2006 Third Quarter Results

Sol Melia's Profit & Loss Account

(Million Euros)	Sep 06	Sep 05	%
REVENUES	**964,7**	**876,2**	**10,1%**
EXPENSES (ex - Operating leases)	**(650,5)**	**(595,1)**	**9,3%**
EBITDAR	**314,2**	**281,1**	**11,8%**
Rental expenses	(48,9)	(46,4)	5,4%
EBITDA	**265,3**	**234,8**	**13,0%**
Depreciation and amortization	(81,6)	(80,8)	1,0%
EBIT	**183,7**	**153,9**	**19,4%**
Total financial profit/(loss)	**(45,5)**	**(60,1)**	**-24,3%**
Profit/(loss) from equity investments	0,6	0,5	29,7%
Continuing EBT	**138,9**	**94,3**	**47,2%**
Discontinuing Operations	0,0	0,0	
Profit before taxes and minorities	138,9	94,3	47,2%
Net Profit	**122,2**	**84,9**	**44,0%**
Net Profit attributable	**120,1**	**82,5**	**45,5%**

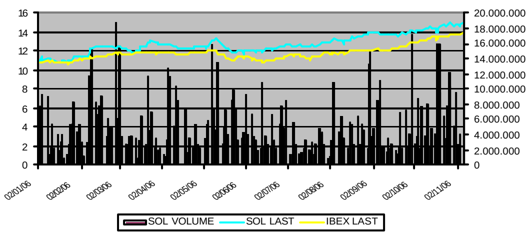
Operational Ratios

	Sep 06	Sep 05	%
RevPAR	53.1	49.2	7.9%
EBITDAR MARGIN	32,6%	32,1%	49 bp
EBITDA MARGIN	27.5%	26.8%	71 bp
EBITDA MARGIN (ex-asset rotation)	*25,5%*	*23,1%*	*240 bp*
EBT MARGIN	14,3%	10,8%	358 bp
NET PROFIT MARGIN	12,5%	9,4%	303 bp

Financial Ratios

	Sep 06	Sep 05	%
EBITDA / NET INTEREST	5,9x	4,2x	41,4%
EBIT / NET INTEREST	4.1x	2.8x	49.3%

Stock Performance



Average Daily Volume 2006 (€)	4.952.243
2006 High, November 8th	€ 15.49
2006 Low, January 17th	€ 10.74
Market cap Nov 8th 06 (€ 15.45) in Mn	€ 2,855 / $ 3,647
Bloomberg: SOL SM : Reuters: SOL.MC	

Highlights

Revenues, EBITDA and Net Profit attributable increased by 10.1%, 13.0% and 45.5% respectively

These items increased by 12.5%, 24.0% and 122.2% when excluding the asset rotation profits in both periods. Evolution is largely explained by: a) the positive summer season of Company's resorts in Spain along with the improving quarterly performance of the Spanish cities throughout 2006 b) the performance of Sol Meliá Vacation Club, where Revenues have increased by 97.8% and c) improvement of the financial situation which has enable Sol Melia to reduce its net financial expenses by 20 %.

Outlook: Upward trend to continue in 2007

In the **European Resort** business, Sol Melia has positive expectations for 2007 in light of the strength of the Spanish resort destinations and the positive outcome of the negotiations with pan-European touroperators. In the **Americas**, the winter season is likely to be positive thanks to the leisure segment and the business groups. Negotiations with T.O. have also been positive in terms of price increases for Mexico and the Dominican Republic. Regarding the **European City Division**, the recovery of both occupancies and, especially, average prices in the Spanish cities following five years of slowdown, is likely to go on throughout 2007 in an environment of positive macroeconomic indicators. Additionally, the negotiations with our major key accounts, the evolution of the business groups and the smallest percentage of growth of the new supply coming on stream is going to positively impact on RevPARs. The good momentum of the city business is also the case for London, Paris and Milan. In the asset management business, the **asset rotation** team is already working to meet the 2007 objectives of 100 mn Euros of disposals since the 2006 budget is already guaranteed. The contribution of **Sol Melia Vacation Club** is likely to exceed the Company's objective of 10% Ebitda contribution by 2007 thanks to the continuation of vacation club sales in the Dominican Republic, Puerto Rico, Cancun and the Canary Islands.

Further Asset Rotation before Year-End

On the **sell side**, Sol Melia has reached an agreement in Q4 with a local building company for the sale of 50% of the M. Colon (218 rooms in Seville, Spain) for a full hotel value of 40 million Euros at 21.4x Ebitda multiple. Sol will maintain a 50% stake in the hotel and a 35 year management contract.

