Sol Meliá
HOTELS & RESORTS

Third Quarter Results

Profit & Loss Account

(Million Euros)	Sep'03	Sep'02	%
REVENUES	**761.6**	**784.4**	**-2.9%**
EXPENSES (ex – Op. leases)	**(534.9)**	**(539.8)**	**-0.9%**
EBITDAR	**226.7**	**244.6**	**-7.3%**
Rental expenses	(47.2)	(51.3)	-8.2%
EBITDA	**179.5**	**193.3**	**-7.1%**
Depreciation and amortisation	(82.5)	(77.5)	6.5%
EBIT	**97.0**	**115.7**	-16.2%
Total financial profit/(loss)	**(46.5)**	**(44.5)**	**4.4%**
Profit/(loss) from equity	1.8	(3.2)	154.8%
Goodwill amortisation	(2.0)	(2.1)	-3.2%
Ordinary EBT	**50.3**	**65.9**	**-23.7%**
Extraordinaries	**12.0**	**(10.2)**	**217.8%**
PBT	**62.3**	**55.8**	**11.7%**
Group net profit/(loss)	**51.1**	**39.6**	**29.0%**
Profit/(loss) of the parent Co.	**41.8**	**31.4**	**33.0%**

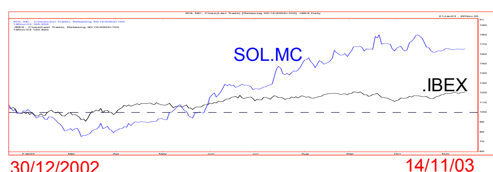
Operational Ratios

	Sep'03	Sep'02	
RevPAR	45.9	47.6	-3.5%
Ebitdar margin	29.8%	31.2%	-1.4bp
Ebitda margin	23.6%	24.6%	-1.1bp
Ordinary profit margin	6.6%	8.4%	-1.8bp
Net profit margin	5.5%	4.0%	1.5 bp

Financial Ratios

	Sep'03	Sep'02	
NET DEBT	1.156	1.133	2.1%
NET DEBT / TOTAL EQUITY	116%	100%	16.3bp
EBIT / NET INTEREST	2.2×	2.7×	(0.4×)

Stock Performance 30/12/03 – 14/11/03



Average Daily Volume (€)	1.946.274
Period High, Sep 17th 2003	€ 6.93
Period Low, Mar 10th 2003	€ 2.78
Historical High, Jun 9th 2000	€14.28
Year Evolution	65.3%
Marketcap Nov. 14th 2003 (€ Mn)	1.151.2

Highlights

Further improvement on a quarterly basis

Year on year third quarter EBITDA increases by 0.5% (Q1: -26.1%, Q2: +0.2%) explained by the positive evolution of the resort areas in Spain and the Caribbean. In **European Resorts**, accumulated RevPAR increased by 3.5% due to a positive summer season in Spain. The continuing recovery of the Balearic Islands on a quarterly basis is also behind such increase. The European city hotels outperformed the market with a RevPAR decrease of only 4.7%. LatAm and the Caribbean remain robust as reflected in a Total Revenue increase of 5.1%. The Company verifies that the low point in our industry occurred in April 2003 and that the worst is over. The containment of expenses and the implementation of SAP has led the Company to reduce operating costs by 1.5%.

Company performance overshadowed by the appreciation of the Euro

Apart from the general slowdown in the travel and tourism industry in 2003, aggravated by the Iraqi war, the Company has also been negatively affected by the appreciation of the Euro versus the US dollar. Excluding the currency effect, Revenues and EBITDA would have changed by +5% and 0% respectively up to end September.

Sol Meliá refinances short and medium term maturities

Debt recently raised which includes securitised debt and the exchangeable bond issue – € 310 million at an average cost of 3.85% – implies that the Company has successfully completed financing requirements up until 2006.

Strategic Alliance with Cendant

On the distribution side, Sol Meliá signed an important strategic alliance with the world leader in hospitality, Cendant Corporation, by which Sol Meliá will grow its timeshare business and widen its hotel marketing and distribution, both areas in which Cendant is also world leader.

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

Dear friend,

Sol Meliá is pleased to announce accumulated results up to the end of September verifying that the Company reached a low point back in April 2003 after the finalization of the Iraqi war, and confirming a positive summer season 2003 thanks in large part to the resilience of the Spanish resort segment.

As we have seen throughout the year, specially over the first four months, the hotel industry has had a difficult 2003. Sol Meliá has strengthened its distribution capability and thus its revenue stream through alliances on the sales and distribution side and has also aligned hotels to their respective brand standards.

During the quarter, Sol Meliá has made major steps in terms of distribution strategy by reaching agreements with two of the most important distributors in the industry both in Europe and the United States. This may also be added to other recent deals achieved with major players in the leisure industry such as Hard Rock Hotels and Warner Bros. Consumer Products.

