2006 Year-End Results

Sol Melia's Profit & Loss Account

(Million Euros)	2006	2005	%
REVENUES	1.257.0	1.165.3	7.9%
EXPENSES (ex - Operating leases)	(867.5)	(816.1)	6.3%
EBITDAR	389.5	349.2	11.5%
Rental expenses	(63.4)	(61.1)	3.8%
EBITDA	326.0	288.1	13.2%
Depreciation and amortization	(112.3)	(109.3)	2.7%
EBIT	213.8	178.8	19.6%
Total financial profit/(loss)	(61.5)	(76.4)	-19.6%
Profit/(loss) from equity investments	2.1	(1.4)	151.5%
Continuing EBT	154.4	100.9	52.9%
Discontinuing Operations	0.0	0.0	0.0%
Profit before taxes and minorities	154.4	100.9	52.9%
Net Profit	138.0	92.0	49.9%
Net Profit attributable	136.2	90.1	51.2%
EPS	0,74	0,49	

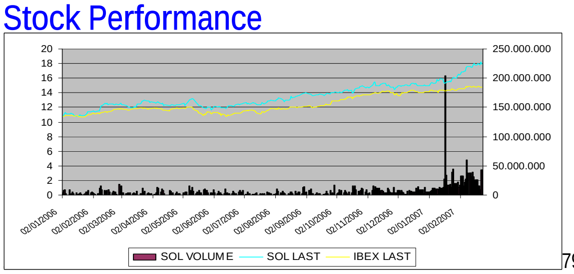
Operational Ratios

	2006	2005	%
RevPAR	51.8	48.1	7.5%
EBITDAR MARGIN	31.0%	30.0%	102 bp
EBITDA MARGIN	25.9%	24.7%	122 bp
EBITDA MARGIN (ex-asset rotation)	*24.4%*	*20.6%*	*375 bp*
EBT MARGIN	12.3%	8.7%	362 bp
NET PROFIT MARGIN	10.8%	7.7%	311 bp

Financial Ratios

	2006	2005	%
EBITDA / NET INTEREST	5.2x	3.9x	31.1%
EBIT / NET INTEREST	3.4x	2.4x	38.5%

Stock Performance



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52- Week High, February 22nd 07	€ 18.37
52 – Week Low, May 24th 06	€ 11.53
Market cap Feb 26th 07 (€ 17.75) in Mn	€ 3.280 / $ 4.316
Bloomberg: SOL SM ; Reuters: SOL.MC	

(1) from January 16th following the 6.5% placing

Highlights

Revenues, EBITDA and Net Profit rose by 8%, 13% and 51% respectively

The performance of these items rises by 11 %, 32 % and 221 % when excluding asset rotation profits in both periods. Operational evolution was largely due to a) positive evolution of the Company's 3 hotel divisions – which have benefited from the recovery in Spanish cities in 2006 and a positive performance of Company resorts, particularly in Spain and the Dominican Republic – and b) the performance of the Vacation Club, where revenues have increased by 51%. The improvement of the financial situation in reflected in the financial result reduction by 20%.

Outlook 2007

The expectations for Company's Hotel Division (growth in the cities, positive expectations for resorts in Spain and the Caribbean, especially the Dominican Republic) and the forecasted growth for the Sol Meliá Vacation Club (SMVC) are the main drivers for a positive year. The only challenges perceived by the company refer to two properties in Cancun and Puerto Rico and the Canary Islands. The expectations for the different businesses make the Company feel comfortable about achieving analysts' 2007 consensus figures of 360 mn Euros (+ 10%) and 0.87 Euros (+18%) respectively at the Ebitda and EPS level.

Taking advantage of the upward trend, Sol is focusing on a) preparing the plot of land in Brazil for its delivery, b) Brand Equity, either through refurbishments & the implementation of brand attributes or disposal of inconsistent properties, c) Strategic Plan and its proper communication d) new asset base valuation.

In **Brazil**, the Company is looking for a local property developer partner aiming to team up for the combined development of 2 resorts-vacation club (some 1,000 rooms) plus residential - starting in 2H08 -. This destination is very important from a strategic standpoint, as was Punta Cana in the Dominican Republic 20 year ago. The Company does not rule out any further acquisitions of land in the Caribbean.

At the **Brand Equity level**, work has started in some hotels following the renewal of the Melia brand announced in Q3. The process of selling some hotels that do not comply with Company brand standards is also under way.

During the summer Sol Meliá will announce its new **3-year Strategic Plan**, including further explanation of the 3 key elements of Sol Melia's value creation model: a) Brand Equity, b) Customer Contact and c) Real Estate Transformation Model. Company projections as well as capital requirements will be disclosed. At the same time, there will be an **update of the real estate valuation**, previously made by CB Richard Ellis in December 2004.

Higher level of daily liquidity

With reference to stock liquidity, Ailemlos S.L. (the holding company of the former Tryp Hoteles owners) has recently sold its 6.5% stake in Sol Meliá (12 mn shares) to a wide range of institutional investors. This has generated an increase in Sol Melia's free float of 25%, while daily liquidity has tripled from 8 mn Euros (3 months before the placing) to 27.5 mn from the sale to the present.

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 Vice Chairman and CEO

Dear friend,

Sol Meliá is pleased to release its 50th Anniversary Year-End results verifying the expectations the Company had in the main Hotel and Asset Management Divisions while keeping intact the positive outlook we advanced in the last quarterly results.

The positive quarterly evolution has also had a reflection in the fourth quarter, where Ebitda has increased by 13.9% while the Ebitda margin has gone from 18.4% to 20.8% (+233bps).

Regarding the 2006 year-end figures, the Hotel business has shown a strong performance throughout the year as reflected in the 7.5% increase in the Revenue Per Available Room (RevPAR) figure. This is a reflection of the positive underlying performance in the three Hotel Divisions that define Sol Melia's P&L account.

... positive outlook for 2007' summer time...