Regarding the **buy side**, the Company has also agreed in Q4 the acquisition of 475 hectares (1.2 mn acres) with 2.2 km of front beach area in Salvador de Bahia (Brazil). The plot of land represents prime location in one of the top-quality resort areas with the highest potential worldwide. The Company will develop hotel and resorts along with mixed ownership products (vacation club, condo hotels, golf, building land development, spas etc) Sol Melia is present in the country since the early nineties and is the second hotel chain operating 24 hotels (5,380 rooms).

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

Dear friend,

Sol Meliá is pleased to release its results up to September, verifying the anticipated good summer season in our Spanish resorts. The Americas has also shown a positive performance in spite of concerns due to threats of hurricanes in the area. At the city business level, the congresses and conventions carried out during the third quarter in Madrid and Barcelona along with the positive evolution of the coastal Spanish cities have also pushed Company's RevPAR up by 7.9%. Additionally the Sol Melia Vacation Club Business has shown a sharp increase thanks to the evolution of sales in the Dominican Republic, Puerto Rico and the launching of the SMVC in Spain.

... Best summer season in 5 years...

Regarding the summer season, we would like to point out that Spain has confirmed its positioning as one of the leading tourism destinations with a +4.9% increase in number of arrivals up to September while expecting 58 million visitors in 2006. Our **European Resort Division has increased its RevPAR by 7.2% in Q3** thanks to the best performance of the Spanish resort areas in five years. By region, Balearic Islands, Costa del Sol and Canary islands have increased its RevPAR by 8.6%, 16.1% and 3.6% respectively in the quarter. The strength of demand in Germany, the UK and Spain along with the lack of special offers are largely behind such increases. Additionally, the strengthening of sales made through Sol Melia's direct channels within the frame of the change of the holidays package industry and gradual change in purchasing behaviours, explain also the overall growth. Up to September the Company has sold 80.6 million Euros through solmelia.com which represents a 48% increase and a 15% contribution of sales.

Please find further detailed information regarding the different Revenue evolution Company's divisions on page 5.

At the consolidated cost level, we would like to point out the positive margin evolution which (excluding asset rotation) has gone up from 23.1% to 25.5% in 2006. The tasks carried out in the past regarding cost control via standardization at the hotel level and the improvement of efficiency in the overheads (mainly IT Systems maintenance) is paying-off when the top line is recovering.

... Good Prospects for 2007...

Going into the fourth quarter, the Company foresees a continuation of the positive trend seen so far in the Spanish cities along with a strong winter season in the Caribbean in the leisure segment and the Incentives, Congresses and Conventions. Regarding 2007, we are optimistic about the outlook for the year as stated on the front page. Bookings and evolution of our direct channels, agreements signed with North American and European touroperators as well as with our major key accounts in the city business, give us reason to believe the positive trend is going to continue.

... asset rotation activity: Buy side, guarantees future growth...

Regarding the asset rotation activity, Sol Meliá has reached an agreement in the fourth quarter for the sale of the 50% stake of **Melia Colon** in Seville (218) to a Spanish building company (Verona Norte Promociones, S.L.) for a full hotel value of 40 million Euros at 21.4x Ebitda Multiple. Sol Melia will maintain a 50% stake in the hotel and a 35 year management contract with a 4% basic, a 10% incentive fee plus a 1.5% marketing fee. Although the transaction generates a nice latent profit of 21 million Euros, it will not be reflected in our P&L account as the joint venture will be fully consolidated. The property will undergo to a 18 million Euros refurbishment program to uplift the brand up to **Gran Melia,** a product with high demand in the city.

On the buy side, the Company has agreed the acquisition of 475 **hectares in Salvador de Bahia** (Brazil) for the future development of hotel and resorts together with mixed ownership products (vacation club, condo-hotels, residential, golf courses, spas etc.). The opening of this newest destination by Sol Melia in the north-east of the country is extremely important from a strategic standpoint as was Punta Cana in the Dominican Republic 20 year ago. Since then, Sol Meliá has developed three resorts (2,000 rooms), vacation club business, a golf course, a shopping mall, and building land development in part of the 300 hectares that were bought originally. All together, this has made the Dominican Republic one of the hot spots in the Caribbean and a big contributor to the Sol Melia's P&L account

Brazil, and specifically this part of the country due to the support of the local authorities and the good understanding between the Bahia State and the Central governments, is perceived as one of the resort areas with high-growth potential in the coming years and Sol Melia wants to reinforce its presence with this acquisition and future development which start to come to fruition in 2009. At the moment, the Company is the

2nd hotel chain in the country with 24 hotels / 5,380 rooms primarily in city destinations such as Sao Paulo, Rio de Janeiro, Brasilia, Porto Alegre, Fortaleza and Maceio with one of the highest levels of brand recognition.

