is financed with bank debt. The estimated EBITDA multiple is 9.8 times for 2006 and 6.7 times for 2007, considering both the hotel business and the Sol Meliá Vacation Club business.

2.2.2 Sol Melia Vacation Club (SMVC)

Total Sol Melia Vacation Club (SMVC) revenues have gone up to 57.4 million of Euros +118% up to December, including not only the Vacation Club sales but also, amongst others, the revenues derived from the Interest Income, the Maintenance and Management fees as well as the Network fees. The increase is explained thanks to the good performance of the operations launched last year in Mexico, Dominican Republic, Puerto Rico and Central America, as well as the launch of timeshare activities in the Paradisus Puerto Rico and the Meliá Turquesa. In late 2005, the **Sol Melia Vacation Club** launched operations in the Meliá Tamarindos (Gran Canaria) and the Gran Meliá Salinas (Lanzarote), both in the Canary Islands.

Table 5: Sol Melia Vacation Club (SMVC)

	NUMBER OF WEEKS SOLD			NUMBER OF EQUIVALENT CLUB UNITS			AVERAGE PRICE			VACATION CLUB SALES (IN ´000 €)		
	2005	**%o/04**	**2004**	**2005**	**%o/04**	**2004**	**2005**	**%o/04**	**2004**	**2005**	**%o/04**	**2004**
Europe	11		0	0		0	18,651		0	205		0
Americas	1,997	19%	1,684	38	19%	32	13,522	54%	8,807	27,004	82%	14,827
Total	2,008	19%	1,684	38	19%	32	13,550	54%	8,807	27,004	84%	14,827

2.2.3 Condo – hotels

Within the Asset Management Business 2005 does not include any revenues derived from the sale of condo-hotel units. In January 2006, Sol Meliá has started to sell existing units in the Paradisus Puerto Rico as part of the total 144 units, and at a price between 320,000 and 350,000 US dollars. These condo-units will be sold within two years.

3. Income Statement

- **Revenues**

Total Revenues increased by 10.7% explained largely by the asset management business. Rotation of assets represented 60 million Euros versus the 8.9 million generated in 2004 derived from the disposal of the Sol Aloha Playa and the Tryp Caballo. Total Sol Melia Vacation Club revenues 57 million Euros, an increase of 118%. Management fees from third party hotels represent 47 million Euros, an 8.5% increase. This growth is primarily explained by the improved performance of company hotels and resorts in the Caribbean, especially Costa Rica, Cuba, along with the hotels in the US and Brazil.

- **Operating Expenses**

"Raw Materials" increased by 4.5%, explained by the latest hotel incorporation in Puerto Rico, cost inflation in the Dominican Republic due to the appreciation of the Peso, and the cost of goods sold at Sol Melia Vacation Club. Regarding the evolution of "Personnel" and "Other operating expenses", increases are also largely explained by these effects in the Americas.

The appreciation of the Dominican peso and its negative effect on margins has faded away in Q4 since the appreciation of the currency started throughout the second half 2004. Average currency rate at which Dominican figures consolidated in Sol Meliá's account appreciated by 58% and 48% as of June and September respectively. As advanced, up to December, average rate is 32% up versus last year's (significantly below the year average) therefore partly explaining the Ebitda evolution in the Americas in the second half by 10% versus the 2% increase in H1.

The write-off of the Fixed Assets of the hotels impacted by the Hurricame Wilma generates a "Loss on Fixed Assets" by 25 million Euros included in the "Other Operating Expenses". This expense is mismatched at the "Other Revenues" level for the same amount reflecting the payment of the insurance company as of December (both at the "Other Businesses and Overhead Expenses level" in the segmentation of the P&L account).. These two records would have been included under the "Extraordinary items" under the former Spanish GAAPs, not applicable under the new IFRS accounting standards.

