2004 Third Quarter Results

Profit & Loss Account

(Million Euros)	Sep 04	Sep 03	%
Revenue	**799.4**	**761.6**	**5.0%**
Expenses (ex – Op. leases)	(555.4)	(534.9)	3.8%
EBITDAR	**244.0**	**226.7**	**7.6%**
Rental expenses	(52.0)	(47.2)	10.2%
EBITDA	**192.0**	**179.5**	**7.0%**
Depreciation and amortisation	(83.8)	(82.5)	1.6%
EBIT	**108.2**	**97.0**	**11.6%**
Total financial profit/(loss)	(45.5)	(46.5)	-2.0%
Profit/(loss) from equity	1.3	1.8	-24.9%
Goodwill amortisation	(1.6)	(2.0)	-20.3%
Ordinary EBT	**62.4**	**50.3**	**24.1%**
Extraordinary items	16.2	12.0	35.2%
PBT	78.6	62.3	26.3%
Net Profit	**64.9**	**51.1**	**27.0%**
Net Income	**55.5**	**41.8**	**32.9%**

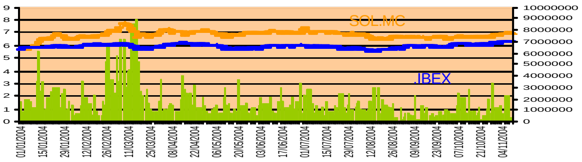
Operational Ratios

	Sep 04	Sep 03	%
RevPAR	45.9	45.9	-0,2%
Ebitdar margin	30.5%	29.8%	75.9 bp
Ebitda margin	24.0%	23.6%	44.9 bp
Ordinary profit margin	7.8%	6.6%	120.5 bp
Net profit margin	6.9%	5.5%	146.1 bp

Financial Ratios

	Sep 04	Sep 03	%
NET DEBT	1.055	1.111	-5.0%
NET DEBT / TOTAL EQUITY	105%	111%	-648,3 bp
EBIT / NET INTEREST	2.4×	1.6×	0.8×

Stock Performance 01/01/04 – 10/11/04



Average Daily Volume (€)	1,650,179
Period High, March 8th 04	€ 7.86
Period Low, Jan. 5th 04	€ 5.63
Historical High, Jun 9th 2000	€ 14.28
Marketcap Nov 10th 04 (€ 6.94)	€ 1,282.4 million

Highlights

EBITDA and Ordinary EBT increases by 7.0% and 24.1% respectively

The ordinary performance is largely explained by the continuing strong evolution of the Caribbean and the European urban properties outside Spain, the resilience of the Spanish resort segment and the launching of the Sol Melia Vacation Club. This has increased by 140% due to projects launched in Mexico and the Dominican Republic. Additional Time Share projects will be launched both in the Americas and in Spain. The geographical and urban/resort business diversification has enable Sol Melia to report such increases.

Positive summer season for Sol Melia's resorts

The good performance in Spain has been largely explained by our positioning in the domestic market and the solmelia.com's increase in sales. Destinations like the Balearics and Alicante continued the positive trend seen throughout the year while the Canary islands recuperated in Q3 from a below-than-expected performance seen in 1H04. The quality of Sol Melia's product and the evolution of the European feeder markets are largely behind the performance of the Caribbean in Q3.

Sol Melia's properties in the Caribbean escape major damage

Although affected by hurricanes Jeanne and Charley, the Company had no major damages in its establishments in Puerto Rico and the Dominican Republic. The Paradisus Punta Cana was the most affected reporting some flooding in some of its buildings during Jeanne tropical storm. Damages will be covered by insurance. The destinations have been affected in October and November due to postponement of leisure travel and business groups, therefore management team remain cautious about the performance in the coming months.

Debt reduction of 56 million Euros versus last year

Net debt amounts to 1,055 million Euros which represents a 5.0% decrease in comparison with December 2003. Further debt reduction is forecasted in Q4 as the trade receivable decreases due to the collection of accounts from Tour Operators in the fourth quarter and the execution of asset rotation strategy in the coming quarters.

