Sol Meliá
HOTELS & RESORTS

Paradisus Palma Real, Punta Cana

ME Madrid

Meliá Sierra Nevada, Granada

Valuation of Company Assets
July 2007

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Summary of Valuation

• Gross Value of Sol Melia's Assets (1)	6,820 mn Euros
• Owned Hotel Assets	4,453 mn Euros
• Average Price Per Room	168,990 Euros
• Price Per Room: C.A.G.R. since 2004	+ 5.6%
• Weighted Average Discount Rate / Exit Yield (3)	10.1% / 7.1%
• NNAV (excluding Brand Value)	22.05 Euros
– Discount	23%
• Net Net Asset Value (NNAV)(4)	27.7 Euros
– *Discount*	*38%*

(1) As of June 30th, including intangible assets
(2) Compounded Annual Growth Rate
(3) In CB Eichard Ellis' valuation
(4) Net Asset Value post-taxes

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(*) Net Asset Value Post-Taxes

Scope of Valuation

- CB Richard Ellis was appointed to determine the market value of each of the properties in the real estate portfolio of Sol Meliá, S.A. at June 30th 2007.

- The real estate assets of Sol Meliá are 97 hotels (26,349 rooms) and 18 diverse assets:

  - **Spain:** 67 hotels and 10 diverse assets
  - **Europe**: 11 hotels
  - **Latin America & Asia**: 19 hotels and 7 diverse assets

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Valuation Methods

- **Discounted Cash-Flow Method**
  - Discounted Cash-Flow the first 10 years
  - Direct Capitalization, in order to calculate the exit value of the building in year 10 in the cash flow studies

Market Comparison Method
  - Evaluating the value of a building by analyzing comparable transactions

- Both methods are equally important when determining the Real Estate Value
- Those **plots of land recently acquired**, i.e. Salvador de Bahia (Brazil) and **projects currently under construction**, i.e. GM Princesa de Isora (Tenerife), 2 resorts in Playa del Carmen (Mexico), have been included in this valuation at cost of acquisition and cost of construction respectively

CBRE
CB RICHARD ELLIS

Discounted Cash-Flow Method

- **Discounted Cash-Flow for the first 10 years (DCF):**
  - DCF of the expected cash flow for a 10 year period. Projections on a single asset basis
  - Based on a CB Richard Ellis forecast of income and expenses
  - Sol Meliá provides last 3 years' results plus budget for current period

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- **Direct Capitalization (Perpetuity):** This consists of applying an **appropriate yield** for the building (rate of capitalization) in year 10. This implies capitalizing the annual income to perpetuity and does not consider future fluctuations in that income.

Discount Rates and Yields

These are the weighted **discount rates and yields** assumptions that have been used by CB Richard Ellis, below you will find the metrics used for each geographical region were properties are located:

	Discount rates	Exit Yields
Spanish Cities	9,3%	6,2%
Spanish Resorts	9,6%	6,1%
Spain	9,4%	6,1%
Europe	8,8%	6,3%
LatAm & Asia	11,9%	9,4%
Overall	**10,1%**	**7,1%**

Market Comparison

- This method consists of evaluating the value of a building by analyzing comparable transactions that have been made in the local hotel market in the past few years, particularly for properties with similar characteristics.
- This method also takes into consideration the balance of supply-demand at the time the valuation is made
- This method is used to verify the outcome derived from the DCF Method

Resulting CB Richard Ellis' Valuation

Data in million Euro	**CBRE (June - 07)**
OWNED HOTELS	**4.452,7**
Hotels in Spanish Resorts	1.493,8
Hotels in Spanish Cities	1.200,1
Hotels in Spain	2.693,9
Hotels in Europe	528,8
Hotels in LatAm & Asia	1.230,0
PLOTS OF LAND	**82,2**
Spain	21,8
LatAm & Caribbean	60,4
OTHER ASSETS	**114,2**
Spain	30,3
LatAm & Caribbean	83,9
TOTAL WORTH OF ASSETS	**4.649,2**

Price Per Room Evolution

Data in million Euro	CBRE (Dec - 04)	CBRE (June - 07)	C.A.G.R.
Hotels in Spanish Resorts	102.649	112.145	3,6%
Hotels in Spanish Cities	198.560	236.261	7,2%
Hotels in Spain	134.865	146.408	3,3%
Hotels in Europe	311.168	336.387	3,2%
Hotels in LatAm & Asia	147.777	192.882	11,2%
Total Price Per Room	**147.336**	**168.990**	**5,6%**

The evolution of price per room for the hotels in LatAm are explained by the incorporation of the 5-star deluxe property Paradisus Palma Real in 2006. Excluding the resort this item increases by 8%

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(*) Net Asset Value Post-Taxes

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Scope of Valuation

- **American Appraisal** was appointed to determine the fair market value of each of the management, lease and franchise contracts of Sol Meliá, S.A. as of June 30th 2007.