Excluding this latest effect, "Other Operating Expenses" would have increased by 2.5% in spite of one-off marketing research, branding development and personnel training for launches in Europe are largely behind the cost growth at the Sol Meliá Vacation Club. At the Overhead expenses level, increases are explained by the creation of the Asset Management Division, as well as an increase derived from the new Marketing division (excluding this latest effects, this item would have increased by 0.1%). This evolution reflects the control measures which involved: strengthening of centralised purchasing power, adapting F&B outlets to occupancy levels, increasing menu rotation, adapting third party services according to occupancy needs (cleaning, laundering, entertainment, etc.) as well as implementing energy saving measures.

"Rental Expenses" increased by 7.5%, explained by the lease contract at the Tryp Macarena following its disposal. Additionally the hotels added throughout 2004 and 2005: Tryp San Lazaro (132 rooms in Santiago de Compostela, Spain), Tryp Indalo (186 rooms in Almeria, Spain), Tryp Almussafes (133 rooms in Valencia, Spain) and Tryp Oviedo (115 rooms in Oviedo, Spain) are also behind such effect.

- **Ordinary Profit / Net Profit**

"Net interest Expense" decreased by 9% as a reflection of the net debt reduction by 113 million Euros. Loss on Equity investments is explained by the start-up cost of the launching of the Paradisus Palma Real throughout 2005.

Table 6 : Sol Meliá Consolidated Income Statement on IFRS basis

Million Euros	**Dec-05**	**Dec-04 (Pro-forma Audited)**	
Hotel Revenues	910.8	890.1	
Real Estate Revenues	136.5	61.5	
Other revenues	118.0	100.6	
Total revenues	**1,165.3**	**1,052.2**	**10.7%**
Raw Materials	(139.3)	(133.2)	
Personnel expenses	(354.9)	(334.7)	
Other operating expenses	(321.9)	(288.5)	
Total operating expenses	**(816.1)**	**(756.4)**	**7.9%**
EBITDAR	**349.2**	**295.8**	**18.1%**
Rental expenses	(61.1)	(56.8)	
EBITDA	**288.1**	**239.0**	**20.5%**
Depreciation and amortisation	(109.3)	(107.6)	
EBIT	**178.8**	**131.3**	**36.1%**
Net Interest Expense	(62.5)	(68.5)	
Exchange Rate Differences	(3.3)	(0.2)	
Other Interest Expense	(10.7)	(10.8)	
Total financial profit/(loss)	**(76.4)**	**(79.5)**	**-3.8%**
Profit/(loss) from equity investments	(1.4)	0.5	
Continuing Earnings Before Taxes	**100.9**	**52.3**	**93.1%**
Discontinuing Operations	**0.0**	**0.0**	
Profit before taxes and minorities	**100.9**	**52.3**	**93.1%**
Taxes	(8.9)	(6.4)	
Group net profit/(loss)	**92.0**	**45.9**	**100.7%**
Minorities (P)/L	(1.9)	(2.0)	
Profit/(loss) of the parent company	**90.1**	**43.9**	**105.4%**

Table 7 : Business Segmentation of Sol Melia's Consolidated Income Statement

	HOTEL BUSINESS											
	EUROPEAN RESORTS			EUROPEAN CITIES			AMERICAS			OWNED AND LEASED		
Data in Million Euro	2005	2004	%	2005	2004	%	2005	2004	%	2005	2004	%
REVENUES	272,2	281,9	-3%	432,5	425,7	2%	206,1	182,5	13%	910,8	890,1	2%
EXPENSES	188,7	195,9	-4%	275,4	283,8	-3%	152,5	131,3	16%	616,5	611,0	1%
EBITDAR	83,5	85,9	-3%	157,1	141,9	11%	53,7	51,2	5%	294,3	279,1	5%
Rental Expenses	9,1	8,6	6%	49,8	46,0	8%	2,1	2,2	-4%	61,0	56,7	8%
EBITDA	74,4	77,4	-4%	107,3	95,9	12%	51,6	49,1	5%	233,2	222,4	5%
Depreciation and Amortization	24,3	24,4	-1%	26,5	29,5	-10%	25,1	21,8	15%	75,8	75,7	0%
EBIT	50,1	52,9	-5%	80,8	66,5	22%	26,5	27,3	-3%	157,4	146,7	7%