... quality organic growth will progressively come to fruition...

Regarding the future organic growth, and as a clear example that the Company does not contemplate any future project without the potential development of Mixed Ownership Products, we will incorporate in the medium term 5 resorts with vacation club in the Riviera Maya, Dominican Republic, Puerto Rico and the Canary islands that represent additional 3,531 rooms: 1,265 hotel rooms plus 1,133 vacation club units (each vacation club unit equals to an average of 2 hotel rooms). To these new rooms, we should incorporate the potential developments in Brazil starting in 2009. Please find further detailed information regarding these future incorporations on page 13 of this report.

At the strategic level, Sol Melia recently presented the overhaul of the Melia brand based on the results of an extensive research - carried out by our R+D department - to meet the needs of today's consumer. This will add new energy with visible improvements in the hotels' overall decoration, room facilities, F&B outlets and fitness centres with the aim of making our customer's stays, a unique experience. This renovation involves 30 hotels over the next three years.

... Brand Equity development ...

Additionally, during the quarter the Company has launched a new hotel brand: "ME by Meliá", a new concept of experience-based hotel with personality where bold new design, international fusion cuisine and world music represent basic features. Sol Meliá will introduce these concepts in prime city and resort destinations, starting in Madrid, Cancun and Los Cabos in 2006. The successfully inaugurated ME Madrid Reina Victoria hotel (192) , is the first ME by Melia hotel and is starting to create the *buzz* of the brand in Europe. Within the next two years we are likely to witness the opening of new establishments in Mallorca, Seville, Rome and Milan.

These actions mentioned above should be framed within the continuation of Brand Equity development already carried out with the Tryp, Sol and Paradisus brands. This revitalization has not only changed the image of these hotels in terms of service and attributes but also has enabled us to improve the operating cost efficiency via cost standardization and change in the distribution mix.

... 3 elements of value creation in Sol's business model ...

Brand Equity, together with the **Customer Knowledge** and the development of the **Asset Management** (Vacation Club, Condo hotel, Fractional, building land development, and Asset Rotation) represent the three main pillars of value contribution in Sol Melia's Business Model, base of the 2007-09 Director Plan. These elements are intended to optimize the profitability of not only the existing hotels but also the availability of square metres to develop hotels that might be incorporated in our portfolio. The development of this business model will contribute to further reduce the existing gap between the current share price (€ 15.45) and de Net Net Asset Value per share (€ 19.4).

At a financial level, the Company has reduced its net debt by 80 mn Euros up to September and expects a substantial debt reduction for the third consecutive year which will allow us to finalize our debt reduction within the framework of our 2004-2006 Plan. This will enable us to have a highly comfortable financial situation in terms of leverage and interest cover ratios and in relation to the asset base.

Best regards,

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2. Information on Operations

2.1. Hotel Performance

RevPAR for owned and leased hotels has increased by 7.9% during the 9 months. This positive variation is largely explained by the excellent evolution of the summer season, the up ware trend of the Spanish cites and the strength of the Caribbean.

In the **European Resort Division**, RevPAR has increased by 5.0% during the year, explained by the good results of the Spanish resorts especially during the summer, which enabled the Division to grow by 7,2% in the third quarter (occupancy +3.6% and ARR +6.5%).

By region, Costa del Sol and the Balearics have been the best performers in Q3 with a 16.1% and 8.6% RevPAR increases respectively, confirming Sol Meliá's expectations, while the Canary Islands have recovered in the quarter with a 3.6% from a sluggish performance in the first semester.

This positive environment for the Spanish resort industry and the quality of Sol Meliá's products has enabled to increase prices negotiated with major European T.O.'s for next year. The Company has also reasons to believe that the direct sales in this industry will be reinforced in 2007.

Regarding the **European City Division,** Spanish RevPAR has increased by 13.3% in Q3 (Q1:+8.5%, Q2: +9.5%) thanks to the rewarding performance of the Spanish coastal cities such as Palma and Barcelona where RevPAR grew by 15.8% and 16.4% respectively. Other cities like Madrid (RevPAR Q3: +11.6%) are benefiting from the overall improvement in terms of congresses and conventions.

