Sol Meliá HOTELS & RESORTS

2004 First Quarter Results

Profit & Loss Account

(Million Euros)	Mar 04	Mar 03	%
Revenue	**228.6**	**209.1**	**9.3%**
Expenses (ex – Op. leases)	**(163.1)**	**(156.1)**	**4.4%**
EBITDAR	**65.5**	**52.9**	**23.8%**
Rental expenses	(13.5)	(12.7)	5.8%
EBITDA	**52.1**	**40.2**	**29.6%**
Depreciation and amortisation	(26.8)	(26.1)	2.7%
EBIT	**25.3**	**14.1**	79.3%
Total financial profit/(loss)	**(20.0)**	**(13.8)**	**45.3%**
Profit/(loss) from equity	0.8	(1.2)	167.5%
Goodwill amortisation	(0.6)	(0.7)	-15.7%
Ordinary EBT	**5.5**	**(1.6)**	**451.6%**
Extraordinary items	10.5	4.9	115%
PBT	16.0	3.3	382%
Net Profit	**13.2**	**2.7**	**386%**
Net Income	**10.0**	**0.1**	**8833%**

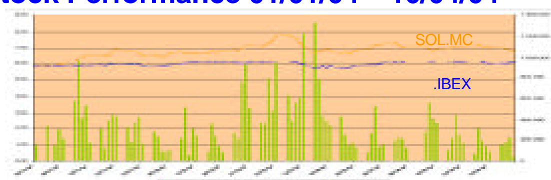
Operational Ratios

	Mar 04	Mar 03	
RevPAR	41,8	41,4	1,0%
Ebitdar margin	28,7%	25,3%	335,0 bp
Ebitda margin	22.8%	19.2%	355.0 bp
Ordinary profit margin	2,4%	-0,7%	315,4 bp
Net profit margin	4.4%	0.1%	433.3 bp

Financial Ratios

	Mar 04	Mar 03	
NET DEBT (*)	1.106	1.133	-2.4%
NET DEBT / TOTAL EQUITY (*)	115%	111%	408,2 bp
EBIT / NET INTEREST	1.8x	1.6x	0.1x

Stock Performance 01/01/04 – 10/04/04



Average Daily Volume (€)	2,319,483
Period High. March 8th 04	€ 7.86
Period Low, Jan. 5th 04	€ 5.78
Historical High. Jun 9th 2000	€14.28
Marketcap May 10th 04 (€ 6.69)	€ 1,236 million

Highlights

Sharp EBITDA increase despite Euro appreciation

A Q1 EBITDA increase of 30% confirms the recovery seen in recent quarters, specially in 4Q03 where the Company increased this item by 6.9%. On a constant exchange rate basis, the positive evolution of the Caribbean resorts together with the improvement in Business Group and incentive activity in Spanish cities, enabled Sol Meliá to increase EBITDA by 64%. The efforts made in the last two years in terms of cost reduction, the disaffiliation of loss-making hotels and brand standardisation are being more fully reflected in EBITDA margin improvement as revenue increases along with the industry. Sol Meliá has seen an increase of EBITDA margin from 19.2% to 22.8% which has led to an increase in Ordinary EBT of 452%.

Limited impact of 11th. March attacks on the resort industry

The events that occurred in Madrid on March 11th. had a serious impact on bookings in the days following the terrorist attack. This drop affected operations in March and, to a lesser extent, in April and May, specially in Madrid itself. In the European resort segment, the level of bookings from Germany and Southern European markets remain robust for the summer season.

Disposal of 14 million Euros worth of non-strategic assets

As of April 2004, the Company has sold assets to a value of 14 million Euros. Sales include the Sol Aloha Playa hotel, a 19% stake in the Spanish tour operator Viva Tours and a 50% stake in Meliatour, the tour operator developed by the company. These transactions have generated 10.3 million Euros of capital gains. The asset rotation policy of the Company will include 30 to 40 million Euros on a yearly basis in the medium term.

Business and Society Award 2004

In March 2004 Sol Meliá was honoured to be chosen for the "Business and Society Award 2004" in recognition of the projects carried out as part of the company Community Involvement programme. The event was organised by the Business and Society Foundation, whose awards are the highest of their kind in Spain for corporate Community Involvement projects.

