Sol Meliá HOTELS & RESORTS

2004 Year-End Results

Profit & Loss Account

(Million Euros)	Dec 04	Dec 03	%
Revenues	**1,038.7**	**987.8**	**5.1%**
Expenses (ex – Op. leases)	**(738.0)**	**(701.7)**	**5.2%**
EBITDAR	**300.8**	**286.1**	**5.1%**
Rental expenses	(67.6)	(63.8)	6.0%
EBITDA	**233.1**	**222.3**	**4.9%**
Depreciation and amortisation	(112.2)	(111.1)	1.0%
EBIT	**121.0**	**111.2**	8.7%
Total financial profit/(loss)	**(51.0)**	**(57.1)**	**-10.7%**
Profit/(loss) from equity	1.1	(0.1)	1478.8
Goodwill amortisation	(2.6)	(3.0)	-10.4%
Ordinary EBT	**68.4**	**51.1**	**33.9%**
Extraordinary items	5.9	12.1	-51.5%
PBT	74.3	63.2	17.5%
Net Profit	**70.4**	**49.1**	**43.4%**
Net Profit attributable	**60.0**	**38.1**	**57.4%**

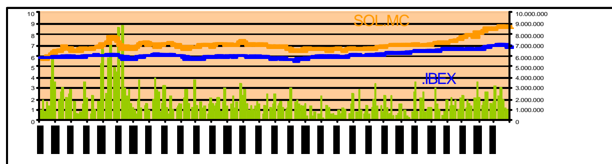
Operational Ratios

	Dec 04	Dec 03	%
RevPAR	44.6	44.8	-0.5%
Ebitdar margin	29.0%	29.0%	-1.2 bp
Ebitda margin	22.4%	22.5%	-6 bp
Ordinary profit margin	6.6%	5.2%	141 bp
Net profit margin	5.8%	3.9%	192 bp

Financial Ratios

	Dec 04	Dec 03	%
NET DEBT	988	1.104	-10.5%
NET DEBT / TOTAL EQUITY	104%	117%	-1341.5
EBIT / NET INTEREST	2.3x	1.9x	0.5x

Stock Performance



Average Daily Volume (€)	1,618,006
2004 High, March 8th	€7.80
2004 Low, January 5th	€5.63
Historical High, Jun 9th 2000	€14.28
Marketcap Feb 24rd 05 (€8.70)	€1.607.6 million

Highlights

Revenues, Ordinary Profit and Net Profit increase by 5.1%, 33.9% and 57.4% respectively

The performance is largely explained by the continuing strong evolution of the Caribbean and the European urban properties outside Spain, the improvement of the Spanish resort segment and the launch of the Sol Meliá Vacation Club as part of the asset management business which has seen an increase in revenues of 260%.

Outlook 2005

The Company is moderately optimistic about the performance of the main divisions and progressive growth on a quarterly basis throughout the year. Spanish cities continue to present a challenge due to supply-side increases, while European cities are expected to benefit from a general recovery in the sector and margin for further repositioning company properties with respect to their competitive set. The Spanish resort business is witnessing a pick-up in demand, while the Caribbean is expected to progressively strengthen its performance after the hurricanes thanks to growth in travel from the US and Canada and the weakness of the dollar. The Company continues to see strong uptake from clients for direct channels of distribution.

Reinforcement of Real Estate business in 2005

Potential value of Company assets will generate capital gains through rotation that will free up cash flow to reduce debt or allocate to higher return businesses. More profitable use of square metres in company owned or third party owned properties will also be a focus, together with the consolidation of the Vacation Club in the Caribbean and the launch of the Timeshare business in Europe. The Company will leverage prior experience in condominium hotel management to respond to the growing demand of Sol Meliá's clientele for a new style of condominium hotels.

Debt reduction of 116.4 million Euros (-10.5%)

Net debt amounts to 988 million Euros. Total 2004 net capex amounts to 57 million Euros achieving the net capex over revenues objective which will also be the case for 2005. Further debt reduction is forecasted in 2005 derived from the generation of free cash flow and asset rotation. Within the strategic framework of asset management, the Company has sold in 2005 the Tryp Macarena (Seville) and the Meliá Torremolinos for 42 and 23 million Euros respectively at a combined EBITDA multiple of 26x. .

Meliá Hotels & Resorts · TRYP · Sol Hoteles · Paradisus Resorts · Hard Rock Hotel · Sol Meliá vacation club

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

Dear friend,

Sol Meliá is pleased to announce its full year results for 2004, reporting a 5%, 5%, 34% and 57% increase in revenues, EBITDA, ordinary profit and Net Profit attributable respectively. These positive results are mainly explained by the robust performance of the Caribbean, the resilience of our Spanish resorts, the performance in European cities outside Spain and the launch of the Sol Meliá Vacation Club, our Timeshare Division. The difficulties seen in the Spanish urban segment have been largely offset by geographical and segment diversification.

… 4.1 % RevPar increase of our Spanish resorts. Good prospects for 2005 …

As advanced in prior reports, our summer season has been positive in Spain. The Canary islands confirmed the recovery seen in Q3 with an 8.5% RevPar increase in Q4. The disintermediation process seen in the evolution of our centralized channel sales - especially solmelia.com - and the growth of low cost airlines coupled with growth in our domestic clientele, largely explain the 4.1% RevPar increase for the year.