In Europe, the Company and lastminute.com (European leader in online travel) strengthened their strategic alliance through an agreement by which Sol Meliá becomes a Preferred Hotels Supplier for the lastminute.com network and lastminute.com recovers full ownership of its Spanish subsidiary for € 6 million plus € 0.5 Mn in advertising. Thanks to the agreement, the solmelia.com website also adds a dynamic packaging tool allowing visitors to buy packaged breaks, i.e. hotels plus airline tickets.

On October 8th in New York, Sol Meliá signed a very important strategic alliance through two different agreements with Cendant Corporation by which we will grow our timeshare business and widen our hotel distribution reach, both areas in which Cendant Corporation is world leader.

The alliance consists of two separate agreements between Cendant Corporation and Sol Meliá that will result in the following:

- On the Time-Share side:

    1. Through a Marketing Alliance Agreement Cendant's Timeshare Resort Group will provide direct marketing support for the Meliá Vacation Club to help grow its consumer base. Cendant subsidiary RCI will provide consultancy, exchange and other networking services for the Meliá Vacation Club, and will provide additional revenue and occupancy solutions to support Sol Meliá's hotel business to drive growth in Europe and Latin America. Through this agreement Sol Meliá acquires Most Favoured Nation Status.

- On the Hotel Marketing and Distribution side:

1. Cendant's Travel Distribution Services Division and Sol Meliá will develop distribution and marketing programs to offer consumers access to Sol Meliá hotel inventory through a variety of online and offline channels including CheapTickets.com, Lodging.com, Thor and Galileo;
2. A cross-selling program to market Cendant hotels and travel products to Sol Meliá consumers, and to market Sol Meliá products to Cendant consumers;
3. Sol Meliá's Participation in Cendant's "TripRewards guest loyalty program" by which members – a total of 12 million – will have the ability to redeem their TripRewards points for free night stays at selected Sol Meliá properties

In our aim to maximize revenues and sales per square metre through a more efficient use of space and existing assets, we will actively explore either the sale of time share units to improve the return on assets of the existing land and properties or the sale of existing plots of land in Spain, Dominican Republic and Mexico. In Dominican Republic, this will be made through the Real Estate Company *Desarrollos Sol S.A.* which owns close to 500,000 square metres of land. Additionally, we will take further action in relation to the maximization of return on the existing square metres devoted to the Food and Beverage business.

During the quarter, Sol Meliá has also announced the sale of the Sol Patos Hotel in Benalmádena (Malaga, Spain) for 16.8 million Euros at 12.6x EBITDA'03E multiple. The deal will generate capital gains for Sol Meliá of 11.3 million Euros. The deal forms part of the hotel company's asset management strategy which, amongst other things, includes the sale of certain hotel properties whenever they are located in destinations in which the company operates other hotels that satisfy the needs of customers, and whenever the deals themselves are sufficiently profitable. After the sale, Sol Meliá will continue to maintain a prominent leadership position in Andalusia where it has 34 hotels (17,000 beds), of which 13 are in Malaga.

With this disposal, Sol Meliá has sold as of September 2003 a total of € 30.8 million in non strategic assets / hotels while generating € 18.8 million in capital gains. Total EBITDA lost by the transactions represent some € 1.3 million.

On October 20th, Sol Meliá announced a 150 million euro exchangeable bond issue as part of an ongoing strategy aimed at strengthening and diversifying company financing sources, the main objective of the which is to refinance short term debt and increase the average term of outstanding debt.

The tenor of the bonds will be 5 years and they will carry an annual coupon rate of 4.30% while the all-in cost for Sol Meliá is 4.11% Each bond will have a nominal value of 10,000 Euros, and may be exchanged for existing treasury stock, cash or both, thus avoiding the need for any capital increase should investors wish to exercise their conversion rights. A conversion premium of 80% - one of the highest - the issue put the strike price at € 11.90. Demand exceeded 2.5 times the total offer.

The exchangeable bond issue together with the securitised loans made through the year completes a short and medium term refinancing need of the Company. No major maturities will occur until the expiry of the € 340 million bond issue due 2006. After this process, average cost of debt and debt length increases from 5.15% to 5.32% and 8.3 to 8.7 years respectively (see Appendix).

Apart from the hotel business, the Company owns Time-Share and Casino businesses which, together with the value of plots of land, makes a net valuation (excluding Net Debt and Minorities) of Sol Meliá of some € 2,3 billion implying a share value of € 12.44.

Please find in the appendix a valuation of Sol Meliá based on a Total of 91 owned establishments representing a Total Asset Value of € 2.7 Billion (€2.1 Million of book-value) according to the valuation made by American Appraisal plus lease, management and franchise contracts and other businesses which makes a Total Enterprise Value of € 3.6 million versus a net debt of € 1.16 million.

Notwithstanding the latest share price revaluation, through alliances in the fields of Distribution and Time-Sharing, together with the repositioning of hotels recently refurbished and/or incorporated within the Company, the challenge the Company faces is to progressively increase consolidated EBITDA, reducing the existing gap between the market capitalization and net value of assets beyond the € 12.44 that is sum-of-the parts approach. Company share price reached € 14.28 in July, 2000.