(*) The temporary excess of cash due to the exchangeable has been included in the calculation of the Net Debt

Meliá Hotels & Resorts — TRYP Hoteles en la Ciudad — Sol Hoteles Hotels & Resorts — Paradisus Resorts "All Inclusive" Resorts — Hard Rock Hotel

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

Dear friend,

Sol Meliá is pleased to announce its first quarter results, reporting a 64% EBITDA increase on a constant exchange rate basis. The growth is explained by a good performance in Latin America and the Caribbean, an area which represents some 50% of the EBITDA of the Company in Q1. Our resorts in Mexico, the Dominican Republic and Cuba are mainly benefiting from the economic recovery in the US, the increasing flow of American travellers and the positive trends in travel by European clientele with increased purchasing power thanks to the Euro appreciation.

This has led the Company to increase its Ordinary Profit by 452%. Net income rose to 10 million Euros from 0.1 million in 03. The Company would like to point out that the increase is explained by Operating Profit rather than Extraordinary issues: the combined effect of "Exchange Rate Differences" and "Extraordinary Profit" is similar in both years.

In Europe, urban hotel revenues increased by 6.1%, explained by the positive performance of the Meliá hotels whose segmentation is biased towards Business Groups and incentives, air crews and international travellers as opposed to the more limited-service Tryp hotels, more dependant on individual business travellers.

The Company will benefit from the positive market trend as reflected in the 6% year-on-year RevPar increase (+8.6% in occupancy) in the European gateway cities in March as reported by the HotelBenchmark Survey by Deloitte. Regarding air traffic, according to the IATA data, passenger numbers in Europe have increased by 8.5%, while international traffic rose by 9.6%. Although these figures benefit from comparison with a difficult 2003, they also show signs of a clear recovery. In addition to these favourable conditions, there are also Company specifics that include the refurbishment process carried out in recent years, the repositioning of our hotels and the effort made in terms of online distribution that have led to the majority of full service Melia branded hotels exceeding market average figures.

On the European resort side, a decrease in revenues is largely explained by the decrease in the number of rooms available by 6.2% due to the disposal of the Sol Patos and Sol Aloha Playa hotels, the disaffiliation of three leased establishments in Tunisia and a worse than expected performance in the Canary Islands.

The events that occurred in Madrid on March 11th. had a serious impact in Madrid in the days after the terrorist attack and, to a lesser extent in April. According to EXCELTUR – an association of the most relevant companies in the Spanish Travel and Tourism industry –, the Spanish tourism industry will post a 2.4% gain in revenue this year. In our view, the increase will mainly come from growth in the German and Southern European feeder markets, including Spain. In Q1, incoming international travel to Spain has gone up by 5.4%, totalling 8.9 million visitors.

The contribution of the recently opened Paradisus Puerto Rico luxury resort (490 rooms) will be enhanced by the positive momentum in the Caribbean, benefiting from the recovery in the number of US and European visitors.

The important strategic alliances signed in 2003 (timesharing and distribution with Cendant, online distribution with lastminute.com, development of Hard Rock hotels and Flintstones themed hotels with the Rank Group and Warner Bros., respectively) and the redesign of our organisational structure to allow two

business units to focus on F&B and Timeshare are expected to crystallise in 2004, when we begin to execute and optimise these strategic partnerships.

The new F&B Division has been created with a staff of nine people, initially focusing on the standardisation of service levels by brand, the definition of optimal staffing levels in each point of sale as well as an analysis of alternatives for loss making units with the full involvement of the hotel general manager. These actions have resulted in a Food and Beverage margin increase from 30% to 34%. In Spain, the company has reported a 2 million Euros increase at the F&B level in comparison with the same period last year.

In the Timesharing business, Sol Melia Vacation Club has recently launched projects along with Cendant to increase the sale of vacation units in Cancun, Puerto Vallarta (Mexico) and Punta Cana (Dominican Republic), taking advantage of the existing resorts and the owned land nearby. During the course of 2004, an additional Timeshare project in Puerto Rico will be launched by the facilities of the newly-opened Paradisus Puerto Rico. Timeshare sales have increased by 34% in Q1.

The JV signed on the online distribution side is behind the 9% sales increase with lastminute.com. Additionally, solmelia.com now represents 25% of central reservation system sales after a 120% sales increase as of March 2004. The increase is largely explained by different measures that include search engine optimisation, personalised e-mail marketing campaigns, an easy booking process and the translation of solmelia.com into five different languages.

Within the framework of the JV with the Rank Group, in late 2003, Sol Meliá opened the Hard Rock Chicago (381 rooms). After Chicago, the Hard Rock San Diego will open in 2006 with another 250 rooms for the joint venture. Additional Hard Rock hotels are foreseen in North America and Europe.

In order to ensure better asset rotation and the optimisation of the return per square metre of existing hotels, Sol Meliá will create an Asset Management Division in order to emphasise the Real Estate business within a Company with 2.8 billion Euros worth of assets. A consolidated fiscal approach will help to fully understand the asset management activity.