Spain maintained its position as the second travel destination in the world. The number of foreign tourists rose by 3.4% in 2004 to a historical high of 53.6 million.

Going forward, prospects for Spanish resorts are positive. The Company is monitoring a positive trend in bookings from Germany and the UK. Destinations like the Balearics, southern Spain and, to a lesser extent, the Canary Islands will benefit from these trends. Additionally, Sol Meliá will continue to benefit from further progress in the process of disintermediation in our industry, already reflected in the strong performance from online tour operators and, more importantly, in our own solmelia.com bookings. As far as the worldwide travel and tourism industry is concerned, the World Tourism Organisation estimates 5% growth for the sector in 2005.

… Caribbean fuelled by US and European visitors …

The Company has confirmed the negative impact in Q4 of the hurricanes on our operations in the Caribbean. Although the Company suffered no major damages in its establishments, the destinations were affected in October and November due to the postponement of leisure travel and business groups. Nevertheless, the strong upward trend seen throughout the year in our main destinations in the region has led the Company to increase total revenues by 29% in USD terms. The quality of our all inclusive product and the consolidation of Sol Meliá's presence in the US feeder market is largely behind this performance.

Looking into 2005, current underlying performance is advancing according to expectations and prospects remain healthy for the year in light of the price increases negotiated with North American tour operators despite the negative impact in costs of 70% appreciation of the Dominican peso. The contribution of the fully-owned Paradisus Puerto Rico, an all inclusive 490 suites luxury resort, is likely to make a difference in the performance of the Division in light of the good momentum for the Caribbean as a business and leisure destination for travellers. The resort will also provide an alternative for the Company's clientele in Europe, currently more affluent thanks to an increase in purchasing power due to Euro appreciation.

… Sluggish Spanish cities partially offset by European cities …

The performance in European cities outside Spain has partially offset the sluggish performance of the Spanish cities. The positive underlying performance of the European cities outside Spain, has enabled London and Paris to increase RevPar by 27.0% and 9.2% respectively, while our 12 leased establishments in Germany increased their combined RevPar by 12%. The Spanish urban segment has reported a 4.7% RevPar decrease for the year (Meliá: -1.2%, Tryp: -7.5%; further quarterly trends by brand are given in the "*Information on operations*" section of this report). Spanish cities have been hard hit in 2004 by the increase in supply seen in the last two years. The terrorist attacks of 11th March in Madrid, the general elections and the change of government have also hit the business, especially in the city of Madrid.

Going into 2005, the Company believes that a progressive recovery may occur if supply increase decelerates in late 2005. Sol Meliá's perception is that the supply increase seen over the last two years is a consequence of decisions taken three to four years ago when the real estate market and Spanish urban hotel sector were booming within a market enjoying high levels of liquidity. In the current scenario, i.e. high real estate prices, highly competitive market and low returns from new establishments, some hotel projects are likely to be converted to residential use or postponed.

With regards to cost control and brand standardisation, the Company has focused on the rationalization of personnel functions and working hours at the hotel and corporate level. At the food and beverage cost level, we have had a more rigorous adaptation of food and beverage services to brand standards. The SAP Materials Management program has improved the centralized purchasing of entertainment products, amenities, gardening, decoration, energy, cleaning and office equipment.

… solmelia.com increased its sales by 88% …

On the distribution side, solmelia.com achieved 25% of central reservation system sales (15% in 2003) and 88% of total Internet sales. The increase in sales is largely explained by different measures recently implemented based on a) search engine optimisation, b) expansion of solmelia.com customer base and c) personalised e-mail marketing campaigns. Sales made through our website have increased for all brands, especially the Sol brand (+120%). Sales through solmelia.com are likely to increase in 2005, as indicated by the 54% increase achieved in January. Additionally, the joint venture signed with lastminute.com has led to 56% growth in the sale of Sol Meliá hotels via the European market's leading online travel distributor.

… focus on Research, Development & Innovation …

After a separation of functions in the marketing and sales division, the Company has assigned a Chief Marketing Officer. The new marketing division will be focused on increasing the value of our brands in the medium and long term, involving strategic issues in both the hotel and real estate businesses. This division is also responsible of the creation of a Research, Development & Innovation (R+D+I) department which is focused on increasing efficiency and the implementation of new ideas for each of the brands. All areas of hotel activity will be looked at F&B, entertainment, spas, etc. in order to generate increases in other income. The department will also be in charge of brand differentiation and standardisation allowing for better cost control and client satisfaction throughout our brands.

On the other hand, the role of the new sales division is more tactical, focused on the short term evolution of the hotel business.

The strategic alliances signed in 2003 which include Timeshare and distribution with Cendant, online distribution with lastminute.com, development of Hard Rock hotels and Flintstones theme hotels with the Rank Group and Warner Bros. respectively have all, at different levels, produced positive results during the course of 2004

... strategic alliances are paying off

More recently, Sol Meliá and The Stein Group announced a 50/50 joint venture ("Luxury Lifestyle Hotels & Resorts") to cooperate in the distribution, sales, marketing and management of outstanding small luxury hotels. The Joint Venture, will initially include 57 hotels in 10 countries in Europe, amongst them 12 Meliá Boutique hotels.