The above mentioned together with the ongoing recovery of the market and the progressive absorption of the additional room supply, have enabled the **Spanish cities** to grow by 10.5% up to September. By cities, Madrid, Barcelona and Seville which RevPAR have increased by 11.5%, 10.2% and 13.4% largely explain the increase thanks to the celebration of congresses, incentives and conventions in a environment of favorable macroeconomic conditions. Such increases are ahead of those of the overall market according to the Hotelbenchmark Survey by Deloitte, i.e. +7.0%, 6.9% and +12.2% for Madrid, Barcelona and Seville respectively.

Regarding operations outside Spain, the best performers up to September have been **London, German cities, Paris and Milan** with RevPAR increases of 12.5%, 12.7%, 5.7% and 12.1% respectively. The evolution of Germany is largely explained by the positive impact of the World Cup. London and Paris have been benefited from the positive evolution of the whole market together with the efforts made by Sol Melia in biasing the segmentation towards the corporate business during the working week while improving the leisure segment during the week-end. In Milan, the good evolution of the city along with the location of the property explains the above mentioned increase.

Regarding the **Americas Division**, 7.4% RevPAR growth is largely explained by the performance of company's resorts in the Dominican Republic and Puerto Rico. This performance is explained not only by the underline evolution of the leisure segment, but also responds to the importance of the business groups and Incentives in Company's hotels in Punta Cana, Puerto Rico, Mexico and Costa Rica which mainly affects the Paradisus brand. The good evolution of the Gran Meliá Caracas (428) with a 24.9% RevPAR increase is also behind the mentioned growth.

Although the results have been satisfactory, the concerns about the possibility of hurricanes in the Cancun area have made North American touroperators to divert some of their clientele towards some other destinations, be it the Dominican Republic or Asian resort areas.

Table 1: Hotel statistics 06 / 05 (RevPAR & A.R.R. in Euros)

OWNED & LEASED HOTELS Sep 06 / 05			*Occupancy*	*RevPAR*	*A.R.R.*
EUROPEAN RESORT		**2006**	74.5%	44.8	60.1
	% o/ 2005		**0.6%**	**5.0%**	**4.4%**
		2005	74.1%	42.6	57.5
EUROPEAN CITY		**2006**	69.0%	60.4	87.6
	% o/ 2005		**3.5%**	**10.4%**	**6.7%**
		2005	66.7%	54.7	82.1
AMERICAS		**2006**	67.9%	52.7	77.7
	% o/ 2005		**-1.1%**	**7.4 %**	**8.6%**
		2005	68.6%	49.1	71.5
TOTAL		**2006**	71.0%	53.1	74.7
	% o/ 2005		**1.7%**	**7.9%**	**6.1%**
		2005	69.8%	49.2	70.4

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.

Table 2: Breakdown of total room revenues owned/leased hotels 06 / 05

% Increase Sep 06	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	5.0%	10.4%	7.4 %	7.9%
Available Rooms	0.9%	-3.6%	-3.0%	-1.8%
Room Revenues	6.0%	6.5%	4.2%	6.0%

In the **European Resort Division**, the increase in available rooms is explained by the reopening of the Melia Gorriones (575), after an extensive process of refurbishment which offset the sale of the Meliá Torremolinos (289) in October 2005 and the Vista Sol Hotel (during the first quarter of the year). In the **European City Division**, the “outright sale” or “sale and management back” transactions carried out in 2005 (namely Tryp Alcano and Meliá Las Palmas) and 2006 (Meliá Rey Don Jaime) explain the decrease in available rooms. It is also due to the disaffiliation of the Tryp Cottbus (94) in the month of February 2006. RevPAR growth of +10.4% offset this impact.

The decrease in available rooms in the **Americas** is explained by the closure of the resorts in the Cancun area due to Hurricane Wilma. However, at this stage, only one resort remains to be open: the Meliá Turquesa (450) which will reopen as ME Cancun in December 2006.