On the fiscal side, the Group has accumulated significant tax benefits of a diverse nature in different countries, of which only a small part have been recognised in deferred tax assets in the Group´s balance sheet. The amount of future taxable profits which may be covered by such unrecognised credits is approximately 340 million Euros. The origin of these benefits is mainly due to the goodwill generated in the Tryp acquisition and tax losses generated by companies of the Sol Meliá Group in previous fiscal years. Additionally, the Group will enjoy fiscal credits that imply future reductions in the tax charge of 38 million Euros mainly due to investments both in Europe and in emerging countries in Latin America. The combined effect of both of these phenomena will enable the Group to obtain a future benefit of some 150 million Euros, i.e. cash savings in tax expenses. None of these benefits are related to a change in Sol Melia's fiscal policy, and only a small percentage of the benefits are considered to be subject to doubts in their recovery. Additionally, the group continues to obtain beneficial tax impacts from its investments in the Caribbean, where capital investment often enables tax concessions to be granted either via tax credits or reduced tax rates, as in the case of the new hotel in Puerto Rico.

Nonetheless it is important to appreciate that the minimisation of tax expenses through a complex corporate structure, sensitive to multiple factors (generation of positive EBT in certain companies, evolution of exchange rates, etc.) makes extremely difficult the tax rate forecast in comparison with a more simple

structure. Nevertheless, Sol Melia's management team is confident to establish the sustainable tax rate at 18% or below. We also point out that a significant part of this tax charge is in deferred tax – historically some 50% – , the reversal of which is in many cases over a very long term, hence further maximising the use of the Group's cash resources.

To conclude this letter, just to point out that Sol Meliá's management team sees with moderate optimism the future quarterly evolution of the results based on the good prospects for summer season 2004, the evolution of the Caribbean and the continuing recovery of the urban segment under the Meliá brand once the marginal impact of March 11th. is confirmed. Benefits from strategic alliances signed in 2003 are crystallising, therefore we are convinced that they will represent a competitive advantage in the medium term.

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2. Information on Operations

2.1. PROPERTY BUSINESS

During the first quarter 2004, RevPar for owned and leased hotels has increased by 1% due to the positive evolution of the European cities, Spanish urban upscale hotels, and the resorts in the Balearics and Alicante. The Americas Division has been affected by the Euro appreciation. On a constant exchange rate basis, total RevPar increased by 4.1%.

In the **European Resort Division** – practically explained by the Spanish resorts once the disaffiliation process in Tunisia has been finalised – RevPar has gone up by 3.4%, primarily derived from an average rate increase of 3.0%. The good performance of the UK market in Mallorca and Alicante together with the refurbishment of the Gran Meliá Don Pepe in the Costa del Sol offset the worse than expected performance in the Canary Islands in Q1. The increase in the special offers made by competitors to offset the weakness in demand is largely behind such effect. Going forward, the Company is confident that the demand from Germany, together with the strength of the Southern European market, will lead the Division to growth in comparison with 2003.

RevPar in the **European City Division** increased by 0.8% due to the positive performance of the Meliá branded hotels in Spain and specially in major European cities such as London, Paris and Rome. In the Spanish cities, RevPar decreased by 0.7%. By brand, Meliá – 50% of total Revenues / 70% of total EBITDA on a yearly basis – increased by 2.1% while Tryp fell by 3.4%. Going through the Spanish cities, Madrid, Barcelona and Seville have reported RevPar increases of 1%, 12% and 7%, respectively. The performance of the upscale hotels under the Meliá brand is behind these increases. On the other hand, RevPAR decreases in Valencia and La Coruña are linked with the recent increase in capacity and the celebration of the "Xacobeo" in Santiago de Compostela. The March 11th. terrorist attacks, together with the general elections in Spain, had a negative impact on March in the domestic market, specially in Madrid and, to a lesser extent, in Seville.

When corporate travel is expanding, mid-segment hotels which depend basically on room revenues (70% margin) are more profitable. Tryp Hotels which is basically seen as a "room factory" business similar to NH or AC, would profit under such circumstances. In the current Spanish market situation where, on the one hand, individual business travel remains sluggish and, on the other hand, hotel capacity has increased, limited service establishments are more affected due to a weaker diversity in segmentation as opposed to full service hotels.