- The valuation includes franchise, lease and management contracts

American Appraisal

Valuation Method

The method used is the Discounted Cash Flow (DCF)

– **Definition**:

Asset value is determined depending on the forecasted profits discounted at a specific discount rate. The valuation reflects the financial and profitability potential.

– **Discount rates applied: cost of equity (Ke)**

Country	Ke
Spain	8,8%
Europe	9,2%
Latam	15,7%
Middle East & Africa	14,3%
Asia	14,3%

Rationale

- Low liquidity: Marginal existence of Brand's secondary market
- Difficulties in leverage on intangible assets
- Prudence when valuing intangible assets

Valuation Basis

- The factors taken into consideration by American Appraisal for the valuation are the following:

  1. Type of contract
  2. Historical performance of the hotels and contracts analyzed.
  3. Economic and competitive factors
  4. Profits forecasted at each hotel individually
  5. Present value of future income applying a discount rate based on cost of invested capital (cost of equity)

- Typical structure of the fees for management contracts :

  - Basic Fee: 3 – 5% on Total Revenue
  - Incentive Fee: 8 - 10 % on Gross Operating Profit
  - Marketing fee: 1 - 2% on Room Sales
  - Typically 15 years.

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Resulting valuation

According to the aforementioned premises, American Appraisal consider the following reasonable Market value on June 30th 2007:

Type of Contract	**Market Value**
Lease	590,1
Management	310,2
Franchise	7,3
Total	**907,6**

American Appraisal

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Brand as an intangible asset

- At present, intangible assets represent the highest proportion of company value
  - For quoted companies in UK and US, intangible assets represent an average of 55% of their market capitalization
- Brands are progressively more important as part of company assets, especially those developed internally
- The value of an established brand is partly due to the difficulty inherent to creating and positioning new brands:
  - Higher cost in advertising and distribution
  - Approx. 3,000 new brands are introduced to the market every year
- Value of a brand is represented by elements that add value to the related products or services. These elements are included in three categories:
  1. Loyalty
  2. Recognition
  3. Perceived quality *See following slide*

Elements of Brand Equity / Value

1. Loyalty: Obtaining new customers is expensive. It is relatively less costly to maintain current customers and also thus reduce vulnerability to competitor's actions. Strategic importance of brand loyalty represents:
   - Reduction of marketing costs
   - Sales leverage
   - Attraction of new customers while also maintaining existing customers
2. Recognition: Consumer capacity to recall the category product of a brand.
3. Perceived quality: Customer perception of quality of service or product amongst different alternatives. This adds value through:
   - Purchasing rationale
   - Differentiation / position
   - Price premium
   - Interest of channel members
   - Brand extensions

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Brand as a Value Creation Driver

Brands

Synergies generation
- Recognition of the message
- Efficient communication
- Reduction of investments

Demand generation
- Growth
- Economies of Scale
- Increase of the yield

Risk reduction
- Stability
- ß limitation
- Reduction of the cost of the debt

Shareholder Value

American Appraisal

Valuation Method

- Valuation has been made through the "Royalty Relief Approach" method which implies the **assumption that the Company is not the owner of the brands** but that these are licensed to a third party at market conditions
- Brand value represents the **capitalization of these savings** at an appropriate discount rate
- Phases of calculation of royalty percentage:

1. Analysis of brand margins
2. **Estimation of royalty percentages** that might be applied to brands under study: "Rule of Thumb" investigation.

   According to an article published in the prestigious "Encyclopedia of Patent Practice and Innovation Management" that analyzed a large number of royalty agreements, these ranged between 25% and 33.3% of the Ebit