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

Dear friend,

Sol Melia is pleased to announce its nine months results, reporting a 7.0% EBITDA increase. This evolution is largely explained by the resilience of our Spanish resorts and a good performance in the Caribbean, the European cities outside Spain, together with the launching of the Sol Melia Vacation Club. The geographic and urban/resort business diversification enables Sol Melia to report such increases as our operations outside Spain offset the difficulties seen in the Spanish urban segment.

… 2.5% RevPar increase of our Spanish resorts …

As previously advanced in the First Half report, our summer season has been positive in Spain. Destinations like the Balearics and Alicante have still reported RevPar increases in Q3 while confirming the upward trend seen in the Canary islands from a sluggish first half. The positioning in our domestic market and the evolution of the UK clientele together with solmelia.com increase in sales, largely explain the 2.5% RevPar increase up to September (+4.0% in Q3). In Q4, the Canary islands are likely to consolidate the recovery seen during the summer period. Going into 2005, growth in the resort business, will be linked with the process of disintermediation and the forecasted increase of centralized channels, specially solmelia.com.

… Caribbean fuelled by Europeans in Q3…

In the Caribbean, destinations like Cancun, Puerto Vallarta, Riviera Maya, Cuba and the Dominican Republic where the quality of the Sol Melia's all-inclusive product and the focus on Business Groups, have enable the company to enjoy robust RevPar levels. The positive trends in travel by European clientele with increased purchasing power thanks to the Euro appreciation is largely behind the 27% revenue increase the 9M for the region when analysed in USD. In terms of the trading environment due to the hurricanes, the Company has seen a decrease in reservations mainly from the US in October and November, specially to Puerto Rico. The Company remain cautious about the Q4 performance in the region.

… Sluggish Spanish cities partially offset by European cities …

Continuing improvement throughout 2004 in main European destinations is pushing RevPar up in our recently refurbished properties in London and Paris by 34% and 10% respectively up to September. The Spanish urban segment, has reported a 4.9% RevPar decrease up to September (Melia: -1.5%, Tryp: -7.6%). Although good occupancy levels already seen from September to November, no RevPar increases are forecasted in the medium term due to additional supply seen in major Spanish cities. By brand, the Melia hotels whose segmentation is biased towards Business Groups and incentives, air crews and international travellers is likely to outperform the limited-service Tryp hotels, more dependant on individual business travellers.

At the hotel level, operating expenses increases by 1.2% while on a like for like basis total expenses only increases by 0.1%. This has led the Company to increase its EBITDAR margin from 23.8% to 30.5%.

… Sol Melia keeps on working on cost efficiency at the hotel level …

At the cost level, Sol Melia continues to work on the externalization of some services such as laundry and entertainment. These actions, similar to the pre-cooked meals programme, represent not only a success in terms of operating efficiency and a shift of some of the fixed costs into variable costs, but also savings for hotel accounts. Additionally, the centralised purchasing management, 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 has also increase the efficiency.

The strategic alliances signed last year which include timesharing 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, at different levels, crystallised during the course of 2004 and allow us to outperform the market. The Company strengthened also its organisational structure in order enhance our focus on F&B, Timeshare and Real Estate business.

As advanced in a previous report, Sol Melia's Asset Management Division is starting to look for alternatives in order to improve the "Other Revenues" stream and teaming up with leading players while complementing the respective brands in each case. On the macro standpoint, the Asset Management Division is looking for alternative uses of existing capacity including Time- Share, residential, etc

… first steps of Asset Management Division…

So far, the Asset Management team has carried out sales of 20 million Euros at a 15.2x EBITDA multiple while generating capital gains of 15.1 million Euros including the recent disposal of Tryp Caballo Blanco in Puerto de Santamaria (Cadiz, Spain) by 6.1 million Euros and generating 4.9 million Euros of capital gains which are included in Q3 while maintaining the management contract. The Company does not rule out further disposals of non strategic hotels in the last quarter in its asset rotation objective.

As previously reported, the new F&B Division is being 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 manager. These actions have resulted in a Food and Beverage margin increase from 30.8% to 31.5%.