Additionally, Meliá hotels are less affected by the increase in capacity seen over recent years in Spain due to their high brand recognition, location, tradition and prestige, specially in the Spanish market. According to the "Spanish Diners Club" Survey 2003 on traveller profiles, the Meliá Galgos (Madrid), Meliá Castilla (Madrid) and Meliá Lebreros (Seville) are the three hotels most preferred by Spanish travellers. Regarding international travellers, the Meliá Castilla is in third position behind the Palace hotel (Madrid) and Arts Hotel (Barcelona).

Going forward, Madrid in April has been negatively affected by the bad weather prior to the Easter holidays, the change of government in Spain and the decrease in reservations derived from the attacks of the 11th. March. Outside Spain, the Company would like to mention the good performance of the Meliá White House (London), where RevPAR has increased by 41% based on independent business travellers, online sales and the Spanish leisure segment. Paris hotels, with a 14% RevPAR increase, have benefited from an increase in the Spanish, Russian and Italian feeder markets and the international fairs and events that took place in the city, in spite of an important decrease in US visitors.

In general for the European Divisions, the refurbishment that has taken place in recent years, Internet sales increase – 120% up to March and 25% of central reservation system sales – and new hotel incorporations, is paying off as reflected in the operating figures.

In relation to the **Americas Division**, as occurred in 2003, RevPAR and A.D.R. figures have been negatively affected by the appreciation of the Euro. On a constant exchange rate basis, RevPAR and A.D.R. increased by 8.1% and 3.0% respectively.

Performance in Latin America and the Caribbean remain robust derived from economic recovery in the US with an increase in the number of North American travellers. Additionally, the rise in value of the Euro makes European destinations more expensive in comparison with the Caribbean, which has also benefited by the increased purchasing power of European tourist. Another factor was the increase in demand from the US and Canada to get away from the recent harsh weather in Q1.

Both the Dominican Republic and specially the Cancun area of Mexico have been benefited by the effects mentioned above: Revenues in USD have increased by 10.7% and 21.2% respectively. Regarding the urban hotels, although lead time for bookings has been reduced, Group and Convention activity in the Gran Meliá Mexico Reforma continues to perform satisfactorily in the domestic market. The situation in Venezuela remains difficult and although the hotel has reported a 118% revenue increase on a US dollar basis, occupancy levels remain low (38.7%).

Going forward, at the closure of the first quarter, the Company has not seen any change in the positive trend witnessed so far.

Table 1: Hotel statistics 04/03 (RevPAR & A.D.R. in Euros)

OWNED&LEASED HOTELS Mar 04/03			*Occupancy*	*RevPAR*	*A.D.R.*
EUROPEAN RESORT		2004	65,3%	29,0	44,5
	% o/ 2003		**0,3%**	**3,4%**	**3,0%**
		2003	65,1%	28,1	43,2
EUROPEAN CITY		2004	58,8%	48,9	83,1
	% o/ 2003		**2,9%**	**0,8%**	**-2,1%**
		2003	57,1%	48,5	84,9
AMERICA (*)		2004	71,1%	45,3	63,7
	% o/ 2003		**4,1%**	**-8,0%**	**-11,6%**
		2003	68,3%	49,2	72,1
TOTAL		2004	62,9%	41,8	66,4
	% o/ 2003		**2,2%**	**1,0%**	**-1,2%**
		2003	61,6%	41,4	67,2

(*) RevPAR and A.D.R. without currency effects would have changed by +8.1% and 3.0% respectively. Total Revenues in USD have increased by 24.0 %

Please find below a 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. The 3.6% increase in available rooms in the **European City Division** is largely explained by the newest leased hotels in Spain under the Tryp brand, i.e. Tryp San Lázaro (Santiago de Compostela), Tryp León, Tryp Oceanic (Valencia) and Tryp Índalo (Almería). In Switzerland, the increase in available rooms is explained by the opening of two leased hotels: the Meliá Rex Boutique Hotel and the Tryp De Berne, both in Geneva. Available rooms also increases due to the lease agreement at the Tryp Frankfurt.

In the **European Resort Division,** the decrease in available rooms is explained by the disposal of two establishments in the Costa del Sol and the disaffiliation of three lease contracts in Tunisia during the process occurred in 2003.

In the **Americas Division**, the opening of the Paradisus Puerto Rico and the opening of the Gran Meliá Mofarrej in Sao Paulo (Brazil) under lease contract.

Table 2: Breakdown of total room revenues owned/leased hotels 04/03

% Increase Mar – 04 /03	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	3.4%	0.8%	-8.0%	1.0%
Available Rooms	-6.2%	3.6%	11.8%	1.4%
Room Revenues	-3.0%	4.4%	2.9%	2.4%

As table 3 shows, the first quarter 2004 indicates a positive trend on revenues, with an increase with respect to the same period in 2003.