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2. Information on Operations

2.1. PROPERTY BUSINESS

RevPAR of the owned and leased hotels has decreased by 3.5%, partly due to the appreciation of the Euro vs. the US dollar, the depreciation of which by 17% has had a serious impact on the Americas Division where prices are defined in USD.

In the European Resort Division, RevPAR increased by 3.5% up to September due to the positive performance of the Spanish Resorts during 2003. In large part, the Canary Islands are behind the positive results, generating an 8.1% RevPAR increase in the third quarter. The Balearic Islands, where the Company felt more cautious at the beginning of the year, have also shown a positive performance in Q3, with a 2.4% RevPAR increase. The strength of the British and Spanish feeder markets are behind the positive performance of the mentioned areas, despite price discounts made by our competitors. The change of government in the Balearics and the elimination of the Ecotax on October 25th are likely to have a positive impact on the local industry going forward. The high cost of disaffiliation in Tunisia has proved to be favourable to the Company in light of the still disappointing performance of the country were Sol Meliá's comparable RevPAR has decreased by 22.8% up to September.

The European City Division has reported a –4.7% RevPAR decrease up to September. As already mentioned in previous reports, the European City Division has been affected by a reduction of business travel and general slowdown in bookings to the main capital cities in Europe. Sol Meliá's RevPAR decrease should be compared with the sharp decrease that the city hotel market has reported in Europe (according to HotelBenchmark Survey by Deloitte & Touche, RevPAR declined by 9% in European markets up to the end of September).

Falls in Congress and Convention activities and RevPARs in Europe has been partially offset through the promotion of our own offers and programs via solmelia.com, an increasing competitive advantage for the Company. Internet sales up to September increased by 254%, while own-program sales grew by 27%. The consequence is that European cities have held up reasonably well on a comparable basis, i.e. Madrid: -3.2%, Barcelona: -3.6%, London:+4.2%, Paris: -5.2%, German cities: -1.1%.

The Company is witnessing certain signs of recovery in major European gateways, i.e. London, Paris, Rome and Milan. According to PKF, RevPAR in September in London has increased for the first time in eighteen months, which together with the improvement in air traffic numbers and the recovery of the corporate segment to Paris gives a better outlook for these two cities. Perspectives for our hotels in Italy are also promising, with a special mention for the Meliá Milano, which is achieving higher market penetration as the property reaches maturity. The US market also seems to be returning to European cities. In Spain, despite the perception of a slight pick-up of business travel, the corporate activity is still sluggish for Q4 in Madrid, Barcelona and Northern Spain. Additionally, the Company is dealing with increases in capacity in certain cities which will make the differentiation of the product, brand and capacity of distribution increasingly important.

In the Americas Division, RevPAR decreased by 20.4% up to September negatively affected by the appreciation of the Euro vs. the US dollar and the poor performance of the Gran Meliá Caracas. Excluding these effects, RevPAR would have increased by 9% thanks to the sharp recovery of our properties in Mexico and the Dominican Republic, where RevPAR has increased by 4% and 17% respectively in USD.

Table 1: Hotel statistics 03/02 (RevPAR & A.D.R. in Euros)

OWNED&LEASED HOTELS Sep 03/02			*Occupancy*	*RevPAR*	*A.D.R.*
EUROPEAN RESORT		**2003**	76.4%	40.2	52.6
	% o/ 2002		**1.5%**	**3.5%**	**2.0%**
		2002	75.3%	38.8	51.5
EUROPEAN CITY		**2003**	62.8%	53.2	84.7
	% o/ 2002		**-1.6%**	**-4.7%**	**-3.2%**
		2002	63.8%	55.8	87.5
AMERICA (*)		**2003**	66.8%	39.6	59.2
	% o/ 2002		**2.7%**	**-20.4%**	**-22.5%**
		2002	65.0%	49.7	76.4
TOTAL		**2003**	69.0%	45.9	66.6
	% o/ 2002		**0.0%**	**-3.5%**	**-3.5%**
		2002	69.0%	47.6	69.0

(*) RevPAR and A.D.R. without currency effects would have decreased by 1% and 3% respectively.

Please find below a breakdown of the components of growth in room revenues at the hotel level for owned and leased hotels. The decreases in available rooms in the European Resort Division are largely explained by the process of disaffiliation carried out in 2002 and the first quarter of 2003 regarding the leased hotels in Tunisia. The increase in available rooms in the European City Division is explained by the incorporation under lease agreement of the Tryp Alcalá 611, Tryp Atocha and Tryp Las Matas in Madrid, Tryp Jerez, Tryp Barcelona-Aeropuerto, Tryp León and, more recently Tryp Oceanic (Valencia) in Spain and the Meliá Boutique Carlton in Lausanne and Tryp De Berne in Geneva together with the new Tryp Frankfurt, all of them under lease agreements, which offset the disaffiliation process which occurred in 2002. In the Americas, the 16.7% decrease in room revenues would become a 1.4% increase when excluding the currency effect. The incorporation of the Gran Meliá Mofarrej under a lease contract is behind the 6% increase in available rooms.