By region, the European Resorts' evolution is explained by the positive momentum of Spain as a leading tourism destination, reflected in the + 4.5% increase in number of visitors, totalling 58.4 million in 2006 according to the World Tourism Organization. Company RevPAR has also increased by 4.5%, explained by the positive performance of our resorts during the summer season. Going forward, the Company foresees that a sharp increase in sales through our website together with the recovery of the German market and the positive outcome from negotiations with major Pan-European touroperators will lead to an even better summer season compared to 2006. Nevertheless. The Canary Islands are suffering a process of change by which it is more perceived as a summer destination. The reason being is the competitive disadvantage as to other destinations, i.e. the Caribbean and especially the Dominican Republic. The hot weather in 2007, is also affecting the ski resorts.

In 2006 net sales through solmelia.com rose to 103 mn Euros, a 48% increase over the previous year and now representing 13% of sales. Our website has become not only an important distribution channel, but also a fundamental tool to improve our customer direct contact and our knowledge about our customers. At the end of 2006, 1.7 million people were subscribed to the fortnightly solmelia.com special offers newsletter, a figure which is growing by 1,500 each day.

... growth in the Spanish cities maintained in 07...

In European Cities, the Company confirms the growth phase in Spanish cities with no sign of a downturn in the medium term. In 2006, RevPAR grew by 9.1% in our domestic market primarily explained by ARR increases of 6.5%. The increase in the demand for Business Travel and Incentives, Congresses & Conventions in the context of a positive macroeconomic environment, along with the progressive absorption of oversupply we saw in the first part of the decade are behind such figures. For 2007, growth should be maintained in Spain on the back of negotiations with our major key accounts, the evolution of business travel groups and the smaller percentage growth in new supply coming on stream in an environment of positive expectations for Spanish GDP. At the moment, the recovery is most evident in Madrid, Palma de Mallorca and, to a lesser extent, in Barcelona. The momentum of the city business is equally positive in other European cities.

... good expectations in LatAm. Challenges: Cancun, GM Puerto Rico…

As to the Americas, the 8.3% RevPAR increase is largely explained by the good performance of both the Leisure and Incentives segments in the Dominican Republic and the contribution of the Paradisus Palma Real, our newest property in the country. This has offset the lower-than-expected evolution in the Cancun area, affected by hurricane Wilma. Looking forward to 2007, operations in Punta Cana (Dominican Republic) have started very strongly. In Cancun, out of the two hotels in the area, the Gran Melia Cancun (688) is currently evolving satisfactorily on the back of positive demand from business groups while the new ME Cancun (433) is progressively achieving positioning in its luxury niche market. Nevertheless, Cancun as a tourist destination is still not fully recovered following hurricane Wilma. In Puerto Rico, the slow start to the year for the destination is being offset with sales efforts to improve the Incentives group market as well as the number of Europeans visiting the recently renamed Gran Melia Puerto Rico. The hotels is suffering a process of repositioning derived from the change in brand

Regarding the **Asset Rotation Activity**, Sol Meliá has formalized the sale of 96 million Euros worth of assets at a combined 18.5 x Ebitda multiple. This figure includes the sale of 50% of the Meliá Colon (218 rooms in Seville, Spain) for a full hotel value of 40 million Euros at 21.4x Ebitda multiple. Sol will maintain a 50% stake in the hotel and a 35-year management contract.

... development of Brazil to come to fruition throughout second half 2008...

On the buy side, the investments primarily involve the acquisition of 5 million square metres in Salvador de Bahia (Brazil). We would like to highlight the strategic importance of this acquisition going forward since the Company will develop the area in a similar way to Punta Cana, which is today 300 Hectares area of hotel / vacation club / golf / shopping mall / plot of land development and one of the main contributors to Sol Melia's accounts. Brazil, and specifically this part of the country thanks to the support of the local authorities and the good understanding between Bahia State and the Central government, is one of the resort areas with higher growth potential in the coming years and Sol Melia aims to reinforce its presence with this acquisition.

We are currently looking for a local property developer partner aiming to work together on the combined development of two resorts hotels+ mixed ownership products (1,000 rooms approximately) as well as the sale of building plots for residential which will start to come to fruition throughout the second half 2008. The Company is contemplating the development of its business model in further acquisitions of land of this nature in the Caribbean throughout 2007.

... SMVC to grow by 40%-50% at the Ebitda level ...

Sol Melia Vacation Club (SMVC) has sharply increased the number of weeks sold to 3,421, a 70% increase in 10 developments in Cancun, Puerto Vallarta, Punta Cana, Puerto Rico, Central America and the Canary Islands. Revenues represented 86.7 million Euros (+ 51%). Going forward, the Company intends to expand its SMVC activity in four additional developments in the Caribbean and the Canary Islands on the back of the strength of Leisure Real Estate market trends. This should enable us to increase the Ebitda of the Vacation Club by 40% to 50%

... positive underlying performance plus organic growth ...

Going forward, apart from the positive underlying performance of the Company's businesses, in the medium term we will add the Vacation Club in 5 resorts in the Riviera Maya, Dominican Republic, Puerto Rico and the Canary islands that represent an additional 3,531 rooms. This involves 3 new mixed-use projects plus the enlargement of existing Vacation Club developments. Please find further detailed information regarding these future incorporations on page 19 of this report.

... more than 300 mn Euros Net Debt reduction...

At the financial level, the Company has finalized its 2004-2006 Debt Reduction Plan with a 332.6 net debt reduction. This has enabled us to have a comfortable financial situation in terms of leverage and interest cover ratios and in relation to the asset base. At the moment, the debt spreads (credit default swaps) at which the Company quotes in the bond markets reflect the confidence of bond investors in Sol Melia's financial situation, ahead of its current credit rating.

Going forward financial improvements will be explained more by an increase in the funds from operations rather than debt reduction since the free cash flow and the proceeds derived from asset disposal will primarily be devoted to finance the maintenance capex, the above mentioned organic growth and the renewal of the Meliá brand.

... higher liquidity of the stock following the 6.5% placing ...

In January 16th, Ailemlos S.L. (the holding company of the former Tryp Hoteles owners) sold its 6.5% stake in Sol Melia, representing 12 million shares through an Accelerated Bookbuilding Offering. The placing was smoothly allocated at 15.20 Euros in a widespread range of Pan-European qualified institutional investors, verifying the high interest in the Company and the strength of the share albeit recent revaluation in its price. This has increased Sol Melia's free float by 25% while liquidity has gone from 8 million Euros (3-months before the placing) up to 27.5 million from January 16th up until now, reflecting the higher predisposition of institutional investors in buying SOL since daily liquidity restrictions are no longer an issue.