In the **European Resort Division**, the "Other Revenues" increase is due to a low component of this item in the disaffiliated hotels, implying a more regular evolution.

In the **European City Division,** the 13.4% increase in "Other Revenues" is explained basically by the increase in meeting room rental to business groups. The increase basically took place in the Meliá branded hotels in Madrid, Barcelona, Seville and Palma. The recent commercialisation of the Meliá White House apartments also contributes to the increase.

The **Americas Division** hotels saw a reduction in 3.9% in Other Revenues as compared to a 13.4% increase in Food & Beverage due to the progressive commercialisation of "all inclusive" packages in our Mexican properties throughout 2003.

Table 3: Hotel revenues split 04/03 for owned/leased hotels

Mar 04/03	**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	26	-3.0%	26	67	4.4%	64	20	2.9%	20	113	2.4%	110
F&B	16	-7.0%	17	24	9.2%	22	25	13.4%	22	64	6.3%	60
OTHER REVENUES	2	1.0%	2	6.8	13.4%	6.0	4	-3.9%	4	12	5.7%	12
TOTAL REVENUES	43	-4.3%	45	97	6.1%	92	49	7.4%	45	189	3.9%	182

In the Americas, "Room Revenues", "Food & Beverage", "Other Revenues" and "Total Revenues" changed by 19.0%, 30.7%, 10.7% and 24.0%, respectively, when excluding the currency effect.

2.2. MANAGEMENT BUSINESS

Management fees increased by 8% explained by the positive results obtained, in general, throughout the Company. This positive figure is reflected in the 9% occupancy increase in the managed hotels.

In the **European resort hotels** the decrease of -1% is explained by the disaffiliation in 2003 of 4 unbranded hotels (456 rooms), three of them in Morocco, due to poor brand consistency and poor performance. On a like-for-like hotel basis, management fees have increased by 4.5%, thanks to the positive occupancy growth of new resort destinations such as Croatia (+42.8%). The **European City hotels'** total fees decreased by –22% explained by the loss from the portfolio of 4 hotels (483 rooms) in Portugal, Spain, Morocco and Germany. On a like-for-like hotel basis, fees have increased by 0.2%.

In the **Americas** the total increase in fees reached +15%. A continuing economic recovery in local feeder markets and an increase in the occupancy in the Division explained the overall increase. The improvement in fees from Brazil and the Gran Meliá WTC Sao Paulo, explains the increase of 32% in basic fees. The **Cuban Division** increased total fees by +20% thanks to the positive evolution of the Caribbean island as reflected in a 13% occupancy increase in Sol Meliá establishments. In the last quarter of 2003, Sol Meliá incorporated the Meliá Cayo Santa Maria (360 rooms), which has contributed to this increase.

Management fees in Asia increased by 11% based on the positive performance of local feeder markets and the control of SARS in the region. In spite of the good performance of some destinations such as the Melia Hanoi (Vietnam), the Company considers 2004 a transitional period for important destinations like Malaysia and Indonesia

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Million		Mar - 04	Incr. 04/ 03	Mar - 03
EUROPEAN RESORT	**Basic**	1.23	4%	1.18
	Incentive	0.50	-10%	0.56
		1.73	**-1%**	**1.74**
EUROPEAN CITY	**Basic**	1.12	-21%	1.40
	Incentive	0.17	-29%	0.24
		1.28	**-22%**	**1.64**
AMERICAS	**Basic**	1.40	32%	1.06
	Incentive	0.75	-6%	0.80
		2.15	**15%**	**1.86**
ASIA-PACIFIC	**Basic**	0.28	18%	0.23
	Incentive	0.14	0.2%	0.14
		0.42	**11%**	**0.38**
CUBA	**Basic**	3.60	10%	3.29
	Incentive	0.95	90%	0.50
		4.55	**20%**	**3.79**
Total Basic		7.62	6%	7.17
Total Incentive		2.51	12%	2.23
TOTAL		**10.13**	**8%**	**9.41**

2. Income Statement

- **Revenues**

Total Revenues have increased by 9.3% explained by the improvement at the operating level of Sol Meliá's hotel network mainly in Latin America and the Caribbean, and European cities – specially outside Spain –, together with the contribution of the most recent hotel additions. The increase in the Other Revenues item is partly explained by the positive evolution of the Timeshare business and the full consolidation of Sol Meliá Travel, a travel agency focused on corporate travel.

- **Operating Expenses**

At the hotel level, the Company has seen a reduction in the operating cost, as reflected in a 2.7% decrease in the cost per stay. This has led the Company to improve EBITDAR margin from 25.3% to 28.7%.

