2008 Results

Profit & Loss Account

(Million Euros)	Dec-08	Dec 07	%
REVENUES	**1,279.0**	**1,350.7**	**-5.3%**
EXPENSES (ex - Operating leases)	**945.1**	**933.1**	**1.3%**
EBITDAR	**333.9**	**417.6**	**-20.0%**
Rental expenses	77.2	68.5	12.7%
EBITDA	**256.7**	**349.1**	**-26.5%**
Depreciation and amortisation	97.5	112.5	-13.4%
EBIT	**159.2**	**236.6**	**-32.7%**
Total financial profit / (loss)	**(91.8)**	**(65.8)**	**-39.5%**
Profit/(loss) from equity investments	(6.6)	8.3	**-179.3%**
Continuing EBT	**60.9**	**179.1**	**-66.0%**
Discontinuing Operations	0.0	0.0	0.0%
Profit before taxes and minorities	**60.9**	**179.1**	**-66.0%**
Net Profit	**54.6**	**164.6**	**-66.8%**
Net Profit attributable	**51.2**	**161.9**	**-68.4%**

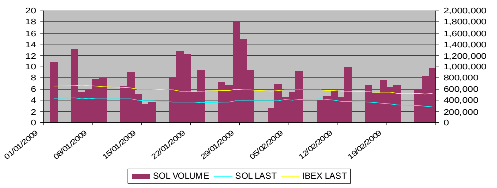
Operational Ratios

RevPAR	53.1	54.8	-3.2%
RevPAR (ex – currency effect)	54.2	54.8	-1.1%
EBITDAR MARGIN	26.1%	30.9%	-481 bp
EBITDA MARGIN	20.1%	25.8%	-578 bp
EBITDA MARGIN (ex-asset rotation)	19.8%	24.0%	*-420 bp*
EBT MARGIN	4.8%	13.3%	-850 bp
NET PROFIT MARGIN	4.0%	12.0%	-798 bp

Interest Cover Ratios

EBITDA / Net Interest Expense	3.6x	6.5x	-44.0%
EBIT / Net Interest Expense	2.2x	4.4x	-48.8%
EBITDA / Net Int. (ex - asset rotation)	3.6x	5.3x	-32.8%
EBIT / Net Int.(ex - asset rotation)	2.2x	3.4x	-35.9%

Stock Performance



Average Daily Volume 2009 (€)	€ 765.160
52- Week High, February 25th 08	€ 10.85
52- Weel Low, February 25th 09	€ 2.88
Market cap Feb 26th 09 (€ 2.91) Mn	537.7

Bloomberg: SOL SM ; Reuters: SOL.MC

Highlights

Rev., EBITDA and Net Profit decreased by 5.3%, 26.5% and 68.4%

The performance of these items are explained by 1) the economic downturn, 2) the sluggish summer season in Spain, 3) the depreciation of the Pound Sterling and US dollar, and 4) the decrease of capital gains from asset rotation (3.8 Mn Euros vs. 43.1 Mn Euros in 2007). The negative trend intensified in Q4 when RevPAR fell by 7.9% (vs. -2.6% up to September) and Ebitda (ex-asset rotation) decreased by 45.4% (vs. 14.9% up to September). On a constant exchange rate basis and ex-capital gains from asset rotation, year-end Ebitda and Net Profit attributable change by -17.0% and -48.4%.

Outlook 2009

As regards the outlook, the current recession and volatility of the credit market gives limited visibility both on bookings and on overall activity, preventing Sol Meliá from giving precise guidance for 2009. Nevertheless, the Company estimates that RevPAR is likely to decrease by 10% in Q1.

Company's market overview indicates a further decrease in business travel activity derived from corporate savings policies, difficulties in the Spanish island resorts destinations derived from the slowdown in the UK feeder market and Sterling depreciation. These effects are expected to be only partially offset by the comparatively better evolution in Caribbean destinations. In January, overall Company RevPAR decreased by 10.0%, while in Mexico and the Dominican Republic this indicator changed by -3.5 % and 0.3 % respectively. SMVC is expected to decrease derived from difficulties in consumption in feeder markets. To soften the impact a Contingency Plan has been implemented involving A) Revenues, B) Cost Optimization, C) Risk Management and D) Cash Flow management and Financial Equilibrium. Sol expects to save €35.6 million derived from direct measures within the framework of its cost efficiency programme and invest below 100 mn in 09. In 08 Sol Melia saved € 4.3 million.

Asset Rotation: Sale of Tryp Los Bracos for 6.0 Mn Euros

During the last quarter of the year the Company sold the Tryp Los Bracos hotel (Logroño, Spain) for 6.0 Mn Euros, generating 3.8 million of capital gains. Transaction was made at a 16.7 times Ebitda multiple.

Financial Situation

In terms of liquidity, Sol Meliá has 256.5 million Euros of cash and short term deposits, which compare with 165.6 and 188.6 million Euros of debt that matures in 2009 and 2010 respectively. Credit lines have been renewed in Q4. The Company is accomplishing its debt covenants and the financial situation is supported by a significant asset base free of mortgage. Expansionary capex has halted. Sol Meliá has also signed several deals to improve its amortization scheme and move forward to a more fixed-rated debt structure.