	ASSET MANAGEMENT BUSINESS											
	ASSET MGMT. BUSINESS			OTHER BUSINESSES AND OVERHEAD EXPENSES			AGGREGATED			CONSOLIDATED		
Data in Million Euro	2005	2004	%	2005	2004	%	2005	2004	%	2005	2004	%
REVENUES	136,5	61,5	122%	232,6	196,0	19%	1.279,9	1.147,6	12%	1.165,3	1.052,2	11%
EXPENSES	41,5	23,0	80%	272,8	217,9	25%	930,9	851,9	9%	816,1	756,4	8%
EBITDAR	95,0	38,5	147%	-40,2	-21,9	-83%	349,1	295,7	18%	349,2	295,8	18%
Rental Expenses	0,0	0,0		0,0	0,0		61,0	56,7	8%	61,1	56,8	8%
EBITDA	95,0	38,5	147%	-40,2	-21,9	-83%	288,1	239,0	21%	288,1	239,0	21%
Depreciation and Amortization	1,1	0,1	996%	32,4	31,8	2%	109,3	107,6	2%	109,3	107,6	2%
EBIT	93,9	38,4	145%	-72,6	-53,7	-35%	178,8	131,3	36%	178,8	131,3	36%

4. Balance Sheet

Assets

"Trade Receivable" item decreases by 51.9 million Euros due to the seasonality of the business.

The increases of 54.3% in "Cash on Hand and Banks" is principally explained for the recent disposal of assets.

Liabilities & Shareholder's Equity

The 340 million Euros EMTN issue due in February 2006 were reclassified from "Long Term to Short Term Bonds Payable" and successfully amortized at maturity in February 2006.

"Total Net Debt" under IAS has been reduced from 1,111.9 million Euros as of December 31st, 2004 to 998.7 million Euros as of 31th December, 2005, a decrease of 113.2 million Euros.

Table 8: Consolidated Balance Sheet (million Euros)

ASSETS	Jun 2005	Dec 2005	%
Cash on hand and banks	84.9	130.9	
C/A with equity affiliates	29.9	13.6	
Inventory	39.1	44.9	
Trade receivable	117.4	65.5	
Other receivable	57.1	110.3	
S/T securities portfolio	0.3	5.6	
Loans due from affiliates	0.1	1.2	
Short term deposits	16.3	29.3	
Prepaid expenses	9.6	2.5	
TOTAL CURRENT ASSETS	**354.6**	**403.7**	**13.8%**
Intangible assets and rights	136.6	124.5	
Net intangible fixed assets	**136.6**	**124.5**	**-8.8%**
Land and buildings	1.582.9	1.515.1	
Technical installations and machinery	226.5	221.6	
Other fixed assets	172.3	326.9	
Net tangible fixed assets	**1,981.8**	**2,063.7**	**4.1%**
Equity Affiliates	38.9	23.5	
L/T loans due from affiliates	11.8	16.1	
L/T securities portfolio	37.2	40.8	
Other loans	248.5	176.3	
Financial investments	**336.3**	**256.7**	**-23.7%**
FIXED ASSETS	**2,454.8**	**2,445.0**	**-0.4%**
TOTAL ASSETS	**2,809.4**	**2,848.7**	**1.4%**