The containment of expenses at the hotel level is explained by 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 centralised purchasing– and a more rigorous adaptation of food and beverage services to brand standards, including the standardisation of products, the review of restaurant menus and the composition of breakfasts. The increase of the "Raw Materials" – as the Other Revenues item – is explained by the full consolidation of Sol Meliá Travel. Total losses from the travel agency, represent 0.128 million Euros.

The 2.1% decrease in "Personnel Expenses" is explained by increases in productivity through the rationalization of functions and working hours adapted to service needs. " Personnel Expenses" of comparable hotels decreased by 4.2%.

The increase in "Rental Expenses" by 5.4% is due to the newest incorporations under lease agreements in the European City Division and the opening of the Gran Meliá Mofarrej, the first leased hotel in the Americas. The European Resort Division decreased its rental expenses by 31.4% due to the disaffiliations carried out in Tunisia in 2003. This item for comparable hotels increased by 1.7%.

The "Other operating expenses" item increased by 5.7% partly explained by the externalization of some services such as laundry. These actions, similar to the pre-cooked meals programme implemented in the past, represent not only a success in terms of operating efficiency and a shift of some of the fixed costs into variable costs, but also future savings for hotel accounts.

- **EBITDA / R**

EBITDA and EBITDAR have increased by 29.5% and 23.8% respectively. Excluding the currency effect, these items would have increased by 64% and 50%. The appreciation of the Euro has had a severe impact on the results generated in the Americas and Cuban Division.

The different actions carried out by Sol Meliá in terms of a) the disaffiliation of loss making hotels included in the Tryp transaction (2000), b) the signing of new management/lease contracts, c) the cost reduction programme carried out in 2002 and 2003 at the hotel and corporate level together with d) the refurbishment process that has meant that 4 out of every 5 hotels are in prime condition, have enabled the company to take full benefit from the recovery at the revenue level, once the industry has moved on after the difficulties of the last two years. This is reflected in a significant improvement at the EBITDA margin level with an increase from 19.2% to 22.8%.

- **Net Profit**

Financial Result is impacted by 5.3 million Euros of negative exchange differences generated as of March 2004 mainly derived from the depreciation of the Dominican Peso. Net Interest Expense decreased by 1%.

Extraordinary Profits of 10.5 million Euros include capital gains generated by the disposal of the Sol Aloha Playa and the 19% stake in the Spanish Tour operator Viva Tours.

The 17.5% tax rate is likely to remain at this level going forward (see letter).

Table 5 : Sol Meliá Consolidated Income Statement

Million Euros	Mar 2004	Mar 2003	
Hotel Revenues	189.4	182.3	
Management Fees	10.1	9.4	
Other revenues	29.1	17.3	
Total revenues	**228.6**	**209.1**	**9.3%**
Raw Materials	(28.5)	(23.3)	
Personnel expenses	(73.3)	(74.8)	
Change in operating provisions	(0.4)	(0.6)	
Rental expenses	(13.5)	(12.7)	
Other operating expenses	(60.9)	(57.4)	
Total operating expenses	**(176.6)**	**(168.9)**	**4.3%**
EBITDAR	**65.5**	**52.9**	**23.8%**
EBITDA	**52.1**	**40.2**	**29.6%**
Profit/(loss) from equity investments	0.8	(1.2)	
Net Interest Expense	(14.6)	(14.7)	
Exchange Rate Differences	(5.4)	0.9	
Total financial profit/(loss)	**(20.0)**	**(13.8)**	**31.2%**
Depreciation and amortisation	(26.8)	(26.1)	
Consolidation Goodwill amortisation	(0.6)	(0.7)	
Profit/(loss) from ordinary activities	**5.5**	**(1.6)**	**128.4%**
Extraordinary profit/(loss)	**10.5**	**4.9**	**114.7%**
Profit before taxes and minorities	**16.0**	**3.3**	**381.7%**
Taxes	(2.8)	(0.6)	
Group net profit/(loss)	**13.2**	**2.7**	**386.3%**
Minorities (P)/L	(3.2)	(2.6)	
Profit/(loss) of the parent company	**10.0**	**0.1**	**8,833.3%**

3. Balance Sheet

- **Assets**

"Short term deposits" include a temporary excess in cash generated by the recent 150 million Euros exchangeable issue. The funds are temporarily dedicated to risk free investments and will be used to refinance the 224 million Euros exchangeable bond issue due in September 2004.