… 2003 focused on F&B measures and Time Share come to fruition…

September 2004 year to date Timeshare revenues have increased by 140% due to projects launched in Cancun, Puerto Vallarta (Mexico) and Punta Cana (Dominican Republic), taking advantage of locations and units within existing resorts. During the course of 2004 and 2005, additional Sol Melia Vacation Club projects in Cancun, Punta Cana and Puerto Rico will be launched within our existing resorts as well as the newly created "Sol Melia Vacation Club Network". Two additional Sol Melia Vacation Club projects are planned to open in Spain in 2005 within existing resorts marking the birth of our European " Vacation Club " expansion.

On the distribution side, solmelia.com represents 24% of central reservation system sales (14% up to September 2003) and a 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, as described in the latest report. For the first year, the resort hotels have also sharply increased their sales through solmelia.com. As of September 2004, solmelia.com sales in these establishments have gone up by 90%. Additionally, the joint venture signed with lasminute.com has uplifted by 55% the sale of Sol Melia's establishments through the European leading on line distributor.

… solmelia.com sales increases by 88% …

The Company is also proud to inform that the Hard Rock Hotel Chicago – together with the Paradisus Riviera Cancun – received the prestigious AAA Four Diamond Rating after being open less than a year. The AAA Four Diamond symbolizes that an establishment has measured up to AAAs uncompromising standards of excellence during a comprehensive evaluation by one of AAA's inspectors. Extraordinary services, quality amenities and superior surroundings are among the benchmarks.

… HRH Chicago receives the AAA Four Diamond Rating …

Following the signature of the Paramount Hotel in Times Square, New York in Q2, the Hard Rock JV accounts with three managed establishments by Sol Meliá in the US: the afore mentioned HRH Chicago (381) and Paramount hotel – future HRH New York (541) – and the HRH San Diego (250) scheduled in 2006. Additional Hard Rock hotels are foreseen in America and Europe

The Company is focused on maximizing the improvement of the underlying business while significantly bringing the level of expansionary capex down. Free cash flow increase derived from the above mentioned, is primarily devoted to debt reduction while additional hotel disposals are likely to occur in the short term. The Company is also analysing working capital enhancement measures and the partial refinancing of the 340 million Euros bond issue due in February 2006 with lower financing cost alternatives as the total amount will be partially paid by the free cash flow generated by the Company.

Net debt amounts to 1,055 million Euros which represents a 5.0% decrease – 56 million Euros – in comparison with 1,111 million Euros as of September 2003. Further debt reduction are forecasted for the year end as the trade receivable decreases due to the collection of accounts from Tour Operators in the fourth quarter. The settlement of important accounts are taking place in October and November. Going forward, the Company is working hard to recover the "investment grade" credit rating by Standard & Poor's which currently is BB+, stable outlook (BBB- neutral outlook by Fitch IBCA) as the Company will improve its free cash flow generation, constrains the level of capital expenditure while disposing of non strategic hotels.

… Net Debt decreases by 5.0% …

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2. Information on Operations

2.1. PROPERTY BUSINESS

During the nine months of 2004, RevPar for owned and leased hotels has decreased by 0.2%. The positive evolution of the resorts in Spain and the Caribbean together with European cities has been offset by the decrease of the Spanish urban segment and the US dollar depreciation which has affected the Americas Division. On a constant exchange rate basis, total RevPar increases by 1,4%.

In the **European Resort Division** – Spain represents 98% of the division revenues – RevPar has gone up by 2.5%. In Q3, the division increases its RevPar by 4.0%.

The good performance of the domestic and the UK feeder market has enable destinations like the Balearics and Alicante to continue the positive trend seen throughout the year. The Canary islands recuperate in Q3 from a below-than-expected performance seen in 1H04 due to the competition in the Caribbean. The domestic market is largely behind such recovery. The 6.8% A.D.R increase in the division is explained by the fewer special offers made in the Canary islands and, more importantly, due to the process of disintermediation seen throughout the year and the solmelia.com sales increase. This has led the Company not only to have a higher ADR in comparison with net price given to the T.O., but also a more advantageous price for the final customer with whom the mark-up applied by the T.O., has been shared. The new concept of the Flintstones Hotels in the Balearics and Costa del Sol is also behind such effect.