Future Development

The Company has 6,150 rooms (18 hotels) in the pipeline, of which 87% are under management and 13% under lease. 3,077 rooms will open in 09.

Table of contents

1. Letter from the Co Vice-Chairman and C.E.O.

The deterioration of economic conditions in the fourth quarter in Spain, UK, United States and Germany – our main feeder markets – has led to Travel and Tourism indicators declining further than expected. The number of international tourists and domestic travellers in Spain decreased by 9.5% and 9.8% respectively in Q4.

As a consequence, Sol Meliá's operating performance was further weakened in Q4 leaving the Net Profit attributable at 51.2 million Euros, 68.4% less than 2007. This below-expected result was anticipated by the Company when it released results for the first nine months of the year.

… economic environment impacts Q4 figures. Further deterioration in 2009…

Currently, advanced macroeconomic indicators, early 2009 data and the cutback in flight capacity point towards further deterioration of our industry this year. For instance, *Exceltur* (a lobby group of 25 of Spain's main travel groups) has recently forecasted a decrease in Real Tourism Revenue in Spain by 5.7% in 2009.

We expect the crisis to hit Sol Meliá's figures harder in the first half of the year where we have more difficult comparables and where the slowdown in consumption in the travel market will affect us more. Further into the future, some factors might ease the situation such as a) the reduction of interest rates, b) Euro depreciation and c) oil price stability.

Nevertheless, the outlook is subject to an exceptional degree of uncertainty and downgrade risks are predominant throughout all companies and sectors.

A number of measures have been implemented to confront the current environment, involving A) Revenues, B) Cost Optimization, C) Risk Management and D) Cash Flow management and Financial Equilibrium.

A) In the Sol Meliá's "9M 08 Results" the Company disclosed the "Top-10 Sales Strategies" focused on major priorities in each market segment (Direct Sales Channels, Corporate Business Groups, Conventions and Incentives and Tour Operators and Wholesalers) which are now starting to show results. Course of action is addressed to greater sales flexibility; focus on strategic alliances with key partner with the right incentives on performance and a clear approach on customized niche segment strategies. One of the major trends we are perceiving is the increased loyalty of Major Key Accounts and strategic partners to consolidated hotel groups and brands, regrouping their buying power in exchange for marketing co-operation programmes and volume sales-production incentives. We are convinced that this operating consolidation will benefit Sol Meliá based on our excellent resort product distribution and key holiday destinations and allow us to tap a larger share of a projected diminishing demand.

Our CRM and Revenue management strategies are now in operation across all consumer segments and brands. From the Customer Relationship Management standpoint, a new customer insight crew has been created. This team has the support of SAS data mining technology to make cross-analysis of customer data with a clear focus on sales. This enables Sol Meliá to develop propensity models and customer insight based on customer life-cycle while it further professionalizes the way it addresses to final customer through customized advertising campaigns based on this framework. Customer insight has been managed through a 4 million customer database.

B) The Company also implemented a Cost Efficiency Programme with immediate impact on all Business Units (SMVC, Leisure Real Estate, and Hotels) and all worldwide Corporate Offices. The new structure responding to the new business model implemented in 2007 did not contemplate the scale of the decrease in business activity that we are witnessing and has affected the Leisure Real Estate division in particular.

At the **Hotel Level** an Operational Contingency Plan has been launched to streamline cost per stay with the aim of reducing operating expenses without affecting the experience of our clients, what we call "cost to serve". It is explained by a) the rationalization of personnel management according to opening periods of seasonal hotels and overall occupancy levels (it is noteworthy the flexibility of our workforce), b) adaptation of cost per stay to brand standards while switching from fixed to variable costs, c) centralized renegotiation of third-party services (energy, maintenance, gardening, water management and amenities, among others), d) Disaffiliation / renegotiation of loss-making business units and e) renegotiation of rental expenses.

The roll-out of best-practices as far as cost-per-stay will be made using as a benchmark hotels within the company therefore reinforcing brand standards.

Another component of hotel operation streamlining is related to the opening / closure management of seasonal properties along with synergies generated by managing clusters of hotels where we have a critical mass instead of on individual hotel basis.

In **Company Headquarters**, the overhead savings are explained by a) the integration of brand-focused sales forces and leisure brand teams within the Global sales department, b) substantial reduction in the Leisure Real Estate activity, b) the creation of a *Global Marketing Fund* for a better management of marketing expenses, c) renegotiation of commissions and d) overall reduction of other operating expenses.

The implementation of further centralization and reinforcement of hotel back-office processes within Hospitality Business Services (HBS) – Sol Meliá's shared-services centre – is starting to generate synergies. This process has started in Spain, Mexico and the Dominican Republic with a strong roll-over agenda in the future.