… two Hard Rock Hotels incorporated in New York and Madrid in 2004…

During the course of 2004, the 50/50 Hard Rock Hotels (HRH) joint venture with Rank Group incorporated two establishments: the Paramount Hotel in Times Square, New York, and the Reina Victoria Hotel in Madrid. Both hotels will undergo an extensive refurbishment and will open their doors as Hard Rock New York (541) and Hard Rock Madrid Reina Victoria (202). In 2003, the company added the Hard Rock Chicago (381), while the Hard Rock San Diego (250) is scheduled for 2006.

Following the successful launch of the Sol Flintstones hotels, the Company is developing along with Warner Bros. a new concept for family entertainment in 15 more Sol-branded hotels: Flintstones Land. This new product provides a new way of spending a fun-packed activity holiday for families.

… Asset Management Division reinforcing Asset rotation…

The newly created Asset Management Division will strengthen Real Estate assets as part of its core activity in the medium and long term through a more proactive rotation of Company assets. In 2004, the Asset Management team has carried out the sale the Sol Aloha Playa (Malaga, Spain) and Tryp Caballo Blanco (Cadiz, Spain) hotels at a combined 14.4x EBITDA multiple. In 2005, the asset rotation activity will be an integral part our the Real Estate business. In this regard, we include the Real Estate Company *Desarrollos Sol S.A.* in the Dominican Republic, which owns close to 500,000 square metres of land.

… 2004 focus on Time Share came to fruition…

The timeshare business is also an example of the new approach to real estate management. Full year timeshare revenues have increased by 260% due to projects launched in Cancun, Puerto Vallarta (Mexico) and Punta Cana (Dominican Republic), taking advantage of locations and units within existing resorts. In 2005, additional Sol Meliá Vacation Club projects in Cancun, Punta Cana and Puerto Rico will be launched within our existing resorts in the Americas. In Europe, two additional projects are planned to open in the Canary Islands in 2005. The newly created "Sol Meliá Vacation Club Network" is designed to offer its members a wide choice of holiday destinations of Company hotels offering first class service. Additional advantages are the inclusion as a Gold member in our loyalty programme as well as special conditions that the club has agreed with partners including airlines, car hire, cruises, etc. The Company is working hard to strengthen the presence of its Vacation Club throughout Europe in the medium term.

Following the strategy mentioned above and considering asset management as part of our core business, the Asset Management Division has carried out in January 2005 the sale of the Tryp Macarena (329) in Seville and, more recently, the Meliá Torremolinos (283) in the Costa del Sol.

... sales of Tryp Macarena and Melia Torremolinos by 65 million Euros…

Regarding the Tryp Macarena, the transaction has been made at 42 million Euros (127,660 per room) at 19.0x EBITDA'04 multiple, generating 24 million Euros of capital gains and made at a 56% premium over the valuation of American Appraisal. Sol Meliá will run the hotel through a lease contract. Lease expenses include a 5.25% fixed rate payment on the price of sale plus a variable lease expense of 50% of the remaining EBITDA following the first payment. The length of the contract is 25 years plus an option for Sol Meliá of 10 additional years.

The Meliá Torremolinos has been sold for 23 million Euros (81,272 Euros per room) at a 62x EBITDA'04 multiple, generating 17.4 million Euros of capital gains. The transaction has been made at a 30% premium over the valuation of American Appraisal and will be operated by Sol Melia until October when we will account for the sale. The sale was primarily motivated because the hotel was not reaching the minimum quality standards of the Melia brand. This property is going to be developed as condo hotel by the new owner.

… condo-hotels development…

Additionally, both for the sake of the optimization of the current Real Estate portfolio and also for the future expansion and development of hotels and resorts in different regions expansion of Sol Meliá free of company's capital requirements, Sol Melia will develop the condo-hotel business model. In this regard, the Company has experience of this business through the "apartotel" system in Spain and Brazil for thirty years, currently managing thirty units. It consists of the promotion and sale to individuals of room units in a hotel development (the condo sales pay off the construction loan). The investor acquires a deeded real estate unit ("condo") which can then be included in a hotel programme operated by the hotelier. The unit buyer assures to enjoy the services and facilities provided by the hotel operator free of charge for a number of days plus highly discounted rates during other stays, and secondly that his/her property will be properly maintained according to the standards of an upscale establishment – in exchange investors are open to pay significant premiums, in comparison with similar properties, in light of the financial comfort that hotel brand adds to their real estate – These condo-hotels will typically be located in prime resort or urban areas and mostly focused on the upscale segment. Sol Meliá has advanced negotiation to enter into this property model either in Spain, Europe, Latin America and the Caribbean, and the United States. Four of these new condos – either transforming existing Sol Meliá hotels or developing new ones – will be marketed during the second half of 2005 and will start to contribute to the P&L throughout 2006.

Additionally the Asset Management team is working on the maximisation of "Other Revenues" in our existing hotels either through owned initiatives or teaming up with leading players while complementing the respective brands by developing car parks, spas, commercial leases and the management of residential service.

… Net Debt decreases by 11% …

At the close of 2004, net debt amounts to 988 million Euros which represents an 10.5% decrease – 116 million Euros – in comparison with the1,104 million Euros in 2003. Net capex represent 57 million Euros while it is our commitment to stick to 5% net capex over revenues also in 2005. Going forward, the Company is making efforts to recover the "investment grade" credit rating from Standard & Poor's soon (currently BB+, stable outlook; BBB- neutral outlook from Fitch IBCA) as the Company improves its free cash flow generation, from both its hotels and real estate activities, and restricts the level of capital expenditure to the maintenance of the properties.