... Strategic Plan and asset valuation to be presented during the summer...

At the strategic level, during the summer the Company will present its 2007-09 Strategic Plan. The presentation of our Business Model and its corresponding projections are based on the three pillars of value creation: a) Brand Equity, b) Customer Knowledge and the development of c) Asset Management (Vacation Club, Condo hotel, Fractional, building land development, and Asset Rotation). Additionally a new valuation of the asset base will be released (the previous one dates back to December 2004).

To end this letter, the Company is proud to have recently been ranked at number 48 amongst 200 leading worldwide companies based on a company reputation survey prepared by the Reputation Institute of New York and published by Forbes magazine. According to the survey, Sol Melia is the leading hotel company for corporate reputation, the second-ranked in the Travel & Tourism industry and the fourth-ranked Spanish company on the list.

Best regards,

Sebastián Escarrer

Vice Chairman and CEO

2. Information on Operations

2.1. Hotel Performance

RevPAR for owned and leased hotels has increased by 7.5% during 2006. This positive variation is largely explained by the excellent evolution of the three main divisions throughout the year, the performance of the hotels during the summer season, the upward trend in Spanish cites and the strength of the Caribbean.

In the European Resort Division RevPAR has increased by 4.5% during the year (ARR +3.8%, occupancy +0.6%), explained by the good results in the Spanish resorts (RevPAR +4.3%). By brand, Meliá has been the best performer in the Costa del Sol and the Balearics, while Sol has been the leading brand in the rest of the division. By region, the Costa del Sol (ARR +8.2%, occupancy +5.1%) and the Balearics have been the best performers over the year, confirming Sol Meliá's expectations, with 13.7% and 6.9% RevPAR increases respectively, which offset the sluggish performance in the Canary Islands.

The evolution of the Spanish and British feeder markets largely explains the RevPAR evolution. The increasing importance of direct sales, especially through solmelia.com, within the changing package holiday industry is largely behind the 3.9% average room rate (ARR) increase.

Regarding the European City Division, RevPAR grew by 9.5% over the year (ARR +6.5%, Occupancy: +2.8%) due to the positive performance of Spanish hotels together with the evolution of the main European cities (London, Paris, Milan). Regarding the Spanish market, the ongoing recovery of Spanish cities is benefiting from positive macroeconomic indicators in the whole market, the overall improvement in terms of congresses incentives and conventions, especially in Madrid and Barcelona, and the progressive absorption of the additional room supply of the early 2000's. In the Spanish cities RevPAR increased by 9.1% (ARR +6.5%, occupancy +2.5%). By brand, Meliá grew by +10.8%, while Tryp reported an increase of +8.9%. By region, Madrid, Barcelona and Seville increased by 9.6%, 7.8% and 8.5% respectively, exceeding the market averages for the year (8.3%, 5.1%, 7.7%) according to the Hotelbenchmark survey by Deloitte.

When it comes to operations outside Spain, the best performers of the year are: London, Germany, Milan and Paris with +14.5%, 15.5%, 13.1% and 6.0% RevPAR increases respectively. By brand, Meliá grew by 11.1% followed by Tryp with a 9.2% RevPAR increase. The evolution of Germany is explained by the positive impact of the World Cup, while London, Paris and Milan, have benefited from the positive evolution of the whole market together with the efforts made by the Company in biasing segmentation towards corporate business during the week while improving the leisure segment at the weekend.

Regarding the Americas Division, RevPAR increased by 8.3% (ARR +8.1%, occupancy +0.2%). Those increases are largely explained by the performance in the Dominican Republic (+10.8%) and to a lesser extent in Puerto Rico (+4,3%), derived from the buoyant economic situation in the US which led to an increase in North American visitors.

Hotels in Punta Cana, Dominican Republic and Gran Meliá Cancún have been benefited by the ongoing evolution of business groups and incentive travel. The good results at the Paradisus Palma Real (350), the recovery of the Gran Meliá Caracas (428) and the Gran Meliá Mofarrej (228) are also behind the growth in the Division.

Table 1: Hotel statistics 06 / 05 (RevPAR & A.R.R. in Euros)

OWNED & LEASED HOTELS Dec 06 / 05			*Occupancy*	*RevPAR*	*A.R.R.*
EUROPEAN RESORT		2006	71.7%	41.2	57.5
	% o/ 2005		0.6%	4.5%	3.8%
		2005	71.3%	39.5	55.3
EUROPEAN CITY		2006	68.4%	60.1	87.9
	% o/ 2005		2.8%	9.5%	6.5%
		2005	66.5%	54.9	82.5
AMERICAS		2006	67.5%	52.4	77.7
	% o/ 2005		0.2%	8.3%	8.1%
		2005	67.3%	48.4	71.9
TOTAL		2006	69.5%	51.8	74.5
	% o/ 2005		1.6%	7.5%	5.8%
		2005	68.4%	48.1	70.4

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 06 / 05

% Increase Dec 06 / Dec 05	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	4.5%	9.5%	8.3%	7.5%
Available Rooms	0.9%	-2.7%	-0.6%	-1.1%
Room Revenues	5.2%	6.6%	7.6%	6.4%

In the European Resort Division, the increase in available rooms is explained by the reopening of the Melia Gorriones (575), after an extensive process of refurbishment that offset the sale of the Meliá Torremolinos (289) in October 2005 and the Vista Sol Hotel (176) during the first quarter of 2006. In the European City Division, the "outright sale" or "sale and management back" transactions carried out in 2005 (namely Tryp Alcano and Meliá Las Palmas) and 2006 (Meliá Rey Don Jaime) explain the decrease in available rooms. It is also due to the disaffiliation of the Tryp Cottbus (94) in the month of February 2006. RevPAR growth of +9.5% offset this impact.