RevPar in the **European City Division** changed by –1.7% due the sluggish performance of Sol Melia's Spanish urban segment during the year (4.9% RevPar decrease). The Company has monitored a recovery in Q3 which RevPAR has decreased by 4.8% versus the 8.2% RevPAR decrease in Q2 derived from the 11/3 terrorist attacks in Madrid. Such bad performance at the accumulated Spanish level, has been offset by the positive performance, already seen in H1 in major European cities such as London and Paris which RevPar has increased by 33,7% and 9,5% respectively for the nine months. The latest RevPar figures of the HotelBenchmark survey (up to September) for London and Paris show a +18.8% and +3.1% respectively. The better-than- average performance is related to the refurbishment processes carried out in these properties and the repositioning of the same towards a more higher standard clientele and the corporate segment. In Italy and Germany, RevPAR increases by 5.0% and 11.5% respectively.

Going into the evolution of the Spanish market by brands, Melia – 50% of total Revenues / 70% of total EBITDA on a yearly basis – decreased its RevPar by 1.5% for the nine months (Q1: +2.1%; Q2: -4.8%; Q3: -1.1%). Although the slowdown seen in Q2 due to specific one-off factors which have impacted the industry as a whole, the Company believes that full service Melia 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. Additionally the diversity in segment that cater these properties, i.e. air crews, international traveller, congresses and conventions, business groups, etc. make those more resilient to the difficult environment, i.e. sluggish individual travel and increase in supply.

The Tryp brand properties have reported a 7,6% RevPar decrease for the nine months period (Q1: -3,4%; Q2: -10,7%; Q3: -6,9%). These hotels with little differentiation are seen like places to spend the night for individual business travellers. This is the reason why they are suffering more from the recent increase in supply seen in the Spanish cities.

By cities, Company's RevPar in Madrid and Barcelona have gone down by 5.0% and 2.4 in the nine months. These figures compare with the overall decrease in Madrid and Barcelona according to the Hotelbenchmark survey (September 04) by –12.8% and –8.4% respectively show a positive performance in these cities.

Regarding **Americas Division**, as occurred in H1, RevPAR and A.D.R. figures have been negatively affected by the depreciation of the US dollar. On a like for like basis, RevPAR and A.D.R. increased by 13% and 7% respectively.

Performance in Latin America and the Caribbean follows the pattern seen in H1: strong evolution favoured by 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.

The Company is taking advantage of evolution in the Dominican Republic as a tourist destination and the effects mentioned above together with Mexico, specially Cancun: Revenues in USD have increased by 23% and 15% respectively. Such increases are likely to be deteriorated for the year-end in light of the slowdown in reservations in October and November due to the hurricanes.

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

OWNED&LEASED HOTELS Sept. 04/03			*Occupancy*	*RevPAR*	*A.D.R.*
EUROPEAN RESORT		**2004**	73.3%	41.2	56.1
	% o/ 2003		**-4.0%**	**2.5%**	**6.8%**
.		**2003**	76.4%	40.2	52.6
EUROPEAN CITY		**2004**	63.4%	52.3	82.4
	% o/ 2003		**1.0%**	**-1.7%**	**-2.7%**
		2003	62.8%	53.2	84.7
AMERICA (*)		**2004**	65.4%	38.9	59.4
	% o/ 2003		**-2.1%**	**-1.7%**	**0.4%**
		2003	66.8%	39.6	59.2
TOTAL		**2004**	67.6%	45.9	67.9
	% o/ 2003		**-2.0%**	**-0.2%**	**1.9%**
		2003	69.0%	45.9	66.6

(*) RevPAR and A.D.R. without currency effects and excluding the newest incorporations would have changed by +13% and 7% respectively. Total Revenues in USD have increased by 27 %

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 3.2% 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) together with three lease contracts in Tunisia during the process occurred in 2003.

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

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

% Increase Sep 04 / 03	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	2.5%	-1.7%	-1.7%	-0.2%
Available Rooms	-4.7%	3.2%	18.3%	2.0%
Room Revenues	-2.3%	1.4%	16.2%	1.8%

As table 3 shows, the first nine months 2004 indicates a positive trend on revenues, increasing with respect to the same period in 2003.

In the **European Resort Division**, the decrease in “Food & Beverage”due to the 4.7% decrease in available rooms and the 4.0% occupancy decrease although RevPAR goes up by 2.5%.