In terms of future debt financing, in December 2004 Sol Meliá signed a syndicate loan for 175 million Euros. The 5-year maturity loan holds an interest rate indexed to Euribor with a spread that varies between 0.6% and 1.0% depending on a financial ratios matrix. The purpose is the partial refinancing of the 340 million Euros bond issue due in February 2006. The remaining amount will be paid by free cash flow generation. No other major maturity will occur in the medium term.

To conclude this letter, Sol Meliá's management will be devoted to maintaining a focus on the creation of value through the improvement of the underlying hotel business while also reinforcing the asset management business via the rotation of its 4 billion Euros worth of assets, use of spaces, timeshare and condo hotels. The asset management business should be considered as is the hotel business, an important and recurrent part of our operation and an essential way to reduce the existing gap between net asset value (over 15 Euros per share) and market capitalisation (8.70 Euros per share).

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2. Information on Operations

2.1. PROPERTY BUSINESS

RevPar for owned and leased hotels has increased by 0.5%.The decrease in the Spanish urban segment and US dollar depreciation which has affected the Americas Division has been offset by the positive performance of resorts in Spain and the Caribbean together with European cities outside of Spain. On a same currency basis, total RevPar increased by 4.1%.

In the **European Resort Division** – Spain represents 98% of the division's revenues – RevPar has increased by 3.9% to December. In Q4, the division increased RevPar by 11.1%.

The positive performance of the domestic and UK feeder markets has enabled destinations like the Balearics and Alicante, together with the company's resorts on the Southern Spanish coast to continue the positive trend seen throughout the year without jeopardising A.D.R. The Canary Islands have continued the recovery seen in the previous quarter after a performance below expectations in 1H04 due to the competition from the Caribbean. The domestic market is largely behind the recovery. The 5.8% A.D.R increase in the division is explained by the limitation of special offers made in the Canary Islands and, more importantly, due to the process of disintermediation seen throughout the year and the sales increases through solmelia.com. This has led the Company not only to have a higher ADR in comparison with the net rates given to tour operators, but also to provide a more attractive price for the final customer with whom the mark-up applied by a tour operator has been shared. The new concept of the Flintstones Hotels in the Balearics and Costa del Sol has also been a positive influence.

RevPar in the **European City Division** decreased by 1.6% due to the sluggish performance of Sol Meliá's Spanish urban segment during the year (-4.7% RevPar decrease). The Company has seen a minor improvement in Q4, with RevPAR decreasing by only 2.7% versus the 4.8% RevPAR decrease in Q3 and 8.2% RevPAR decrease in Q2 after the terrorist attacks of 11th. March in Madrid. The poor performance at the accumulated Spanish level has been offset by a positive performance throughout the year in major European cities such as London and Paris, where RevPar has increased by 27% and 9.2% respectively for the year. The latest RevPar figures from the HotelBenchmark survey (up to December) for London and Paris show 13.8% and 4.4% increases respectively. The better-than-average performance is related to the renovation and refurbishment processes carried out in these properties and their repositioning to focus on a more higher standard clientele and the corporate segment. In Germany, RevPAR increased by 12%.

Going into the evolution of the Spanish market by brands, Meliá decreased RevPar by 1.3% for the full year (Q1: +2.1%; Q2: -4.8%; Q3: -1.1%; Q4:-0.6%). These full service hotels are precisely those that are showing a better trend in performance as of February 2005, as opposed to the limited service Tryp hotels.

In Spain, hotels under the Tryp flag have reported a –7.6% RevPar decrease for the twelve month period (Q1: -3,4%; Q2: -10,7%; Q3: -6,9%; Q4: -9.0%).

By cities, the company's RevPars in Madrid and Barcelona have decreased by 7.4% and 0.6% for the full year. These figures compare with the overall decrease in Madrid and Barcelona according to the Hotelbenchmark survey (December 04) of –11.8% and –11.5% respectively, showing a positive comparative performance in these cities. Seville has gone down by 3.0%.

Regarding the **Americas Division**, during the full year, RevPAR and A.D.R. figures have been negatively affected by the depreciation of the US dollar. On a same currency basis, RevPAR and A.D.R. increased by 25.5% and 27.7% respectively.

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

OWNED&LEASED HOTELS Dic. 04/03			*Occupancy*	*RevPAR*	*A.D.R.*
EUROPEAN RESORT		**2004**	71.1%	38.3	53.9
	% o/ 2003		**-1.8%**	**3.9%**	**5.8%**
.		**2003**	72.4%	36.9	50.9
EUROPEAN CITY		**2004**	63.5%	52.4	82.6
	% o/ 2003		**1.1%**	**-1.6%**	**-2.6%**
		2003	62.8%	53.2	84.8
AMERICA (1)		**2004**	64.2%	38.2	59.5
	% o/ 2003		**-1.8%**	**1.0%**	**2.8%**
		2003	65.3%	37.8	57.9
TOTAL (2)		**2004**	66.4%	44.8	67.5
	% o/ 2003		**-0.8%**	**0.5%**	**1.4%**
		2003	67.0%	44.6	66.6

(1) Total RevPar and A.D.R. on a same currency basis increased by 25.5% and 27.7% respectively

(2) Total RevPar and A.D.R. on a same currency basis increased by 4.1% and 4.9% respectively

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.