The decrease in available rooms in the Americas is explained by the closure of the resorts in the Cancun area due to Hurricane Wilma. At this moment in time all of the hotels affected by the hurricane are now open. On 15th December, the former Melia Turquesa, finished its refurbishment following hurricane Wilma and was reopened to the public. It has now become the company's third "ME by Melia" hotel following the opening of ME Madrid Reina Victoria (192) and ME Cabos (108) in Baja California (Mexico).

Table 3: Hotel revenues split 06 / 05 for owned/leased hotels

Dec 05 / 06	E.RESORT			E.CITY			AMERICAS			TOTAL		
(Million Euro)	06	%o/05	05	06	%o/05	05	06	%o/05	05	06	%o/05	05
ROOMS	176.2	5.2%	167.4	315.2	6.6%	295.6	96.8	7.6%	90.0	588.2	6.4%	553.0
F&B	99.5	7.1%	92.9	107.1	1.2%	105.8	110.8	19.0%	93.0	317.3	8.8%	291.8
OTHER REVENUES	12.8	7.9%	11.8	29.8	-4.2%	31.1	35.8	55.5%	23.1	78.4	18.8%	66.0
TOTAL REVENUES	288.5	6.0%	272.2	452.1	4.5%	432.5	243.4	18.1%	206.1	984.0	8.0%	910.8

The evolution of the F&B item in the European Resort Division is related to the upselling of a higher number of meal options to Company in-house customers and the increase in business in the restaurants from walk-in clientele. The implementation of F&B attributes in the SOL brand and the development of the "all-inclusive" product in some hotels are largely behind this effect. This growth is also explained by the increase of Business Groups in the Meliá Hotels. The increase of "Other Revenues" figure in the European Resorts is mainly explained by the good evolution of the resorts during the year, and also due to the new projects carried out in the hotels, i.e. the Flintstones Land entertainment packages, meeting room sales, in-room merchandising, minishop, Spa & Fitness, etc.

The 4.2% reduction of "Other Revenues" in the European City Division is mainly related to the former Reina Victoria hotel (ME Madrid) and has been offset in good part by a similar figure for reduction in operating costs. This reduction is also explained by the "outright sale" of the Tryp Alcano (97) and "sale and management back" carried out in 2005 Meliá Las Palmas (234). Regarding the F&B item, the 1.2% increase becomes +3% when stripping out the whole perimeter effect. Going forward, the Company expects to improve not only the revenue evolution but also the profitability of the same.

The 19.0% increase in Food and Beverage in the Americas is due to the opening of the "Paradisus Palma Real" in Punta Cana (Dominican Republic, 350 rooms), an all inclusive hotel which attaches great importance to the quality of the Food and Beverage services, offering facilities which include 7 restaurants and 8 bars. The sharp increase in the "Other Revenues" item in the Americas reflects the insurance payment due to the loss of profit coverage.

2.2 Asset Management Performance

Sol Melia's Asset Management Business includes Asset Rotation Activity and SMVC Business.

Sol Melia's Asset Rotation strategy is a recurrent and ongoing activity of the company and expects sales of 100 million euros on an annual basis within its asset management strategy in both single asset disposals and condo unit sales. It involves sales and acquisitions of properties under conditions that create value for the company as a whole.

2.2.1 Asset Rotation

Sol Meliá has completed the sale of 96 million Euros worth of assets while generating 36.1 million of profit for the year-end. The consolidated P&L account, reflects only 26 million Euros since the 50% JV at which the Melia Colon is sold, will be fully consolidated.

Table 4: Asset Rotation

SELL SIDE

ASSET	ROOMS		PRICE		EV/EBITDA (x)		Profit Asset Rot.	
	06	05	06	05	06	05	06	05
Sol Vista Sol (Mallorca, Spain) ; 1Q06	176		12.5		17.9		6.9	
"La Jaquita" plot of land (Tenerife, Spain); 1Q06			24.5		-		4.5	
Meliá Rey Don Jaime (Valencia, Spain); 3Q06	319		38.5		17.5		14.2	
50% Meliá Colón (Seville, Spain) ; 4Q06 (*)	218		20.0		21.4		10.5	
Tryp Macarena (Seville, Spain); 1Q05		329		42		19.4		24.2
Meliá Las Palmas (Canary Islands, Spain); 3Q05		310		34		23.4		16.8
50% Melia Zaragoza (Zaragoza, Spain); 4Q05 (*)		247		21.3		25.7		8.7
Meliá Torremolinos (Costa del Sol, Spain); 4Q05		283		23		61.6		16.8
Tryp Alcano (Granada, Spain) 4Q05		97		3.7		16.7		2.1
TOTAL	713	1,266	95.5	124.0	18.5	24.6	36.1 (*)	68.6 (*)

(*) Please note that in 3Q05 the 50% of the M. Zaragoza was sold by 21.25 mn Euros at a 25.7x Ebitda multiple. Although the transaction generated a latent profit of 8.7 million Euros, it was not reflected in the P&L account as the joint venture was fully consolidated. This is also valid for the 50% Melia Colón Transaction. This implies the profit reflected in the company accounts represent 26 mn and 60 mn for 06 and 05 respectively

In the first quarter, the Company formalized the disposal of the Vista Sol resort (176) in Mallorca for 12.5 million Euros at an EBITDA multiple of 17.9x while generating 6.9 million Euros of profit. Sol Meliá agreed a 10-year management contract with a 4% basic, a 10% incentive fee plus a 1.5% marketing fee.

Sol Meliá also completed the disposal of a 78,000 square metre plot of land ("La Jaquita") plus the works carried out so far for a total price of 45 million Euros to a 50/50 joint venture with the Spanish construction company Grupo Nyesa and Caja de Ahorros del Mediterraneo (CAM).

The Melia Rey Don Jaime Hotel (319) in Valencia has also been sold in Q3 for 38.5 million euros at a 17.5x EBITDA, generating 14.2 million Euros of profit.

In Q4 the Company agreed the sale of the 50% stake of Melia Colon in Seville (218) for a full hotel value of 40 million Euros at 21.4x Ebitda Multiple. The transaction generates a latent profit of 21 million Euros, but it will not be reflected in Sol Melia's results since the JV will be fully consolidated. The property will undergo a total renovation over a 9 month period starting in July 07 to raise it to "Gran Melia" standards that represent 21 million Euros for the joint venture. Sol Melia will maintain a 50% stake in the hotel and a 35-year management contract with a 4% basic, a 10% incentive fee plus a 1.5% marketing fee.