In the **European City Division,** the 6,1% increase in F&B is explained by the standardisation of service levels by brand, the definition of optimal staffing levels in each point of sale carried out the F&B Division. The 7,7% increase in “Other Revenues” is explained basically by the increase in meeting room rental to business groups in Madrid and Seville together with the hotels in Italy. The recent commercialisation of the Melia White House apartments in UK also contributes to the increase.

The **Americas Division** hotels increase in Food & Beverage is due to the progressive commercialisation of “all inclusive” packages in our Mexican properties throughout 2003.

Hotel Revenues item on a same hotel basis increases by 1.0%.

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

Sept. 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	146	-2.3%	150	218	1.4%	215	57	16.2%	49	422	1.8%	414
F&B	82	-9.3%	90	79	6.1%	74	68	19.5%	57	228	3.3%	221
OTHER REVENUES	9	-4.8%	10	20	7.7%	18	13	9.1%	12	42	5.0%	40
TOTAL REVENUES	237	-4.9%	250	317	2.9%	308	138	17.1%	118	692	2.5%	675

(*) In the Americas, "Room Revenues", "Food & Beverage", "Other Revenues" and "Total Revenues" changed by 26%, 30%, 17% and 27%, respectively, when excluding the currency effect. In addition to this, when excluding the newest incorporation, these items change by 14%, 25%, 7% and 18% respectively.

2.2. MANAGEMENT BUSINESS

Management fees increased by 20.1% due to the positive results obtained in the company's resorts in all divisions.

Fee increases in the **European resort hotels** are mainly explained by the positive evolution of our Spanish resorts in Q3, together with the rewarding performance in Croatia and the maturity of the newest incorporations in Italy.

The **European City hotels'** total fees decreased by 23% , explained by the disaffiliation of two hotels in Portugal (Lisbon and Coimbra) and the slowdown of Madrid in the second quarter which seriously impacted the Melia Castilla (914 rooms), the most important property under management. On the same portfolio basis fees decreased by 10%, mainly explain by this latest hotel.

In the **Americas** the total increase in fees reached +23% due to the improvement in fees from Mexico, Costa Rica and Brazil. The incorporation of the Hard Rock Hotel Chicago and the Paramount New York is also behind such evolution. The US citizens led the recovery in the first half , while the evolution of third quarter is mainly explained by Europeans.

The **Cuban Division** increase in total fees by 31% thanks to the increase occupancy of 10.7% derived from a continuous growth of the Canadian and major European feeder markets.

Fees of the **Asia-Pacific Division** increased by 58% explained by the good results of our hotels in Indonesia, Malaysia and Vietnam, which are benefiting in full from the recovery of tourism in Asia. By feeder markets, growth in the number of visitors from Germany, Japan and Australia explain such positive evolution.

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Million		Sep-04	Incr. 04/03	Sep-03
EUROPEAN RESORT	**Basic**	5.7	12.4%	5.1
	Incentive	4.2	81.1%	2.3
		9.9	**33.7%**	**7.4**
EUROPEAN CITY	**Basic**	3.5	-19.8%	4.4
	Incentive	0.9	-33.6%	1.4
		4.5	**-23.1%**	**5.8**
AMERICAS	**Basic**	3.9	34.1%	2.9
	Incentive	2.0	4.9%	1.9
		5.9	**22.5%**	**4.8**
ASIA-PACIFIC	**Basic**	0.8	8.8%	0.7
	Incentive	1.0	145.3%	0.4
		1.7	**58.4%**	**1.1**
CUBA	**Basic**	8.2	10.3%	7.4
	Incentive	3.3	150.6%	1.3
		11.4	**31.3%**	**8.7**
Total Basic		22.1	7.7%	20.5
Total Incentive		11.3	55.2%	7.3
TOTAL		**33.4**	**20.1%**	**27.8**

2. Income Statement

- **Revenues**

Total Revenues increased by 5.0% explained by the improvement at the operating level of Sol Melia'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 2.5% while on the same hotel basis, this item increased by 1.0%. Management Fees increase by 20% as explained on page 9 of this report while the 26% increase in the Other Revenues item is largely explained by the launching of Sol Melia Vacation Club Real Estate sales in Punta Cana and the evolution of Sol Melia Travel, the B2B travel agency.