Table 3: Hotel revenues split 06 / 05 for owned/leased hotels

Sep 09 / 06	E.RESORT			E.CITY			AMERICAS			TOTAL		
(Million Euro)	**06**	**%o/05**	**05**	**06**	**%o/05**	**05**	**06**	**%o/05**	**05**	**06**	**%o/05**	**05**
ROOMS	153.2	6.0%	144.5	236.3	6.5%	221.9	73.1	4.2%	70.2	462.6	6.0%	436.6
F&B	83.0	6.9%	77.6	78.8	1.8%	77.3	85.3	20.2%	70.9	247.0	9.3%	225.9
OTHER REVENUES	9.5	4.7%	9.0	19.7	-9.5%	21.7	29.7	98.3%	15.0	58.8	28.6%	45.8
TOTAL REVENUES	245.6	6.3%	231.2	334.7	4.3%	321.0	188.2	20.5%	156.1	768.5	8.5%	708.3

The evolution of the F&B item in the **European Resort Division** is related with the upselling of higher number of boards to Company's customers in-house and the activity increase in the restaurants towards the walk-in clientele. The implementation of F&B attributes in the SOL brand and the development of the "all-inclusive" product in some hotels are largely behind such effect. This growth is also explained by the increase of Business Groups in the Meliá Hotels. The increase of "Other Revenues" figure in the European Resorts is mainly explained by the good evolution of the new projects to uplift this item, i.e. the Flintstones Land entertainment packages, meeting rooms' sales, in-room merchandising, minishop, Spa & Fitness, etc.

The 9.5% reduction of "Other Revenues" in the **European City Division** is related to the former Reina Victoria hotel and offset in good part by a similar figure of reduction of the operating costs.

The 20.2% increase in Food and Beverages in the **Americas** is due to the opening of the hotel "Paradisus Palma Real" in Punta Cana (Dominican Republic) (350 rooms), an all inclusive hotel which gives a great importance to the quality of the Food and Beverage services, having facilities with 7 restaurants and 8 bars.The sharp increase in the "Other Revenues" item in the Americas, reflects the insurance payment due to the loss of profit coverage.

2.2 Asset Management Performance

Sol Melia's Asset Management Business includes Asset Rotation Activity and SMVC Business. Sol Melia's Asset Management strategy expects 100 million euros on a yearly basis.

2.2.1 Asset Rotation

Sol Meliá has completed the sale of 73.5 million Euros worth of assets while generating 25.7 million of profit for the year-end.

Table 4: Asset Rotation

SELL SIDE

ASSET	ROOMS		PRICE		EV/EBITDA (x)		EBITDA Asset Rot.	
	06	**05**	**06**	**05**	**06**	**05**	**06**	**05**
Sol Vista Sol (Mallorca, Spain) ; 1Q06	176		12.5		17.9		6.9	
"La Jaquita" plot of land (Tenerife, Spain); 1Q06			22.5		-		4.5	
M. Rey Don Jaime (Valencia, Spain); 3Q06	319		38.5		17.5		14.2	
Tryp Macarena (Seville); 1Q05		329		42.0		19.4		24.2
M. Las Palmas (Canary Islands); 3Q05		310		34.0		23.4		16.8
TOTAL	**495**	**639**	**73.5**	**76.0**	**17.6**	**21.0**	**25.7**	**41.0**

[1] Please note that in 3Q05 the 50% of the M. Zaragoza was sold by 21.25 mn Euros at a 25.7x Ebitda multiple. Although the transaction generated a latent profit of 8.7 million Euros, it was not reflected in the P&L account as the joint venture was fully consolidated.

In the first quarter, the Company formalized the disposal of the Vista Sol resort (176) in Mallorca for 12.5 million Euros at an EBITDA multiple of 17.9x while generating 6.9 million Euros of profit. Sol Meliá agreed a 10-year management contract with a 4% basic, a 10% incentive fee plus a 1.5% marketing fee.

Sol Meliá also completed the disposal of a 78,000 square metre plot of land ("La Jaquita") plus the works carried out so far for a total price of 45 million Euros to a 50 / 50 joint venture with the Spanish construction company Grupo Nyesa.

The Melia Rey Don Jaime Hotel (319) in Valencia has also been sold in Q3 for 38.5 million euros at a 17.5x EBITDA, generating 14.2 million Euros of profit.

As mentioned earlier in this report, the Company agreed the sale in Q4 of the 50% stake of **Melia Colon** in Seville (218) for a full hotel value of 40 million Euros at 21.4x Ebitda Multiple. The transaction generates a latent profit of 21 million Euros, but it will not be reflected in Sol Melia's results since the JV will be fully consolidated.

Table 5: Asset Rotation

BUY SIDE

ASSET	LOCATION	ROOMS	PRICE	EV/EBITDA (x)
33% Tryp Bellver	Palma de Mallorca (Spain)	384	3.2	4.1
TOTAL		384	3.2	4.1

On the buy side, the Company acquired in Q2 a 33% stake in the Tryp Bellver (384) in Palma de Mallorca at 3.2 million Euros, at an Ebitda multiple of 4.1 times. Sol Melia already owned 67% of the property. In Q4, the Company reached an agreement for the acquisition of 475 hectares of plot of land in Salvador de Bahia (Brazil).