The 0.9% increase in available rooms in the **European City Division** is largely explained by the newest leased hotels in Spain during the first half 2004 under the Tryp brand. The item has also increased 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 the Sol Aloha Playa and Sol Patos in the Costa del Sol and the disaffiliation of the Sol Brisamar in Fuerteventura (Canary Islands).

In the **Americas Division**, the increase of available rooms is explained by the opening of the owned Paradisus Puerto Rico, and Gran Meliá Mofarrej in Sao Paulo (Brazil) under a lease contract.

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

% Increase Dec 04 / 03	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	3.9%	-1.6%	1.0%	0.5%
Available Rooms	-5.6%	0.9%	18.4%	0.8%
Room Revenues	-1.9%	-0.7%	19.6%	1.3%

As table 3 shows, the full year 2004 indicates a positive trend on revenues.

In the **European Resort Division**, the decrease in "Food & Beverage" is due to the 5.6% decrease in available rooms and the - 1.8% occupancy decrease .

In the **European City Division,** the 4.1% increase in F&B is explained by the standardisation of service levels by brand, and the definition of optimal staffing levels in each point of sale carried out by the F&B Division.

The 7.4% increase in "Other Revenues" is basically explained by the increase in meeting room rental to business groups in Madrid and Seville together with the hotels in Germany. The recent commercialisation of the Gran Meliá Victoria Convention Centre in Palma de Majorca also contributes to the increase.

The **Americas Division** hotels' increase in Food & Beverage revenues is due to the progressive commercialisation of "all inclusive" packages in the company's Mexican properties throughout 2003.

In terms of future "Food and Beverage" trends, the new F&B Division has been focused 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 managers. Dani Garcia – known for his nitrogen cooking experience - and Jacinto del Valle, two of the leading chefs in Spain, have joined the Gran Meliá Don Pepe (Marbella) and the Gran Meliá Victoria (Palma de Mallorca) respectively. In the Sol brand, we have developed the Brontoburguer concept, the "Betty's kitchen" restaurants and themed restaurants for Flintstones hotels as well as the dynamic fun dinner including a variety of different theme nights with decoration and shows to entertain Sol Meliáhotel's guests. In the Tryp brand, the Company is providing room service with *Telepizza* and we are developing a new concept of cafeteria that will soon be available to the company's clientele. In the Meliá brand, we will continue to surprise with an extensive range of Mediterranean, Asian and South American culinary experiences.

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

Dic. 04/03	E.RESORT			E.CITY			AMERICA (*)			TOTAL		
(Million Euro)	**04**	**%o/03**	**03**	**04**	**%o/03**	**03**	**04**	**%o/03**	**03**	**04**	**%o/03**	**03**
ROOMS	171	-1.9%	175	291	-0.7%	293	75	19.6%	63	538	1.3%	531
F&B	99	-8.4%	108	107	4.1%	103	88	18.6%	74	294	3.1%	285
OTHER REVENUES	11	-3.1%	12	28	7.4%	26	19	20.1%	16	59	8.9%	54
TOTAL REVENUES	282	-4.3%	295	426	1.0%	421	183	19.2%	153	890	2.4%	869

(*) In the Americas "Room Revenues", "Food & Beverage", "Other Revenues" and "Total Revenues" changed by 30%, 28.5%, 29% and 29%, respectively, when excluding the currency effect. In addition to this, when excluding the newest incorporations, these items changed by 15%, 19%, 21% and 18% respectively.

2.2. MANAGEMENT BUSINESS

Management fees increased by 10% due to the positive results obtained by the Company's resorts, especially in the Caribbean.

In the **European resort hotels** the increase in the fee revenues of 5 % is mainly explained by the positive summer season for Sol Melia resorts in Spain together with the evolution of Croatia and the increase in fees from the hotels in Egypt. The **European City hotels'** total fees decreased by 15%, mainly explained by the disaffiliation of two hotels in Portugal (Lisbon and Coimbra), four non-branded hotels in Morocco and the results of one of thelargest hotels in management, the Meliá Castilla in Madrid, due to the difficulties experienced in the city throughout 2004.

In the **Americas** the total increase in fees reached +27%. 2004 was a very positive year for the management business in the Americas division, due to the improvement in fees from Costa Rica and Brazil, together with the recent incorporations of the Hard Rock Hotel Chicago and the Paramount New York in the US. US citizens led the recovery in the first half of the year, while the performance in the second half of the year is mainly explained by the weakness of the dollar which continues to be positive factor for European tourists. The **Cuban Division** increased total fees by 16% thanks to the increase in occupancy of 8% derived from continuous growth in the major European and Canadian feeder markets.

The management fees of the **Asia-Pacific Division** increased by 53%, explained by the good results of the hotels in Vietnam, Malaysia and especially in Indonesian resorts .The recovery of the world economy, and in particular of the economies of major American and European feeder markets, together with the strength of the economies of North-East Asian countries, strongly contributed to the very positive results of the **Asia-Pacific Division** in 2004. The Tsunami which occurred in December 2004 had no impact on Sol Meliá's hotels nor their clientele.