- **Operating Expenses**

"Total Operating Expenses" increase by 4.3%. At the hotel level, operating expenses increase by 1.2% while on the same basis total expenses increases by 0.1%. "Personnel Expenses" increase by 1.9% due to increases in productivity through the rationalization of functions and working hours adapted to service needs.

The increase in "Rental Expenses" by 10% is due to the newest incorporations under lease agreements in the European City Division and the opening of the Gran Melia Mofarrej, the first leased hotel in the Americas.

The "Other operating expenses" item increases by 3.8% due to the incorporation of new properties in the portfolio. On a same hotel basis, the item decreases by 2.4%. Sol Melia continues to work on the externalization of some services such as laundry and entertainment. 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 savings for hotel accounts. Additionally the costs of energy remain low thanks to the advantageous agreements with different supplier companies and to permanent programs of improvement of efficiency in the energetic consumption.

- **EBITDA / R**

EBITDA and EBITDAR have increased by 7.0% and 7.6% respectively. EBITDAR margin has gone up to 30.5% as of September 2004 from 29.8% last year.

- **Net Profit**

"Profit from Equity investments" represent 1.3 million Euros versus last year's 1.8 million due to the below than expected performance of the Melia Castilla in Madrid, the most important property under this item and seriously affected in the year derived from 11/3 terrorists attacks.

Extraordinary Profits of 16.2 million Euros include capital gains generated by the disposal of the Sol Aloha Playa, the 19% stake in the Spanish Tour operator Viva Tours and the Tryp Caballo Blanco hotel. The 17.5% tax rate will remain at this level for year-end thanks to the 340 million Euros of tax credits as of September 2004.

Table 5 : Sol Melia Consolidated Income Statement

Million Euros	Sep 2004	Sep 2003	
Hotel Revenues	691.9	675.0	
Management Fees	33.4	27.8	
Other revenues	74.1	58.8	
Total revenues	**799.4**	**761.6**	**5.0%**
Raw Materials	(100.0)	(89.8)	
Personnel expenses	(252.1)	(247.5)	
Change in operating provisions	(4.0)	(5.2)	
Rental expenses	(52.0)	(47.2)	
Other operating expenses	(199.3)	(192.5)	
Total operating expenses	**(607.4)**	**(582.1)**	**4.2%**
EBITDAR	**244.0**	**226.7**	**7.6%**
EBITDA	**192.0**	**179.5**	**7.0%**
Profit/(loss) from equity investments	1.3	1.8	
Net Interest Expense	(45.5)	(43.1)	
Exchange Rate Differences	0.0	(3.4)	
Total financial profit/(loss)	**(45.5)**	**(46.5)**	**-2.1%**
Depreciation and amortisation	(83.8)	(82.5)	
Consolidation Goodwill amortisation	(1.6)	(2.0)	
Profit/(loss) from ordinary activities	**62.4**	**50.3**	**24.1%**
Extraordinary profit/(loss)	**16.2**	**12.0**	**35.2%**
Profit before taxes and minorities	**78.6**	**62.3**	**26.3%**
Taxes	(13.8)	(11.2)	
Group net profit/(loss)	**64.9**	**51.1**	**27.0%**
Minorities (P)/L	(9.4)	(9.3)	
Profit/(loss) of the parent company	**55.5**	**41.8**	**32.9%**

3. Balance Sheet

Assets

The decrease experimented in “Short term deposits” and “Cash on hands and banks” is explained by the used of excess in cash generated by the 150 million Euros exchangeable issue to refinance the 224 million Euros convertible bond due in the recent September 2004.

“S/T Securities Portfolio” corresponds to short term investments of excess in cash. The funds have been temporarily dedicated to risk free investments in preferred shares.

Liabilities & Shareholder’s Equity

Total Net Debt amounts to 1,055 Euros a decrease of 5% as compared to September 2003. The decrease in Short term “Debenture Bonds Payable” is largely explained by the maturity of 224 million Euros convertible bond issue due in September 2004. At the same time the “Debenture Bonds Payable” in long term was due to the 150 million Euros Exchangeable issue in September 2003.