Table 2: Breakdown of total room revenues owned/leased hotels 03/02

% Increase Sep - 03/02	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	3.5%	-4.7%	-20.4%	-3.5%
Available Rooms	-6.0%	2.3%	6.0%	-0.9%
Room Revenues	-2.7%	-2.5%	-15.7%	-4.3%

Table 3 shows the breakdown of revenues of owned and leased hotels. Total revenues decreased by 4%, equivalent to a 1.1% decrease on a like for like basis, i.e. excluding the currency effect and under the same hotels basis. By division, the Americas is the one most affected by the currency effect.

The 8% increases in the "Other revenues" item in the European City division is explained by the increase in revenues derived from the recent commercialisation of the Meliá White House apartments.

Table 3: Hotel revenues split 03/02 for owned/leased hotels

Sep - 03/02	E.RESORT			E.CITY			AMERICA			TOTAL		
(Million Euro)	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**
ROOMS	150	-3%	154	215	-3%	221	49	-16%	58	414	-4%	433
F&B	90	-4%	94	74	-1%	75	57	-4%	59	221	-3%	228
OTHER REVENUES	10	-6%	10	18	8%	17	12	-20%	14	40	-5%	42
TOTAL REVENUES	250	-3%	258	308	-2%	313	118	-11%	132	675	-4%	703

In the Americas, "Room Revenues", "Food & Beverage", "Other Revenues" and "Total Revenues" changed by 0%, +13.2%, -7.0% and +5.1% respectively when excluding the currency effect. The increase of the F&B item is explained by the increase of the commercialisation of "all inclusive" packages in our Mexican properties. The drop in "Other revenues" is largely explained by the slowdown of the Gran Meliá Caracas.

2.2. MANAGEMENT BUSINESS

Management fees dropped by 12%, mainly as a consequence of the decrease in the number of managed/franchised rooms by 16%. The disaffiliation of non-brand consistent hotels and the major slowdown in our resorts in the Middle East are the reasons that explain this drop in the portfolio.

In the **European resort hotels**, the decrease of 29% is explained by the disaffiliation in the first quarter of 4 branded hotels (970 rooms), 3 camping parks and a further 4 unbranded hotels that represent 6,064 rooms in Croatia. This was due to the unilateral termination of the management contract by Jadran-Turist Rovinj d.d., the Croatian tobacco corporation. Sol Meliá expects a favourable resolution of the Arbitration Court at the International Chamber of Commerce and the correspondent compensation as specified in the Service Agreement. Also 4 non-branded hotels in Morocco (608 rooms) have been disaffiliated in the third quarter, due to poor brand consistency and poor results. The **European City hotels'** total fees decreased by 8%. These hotels have been the most affected by the cancellation of Congresses and Conventions, the reduction of business travel and a general slowdown in bookings.

In the **Americas**, the total decrease in fees reached 6%, a significant recovery compared with first semester results (-16%). A continuing weak economic situation in local feeder markets and a sharp drop in fees from Brazil and Mexico, such as in the Gran Meliá WTC Sao Paolo, explain the decrease by 11% on incentive fees. The **Cuban Division** continues with its strong performance in 2003, as with the rest of the Spanish-speaking Caribbean, offering good value-for-money. Expectations for the upcoming quarters remain robust.

The **Asia-Pacific Division** remains affected by the Iraq war and SARS. As a consequence, fees in the region fell by 53%. Going forward, the Company believes that part of the traditional European demand will progressively return to the Asian resort destinations.

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Million		Sep -03	Incr. 03/02	Sep -02
EUROPEAN RESORT	Basic	5.1	-28%	7.0
	Incentive	2.3	-31%	3.3
		7.4	-29%	**10.3**
EUROPEAN CITY	Basic	4.4	-1%	4.4
	Incentive	1.4	-24%	1.9
		5.8	-8%	**6.3**
AMERICAS	Basic	2.9	-2%	3.0
	Incentive	1.9	-11%	2.1
		4.8	-6%	**5.1**
ASIA-PACIFIC	Basic	0.7	-43%	1.3
	Incentive	0.4	-63%	1.2
		1.1	-53%	**2.4**
CUBA	Basic	7.4	14%	6.5
	Incentive	1.3	61%	0.8
		8.7	19%	**7.3**
Total Basic		20.5	-8%	22.2
Total Incentive		7.3	-21%	9.3
TOTAL		**27.8**	**-12%**	**31.4**

2. Income Statement

- **Revenues**

Total Revenues have decreased by 2.9%, implying a further improvement on a quarterly basis, i.e. –0.7% in Q3 versus a –8.0% in Q1 and –1.0% in Q2 . Such improvement is derived from the resilience of our Spanish resorts which have outperformed 2002. As previously stated, this item is negatively impacted by the appreciation of the Euro vs. the US dollar. Excluding the currency effect, this item would have increased by 4.9%. “Other revenues” includes mainly Casinos and Time Sharing.

- **Operating Expenses**

Operating expenses have decreased by 1.5%. The containment of expenses has been based on the externalisation of some services, a substantial improvement in direct costs as a consequence of the actions taken in the purchasing of perishable products, negotiations with suppliers – to which the SAP Materials Management program has improved centralized purchasing– and a more rigorous adaptation of food and beverage services to brand standards. On the Personnel Expenses side, the Company has achieved productivity increases through adapting schedules to service needs.