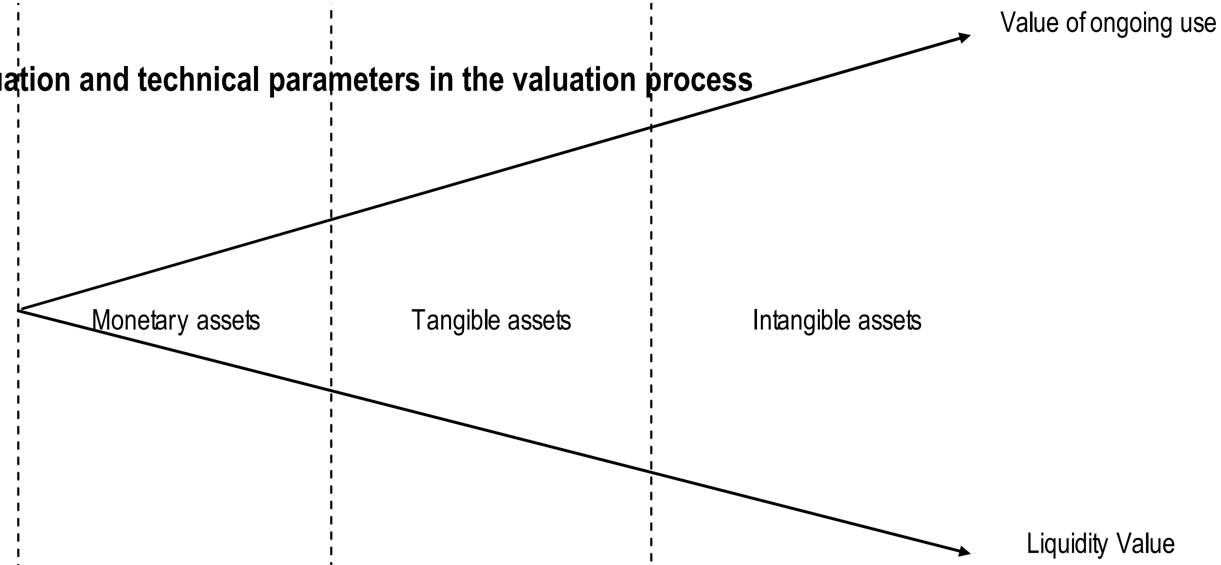
   Factors taken into consideration when choosing a royalty for Sol Meliá brands: economic viability, market share, profitability of businesses and sales growth rate
3. **Validation** of royalty percentages **with existing margins**
4. Second **validation** based on **market research** which include 9 additional international hotel companies
5. **Application of royalties obtained** to projected hotels' cash flows for each brand under study according to:
   - Rule of thumb of selected comparable companies
   - Positioning in the market of each brand under study
   - Price per room
6. Development and applications of **discount rates** in order to obtain the Present Value of future Cash Flows

The Royalty Relief Approach Method is the method most commonly used and widely recognized due to its high degree of acceptance by legal and fiscal authorities. It is based on a wide range of comparables related to license agreements

Determining the discount rate

- The discount rate used for the Net Present Value calculation is the **Cost of Equity (Ke)** derived from:
  - Low liquidity: Marginal existence of Brand's secondary market
  - Difficulties in leverage on intangible assets

Premises of Valuation and technical parameters in the valuation process



	Monetary assets	Tangible assets	Intangible assets
Required return	8 - 10%	10 - 15%	15 - 40%
Financing	Kd	WACC	Ke
Quality of Investment	Maximum Liquidity	Medium Liquidity	Low Liquidity

Discount Rates Applied (Ke)

According to the estimated parameters we would obtain the following discount rate per region (Ke)

Country	Ke
Spain	8,8%
Europe	9,2%
Latam	15,7%
Middle East & Africa	14,3%
Asia	14,3%

- In determining the value of the brands, it has been considered the Present Value of future benefits due to royalty savings, using a discount rate based on cost of invested capital, represented by the Cost of Equity (Ke)
- As intangible assets, the value of the contracts were also valued by applying a Cost of Equity

Sol Melia's Brands Value

BRANDS	Mn Euros
MELIA	807,3
ME by Meliá	32,1
TRYP	236,4
SOL	301,5
Paradisus	83,3
SMVC	74,6
Other brands	11,8
TOTAL	**1546,9**

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Sol Meliá: An approach to NNAV

ASSET	CRITERIA	VALUE R. Ellis Jun 2007 (€ Mn.)	€ / share
OWNED ROOMS	Valuation by CB Richard Ellis (Jun 2007)	**4.452,7**	**24,1**
LEASE, MGT & FRANCHISE HOTELS VALUE	Valuation by American Appraisal (Jun 2007)	**907,6**	**4,9**
OTHER NON-HOTEL ASSETS	Valuation by CB Richard Ellis (Jun 2007)	**113,0**	**0,6**
PLOTS OF LAND	Valuation by CB Richard Ellis (Jun 2007)	**83,5**	**0,5**
NET BRAND VALUE	Valuation by American Appraisal (Jun 2007)	**1.262,9**	**6,8**
BRAND		***1.547,0***	***8,4***
Brand value included in contracts		*(284,1)*	*(1,5)*
SUB - TOTAL GROSS ASSET VALUE		**6.819,7**	**36,9**
TOTAL NET DEBT	Book Value	(944)	5,1
MINORITIES	2 x Book Value	(65,2)	0,4
NET ASSET VALUE (NAV)		**5.811,0**	**31,4**
NAV per share		**31,4**	
Discount o/ NAV		**-46,0%**	
Equity		(902,2)	
Capital Gains		4.908,8	
Taxes (% of Capital Gains)	18,0%	(883,6)	
Total Fiscal Credits		182,2	
NAV NET OF TAXES (NNAV)		**5.109,6**	**27,65**
NNAV per share		**27,65**	
Share price	17/07/2007	**16,97**	
Discount o/ NNAV		**-38,6%**	

Based on the valuation NNAV per share represent 27.65 Euros which implies a 38.6% discount as to the 16.97 Euros share price