There has been a switch between the “Non-Distributable Reserves” and “Distributable Reserves” items derived from the finalization of the taxable exception period in Canary Island for several investment.

The increase in “S/T Loans” is explained by the new credit lines signed recently in order to be able to pay part of the 224 million Euros convertible bond due last September.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Jun 04	Sep 04	%
Cash on hand and banks	78.0	44.3	
C/A with equity affiliates	23.3	20.8	
Inventory	29.8	29.0	
Trade receivable	170.1	195.5	
Other receivable	74.9	74.7	
Allowance for doubtful accounts	(34.1)	(34.1)	
S/T securities portfolio	20.8	20.9	
Loans due from affiliates	0.0	0.1	
Short term deposits	127.4	57.7	
Prepaid expenses	8.3	6.6	
Treasury Stock	8.8	11.9	
TOTAL CURRENT ASSETS	**507.0**	**427.4**	**-15.7%**
Goodwill from co. Fully consolidated	13.8	15.8	
Goodwill from co. equity participated	0.6	0.5	
Intangible assets and rights	399.9	387.5	
Intangible assets provisions and amortisation	(86.1)	(91.3)	
Net intangible fixed assets	**328.2**	**312.6**	**-4.8%**
Land and buildings	1,692.7	1,669.1	
Technical installations and machinery	299.6	330.4	
Other fixed assets	336.0	331.4	
Tangible assets provision and deprec.	(645.2)	(664.7)	
Net tangible fixed assets	**1,683.2**	**1,666.2**	**-1.0%**
Equity Affiliates	25.2	36.8	
L/T loans due from affiliates	1.8	4.0	
L/T securities portfolio	49.3	45.4	
Holding of own shares	1.3	2.2	
Other loans	85.6	66.4	
Provisions	(4.2)	(1.1)	
Financial investments	**159.0**	**153.7**	**-3.3%**
FIXED ASSETS	**2,170.4**	**2,132.5**	**-1.7%**
Deferred expenses	24.4	18.7	
Start-up expenses	19.6	26.1	
TOTAL ASSETS	**2,721.5**	**2,604.7**	**-4.3%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Jun 04	Sep 04	%
Debenture Bonds Payable	237.0	19.4	
S/T loans	105.2	172.5	
S/T loans due to affiliated companies	(0.8)	1.0	
Trade accounts payable	134.9	152.4	
Other payable	108.4	88.0	
Prepaid income	5.1	5.6	
Operating provisions	0.0	0.0	
TOTAL CURRENT LIABILITIES	**589.7**	**439.0**	**-25.6%**
Debenture Bonds Payable	490.0	490.0	
L/T loans	508.2	496.4	
L/T loans due to affiliated companies	5.4	0.1	
Other L/T Liabilities	86.4	89.6	
TOTAL L/T LIABILITIES	**1,090.0**	**1,076.1**	**-1.3%**
Share capital	37.0	37.0	
Share premium	795.5	795.5	
Distributable reserves	8.2	20.4	
Reserves in companies fully consolidated	369.9	407.7	
Reserves in companies equity participated	6.3	6.5	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	57.5	45.3	
Profit/(loss) previous year	(330.1)	(329.8)	
Differences in conv. of co. fully consolidated	(214.2)	(247.4)	
Differences in con. of co. equity participated	(3.6)	(2.2)	
Consolidated profit/(loss)	24.4	64.9	
Profit/(loss) attributable to external shareholders	(5.1)	(9.4)	
Interim dividend	0.0	0.0	
TOTAL SHAREHOLDERS' EQUITY	**794.9**	**837.7**	**5.4%**
First consol. Reserves from co. fully consolidated	15.2	15.6	
First consol. Reserves from co. equity participated	0.0	0.0	
Deferred income	12.7	10.1	
Provisions for risks and expenses	52.4	57.6	
Minority interests	166.6	168.6	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,721.5**	**2,604.7**	**-4.3%**

4. Expansion

The table below shows a description of the progress in the Sol Melia hotel portfolio up to September 2004:

Table 8. Expansion plan.