2.2.2 Sol Meliá Vacation Club (SMVC)

Total sales have gone up to 65.2 Mn Euros +97.8% while number of weeks sold and average price per unit have increase by 71% and 17% respectively. Such increases have led to an improvement at the Ebitda margin level.

Such increases take place even when in the Cancun area some hotels have remained closed throughout 2006 due to refurbishment works after the Wilma hurricane. Nevertheless, the operations launched in the Dominican Republic and Puerto Rico together with the launching of the SMVC in Spain, have more than offset such setback.

Next year, In addition to the 10 developments already open, the implementation of the vacation club business in 2 resorts in the Canary Islands , Paradisus Punta Cana, second phase of Paradisus Puerto Rico and ME Cancun will led the Company to have important increases in 2007.

3. Income Statement

- **Revenues**

Total Revenues increased by 10.1% explained by the sharp increase in the hotel division (8.5%) due to good evolution of the owned and leased hotel network. Up to September, Sol Meliá has generated 25.7 million Euros against the 41 million generated last year within the asset rotation business. Management fees from third party hotels represent 37.9 million Euros, a 4.9% increase. This positive performance is mainly due to the evolution in the Spanish market in both the cities and resorts together with fees generated in Croatia and the Americas (especially Mexico, Brazil and Costa Rica)

- **Operating Expenses**

The "*Raw Materials*" item increase (+13,3%) is largely explained by the incorporation of the Paradisus Palma Real hotel and the increase of business of the *Sol Caribe Tours* touroperator in Cuba. This latest effect is positively offset by the revenues increase at the "Other revenue" level.

Total Operating Expenses increase by 9.3% largely explained by the *Sol Caribe Tours* effect, the most recent Paradisus Palma Real in the Dominican Republic and the increase expenses of the Sol Meliá Vacation Club, currently a thriving business (please note that these latest three impacts represent an additional Ebitda of 0.1, 5.5 and 10 mn Euros respectively).

Excluding the hotel affiliation / disaffiliation impact in Sol Meliá's perimeter, the evolution of *Sol Caribe Tours* and the SMVC, " Raw Materials", "Personnel Expenses", "Other Operating Expenses" and "Total Operating Expenses" change by +0.5%, +4.3%, 2.4% and 3.0**%** respectively.

The increase of operating costs of the SMVC by 89.9% is largely explained by the business increase of the Vacation Club. At this stage, the revenues have increased by 97.8% implying an Ebitda of 18.3 mn Euros, an increase of 121.7%.

"Rental Expenses" increased by 5.4%, explained by the lease contract at the Tryp Macarena following its disposal. Excluding this effect, the item increases by 3.2%

At the operating margin level, the Company has gone up to 25.5% (+10% improvement) when excluding the asset rotation. Additionally when excluding the *Sol Caribe Tours* touroperator, a residual non-margin business that gives support to the hotels in Cuba, Ebitda margin goes up to 25.8%.

- **Ordinary Profit / Net Profit**

"Net interest expenses" item decreases by 20% largely explained by the refinancing of the 340 million Euros maturity of the 5-year bond (6.25% fixed - coupon) issued within the framework of the EMTN programme and the debt reduction.

The Minorities (P/L) item has decreased by 10.6% mainly due to the Company "*Caribotels de México S.A.*" the losses generated out of the impact of Hurricane Wilma. In Q4 the negative evolution will be corrected once this company recovers the loss of profit of the insurance.

Table 6 : Sol Meliá Consolidated Income Statement

Million Euros	Sep - 06	Sep - 05	%
Hotel Revenues	768.5	708.3	
Real Estate Revenues	107.6	94.2	
Other revenues	88.7	73.8	
Total revenues	**964.7**	**876.2**	**10.1%**
Raw Materials	(120.5)	(106.3)	
Personnel expenses	(284.0)	(268.1)	
Other operating expenses	(246.0)	(220.7)	
Total operating expenses	**(650.5)**	**(595.1)**	**9.3%**
EBITDAR	**314.2**	**281.1**	**11.8%**
Rental expenses	(48.9)	(46.4)	
EBITDA	**265.3**	**234.8**	**13.0%**
Depreciation and amortisation	(81.6)	(80.8)	
EBIT	**183.7**	**153.9**	**19.4%**
Net Interest Expense	(36.5)	(47.9)	
Exchange Rate Differences	(0.8)	(4.2)	
Other Interest Expense	(8.2)	(8.0)	
Total financial profit/(loss)	**(45.5)**	**(60.1)**	**-24.3%**
Profit/(loss) from equity investments	0.6	0.5	
Continuing Earnings Before Taxes	**138.9**	**94.3**	**47.2%**
Discontinuing Operations	**0.0**	**0.0**	
Profit before taxes and minorities	**138.9**	**94.3**	**47.2%**
Taxes	(16.7)	(9.4)	
Group net profit/(loss)	**122.2**	**84.9**	**44.0%**
Minorities (P)/L	(2.1)	(2.3)	
Profit/(loss) of the parent company	**120.1**	**82.5**	**45.5%**