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Million		Dec-04	Incr. 04/03	Dec -03
EUROPEAN RESORT	**Basic**	6.6	8.4%	6.1
	Incentive	4.2	0.2%	4.2
		10.8	**4.8%**	**10.3**
EUROPEAN CITY	**Basic**	5.5	-9.9%	6.1
	Incentive	1.2	-30.9%	1.8
		6.7	**-14.7%**	**7.9**
AMERICAS	**Basic**	4.9	29.6%	3.8
	Incentive	3.0	24.2%	2.4
		7.9	**27.5%**	**6.2**
ASIA-PACIFIC	**Basic**	1.3	27.9%	1.0
	Incentive	1.0	102.3%	0.5
		2.3	**52.7%**	**1.5**
CUBA	**Basic**	10.3	6.6%	9.7
	Incentive	4.8	42.0%	3.4
		15.2	**15.8%**	**13.1**
Total Basic		28.7	7.3%	26.7
Total Incentive		14.2	15.8%	12.3
TOTAL		**42.9**	**10.0%**	**39.0**

2. Income Statement

- **Revenues**

Total Revenues increased by 5.1% due to the improvement at the operating level of Sol Meliá's hotel network, mainly in the Caribbean, Spanish resorts and European cities outside Spain, together with the contribution of the most recent hotel additions. Hotel Revenues increased by 2.4%, while on a same hotel basis this item increased by 1.3%. Management Fees increased by 10% as explained on page 9 of this report, while the 32.8% increase in the Other Revenues item is largely explained by the performance of Sol Meliá Travel (Sol Meliá's B2B travel agency), Real Estate sales in Punta Cana and the launch of Sol Meliá Vacation Club, the Timeshare Division

- **Operating Expenses**

The "Raw materials" item increased by 11.3% due to the cost of product derived from an increase in sales of Sol Meliá Vacation Club and Sol Meliá Travel. On a same hotel basis the "Raw materials" item increased by 8.6% due to the 13% appreciation of the Dominican peso throughout 2004 which has affected costs in the country.

The "Personnel expenses" item increased by 3.7% due to the newest incorporations and the launch of Sol Meliá Vacation Club.

The increase in "Rental Expenses" by 5.7% 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. Total leased available rooms have increased by 3.5% versus last year.

The "Other operating expenses" item increased by 5.8% due to the incorporation of new properties in the portfolio. On a same hotel basis, the item increased by 4.1%. Sol Meliá continues to work on the externalization of some services, operating efficiency and shifting some of the fixed costs to variable costs. Additionally the costs of energy remain low thanks to the advantageous agreements with different supplier companies and to permanent programmes aimed at improving efficiency in energy consumption which are also likely to pay off in 2005.

- **EBITDA / R**

EBITDA and EBITDAR have increased by 4.9% and 5.1 % respectively.

- **Net Profit**

"Profit from Equity investments" represent 1.1 million Euros versus last year's losses of 0.1 million derived from a positive evolution of the Paradisus Riviera Cancun in Mexico.

Extraordinary Profits include capital gains generated by the disposal of the Sol Aloha Playa, the 50% stake in the Spanish Tour operator Meliá Tours and the Tryp Caballo Blanco. On the negative side, it also includes the inflationary effect in Venezuela, the write-off of fixed assets of hotels under refurbishment process and indemnification for disaffiliation of loss-making leased establishments in Spain.

The company has reached a 5.2% tax rate derived from the generation of non-taxable one-off results generated in the last quarter.

Table 5 : Sol Meliá Consolidated Income Statement

Million Euros	Dec 2004	Dec 2003	
Hotel Revenues	890.1	869.2	
Management Fees	42.9	39.0	
Other revenues	105.7	79.6	
Total revenues	**1,038.7**	**987.8**	**5.1%**
Raw Materials	(133.0)	(119.5)	
Personnel expenses	(334.0)	(322.2)	
Change in operating provisions	(4.1)	(7.8)	
Rental expenses	(67.6)	(63.8)	
Other operating expenses	(266.8)	(252.1)	
Total operating expenses	**(805.6)**	**(765.5)**	**5.2%**
EBITDAR	**300.8**	**286.1**	**5.1%**
EBITDA	**233.1**	**222.3**	**4.9%**
Profit/(loss) from equity investments	1.1	(0.1)	
Net Interest Expense	(51.0)	(57.3)	
Exchange Rate Differences	0.0	0.2	
Total financial profit/(loss)	**(51.0)**	**(57.1)**	
Depreciation and amortisation	(112.2)	(111.1)	
Consolidation Goodwill amortisation	(2.6)	(3.0)	
Profit/(loss) from ordinary activities	**68.4**	**51.1**	**33.9%**
Extraordinary profit/(loss)	**5.9**	**12.1**	
Profit before taxes and minorities	**74.3**	**63.2**	**17.5%**
Taxes	(3.9)	(14.1)	
Group net profit/(loss)	**70.4**	**49.1**	**43.4%**
Minorities (P)/L	(10.4)	(11.0)	
Profit/(loss) of the parent company	**60.0**	**38.1**	**57.4%**

3. Balance Sheet

- **Assets**

The decrease of “S/T Securities Portfolio” is totally explained by the maturity of short term investments derived from the excess in cash due to the 150 million Euros Exchangeable bond issue. The funds were temporarily devoted to risk free investments in preferred shares.