The decrease in “Rental Expenses” by 2.7% is derived from the disaffiliations carried out in Tunisia, Spain and Portugal during the course of 2002 and first half of 2003, which represent €7.2 million. This decrease is offset by the new lease contracts that represents an additional amount of €2.9 million. Projection for the year represent some € 63 million (-6.7%).

The cleaning-up of the loss making hotels that came from the Tryp acquisition has now been completed. In Tunisia, the most striking case, the risk of Sol Meliá in the country involved 9 leased hotels of which, after the disaffiliation process, 3 of them remain in our portfolio. Additionally, we agreed rent reductions in 2002 for two of these hotels of 25% and 10%.

- **EBITDA / R**

EBITDA and EBITDAR have decreased by 7.1% and 7.3% respectively, seriously affected by the appreciation of the Euro. Excluding the currency effect, accumulated EBITDA has been flat compared to the same period last year. In the third quarter, EBITDA has increased by +0.5% (+0.2% in Q2 and –26.1% in Q1), verifying that the low point is now behind us.

- **Net Profit**

Profit from equity investments grew to € 1.8 Mn derived from the disposal of lastminute.com Spain which losses were included under this item. Profits are mainly explained by the stake in the Meliá Castilla (Madrid) and the Paradisus Riviera Cancun (Mexico).

At the financial result level, gross interest expenses have decreased by 11% derived from the decrease in the average cost of long term debt.

Extraordinary profit of € 12 Million mainly includes €11.3 Million derived from the sale in September of the Sol Patos Hotel for 16.8 million Euros at an EBITDA03E Multiple of 12.6x. “Minorities “ item includes € 6.3 Mn of dividends derived from the preferred issue of € 107 Million made in April 2002.

Table 5 : Sol Meliá Consolidated Income Statement

€ Mn	*Sep 2003*	*Sep 2002*	
Hotel Revenues	675.0	703.0	-4.0%
Management Fees	27.8	31.4	-11.7%
Other revenues	58.8	49.9	17.9%
Total revenues	**761.6**	**784.4**	**-2.9%**
Raw Materials	(89.8)	(97.8)	
Personnel expenses	(247.5)	(249.8)	
Change in operating provisions	(5.2)	(3.4)	
Rental expenses	(47.2)	(51.3)	
Other operating expenses	(192.5)	(188.8)	
Total operating expenses	**(582.1)**	**(591.1)**	**-1.6%**
EBITDA	**179.5**	**193.3**	**-7.1%**
EBITDAR	**226.7**	**244.6**	**-7.3%**
Profit/(loss) from equity investments	1.8	(3.2)	
Net Interest Expense	(43.1)	(41.4)	
Exchange Rate Differences	(3.4)	(3.1)	
Total financial profit/(loss)	**(46.5)**	**(44.5)**	**4.3%**
Depreciation and amortisation	(82.5)	(77.5)	
Consolidation Goodwill amortisation	(2.0)	(2.1)	
Profit/(loss) from ordinary activities	**50.3**	**65.9**	**-23.7%**
Extraordinary profit/(loss)	**12.0**	**(10.2)**	**184.9%**
Profit before taxes and minorities	**62.3**	**55.8**	**11.7%**
Taxes	(11.2)	(16.2)	
Group net profit/(loss)	**51.1**	**39.6**	**29.0%**
Minorities (P)/L	(9.3)	(8.2)	
Profit/(loss) of the parent company	**41.8**	**31.4**	**33.0%**
FUNDS FROM OPERATIONS	**125.3**	**135.7**	**-7.7%**

3. Balance Sheet

▪ Assets

Decrease in the Cash item is mainly explained by the investment made in the quarter derived from the finalization of the Puerto Rico project which will open in late 2003.

As usually occurs in the third quarter, “Trade receivable” item has increased due to the high volume of sales to Tour Operators in the summer season. The settlement of these accounts takes place in October and November and, thus, “Trade Receivable” is at its peak in this quarter. Significant decreases in this item have been materialised after the closure of the third quarter.

▪ Liabilities & Shareholder’s Equity

Total Debt amounts to € 1,335.6 Mn reducing by € 12.7 Million this item in comparison with first half results. The increase of “Debenture Bonds Payable” in the short term is explained by the reclassification from long term of the € 224 convertible bond issue due in September 2004.