Table 5: Asset Rotation

BUY SIDE

ASSET	LOCATION	ROOMS	PRICE	EV/EBITDA (x)
33% Tryp Bellver	Palma de Mallorca (Spain)	384	3.2	4.1
Plot of Land	Salvador de Bahia (Brazil)	-	30.5	-
TOTAL		384	33.7	4.1

On the buy side, the Company acquired in Q2 a 33% stake in the Tryp Bellver (384) in Palma de Mallorca at 3.2 million Euros, at an Ebitda multiple of 4.1 times. Sol Melia already owned 67% of the property.

In Q4, the Company reached an agreement for the acquisition of 475 hectares of land in Salvador de Bahia (Brazil). This project foresees the future development of hotel and resorts together with mixed ownership products (vacation club, condo-hotels, residential, golf courses, spas, etc). The opening of this newest destination in the north east of the country is very important from a strategic standpoint.

Further details will be disclosed with the Strategic Plan when the master plan for Brazil will be finalized. Nevertheless, as an indication, of the 5 million square metres, approximately 1 million square metres of land will be devoted to pure residential representing 2,500 to 3,000 building plots to be sold over 6 years. In a first phase the price per square metre is likely to be in the neighbourhood of 100 US dollars, an amount at which Sol Meliá started to sell in Punta Cana 7 years ago, ending-up selling at 280 dollars. Additionally, there will be some 200,000 square metres of prime beachfront residential which may represent about 300 building plots at a price per square metre which is substantially higher. Investment in the land acquisition has represented 42 million dollars.

Please bear in mind that, as in Punta Cana, as far as the residential business is concerned, our role is limited to the sale of the building plots.

2.2.2 Sol Meliá Vacation Club (SMVC)

Total sales have gone up to 86.7 Mn Euros (+51.1%) including the Vacation Club sales plus Maintenance and Management fees, as well as Network commissions. The number of weeks sold increased by 70.4%, and the average price grow by 17.2% in spite of the fact that some hotels in the Cancun area have remained closed throughout 2006 due to refurbishment works after hurricane Wilma. Nevertheless, the operations launched in the Dominican Republic and Puerto Rico together with the launching of the SMVC in Spain have more than offset this setback. The securitisation of 56 million Euros of trade-receivable of SMVC clients generates 8.5 million Euros of interest expense, deducted from the "Interest Income" (included within Operating Revenues) generated out of the financing of this customer portfolio. Excluding this cost of financing the underlying Vacation Club Ebitda increases by 60% while in the accounts it increases by 16%. Going forward, the Company expects a 40% to 50% Ebitda increase in the SMVC business on the back of the newest projects in five additional developments in the Gran Melia Puerto Rico, Paradisus Punta Cana, ME Cancún, Melia Gorriones and Southern Tenerife.

Table 6: Sol Melia Vacation Club (SMVC)

Data in Euro	NUMBER OF WEEKS SOLD			NUMBER OF EQUIVALENT CLUB UNITS			AVERAGE PRICE			VACATION CLUB SALES (IN ´000 €)		
	2006	%o/05	2005	2006	%o/05	2005	2006	%o/05	2005	2006	%o/05	2005
Europe	409.0	3618.2%	11	8.0	3618.2%	0.2	19.335.3	3.7%	18,651	7,908.1	3.757.6%	205
America	3,012.0	55.8%	1,997	57.9	55.8%	38.2	15,417.7	14.0%	13,522	46,438.2	72.0%	27,004
Total	3,421.0	70.4%	2,008	65.9	71.6%	38.4	15,886.1	17.2%	13,550	54,346.3	99.7%	27,004

3. Income Statement

- Revenues

Total Revenues increased by 7.9% explained by the sharp increase in the hotel division (8.0%) due to good evolution of the owned and leased hotel network. Up to December, Sol Meliá has generated 26 million Euros against the 60 million generated last year within the asset rotation business. Management fees from third party hotels represent 47.4 million Euros, a 2% increase. The positive performance in the Spanish market, Croatia and the Americas has been offset by the performance below expectations in Cuba and the disaffiliation of franchise agreements in Tunisia.

- Operating Expenses

The "*Raw Materials*" item increase (+12.1%) is largely explained by the incorporation of the Paradisus Palma Real hotel, the growth in the Sol Melia Vacation Club and the increase of business of the *Sol Caribe Tours* tour operator in Cuba. This latest effect is positively offset by the revenue increase at the "Other revenue" level.

Total Operating Expenses increase by 6.3% largely explained by the *Sol Caribe Tours* effect, changes in Sol Melia's perimeter (including the incorporation of the most recent Paradisus Palma Real and the re-opening following refurbishment of the Melia Gorriones and the ME Madrid) and the increase expenses of the Sol Meliá Vacation Club. When excluding these impacts, " Raw Materials", "Personnel Expenses", "Other Operating Expenses" and "Total Operating Expenses" change by –1.0%, +4.6%, 0.0% and +2.0% respectively.

The increase of operating costs of the SMVC by 70.8% is largely explained by the business increase of the Vacation Club. At this stage, the revenues have increased by 51.1% implying an Ebitda of 23.6 mn Euros, an increase of 15.6%.

"Rental Expenses" increased by 3.8%, explained by the lease contract at the Tryp Macarena following its disposal and the new incorporation under lease agreement of the Tryp Leon (122). Excluding this effect, the item increases by 2.3%.

The Company operating margin has gone up to 24.4% (+375 bp improvement) when excluding asset rotation. Additionally, when excluding the *Sol Caribe Tours* tour operator, a residual non-margin business that gives support to the hotels in Cuba, Ebitda margin goes up to 24.7%.

- Ordinary Profit / Net Profit

"Total Financial Loss" item decreases by 19.6% largely explained by the refinancing of the 340 million Euros maturity of the 5-year bond (6.25% fixed - coupon) issued within the framework of the EMTN programme and the debt reduction.