4. Expansion

The table below shows a description of the progress made in the Sol Meliá hotel portfolio up to September of 2006.

Table 7. Expansion plan.

Owned & Leased	01/01/2006		ADDITIONS		LOSSES		CHANGES		30 / 09 / 2006		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**91**	**14,912**	**0**	**0**	**4**	**652**	**0**	**0**	**87**	**14,260**	**3**	**666**	**90**	**14,926**
Owned Hotels	32	6,506	0	0	1	319	0	0	31	6,187	0	0	31	6,187
Leased hotels	59	8,406	0	0	3	333	0	0	56	8,073	3	666	59	8,739
EUROPEAN RESORT	**55**	**15,527**	**0**	**0**	**0**	**0**	**-1**	**-176**	**54**	**15,351**	**1**	**809**	**55**	**16,160**
Owned Hotels	40	12,674	0	0	0	0	-1	-176	39	12,498	1	809	40	13,307
Leased hotels	15	2,853	0	0	0	0	0	0	15	2,853	0	0	15	2,853
AMERICA	**16**	**5,976**	**0**	**0**	**0**	**0**	**0**	**0**	**16**	**5,976**	**2**	**2,722**	**18**	**8,698**
Owned Hotels	15	5,748	0	0	0	0	0	0	15	5,748	2	2,722	17	8,470
Leased hotels	1	228	0	0	0	0	0	0	1	228	0	0	1	228
OWNED HOTELS	87	24,928	0	0	1	319	-1	-176	85	24,433	3	3,531	88	27,964
LEASED HOTELS	75	11,487	0	0	3	333	0	0	72	11,154	3	666	75	11,820
TOTAL	**162**	**36,415**	**0**	**0**	**4**	**652**	**-1**	**-176**	**157**	**35,587**	**6**	**4,197**	**163**	**39,784**

Management & Franchise		01/01/2006		ADDITIONS		LOSSES		CHANGES		30 / 09 / 2006		SIGNED		TOTAL GROUP	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUR. CITY	**M**	21	3,884	0	0	2	184	0	0	19	3,700	0	0	19	3,700
	F	19	2,310	0	0	0	0	0	0	19	2,310	0	0	19	2,310
EUR. RESORT	**M**	39	12,638	2	910	1	278	1	176	41	13,446	2	675	43	14,121
	F	16	5,536	1	138	8	3,489	0	0	9	2,185	0	0	9	2,185
AMERICA	**M**	35	8,724	0	0	2	717	0	0	33	8,007	4	619	37	8,626
	F	6	781	0	0	5	731	0	0	1	50	0	0	1	50
ASIA-PACIFIC	**M**	7	2,518	0	0	0	0	0	0	7	2,518	1	700	8	3,218
	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	2	1284	25	9,760
SUBTOTAL	**M**	125	36,240	2	910	5	1,179	1	176	123	36,147	9	3,278	132	39,425
	F	41	8,627	1	138	13	4,220	0	0	29	4,545	0	0	29	4,545
TOTAL		**166**	**44,867**	**3**	**1,048**	**18**	**5,399**	**1**	**176**	**152**	**40,692**	**9**	**3,278**	**161**	**43,970**
TOTAL GROUP		**328**	**81,282**	**3**	**1,048**	**22**	**6,051**	**0**	**0**	**309**	**76,279**	**15**	**7,475**	**324**	**83,754**

M= Management; F= Franchise

NOTE: please note that the figure future incorporations of owned rooms (3,531) include not only the hotel rooms but also the equivalent number of rooms (2,266) of 1,133 vacation club units taking into consideration that each vacation club unit equals an average of 2 hotel rooms. The reason being is that from the moment these units are built and up until the sale as vacation club, they will be operated as hotel rooms. The company will inform on a regular basis of these changes.