Decrease in “Difference in conversion of companies fully consolidated” in Total Shareholders Equity is explained by the depreciation of Latin American currencies, mainly Mexican peso, Dominican peso and Venezuelan Bolivar.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Jun 03	Sep 03	% Incr.
Cash on hand and banks	128.8	90.5	
C/A with equity affiliates	44.8	33.1	
Inventory	32.5	28.9	
Trade receivable	160.1	214.8	
Other receivable	100.1	91.6	
Allowance for doubtful accounts	(41.2)	(36.3)	
S/T securities portfolio	1.1	1.1	
Loans due from affiliates	0.2	3.2	
Other loans	30.0	43.9	
Prepaid expenses	5.7	6.0	
Treasury Stock	12.5	16.1	
TOTAL CURRENT ASSETS	**474.7**	**492.9**	**3.8%**
Goodwill from co. Fully consolidated	17.6	15.5	
Goodwill from co. equity participated	2.7	2.0	
Intangible assets and rights	408.4	419.5	
Intangible assets provisions and amortisation	(62.5)	(73.8)	
Net intangible fixed assets	**366.2**	**363.2**	**-0.8%**
Land and buildings	1,605.1	1,569.6	
Technical installations and machinery	261.5	268.3	
Other fixed assets	381.0	397.8	
Tangible assets provision and depreciation	(616.9)	(624.9)	
Net tangible fixed assets	**1,630.7**	**1,610.8**	**-1.2%**
Equity Affiliates	19.0	20.8	
L/T loans due from affiliates	10.8	11.6	
L/T securities portfolio	48.0	51.2	
Holding of own shares	2.7	3.4	
Other loans	63.0	67.0	
Provisions	(6.0)	(8.5)	
Financial investments	**137.6**	**145.6**	**5.8%**
FIXED ASSETS	**2,134.5**	**2,119.6**	**-0.7%**
Deferred expenses	11.2	18.7	
Start-up expenses	27.3	27.8	
TOTAL ASSETS	**2,648**	**2,658.9**	**0.4%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Jun 03	Sep 03	% Incr.
Debenture Bonds Payable	9.9	233.5	
S/T loans	136.4	110.8	
S/T loans due to affiliated companies	4.8	0.2	
Trade accounts payable	143.8	139.3	
Other payable	78.0	91.5	
Prepaid income	2.8	3.9	
Operating provisions	0.0	0.0	
TOTAL CURRENT LIABILITIES	**375.6**	**579.2**	**54.2%**
Debenture Bonds Payable	558.2	339.6	
L/T loans	557.4	562.9	
L/T loans due to affiliated companies	7.5	6.4	
Other L/T Liabilities	79.0	82.3	
TOTAL L/T LIABILITIES	**1,202.0**	**991.2**	**-17.5%**
Share capital	37.0	37.0	
Share premium	792.6	792.6	
Distributable reserves	18.9	16.8	
Reserves in companies fully consolidated	385.5	394.9	
Reserves in companies equity participated	1.7	2.0	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	20.8	20.8	
Profit/(loss) previous year	(321.2)	(318.7)	
Differences in conv. of co. fully consolidated	(8.4)	(8.3)	
Differences in con. of co. equity participated	(165.9)	(198.2)	
Consolidated profit/(loss)	10.3	51.1	
Profit/(loss) attributable to external shareholders	(5.8)	(9.3)	
Interim dividend	(0.2)	0.0	
TOTAL SHAREHOLDERS' EQUITY	**814.6**	**830.0**	**1.9%**
First consol. Reserves from co. fully consolidated	17.7	18.9	
First consol. Reserves from co. equity participated	0.0	0.0	
Deferred income	14.1	16.2	
Provisions for risks and expenses	54.4	55.2	
Minority interests	169.1	168.1	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,647.6**	**2,658.9**	**0.4%**

4. Expansion

The table below shows a description of the progress in the Sol Meliá hotel portfolio during 2003:

Table 8. Expansion plan.

Owned & Leased	01/01/03		ADDITIONS		LOSSES		CHANGES		30/09/03		SIGNED		TOTAL	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**92**	**14,835**	**4**	**618**	**0**	0	**0**	**0**	**96**	**15,441**	**7**	**916**	**103**	**16,357**
Owned Hotels	37	7,390	0	0	0	0	0	0	37	7,390	0	0	37	7,390
Leased hotels	55	7,445	4	618	0	0	0	0	59	8,051	7	916	66	8,967
EUROPEAN RES.	**63**	**17,299**	**0**	**0**	**5**	**1,188**	**0**	**0**	**58**	16,111	**0**	**0**	**58**	**16,111**
Owned Hotels	42	13,054	0	0	1	277	0	0	41	12,777	0	0	41	12,777
Leased hotels	21	4,245	0	0	4	911	0	0	17	3,334	0	0	17	3,334
AMERICA	**12**	**4,628**	**1**	**245**	**0**	**0**	**0**	**0**	**13**	4,873	**1**	**490**	**14**	**5,363**
Owned Hotels	12	4,628	0	0	0	0	0	0	12	4,628	1	490	13	5,118
Leased hotels	0	0	1	245	0	0	0	0	1	245	0	0	1	245
OWNED HOTELS	91	25,072	0	0	1	277	0	0	90	24,795	1	490	91	25,285
LEASED HOTELS	76	11,690	5	863	4	923	0	0	77	11,630	7	916	84	12,546
TOTAL	**167**	**36,762**	**5**	**863**	**5**	**1,200**	**0**	**0**	**167**	**36,425**	**8**	**1,406**	**175**	**37,831**