- **Liabilities & Shareholder's Equity**

Total Net Debt Debt amounts to € 1.106 mn a decrease of 2.4% as compared to last year. Short term "Debenture Bonds Payable include the 224 million Euros convertible bond issue due in September 2004. The increase of "Debenture Bonds Payable" in the long term is explained by the recent 150 million Euros exchangeable issue.

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

Please note that Balance Sheet December 2003 includes audited figures. There are minor differences in comparison to the Preliminary Balance sheet included in last quarterly report.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Dec 03 (Aud.)	Mar 04	% Incr.
Cash on hand and banks	72.7	88.5	
C/A with equity affiliates	21.1	20.3	
Inventory	26.9	28.4	
Trade receivable	165.1	169.9	
Other receivable	55.9	66.1	
Allowance for doubtful accounts	(40.9)	(34.4)	
S/T securities portfolio	1.4	0.8	
Loans due from affiliates	0.0	0.0	
Other loans	174.8	156.5	
Prepaid expenses	5.9	7.5	
Treasury Stock	7.3	7.3	
TOTAL CURRENT ASSETS	**490.2**	**511.0**	**4.2%**
Goodwill from co. Fully consolidated	16.7	14.4	
Goodwill from co. equity participated	1.3	0.5	
Intangible assets and rights	410.2	410.3	
Intangible assets provisions and amortisation	(75.7)	(82.4)	
Net intangible fixed assets	**352.5**	**342.9**	**-2.7%**
Land and buildings	1,533.2	1,558.3	
Technical installations and machinery	277.4	286.9	
Other fixed assets	404.1	430.4	
Tangible assets provision and depreciation	(606.8)	(626.6)	
Net tangible fixed assets	**1,608.0**	**1,648.9**	**2.5%**
Equity Affiliates	25.5	23.9	
L/T loans due from affiliates	5.5	7.3	
L/T securities portfolio	49.8	48.4	
Holding of own shares	6.0	2.6	
Other loans	79.4	64.2	
Provisions	(5.7)	(3.0)	
Financial investments	**160.6**	**143.5**	**-10.7%**
FIXED ASSETS	**2,121.0**	**2,135.3**	**0.7%**
Deferred expenses	26.9	19.7	
Start-up expenses	18.2	24.6	
TOTAL ASSETS	**2,656.3**	**2,690.6**	**1.3%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Dec 03 (Aud.)	Mar 04	% Incr.
Debenture Bonds Payable	241.1	228.4	
S/T loans	101.4	94.2	
S/T loans due to affiliated companies	0.2	1.7	
Trade accounts payable	122.1	124.1	
Other payable	60.2	70.4	
Prepaid income	4.5	4.6	
Operating provisions	0.0	0.0	
TOTAL CURRENT LIABILITIES	**529.5**	**523.4**	**-1.1%**
Debenture Bonds Payable	490.0	490.0	
L/T loans	520.4	538.9	
L/T loans due to affiliated companies	0.3	0.6	
Other L/T Liabilities	86.4	89.2	
TOTAL L/T LIABILITIES	**1,097.1**	**1,118.7**	**2.0%**
Share capital	37.0	37.0	
Share premium	792.7	792.7	
Distributable reserves	16.8	16.8	
Reserves in companies fully consolidated	357.4	368.1	
Reserves in companies equity participated	4.4	5.0	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	60.3	60.3	
Profit/(loss) previous year	(318.1)	(330.1)	
Differences in conv. of co. fully consolidated	(254.9)	(210.2)	
Differences in con. of co. equity participated	(3.7)	(3.5)	
Consolidated profit/(loss)	49.1	13.2	
Profit/(loss) attributable to external shareholders	(11.0)	(3.2)	
Interim dividend	0.0	0.0	
TOTAL SHAREHOLDERS' EQUITY	**779.3**	**795.4**	**2.1%**
First consol. Reserves from co. fully consolidated	15.6	15.2	
First consol. Reserves from co. equity participated	0.0	0.0	
Deferred income	18.0	19.3	
Provisions for risks and expenses	53.8	50.5	
Minority interests	163.0	168.0	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,656.3**	**2,690.6**	**1.3%**

4. Expansion

The table below shows a description of the progress in the Sol Meliá hotel portfolio during the first quarter 2004:

Table 8. Expansion plan.