- ## Additions

Under a **management** contract, Sol Meliá added to its portfolio the Meliá Golf Vichy Catalan in Gerona (Spain) with 150 rooms. This is the only resort situated in the heart of two golf courses that form part of the PGA circuit outside the UK. In the **3Q06**, the Company has also added to its portfolio under a management contract the Sol Cyrene in Sharm (Egypt) with 120 rooms.

Under **franchise** agreement, Sol Meliá incorporated the hotel Sol Lunamar (138 rooms) in Palma Nova, Majorca.

- ## Losses

The Company formalized the **disposal** of the Vista Sol aparthotel (176 rooms) in Majorca. In **3Q06**, the Meliá Rey Don Jaime (319 rooms) in Valencia (Spain) has been sold for 38.5 Euros Under **lease,** Sol Meliá has dropped the Tryp Berne (88 rooms) in Switzerland. During the **3Q06** the Company has also dropped from its portfolio under a lease contract the Tryp Cordoba (147 rooms) in Spain and the Tryp Cottbus (98 rooms) in Germany.

Under **managemen**t contract, Sol Meliá dropped from its portfolio the Meliá Almerimar (278 rooms) in Almeria, the Meliá Horus Salamanca (90 rooms), both in Spain, and the Gran Meliá WTC Sao Paolo (300 rooms) in Brazil. During the **3Q06**, the Company has also dropped from its portfolio the Tryp Caballo Blanco (94 rooms) in Cadiz (Spain).

The Company disaffiliated four hotels from its portfolio under a **franchising** contract: the Sol Caribe Campo (230), the Caribe San Andres (230), the Sol Arhuaco (58) and the Tryp Chicamocha (190 rooms), all of them in Colombia. Also under franchising contract during the **3Q06** Sol Meliá has dropped from its portfolio eight hotels in Tunisia: the Meliá Djerba Menzel (638) and seven hotels El Mouradi. The brand inconsistency has been the main reason for dropping out these latest establishments.

- ## Future Incorporations

Regarding the organic growth of property hotels, four developments will come to fruition in the medium term:

1. Extension of the Paradisus Punta Cana (Dominican Republic): represent **200 additional vacation club units** in an adjacent plot of land, scheduled to be opened in late 2007. Once these units are built and up until the sale as vacation club, they will be operated as hotel **Royal Service** suites

2. "La Jaquita" project in Tenerife (Spain): this 50% joint-venture involves **409 hotel rooms** plus **200 vacation club** units to be opened in early 2008.

3. "Playa del Carmen" project in Mexico: involves a **Melia resort** (528 hotel rooms plus 366 vacation club units) and a **Paradisus complex** (328 hotel rooms plus 248 vacation club units), both of them to be opened in late 2008

4. On top of that, regarding the **Sol Melia Vacation Club**, in Puerto Rico, the company will open 44 vacation club units of new construction in early 2007 and 75 more in a second phase throughout 2008 out of a total 440 units to be developed in 10 years

All in all, organic growth will represent additional 1,265 hotel rooms plus 1,133 vacation club units in 2007 and 2008. From 2009 onwards, the Company will start to see the contribution out of the developments in Brazil which at the moment are in a very embryonic phase.

Regarding the future incorporations under lease and management contract, as a consequence of the organic growth in the major markets, Sol Meliá will add to its portfolio 12 new hotels that implies an increase of 3,944 additional rooms.

On October 1st 2006, the Company incorporated under a lease contract the Meliá Berlin (364 rooms) in Germany. This newest hotel incorporates attributes that provide the establishment with the elements of the new **Meliã** brand such as a modernized Royal Service treatment as well as new gastronomic offerings and increased beauty and health facilities. In 2008 the Company will open its second hotel in Rome (140 rooms) also under lease contract.

Some examples of the mentioned new incorporations under management are taking place in South America, i.e. the Tryp Buenos Aires with 62 rooms. This hotel will be the third establishment of the Company in the capital of Argentina and the first under the Tryp brand.

There will also be incorporations in Brazil, such as the Meliá Angra & Marina (200 rooms) in Angra dos Reis and the Tryp Tower (260 rooms) in Brasilia. These incorporations reflect, again, the focus of Sol Melia in a country with a huge potential for growth as a quality tourism destination.

Another important incorporation will be the Gran Meliá Shangai (700 rooms) in 2007. This luxurious establishment situated in the heart of Pudong will be the first flag the Company in China. This hotel is not only the platform for future growth in the country but also a major strategic movement for the sake of brand equity.