Table 8 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Jun 05	Dec 2005	% Var
Debenture Bonds Payable	352.4	359.8	
S/T loans	110.3	97.9	
S/T loans due to affiliated companies	1.6	3.2	
Trade accounts payable	141.6	159.0	
Other payable	103.1	81.3	
Prepaid income	2.4	2.4	
TOTAL CURRENT LIABILITIES	**711.3**	**703.7**	**-1.1%**
Debenture Bonds Payable	148.7	148.8	
L/T loans	547.0	558.1	
L/T loans due to affiliated companies	0.3	0.3	
Other L/T Liabilities	379.3	398.9	
TOTAL L/T LIABILITIES	**1.075.3**	**1.106.1**	**2.9%**
Share capital	37.0	37.0	
Share premium	785.9	770.3	
Distributable reserves	8.9	9.6	
Reserves in companies fully consolidated	521.4	277.4	
Reserves in companies equity participated	4.2	2.7	
Revaluation reserves	49.3	101.0	
Non-distributable reserves	54.9	70.5	
Profit/(loss) previous year	(364.5)	(410.3)	
Differences in conversion of co. fully consolidated	(228.4)	(9.8)	
Differences in conversion of co. equity participated	(5.3)	(3.7)	
Consolidated profit/(loss)	29.2	92.0	
Profit/(loss) attributable to external shareholders	(2.1)	(1.9)	
Interim dividend	0.0	0.0	
Minority Interests	62.7	45.7	
Treasury Stock	(24.6)	(35.7)	
TOTAL SHAREHOLDERS' EQUITY	**928.5**	**944.7**	**1.7%**
Deferred income	57.5	66.0	
Provisions for risks and expenses	36.8	28.2	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,809.4**	**2,848.7**	**1.4%**

4. Expansion

The table below shows a description of the progress made in the Sol Meliá hotel portfolio up to December 2005.

Table 9. Expansion plan.

Owned & Leased	01/01/2005		ADDITIONS		LOSSES		CHANGES		31/12/2005		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**95**	**15,430**	**1**	**115**	**4**	**321**	**-1**	**-312**	**91**	**14,912**	**4**	**879**	**95**	**15,791**
Owned Hotels	35	7,244	0	0	1	97	-2	-641	32	6,506	0	0	32	6,506
Leased hotels	60	8,186	1	115	3	224	1	329	59	8,406	4	879	63	9,285
EUROPEAN RESORT	**56**	**15,810**	**0**	**0**	**1**	**283**	**0**	**0**	**55**	**15,527**	**0**	**0**	**55**	**15,527**
Owned Hotels	41	12,957	0	0	1	283	0	0	40	12,674	0	0	40	12,674
Leased hotels	15	2,853	0	0	0	0	0	0	15	2,853	0	0	15	2,853
AMERICA	**15**	**5,626**	**1**	**350**	**0**	**0**	**0**	**0**	**16**	**5,976**	**0**	**0**	**16**	**5,976**
Owned Hotels	14	5,398	1	350	0	0	0	0	15	5,748	0	0	15	5,748
Leased hotels	1	228	0	0	0	0	0	0	1	228	0	0	1	228
OWNED HOTELS	90	25,599	1	350	2	380	-2	-641	87	24,928	0	0	87	24,928
LEASED HOTELS	76	11,267	1	115	3	224	1	329	75	11,487	4	879	79	12,366
TOTAL	**166**	**36,866**	**2**	**465**	**5**	**604**	**-1**	**-312**	**162**	**36,415**	**4**	**879**	**166**	**37,294**

Management & Franchise		01/01/2005		ADDITIONS		LOSSES		CHANGES		31/12/2005		SIGNED		TOTAL GROUP	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	**M**	20	3,673	1	45	1	146	1	312	21	3,884	0	0	21	3,884
	F	18	2,222	2	187	1	99	0	0	19	2,310	0	0	19	2,310
EUR. RESORT	**M**	38	12,619	3	386	2	367	0	0	39	12,638	3	655	42	13,293
	F	13	4,625	3	911	0	0	0	0	16	5,536	0	0	16	5,536
AMERICA	**M**	35	8,628	3	704	3	608	0	0	35	8,724	1	200	36	8,924
	F	8	1,207	0	0	2	426	0	0	6	781	2	600	8	1,381
ASIA-PACIFIC	**M**	7	2,518	0	0	0	0	0	0	7	2,518	0	0	7	2,518
	F	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CUBA	**M**	23	8,476	0	0	0	0	0	0	23	8,476	2	1284	25	9,760
SUBTOTAL	**M**	123	35,914	7	1,135	6	1,121	1	312	125	36,240	6	2,139	131	38,379
	F	39	8,054	5	1,098	3	525	0	0	41	8,627	2	600	43	9,227
TOTAL		**162**	**43,968**	**12**	**2,233**	**9**	**1,646**	**1**	**312**	**166**	**44,867**	**8**	**2,739**	**174**	**47,606**
TOTAL GROUP		**328**	**80.834**	**14**	**2.698**	**14**	**2.250**	**0**	**0**	**328**	**81.282**	**12**	**3.618**	**340**	**84.900**