Owned & Leased	01/01/04		ADDITIONS		LOSSES		CHANGES		30/09/04		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**93**	**15,052**	**4**	**526**	**1**	**63**	**0**	**0**	**96**	**15,524**	**5**	**994**	**101**	**16,518**
Owned Hotels	36	7,339	0	0	0	0	0	0	36	7,338	0	0	36	7,338
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**	**4,873**	**1**	**490**	**0**	**0**	**1**	**287**	**15**	**5,643**	**0**	**0**	**15**	**5,643**
Owned Hotels	12	4,628	1	490	0	0	1	287	14	5,398	0	0	14	5,398
Leased hotels	1	245	0	0	0	0	0	0	1	245	0	0	1	245
OWNED HOTELS	89	24,935	1	490	0	0	1	287	91	25,693	0	0	91	25,693
LEASED HOTELS	74	10,939	4	526	2	173	0	0	76	11,284	5	994	81	12,278
TOTAL	**163**	**35,864**	**5**	**1,016**	**2**	**173**	**1**	**287**	**167**	**36,977**	**5**	**994**	**172**	**37,971**

Management & Franchise		01/01/04		ADDITIONS		LOSSES		CHANGES		30/09/04		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	-1	-140	19	3,579	0	0	19	3,579
	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	4	668	-1	-287	36	8,827	4	1,000	40	9,827
	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	0	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	5	1,487	7	1,477	-2	-427	125	36,335	9	2,585	134	38,920
	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**	**9**	**1,589**	**-1**	**-287**	**164**	**44,389**	**10**	**2,630**	**174**	**47,019**
TOTAL GROUP		**331**	**80,504**	**11**	**2,565**	**11**	**1,762**	**0**	**0**	**331**	**81,366**	**15**	**3,624**	**346**	**84,990**

M= Management; F= Franchise

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	1	115	0	0	0	0	1	115
Italy	0	0	0	0	1	140	1	140
Germany	0	0	1	250	2	489	3	739
TOTAL	**1**	**115**	**1**	**250**	**3**	**629**	**5**	**994**

Within the next two years the Company will incorporate in its portfolio 4 hotels under lease contract: in Germany, the Melia Düsseldorf (250 rooms), the Tryp Kaiserslautern (125 rooms) and the Melia Berlin (364 room), In Italy, the Gran Melia Roma, a new Deluxe 5 stars hotel with 140 rooms. The signed leased project for the current year is the Tryp Ovi edo in Spain with 115 rooms.

During the third quarter of 2004, Sol Melia added two new hotels under management contract to its portfolio: the Sol Morromar (221 rooms) in Lanzarote (Canary Island), and the Paramount Hotel in New York (567 rooms). Regarding this latest establishment, Lifestar (50:50 JV between Sol Melia 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 process and then be re-branded the Hard Rock Hotel New York (541).

Under franchise contract, the Company incorporates Tryp Porto Centro (62 rooms) in Oporto which represent the second opening in the city following the recent incorporation of the Melia Gaia Porto in 1H 2004. Sol Melia currently has in its portfolio 11 establishments in the country.

Losses in the American Division are explained by the Melia Fortaleza (136 rooms) in Brazil under management contract, In the European city division the franchised Sol Porto Cobo (58 rooms) in La Coruña (Galicia) has dropped from the portfolio.

During the first half of 2004, Sol Melia added 1 new hotel to its portfolio under 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 Melia's Owned Hotel Portfolio in the American Division. Additionally, Sol Melia 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 Melia Boutique Rex in Geneva, Switzerland (75 rooms),

The losses of the lease contract in the first half of 2004 corresponds to the Sol Brisamar (110 rooms) in Fuerteventura, Spain (European Resort Division), Under management, Sol Melia added 2 news hotels to its portfolio: The Melia Gaia Porto (299 rooms) in Portugal, and The Tryp Naçoes Unidas (400 rooms) in Sao Paulo (Brasil). The Melia Gaia Porto Hotel is the first Melia hotel in Portugal and the finest hotel of its category in the city of Porto. Under management contract losses of the European Resort in 1H correspond to the Hotel Sol Suncrest (458 rooms) in Malta, In the American Division Melia Los Cabos (104 rooms) in Mexico and Melia ITC Nova Faria Lima (287 rooms) in Sao Paulo (Brazil).