Owned & Leased	01/01/04		ADDITIONS		LOSSES		CHANGES		31/03/04		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**93**	**15,052**	**3**	**393**	**1**	**63**	**0**	**70**	**95**	**15,382**	**6**	**1,127**	**101**	**16,509**
Owned Hotels	36	7,329	0	0	0	0	0	0	36	7,329	0	0	36	7,329
Leased hotels	57	7,723	3	393	1	63	0	70	59	8,123	6	1,127	65	9,250
EUROPEAN RES.	**57**	**15,939**	**0**	**0**	**0**	**0**	**0**	**0**	**57**	**15,939**	**0**	**0**	**57**	**15,939**
Owned Hotels	41	12,968	0	0	0	0	0	0	41	12,968	0	0	41	12,968
Leased hotels	16	2,971	0	0	0	0	0	0	16	2,971	0	0	16	2,971
AMERICA	**13**	**4,873**	**1**	**490**	**0**	**0**	**0**	**0**	**14**	**5,363**	**0**	**0**	**14**	**5,363**
Owned Hotels	12	4,628	1	490	0	0	0	0	13	5,118	0	0	13	5,118
Leased hotels	1	245	0	0	0	0	0	0	1	245	0	0	1	245
OWNED HOTELS	89	24,925	1	490	0	0	0	0	90	25,415	0	0	90	25,415
LEASED HOTELS	74	10,939	3	393	1	63	0	70	76	11,339	6	1,127	82	12,466
TOTAL	**163**	**35,864**	**4**	**883**	**1**	**63**	**0**	**70**	**166**	**36,754**	**6**	**1,127**	**172**	**37,881**

Management & Franchise		01/01/03		ADDITIONS		LOSSES		CHANGES		31/03/04		SIGNED		TOTAL GROUP	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	**M**	20	3,544	0	0	1	124	-1	-140	18	3,280	1	299	19	3,579
	F	17	1,987	0	0	0	0	1	140	18	2,127	0	0	18	2,127
EUR. RESORT	**M**	39	13,083	0	0	1	227	0	0	38	12,856	3	660	41	13,516
	F	13	4,625	0	0	0	0	0	0	13	4,625	0	0	13	4,625
AMERICA	**M**	38	8,815	0	0	1	120	0	0	37	8,695	3	710	40	9,405
	F	9	1,261	0	0	1	54	0	0	8	1,207	0	0	8	1,207
ASIA-PACIFIC	**M**	9	2,839	0	0	0	0	0	-5	9	2,834	1	685	10	3,519
	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	1	240	24	8,716
SUBTOTAL	**M**	129	36,757	0	0	3	471	-1	-145	125	36,141	9	2,594	134	38,735
	F	39	7,873	0	0	1	54	1	140	39	7,959	0	0	39	7,959
TOTAL		**168**	**44,630**	**0**	**0**	**4**	**525**	**0**	**-5**	**164**	**44,100**	**9**	**2,594**	**173**	**46,694**
TOTAL GROUP		**331**	**80,494**	**4**	**883**	**5**	**588**	**0**	**65**	**330**	**80,854**	**15**	**3,721**	**345**	**84,575**

M= Management; F= Franchise

In the first quarter of 2004, the owned hotel Paradisus Puerto Rico opened its doors and increased the Sol Meliá's Owned Hotel Portfolio in the American Division. The hotel is an All Inclusive 490 suite luxury resort situated in San Juan (Puerto Rican capital). The Company believes this property, with government support, will take advantage of the positive momentum in the Caribbean as a business and leisure destination for US travellers, while providing an alternative to

the Company's clientele in Europe who have gained in purchasing power due to the Euro appreciation.

During the first quarter of 2004, Sol Meliá added 3 new hotels to its portfolio under lease contracts in the European City Division: the Tryp San Lázaro in Santiago de Compostela, Spain (132 rooms), the Tryp Indalo in Almeria (186 rooms), and the Meliá Boutique Rex in Geneva, Switzerland (75 rooms).

The loss of the lease contract in the first quarter of 2004 corresponds to the Tryp All Suites Escultor (63 rooms) in Madrid, Spain (European City Division).

Losses under management contracts in the European Resort correspond to the Hotel Meliá Almuñecar (227 rooms) in Spain. In the European City Division the Tryp Dormagen (124 rooms), in Germany. And in the American Division, the Tryp Bienal Ibirapuera (120 rooms) in Brazil.

One establishment under franchise contract was lost in the first quarter of the year in the Americas Division, the Sol Playa Hermosa (54 rooms) in Costa Rica.

Table 9. Signed projects of owned and leased hotels

	2004		2005		2006		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
EUROPEAN CITY								
PROPERTY	0	0	0	0	0	0	0	0
LEASE								
Spain	2	248	0	0	0	0	2	248
Italy	0	0	1	140	0	0	1	140
Germany	0	0	2	375	1	364	3	739
TOTAL	**2**	**248**	**3**	**515**	**1**	**364**	**6**	**1,127**