The tax rate level at 10.6% reflects the ongoing tax management of the group to minimise the tax charge. This level is mainly due to the goodwill generated in the Tryp acquisition, tax losses generated by companies of the Sol Meliá Group in previous fiscal years and fiscal credits that imply future reductions in the tax charge derived from investments both in Europe and in emerging countries in Latin America.

Going forward, corporate tax rate is likely to remain within the 10% - 15% range in the medium term while closer to the lower range in the near future.

Table 7 : Sol Meliá Consolidated Income Statement

Million Euros	Dec 2006	Dec 2005	%
Hotel Revenues	984.0	910.8	
Real Estate Revenues	134.1	136.5	
Other revenues	138.8	118.0	
Total revenues	1.257.0	1.165.3	7.9%
Raw Materials	(156.1)	(139.3)	
Personnel expenses	(376.4)	(354.9)	
Other operating expenses	(335.0)	(321.9)	
Total operating expenses	(867.5)	(816.1)	6.3%
EBITDAR	389.5	349.2	
Rental expenses	(63.4)	(61.1)	
EBITDA	326.0	288.1	13.2%
Depreciation and amortisation	(112.3)	(109.3)	
EBIT	213.8	178.8	19.6%
Net Interest Expense	(52.3)	(62.2)	
Exchange Rate Differences	1.7	(3.3)	
Other Interest Expense	(10.9)	(11.0)	
Total financial profit/(loss)	(61.5)	(76.4)	-19.6%
Profit/(loss) from equity investments	2.1	(1.4)	
Continuing Earnings Before Taxes	154.4	100.9	52.9%
Discontinuing Operations	0.0	0.0	
Profit before taxes and minorities	154.4	100.9	52.9%
Taxes	(16.4)	(8.9)	
Group net profit/(loss)	138.0	92.0	49.9%
Minorities (P)/L	(1.7)	(1.9)	
Profit/(loss) of the parent company	136.2	90.1	51.2%

Table 8 : Business Segmentation of Sol Meliá's Consolidated Income Statement

	HOTEL BUSINESS											
	EUROPEAN RESORTS			EUROPEAN CITIES			AMERICAS			OWNED AND LEASED		
Data in mn €	2006	2005	%	2006	2005	%	2006	2005	%	2006	2005	%
REVENUES	288,5	272,2	6,0%	452,1	432,5	4,5%	243,4	206,1	18,1%	984,0	910,8	8,0%
EXPENSES	199,8	188,7	5,9%	288,9	280,7	2,9%	171,2	152,5	12,3%	660,0	621,8	6,1%
EBITDAR	88,6	83,5	6,2%	163,2	151,8	7,5%	72,2	53,7	34,6%	324,0	289,0	12,1%
Rental Expenses	9,4	9,1	2,9%	52,1	49,8	4,6%	1,9	2,1	-9,5%	63,4	61,0	3,9%
EBITDA	79,3	74,4	6,6%	111,1	102,0	8,9%	70,3	51,6	36,4%	260,7	227,9	14,4%
D&A	26,2	24,3	7,8%	28,4	26,5	7,0%	27,1	25,1	8,2%	81,6	75,8	7,7%
EBIT	53,1	50,1	6,0%	82,7	75,5	9,5%	43,2	26,5	63,1%	179,0	152,1	17,7%

	ASSET MANAGEMENT BUSINESS								
	ASSET ROTATION AND PROMOTION			SMVC			ASSET MGMT. BUSINESS		
Data in mn €	2006	2005	%	2006	2005	%	2006	2005	%
REVENUES	47,4	79,1	-40,1%	86,7	57,4	51,1%	134,1	136,5	-1,7%
EXPENSES	6,7	4,5	48,8%	63,2	37,0	70,8%	69,9	41,5	68,4%
EBITDAR	40,7	74,6	-45,5%	23,6	20,4	15,6%	64,3	95,0	-32,4%
Rental Expenses	0,0	0,0		0,0	0,0		0,0	0,0	
EBITDA	40,7	74,6	-45,5%	23,6	20,4	15,6%	64,3	95,0	-32,4%
D&A	1,0	0,8	21,9%	0,4	0,3	53,7%	1,4	1,1	29,7%
EBIT	39,7	73,8	-46,2%	23,2	20,1	15,1%	62,9	93,9	-33,1%

	OTHER BUSINESSES AND OVERHEAD EXPENSES			AGGREGATED			CONSOLIDATED		
Data in mn €	2006	2005	%	2006	2005	%	2006	2005	%
REVENUES	239,4	232,6	2,9%	1.357,5	1.279,9	6,1%	1.257,0	1.165,3	7,9%
EXPENSES	236,3	267,5	-11,7%	966,1	930,9	3,8%	867,5	816,1	6,3%
EBITDAR	3,1	-34,9	108,9%	391,4	349,1	12,1%	389,5	349,2	11,5%
Rental Expenses	0,0	0,0		63,4	61,0	3,9%	63,4	61,1	3,8%
EBITDA	3,1	-34,9	108,9%	328,0	288,1	13,9%	326,0	288,1	13,2%
D&A	29,2	32,4	-9,8%	112,3	109,3	2,7%	112,3	109,3	2,7%
EBIT	-26,1	-67,3	61,2%	215,8	178,8	20,7%	213,8	178,8	19,6%

4. Balance Sheet

Assets

The decrease in “Other current assets” principally corresponds to the receipts in 2006 from the insurance companies in compensation for the damage caused by hurricane Wilma in the Company’s hotels in Cancun.

Liabilities & Shareholder’s Equity

Net Debt decreases by 104.8 million Euros: to the 55.7 million Euros reflected in the Balance Sheet, additional 49.1 million should be added as a result of the hedging of the exchangeable bond.

The exchangeable bond at market value netted by the hedge as to December 31st 2006 amounts to 100.87 million or 49.13 less than its nominal of 150 million Euros.

As a result of the refinancing policy the average interest expense has been reduced from 5.14% in December 2005 to 4.62% in December 2006 while the Net Debt to EBITDA ratio has been reduced from 3.5x to 2.9x in the same period.