Management & Franchise		01/01/03		ADDITIONS		LOSSES		CHANGES		30/09/03		SIGNED		TOTAL GROUP	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	**M**	23	3,982	0	0	3	438	0	0	20	3,544	1	299	21	3,843
	F	19	2,167	0	0	1	78	-1	-102	17	1,987	0	0	17	1,987
EUR. RESORT	**M**	53	19,432	2	471	15	6,670	-1	-150	39	13,083	4	960	43	14,043
	F	12	4,418	0	0	1	45	2	252	13	4,625	0	0	13	4,625
AMERICA	**M**	34	7,576	5	1,211	1	162	0	0	38	8,625	5	1184	43	9,809
	F	9	1,261	0	0	0	0	0	0	9	1,261	0	0	9	1,261
ASIA-PACIFIC	**M**	10	3,539	0	0	1	700	0	0	9	2,839	0	0	9	2,839
	F	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CUBA	**M**	23	8,580	0	0	0	464	0	0	23	8,116	2	600	25	8,716
SUBTOTAL	**M**	143	43,109	7	1,682	20	8,434	-1	-150	129	36,207	12	3,043	141	39,250
	F	40	7,846	0	0	2	123	1	150	39	7,873	0	0	39	7,873
TOTAL		**183**	**50,955**	**7**	**1,682**	**22**	**8,557**	**0**	**0**	**168**	**44,080**	**12**	**3,043**	**180**	**47,123**
TOTAL GROUP		**350**	**87,717**	**12**	**2,545**	**27**	**9,757**	**0**	**0**	**335**	**80,505**	**20**	**4,449**	**355**	**84,954**

M= Management; F= Franchise

During the third quarter of the year, Sol Meliá has added 2 new hotels to its portfolio under lease contracts in the European City Division, the Tryp Oceanic in Valencia, Spain (197 rooms) and the Tryp Frankfurt, Germany (186 rooms). During the first half of the year, the Tryp Leon in Spain (127 rooms) and the Tryp de Berne in Geneva (88 rooms) were also incorporated under lease contracts. The leased hotel in the Americas Division corresponds to the Gran Meliá Mofarrej, a luxury hotel with 245 rooms in Sao Paulo, Brazil.

Two establishments were incorporated in the first half of the year under management contracts in the European Resort Division: Sol Sharm in Egypt and the Meliá Olbia in Italy. In the Americas, incorporations correspond to 3 hotels under the Tryp brand in Sao Paulo –Tryp Berrini (200), Tryp Jesuino Arruda (151) and Tryp Paulista (154) – , the Meliá Brasilia (398) and the latest incorporation in the last quarter, the Tryp Campinas (308) also in Brazil.

The loss of the owned hotel corresponds to the sale of the Sol Patos Hotel in Benalmádena (Malaga, Spain) The deal forms part of the hotel company's asset management strategy which, amongst other things, includes the sale of certain hotel properties whenever they are located in destinations in which the company operates other hotels that satisfy the needs of customers, and whenever the deals themselves are sufficiently profitable. In this specific case, the establishment was not a beach-front property and Sol Meliá additionally had a prominent leadership position in the Costa del Sol area with 12 establishments that represent 4,168 rooms.

Additionally, there has been a total of 4 in the third quarter, all unbranded management contracts that did not comply with standards of any of the Sol Meliá's brands due to the fact that after the terrorist attacks in Casablanca, the owner, also personally affected, was not willing to make the required branding capex. Disafilliation involved the Siaha Rabat (197 rooms), Safi (90rooms), Siaha Marrakech (243) and Khouribga (78 rooms), all of them in Morocco.

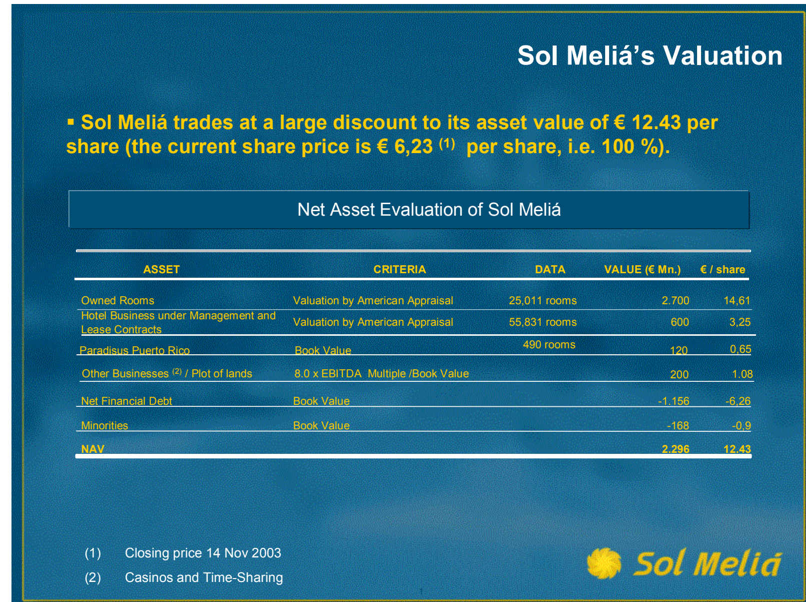
The losses under lease contracts, correspond to establishments in Tunisia which were included in the process of disaffiliation that occurred in 2002 and first half of 2003 in the country. Current portfolio in Tunisia represents 3 leased hotels – of which the Company agreed in 2002 rent reductions in two of these hotels of 25% and 10% – plus 8 franchise contracts.