The increase in “L/T Treasury Stock” is largely explained by recent appreciation of the Sol Meliá share.

- **Liabilities & Shareholder’s Equity**

Total Net Debt amounts to 988 million Euros, a decrease of 10.5% (116 million Euros) compared to December 2003. During the second half of 2004 the decrease in Short term “Debenture Bonds Payable” was largely explained by the maturity of a 224 million Euros convertible bond issue due in September. At the same time the “Debenture Bonds Payable” in the long term was due to the 150 million Euros Exchangeable issue in November 2003.

The increase of “Differences in conversion of co. fully” is due to the depreciation of the Dollar versus the other main currencies throughout 2004.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Sep 2004	Dec 2004	%
Cash on hand and banks	44.3	75.1	
C/A with equity affiliates	20.8	16.7	
Inventory	29.0	33.2	
Trade receivable	195.5	107.9	
Other receivable	74.7	64.5	
Allowance for doubtful accounts	(34.1)	(37.8)	
S/T securities portfolio	20.9	0.5	
Financial Provisions	(0.0)	0.0	
Loans due from affiliates	0.1	(0.0)	
Short term deposits	57.7	47.3	
Prepaid expenses	6.6	4.7	
Treasury Stock	11.9	11.8	
TOTAL CURRENT ASSETS	**427.4**	**323.8**	**-24.23%**
Goodwill from co. Fully consolidated	15.8	15.4	
Goodwill from co. equity participated	0.5	0.5	
Intangible assets and rights	387.5	371.6	
Intangible assets provisions and amortisation	(91.3)	(94.9)	
Net intangible fixed assets	**312.6**	**292.5**	**-6.42%**
Land and buildings	1.669.1	1.604.0	
Technical installations and machinery	330.4	336.1	
Other fixed assets	331.4	323.2	
Tangible assets provision and deprec.	(664.7)	(648.9)	
Net tangible fixed assets	**1,666.2**	**1,614.4**	**-3.11%**
Equity Affiliates	36.8	41.0	
L/T loans due from affiliates	4.0	5.2	
L/T securities portfolio	45.4	39.9	
Treasury Stock	2.2	8.3	
Other loans	66.4	77.8	
Provisions	(1.1)	(0.6)	
Financial investments	**153.7**	**171.5**	**11.58%**
FIXED ASSETS	**2,132.5**	**2,078.4**	**-2.54%**
Deferred expenses	18.7	28.0	
Start-up expenses	26.1	19.2	-
TOTAL ASSETS	**2,604.7**	**2,449.5**	**-5.96%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Sep 2004	Dec 2004	
Debenture Bonds Payable	19.4	19.9	
S/T loans	172.5	136.1	
S/T loans due to affiliated companies	1.0	0.5	
Trade accounts payable	152.4	132.8	
Other payable	88.0	73.3	
Prepaid income	5.6	3.3	
Operating provisions	0.0	0.0	
TOTAL CURRENT LIABILITIES	**439.0**	**365.9**	**-16.66%**
Debenture Bonds Payable	490.0	490.0	
L/T loans	496.4	464.7	
L/T loans due to affiliated companies	0.1	0.3	
Other L/T Liabilities	89.6	99.1	
TOTAL L/T LIABILITIES	**1,076.1**	**1,054.1**	**-2.04%**
Share capital	37.0	37.0	
Share premium	795.5	785.9	
Distributable reserves	20.4	20.4	
Reserves in companies fully consolidated	407.7	404.5	
Reserves in companies equity participated	6.5	4.4	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	45.3	54.9	
Profit/(loss) previous year	(329.8)	(329.3)	
Differences in conv. of co. fully consolidated	(247.4)	(295.9)	
Differences in con. of co. equity participated	(2.2)	(4.2)	
Consolidated profit/(loss)	64.9	70.4	
Profit/(loss) attributable to external shareholders	(9.4)	(10.4)	
Interim dividend	0.0	0.0	
TOTAL SHAREHOLDERS' EQUITY	**837.7**	**787.0**	**-6.06%**
First consol. Reserves from co. fully consolidated	15.6	1.4	
First consol. Reserves from co. equity participated	0.0	0.0	
Deferred income	10.1	14.1	
Provisions for risks and expenses	57.6	61.9	
Minority interests	168.6	165.2	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,604.7**	**2,449.5**	**-5.96%**

4. Expansion

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

Table 8. Expansion plan.