The item “ Capital grants and other deferred income” decreases from 66.7 million to 6.3 million primarily due to the indemnities paid after hurricane Wilma in the Cancun area, which has been reflected in the group’s income statement in 2006, since in 2005 the definitive dossiers for physical damages and *lucrum cessans* were not concluded by the insurance companies.

The decrease in “Issue of debentures and other marketable securities” is explained by the maturity of the 340 million bond issue in our EMTN program, which has been refinanced through short and long term bank debt.

After that maturity, Sol Meliá enjoys a comfortable debt maturity profile.

Table 9: Consolidated Balance Sheet (million Euros)

Thousands of Units '000	Dec 2005	Dec 2006	%
ASSETS			
i INTANGIBLE FIXED ASSETS	124.5	108.5	-12.9%
Software	42.5	28.5	
Goodwill	20.2	19.7	
Other Intangibles	61.8	60.3	
ii PROPERTY. PLANT AND EQUIPMENT	1,967.9	1,968.9	0.0%
Land	450.2	419.7	
Constructions	1,128.4	1,106.4	
Technical plant and machinery	214.8	221.3	
Other assets	154.8	156.2	
Prepayments and assets in progress	19.8	65.3	
iii INVESTMENT PROPERTIES	95.2	97.4	2.2%
iv OTHER NON-CURRENT ASSETS	246.8	211.9	-14.1%
Available-for-sale investments	41.0	37.2	
Investments in associates	24.0	36.6	
Loans to associates	12.5	2.1	
Deferred tax assets	137.6	106.1	
Other non-current financial assets	31.7	29.9	
TOTAL NON-CURRENT ASSETS	2,434.5	2,386.6	-2.0%
v NON-CURRENT ASSETS FOR SALE	9.4	9.1	
vi CURRENT ASSETS	402.4	368.9	-8.3%
Inventories	35.5	30.8	
Trade and other receivables	77.7	96.6	
Receivables for associates	16.5	10.5	
Other current assets	107.5	63.2	
Other current financial assets	34.3	36.9	
Cash and short-term deposits	130.9	131.0	
TOTAL CURRENT ASSETS	402.4	368.9	-8.3%
TOTAL ASSETS	2,846.3	2,764.6	-2.9%

EQUITY AND LIABILITIES *(Thousands of Units '000)*	Dec 2005	Dec 2006	%
i EQUITY	844.3	837.3	-0.8%
Issued capital	37.0	37.0	
Share premium	770.3	764.4	
Revaluation reserves	101.0	103.0	
Distributable reserves	27.0	33.4	
Non-distributable reserves	53.2	49.4	
Results from prior years	(410.0)	(380.9)	
Reserves in co. full consolidation method	233.1	278.0	
Reserves in associates	0.1	(3.9)	
Exchange differences	32.8	(43.1)	
ii PROFIT AND LOSSES ATT. TO THE GROUP	90.1	136.2	51.2%
Consolidated profit and loss	92.0	138.0	
Minority interests profit and loss	(1.9)	(1.7)	
Iii TREASURY SHARES	(35.7)	(38.7)	-108.6%
Iv TOTAL EQUITY	898.7	934.7	4.0%
v MINORITY SHAREHOLDERS	45.3	32.6	
TOTAL NET EQUITY	944.0	967.3	2.5%
Vi NON-CURRENT LIABILITIES	1,200.9	1,250.7	4.1%
Issue of debentures and other marketable securities	149.3	149.7	
Preference shares	99.1	100.2	
Bank debt	456.6	593.5	
Capital grants and other deferred income			
Provisions	66.7	6.3	
Deferred tax liabilities	28.6	26.3	
Other non-current liabilities	223.6	196.5	
TOTAL NON-CURRENT LIABILITIES	177.1	178.3	
vii CURRENT LIABILITIES	701.4	546.6	-22.1%
Issue of debentures and other marketable securities	359.4	0.4	
Bank debt	100.1	267.6	
Payables to associates	0.3	0.1	
Trade payables	159.5	184.0	
Other current liabilities	82.2	94.5	
TOTAL CURRENT LIABILITIES	701.4	546.6	-22.1%
TOTAL EQUITY AND LIABILITIES	2,846.3	2,764.6	-2.9%

5. Expansion

The table below shows a description of the progress made in the Sol Meliá hotel portfolio up to December of 2006.

Table 10. Expansion plan.

Owned & Leased	01/01/2006		ADDITIONS		LOSSES		CHANGES		31 / 12 / 2006		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	91	14,912	1	360	4	652	0	0	89	14,567	2	302	91	14,869
Owned Hotels	32	6,506			1	319			32	6,055	0	0	32	6,055
Leased hotels	59	8,406	1	360	3	333			57	8,512	2	302	59	8,814
EUROPEAN RESORT	55	15,527	0	0	0	0	-1	-176	54	15,310	1	809	55	16,119
Owned Hotels	40	12,674					-1	-176	39	12,464	1	809	40	13,273
Leased hotels	15	2,853							15	2,846	0	0	15	2,846
AMERICA	16	5,976	0	0	0	0	0	0	17	6,140	2	2,722	19	8,862
Owned Hotels	15	5,748							15	5,878	2	2,722	17	8,600
Leased hotels	1	228							2	262	0	0	2	262
OWNED HOTELS	87	24,928	0	0	1	319	-1	-176	86	24,397	3	3,531	89	27,928
LEASED HOTELS	75	11,487	1	360	3	333	0	0	74	11,620	2	302	76	11,922
TOTAL	162	36,415	1	360	4	652	-1	-176	160	36,017	5	3,833	165	39,850

Management &		01/01/2006		ADDITIONS		LOSSES		CHANGES		31 / 12 / 2006		SIGNED		TOTAL GROUP	
Franchise		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	M	21	3,884			2	184			20	3,884	0	0	20	3,884
	F	19	2,310							20	2,388	0	0	20	2,388
EUR. RESORT	M	39	12,638	2	910	2	378	1	176	41	12,781	3	827	44	13,608
	F	16	5,536	1	138	8	3,489			11	3,047	0	0	11	3,047
AMERICA	M	35	8,724	1	62	2	717			32	7,331	3	647	35	7,978
	F	6	781			5	731			1	53	0	0	1	53
ASIA-PACIFIC	M	7	2,518							7	2,196	1	700	8	2,896
	F	0	0							0	0	0	0	0	0
CUBA	M	23	8,476	3	1,709					26	10,196	1	384	27	10,580
SUBTOTAL	M	125	36,240	6	2,681	6	1,279	1	176	126	36,388	8	2,558	134	38,946
	F	41	8,627	1	138	13	4,220	0	0	32	5,488	0	0	32	5,488
TOTAL		166	44,867	7	2,819	19	5,499	1	176	158	41,876	8	2,558	166	44,434
TOTAL GROUP		328	81,282	8	3,179	23	6,151	0	0	318	77,893	13	6,391	331	84,284