M= Management; F= Franchise

Portfolio evolution in 2005

Incorporations

The hotel **Paradisus Palma Real** opened its doors in the Dominican Republic in December 2005 and increased the owned hotel portfolio in the Americas Division with 350-room and 372 additional units for the Sol Meliá Vacation Club (SMVC), as well as 200,000 square metres of land for potential future development. The resort provides outstanding facilities including a 2,625 m^2 Spa, access to the best golf course in the region, El Cocotal (27 holes), six splendid restaurants and, for business travellers, a divisible meeting area spread over 3,800 m^2 , an additional six meeting rooms, and a multi-function hall of almost 4,000 m^2, all of them fitted with the very latest modern technology.

Sol Meliá added one new hotel under lease contract to its portfolio during the year, the **Tryp Oviedo** (115 rooms).

Further additions under management contract in the European continent were the **Meliá Ría** (131 rooms) in Aveiro and the **Meliá Palacio da Lousa** (45 rooms), both in Portugal, the **Sol Verginia** (120 rooms) in Egypt and the **Meliá Alto Aragón** near the Formigal ski station (135 rooms) in Spain. Also under management contract but in the Americas Division were added the **Meliá Boutique Recoleta** (57 rooms) in Buenos Aires (Argentina), the **Meliá Royal Palm Hotel** (417 rooms) in South Beach, Miami and the **Meliá Marquise** (230 rooms) in Fortaleza, Brazil.

Under franchise contract, Sol Meliá has incorporated the following new hotels: the **Meliá Villa Gadea** (206 rooms) and the **Sol Ifach** (193 rooms) both in Alicante, the **Tryp Florazar** (136 rooms) in Valencia the **Meliá Mouradí Gammarth** (512 rooms) in Tunisia and the **Meliá Boutique Palacio de Tudemir** (51 rooms) in Alicante (Spain).

Disposals

Regarding the disaffiliations, during the fourth quarter of the year the owned **Tryp Alcano** (97) and the **Meliá Torremolinos** (290 rooms) have been sold.

Under lease contract, the losses are explained by the **Tryp Los Llanos** (102 rooms) in Spain, the **Meliá Boutique Carlton** (47 rooms) and **Meliá Boutique Rex** (75 rooms) both in Switzerland.

In Europe and under management contract, the **Sol Almerimar** (216 rooms) and the **Meliá Golf Almerimar** (149 rooms) both in Almería (Spain) and the **Melia Balneario Mondariz** (146 rooms), in Spain were disaffiliated. In America the **Tryp Pamplona** (64 rooms), the **Meliá Jardins** (164 rooms) and the **Meliá Office Park** (380 rooms) in Sao Paulo, Brazil, were dropped from the portfolio.,

The franchised hotel in Europe that has been disaffiliated is the **Tryp Santiago** (99 rooms) in Santiago de Compostela (Spain). In America the **Sol Bahía Atlántico** (191 rooms) and the **Sol Victoria Marina** (235 rooms), both in Salvador de Bahia (Brazil), were disaffiliated.

Changes

The changes during the year were the **Tryp Macarena** (329 rooms) that was sold during the first half of the year and then signed a lease contract. The **Meliá Las Palmas** (312 rooms) in the Canary Islands that was sold in September and signed a management contract following the transaction.

12 hotels have been signed for the future, four of them under lease contracts with 879 new rooms to be opened between 2006 and 2008. In 2006 the **Meliá Berlin** (364 rooms) in Germany, and in 2007 the **Gran Meliá Roma**, a new 5 star deluxe hotel with 140 rooms, will be opened. In 2008, the **Meliá Düsseldorf** (250 rooms) and the **Tryp Kaiserslautern** (125 rooms) both in Germany will reinforce the German hotel portfolio .