Owned & Leased	01/01/04		ADDITIONS		LOSSES		CHANGES		31/12/04		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**93**	**15,062**	**4**	**526**	**1**	**63**	**-1**	**-94**	**95**	**15,430**	**5**	**994**	**100**	**16,424**
Owned Hotels	36	7,339	0	0	0	0	-1	-94	35	7,244	0	0	35	7,244
Leased hotels	57	7,723	4	526	1	63	0	0	60	8,186	5	994	65	9,180
EUROPEAN RES.	**57**	**15,939**	**0**	**0**	**1**	**110**	**0**	**0**	**56**	**15,810**	**0**	**0**	**56**	**15,810**
Owned Hotels	41	12,968	0	0	0	0	0	0	41	12,957	0	0	41	12,957
Leased hotels	16	2,971	0	0	1	110	0	0	15	2,853	0	0	15	2,853
AMERICA	**13**	**4,856**	**1**	**490**	**0**	**0**	**1**	**287**	**15**	**5,626**	**0**	**0**	**15**	**5,626**
Owned Hotels	12	4,62	1	490	0	0	1	287	14	5,398	0	0	14	5,398
Leased hotels	1	228	0	0	0	0	0	0	1	228	0	0	1	228
OWNED HOTELS	89	24,935	1	490	0	0	0	193	90	25,599	0	0	90	25,599
LEASED HOTELS	74	10,922	4	526	2	173	0	0	76	11,267	5	994	81	12,261
TOTAL	**163**	**35,857**	**5**	**1,016**	**2**	**173**	**0**	**193**	**166**	**36,866**	**5**	**994**	**171**	**37,860**

Management & Franchise		01/01/04		ADDITIONS		LOSSES		CHANGES		31/12/04		SIGNED		TOTAL GROUP	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	**M**	20	3,544	1	299	1	124	0	-46	20	3,673	0	0	20	3,673
	F	17	1,987	1	62	1	58	1	140	18	2,222	1	45	19	2,267
EUR. RESORT	**M**	39	13,083	1	221	2	685	0	0	38	12,619	3	660	41	13,279
	F	13	4,625	0	0	0	0	0	0	13	4,625	0	0	13	4,625
AMERICA	**M**	38	8,815	3	967	5	867	-1	-287	35	8,628	4	1000	39	9,628
	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	2	316	0	0	7	2,518	1	685	8	3,203
	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	5	1,487	10	1,992	-1	-333	123	35,914	9	2,585	132	38,499
	F	39	7,873	1	62	2	112	1	140	39	8,054	1	45	40	8,099
TOTAL		**168**	**44,630**	**6**	**1,549**	**12**	**2,104**	**0**	**-193**	**162**	**43,968**	**10**	**2,630**	**172**	**46,598**
TOTAL GROUP		**331**	**80,487**	**11**	**2,565**	**14**	**2,277**	**0**	**0**	**328**	**80,834**	**15**	**3,624**	**343**	**84,458**

M= Management; F= Franchise

Table 9. Signed projects of owned and leased hotels

	2005		2006		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
LEASE						
Spain	1	115	0	0	1	115
Italy	0	0	1	140	1	140
Germany	1	250	2	489	3	739
TOTAL	**2**	**365**	**3**	**629**	**5**	**994**

Within the next two years the Company will add to its portfolio 4 hotels under lease contracts: in Germany, the Meliá Düsseldorf (250 rooms), the Tryp Kaiserslautern (125 rooms) and the Meliá Berlin (364 rooms), and in Italy, the Gran Meliá Roma, a new 5 star deluxe hotel with 140 rooms while in Spain, the signed is the Tryp Oviedo in Spain with 115 rooms.

During the fourth quarter of 2004, Sol Meliá dropped from its portfolio the Meliá Panorama (187 rooms) and the Sol Lovina (129 rooms), both in Indonesia and under management contracts. Losses in the Americas Division are explained by the Meliá Pereira in Colombia (199 rooms) also under a management contract.

Portfolio evolution in 3Q.

During the third quarter of 2004, Sol Meliá added two new hotels under management contracts to its portfolio: the Sol Morromar (221 rooms) in Lanzarote (Canary Islands), and the Paramount Hotel in New York (567 rooms). Regarding the latter hotel, Lifestar (50:50 JV between Sol Meliá and Rank Group) signed an agreement to develop and manage an establishment in Times Square, New York City, acquired by Becker Ventures, The hotel will undergo a refurbishment and then be re-branded the Hard Rock Hotel New York (541 rooms).

Under a franchise contract, the Company incorporated the Tryp Porto Centro (62 rooms) in Oporto, becoming the second opening in the city following the recent addition of the Meliá Gaia Porto in 1H2004. Sol Meliá currently has in its portfolio 11 establishments in the country.

In the European City division the franchised Sol Porto Cobo (58 rooms) in La Coruña (Galicia) has dropped from the portfolio.

Portfolio evolution in 1H

During the first half of 2004, Sol Meliá added 1 new hotel to its portfolio under a lease contract in the European City Division, the Tryp Almussafes (133 rooms) in Valencia (Spain). Also in the first half of 2004, the owned hotel Paradisus Puerto Rico opened its doors and increased the Sol Meliá's Owned Hotel Portfolio in the American Division. Additionally, 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 losses in lease contracts in the first half of 2004 corresponds to the Sol Brisamar (110 rooms) in Fuerteventura, Spain (European Resort Division). Under management, Sol Meliá added 2 new hotels to its portfolio: the Meliá Gaia Porto (299 rooms) in Portugal, and the Tryp Naçoes Unidas (400 rooms) in Sao Paulo (Brazil). The Meliá Gaia Porto Hotel is the first Meliá hotel in Portugal and one of the finest hotel of its category in the city of Porto. Under management contracts, losses in the European Resort Division in 1H correspond to the Hotel Sol Suncrest (458 rooms) in Malta. In the Americas Division Meliá Los Cabos (104 rooms) in Mexico and Meliá Confort ITC Nova Faria Lima (287 rooms) in Sao Paulo (Brazil).