Table 9. Signed projects of owned and leased hotels

	2003		2004		2005		TOTAL	
	Hotels	Room	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
EUROPEAN CITY								
PROPERTY								
LEASE								
Spain	1	196	3	380	0	0	4	576
Italy	0	0	0	0	1	140	1	140
Switzerland	1	75	0	0	0	0	1	75
Germany	0	0	0	0	1	125	1	125
Subtotal	**2**	**271**	**3**	**380**	**2**	**265**	**7**	**916**
AMERICA								
PROPERTY								
Puerto Rico	1	490	0	0	0	0	1	490
Subtotal	**1**	**490**	**0**	**0**	**0**	**0**	**1**	**490**
TOTAL	**3**	**761**	**3**	**380**	**2**	**265**	**8**	**1,406**

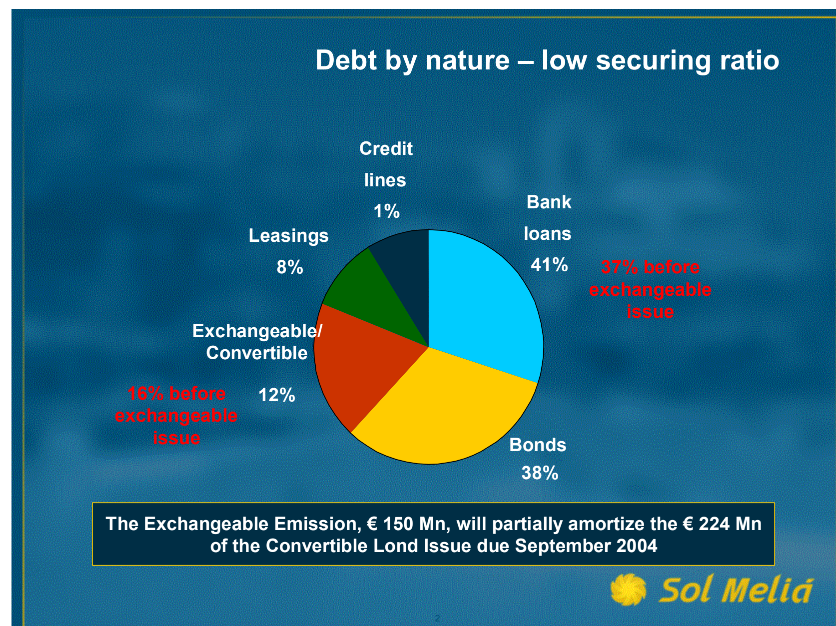
5. Appendix

…an approach to Sol Meliá's value

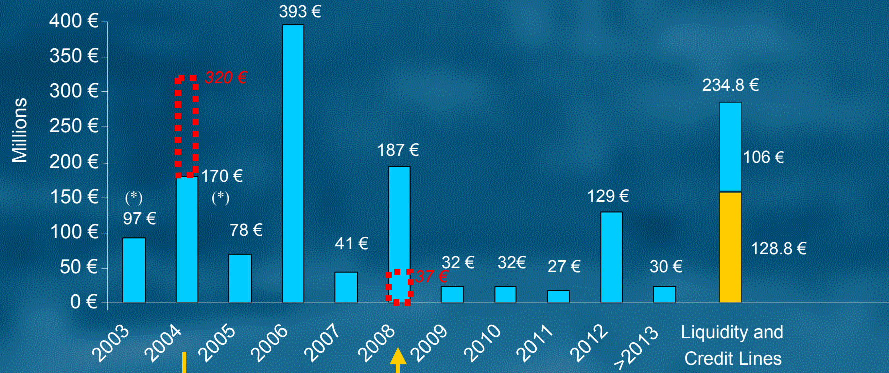


ASSET	CRITERIA	DATA	VALUE (€ Mn.)	€ / share
Owned Rooms	Valuation by American Appraisal	25,011 rooms	2.700	14,61
Hotel Business under Management and Lease Contracts	Valuation by American Appraisal	55,831 rooms	600	3,25
Paradisus Puerto Rico	Book Value	490 rooms	120	0,65
Other Businesses [2] / Plot of lands	8.0 x EBITDA Multiple /Book Value		200	1.08
Net Financial Debt	Book Value		-1.156	-6,26
Minorities	Book Value		-168	-0,9
NAV			**2.296**	**12.43**

…Sol Meliá's Debt Structure post € 150 million Exchangeable Issue



Debt by maturity – liquidity generation and cash flows post-emission Exchangeable



Before the emission

Average Cost 2003 - 5.15%	=>	5.32%
Mid Maturity - 4.9 years	=>	5.25 years
Mid Length - 8.3 years	=>	8.7 years

(*) Refinanced with mortgages