M= Management; F= Franchise

NOTE1: please note that the figure future incorporations of owned rooms (3,531) include not only the hotel rooms but also the equivalent number of rooms (2,266) of 1,133 vacation club units taking into consideration that each vacation club unit equals an average of 2 hotel rooms. The reason being is that from the moment these units are built and up until the sale as vacation club, they will be operated as hotel rooms. The company will inform on a regular basis of these changes.

NOTE2: Please note also that with the closure of the year we have revised the number of rooms per hotel. Differences are already included in the 31/12/2006 column.

- Additions

Sol Meliá added the Sol Cyrene in Sharm (Egypt) with 120 rooms and the Meliá Golf Vichy Catalan in Gerona (Spain) with 150 rooms to its portfolio under **management** contracts. The latter is the only resort situated in the heart of two golf courses that form part of the PGA circuit outside the UK. In the 4Q06, the Company has added 3 hotels in Cuba to its portfolio under management contracts: the Paradisus Princesa del Mar (434 rooms), the Meliá Las Antillas (350 rooms) and the Meliá Las Dunas (925 rooms). The Company has also added the Tryp Buenos Aires with 62 rooms to its portfolio under a management contract. This hotel will be the third establishment of the Company in the capital of Argentina and the first under the Tryp brand.

On October 1st 2006, the Company incorporated the Meliá Berlin (364 rooms) in Germany under a **lease** contract. This newest hotel incorporates attributes of the new **Meliá** brand such as a modernized Royal Service concept as well as new food and beverage offerings and increased beauty and health facilities.

Under a **franchise** agreement, Sol Meliá incorporated the hotel Sol Lunamar (138 rooms) in Palma Nova, Majorca.

- Losses

During 2006, the Company formalized the **disposal** of the Vista Sol aparthotel (176 rooms) in Majorca and the Meliá Rey Don Jaime (319 rooms) in Valencia (Spain).

Under **lease**, Sol Meliá dropped the Tryp Berne (88 rooms) in Switzerland, the Tryp Cordoba (147 rooms) in Spain and the Tryp Cottbus (98 rooms) in Germany.

Under **management** contract, Sol Meliá dropped from its portfolio 3 hotels in Spain: the Meliá Almerimar (278 rooms) in Almeria, the Meliá Horus Salamanca (90 rooms) and the Tryp Caballo Blanco (94 rooms) in Cadiz. In Brazil, the Company has also disaffiliated the Gran Meliá WTC Sao Paolo (300 rooms). During the 4Q06, the Company has also dropped from its portfolio the Meliá La Paz (100 rooms) in Tenerife (Spain).

Sol Meliá disaffiliated four hotels from its portfolio under **franchise** contracts: the Sol Caribe Campo (230), the Caribe San Andres (230), the Sol Arhuaco (58) and the Tryp Chicamocha (190 rooms), all of them in Colombia. Also under franchise contract, Sol Meliá dropped from its portfolio eight hotels in Tunisia: the Meliá Djerba Menzel (638) and seven hotels El Mouradi. Brand inconsistency was the main reason for the disaffiliation of the latter.

- Future Incorporations

Regarding the organic growth of owned hotels, four developments will come to fruition in the medium term:

1. Extension of the Paradisus Punta Cana (Dominican Republic): 200 **additional vacation club units** in an adjacent plot of land, scheduled to be opened in late 2007. Once these units are built and up until the sale as vacation club, they will be operated as hotel **Royal Service** suites
2. "La Jaquita" project in Tenerife (Spain): this 50% joint-venture involves 409 **hotel rooms** plus 200 **vacation club** units to be opened in early 2008.
3. "Playa del Carmen" project in Mexico: involves a **Melia resort** (528 hotel rooms plus 366 vacation club units) and a **Paradisus complex** (328 hotel rooms plus 248 vacation club units), both of them to be opened in 2009.
4. On top of that, regarding the **Sol Melia Vacation Club**, in Puerto Rico, the company will open 44 vacation club units of new construction in early 2007 and 75 more in a second phase throughout 2008 out of a total 440 units to be developed in 10 years

All in all, organic growth will represent an additional 1,265 hotel rooms plus 1,133 vacation club units in 2007 and 2008. From the second half of 2008 onwards, the Company will start to see the contribution out of the developments in Brazil which at the moment are in a very embryonic phase.

Regarding future incorporations under lease and management contract, as a consequence of the organic growth in the major markets, Sol Meliá will add to its portfolio 10 new hotels that imply an increase of 2,860 additional rooms. In 2008 the Company will open under lease contract its second hotel in Rome (140 rooms).

Under management contract, 2007 will see the incorporation in Brazil of the Meliá Angra & Marina (200 rooms) in Angra dos Reis, the Meliá Patagonia (97 rooms) in Chile and the Gran Meliá Shanghai (700 rooms) in China. This latest luxurious establishment situated in the heart of Pudong will be the first flag for the Company in China. This hotel is not only the platform for future growth in the country but also a major strategic movement for the sake of brand equity.

Another important incorporation in 2008 under management contract will be the Meliá Aruba (350 rooms) in Aruba. This luxury resort will be developed along with the Spanish property developer Grupo Trusam and will be the first of several projects that Sol Meliá and the Grupo Trusam aim to develop in both Spain and the Caribbean.

At the closure of 2006, the Company has sold 73 of equivalent hotel units through the Sol Meliá Vacation Club. These rooms have been dropped from the portfolio. Apart from these rooms which used to be part of the hotel, there are additional 82 rooms sold through the SMVC in developments originally meant for vacation club.