In the Sol Meliá Vacation Club business unit savings measures are equally addressed to improve the efficiency of the Company's cost base while adapting it to current level of activity. The course of action involves the transfer of sales offices to Company resorts, local production of marketing material and brochures, substitution of external marketing consultant expenses to personnel in-house, generation of synergies in support departments (IT and Legal). Additionally, due the nature of the business, primarily based on variable costs, operating expenses will automatically adjust to a potential decrease at the top line level.

… 35.6 million Euros savings in 2009…

All in all, Sol Meliá expects to reduce costs by 35.6 million Euros in 2009 derived from the direct effect of the above mentioned measures, of which 16.9 million Euros are generated at the Company headquarters level.

Part of the Cost Efficiency Programme has been implemented in 2008, starting in July when the Company responded more vigorously to the industry slowdown as far as cost reduction is concerned. Thanks to this course of action, Sol Meliá has saved 4.3 million Euros in 2008 has laid the foundations to weather 2009, one of the most difficult years for the travel and tourism industry in recent decades.

C) As far as overall Risk Management, we are working on the adaptation of the risk map to the current market practices and conditions. The Sol Melia Vacation Club has launched an array of actions to reduce delinquency that involves focus and incentives to sales force on higher average down-payments as well as payments in cash.

In hotels, the Company has obtained a similar average collection period to last year (average has increased by 1.6 days both in Europe and LatAm). Regarding hotels insurance coverage, the material damages, stop loss and civil liability insurances are completely activated.

… high liquidity levels, support of asset base …

D) Regarding the Cash Management and Financial Equilibrium, the financial situation is in good shape. In terms of liquidity, Sol Meliá has 256.5 million Euros of cash and short term deposits which compare with 165.6 and 188.6 million Euros of debt that matures in 2009 and 2010 respectively. The debt amortization scheme has been smoothed recently, moving 25 million Euros from 2009 to next year. Additionally, in order progressively switch to a more 50/50 floating / fixed debt structure, Sol Meliá has signed a 100 million Euros interest rate swap that increases fixed debt weighting from 17.7% to 25.9%.

The renewal of credit lines that expired in Q4 has enabled us to maintain those at the 190.4 million Euros level although with a higher spread. At the overall financial cost level, the average interest cost was 5.67% in 2008. For 2009, a reduction in the financial cost is considered since higher spreads will be offset by the 3-month Euribor reduction. The Company expects a 15% to 18% reduction in Net Interest Expense.

The financial situation is also underpinned by the support of solid banks and Company's asset base. Currently, only 20.5% of total debt is backed by company assets. This leaves room for significant fund raising even in a medium loan-to-value ratio or a significant discount on the asset base (4.6 billion Euros worth of assets) since the last valuation was made in July 2007.

… 2 projects put on hold, investments in 2009 limited to maintenance capex…

For the sake of a proper cash management, Sol Meliá has delayed two important projects: 1) the first phase of the development in Salvador de Bahia (Brazil) that implied the investment of 42 million dollars in a Meliá resort complex of 280 rooms, and 2) the "Playa del Carmen" project in Mexico that involved a Meliá resort with 322 hotel rooms and 212 SMVC units and a Paradisus complex with 257 hotel rooms and 140 SMVC units, representing a 250 million dollar investment.

In 2009, total investment will be below 100 million. This primarily includes maintenance capex. As in 2008, when Sol Meliá signed future incorporations of 13 hotels and 4,635 rooms (82% management and franchise / 18 % leases), expansion will be focused on very low capital intensive development for the sake of the financial strength and on projects that imply added value from a Brand Equity standpoint, one of the key strategic areas for the Company. Regarding new hotels that add value to our brand portfolio, Sol Meliá has 6,150 rooms (18 hotels) in the pipeline, of which 87% are under management and 13% under lease. Of the total, 3,077 rooms (9 hotels) will open throughout 2009.

… Global Sustainability Policy …

In a critical moment for the world, where governments are struggling to stimulate the economy, many leaders claim that the economic model being developed should be sustainable for the planet and our future on it. On November 25th 2008, the board of directors of Sol Meliá approved its Global Sustainable Policy with the aim of incorporating the values and principles of sustainable development in our business processes and relationships with all of our stakeholders. Tourism is a business which is extremely sensitive to the environment in which it takes place and 1) caring for the natural environment, 2) social commitment and 3) the conservation of the cultural heritage of the communities in which we operate are key. This is our vision and our contribution.

To end this letter, we would like to point out that we are aware that the Company is a witness to one of the worst economic crises ever and, in our view, is responding with the most appropriate measures. Every course of action falls into maximisation of revenues in all businesses, optimization of direct costs while respecting customer service, management of the risk map and its impact on stakeholders, and the management of cash flow and the balance sheet.

Fortunately Sol Meliá faces this crisis in one of the most positive moments in its history in terms of a) business diversification, b) location of our hotels and resorts, c) guest satisfaction, d) range of distribution flexibility, and, e) more importantly a financial situation in good shape.

Sebastian Escarrer

Co-Vice Chairman & CEO

2. Information on Operations

2.1. Hotels

During the final quarter of 2008, RevPAR decreased by -7.9%. This period was characterized by the sluggish performance of the urban segment (Tryp: -11.2%; Meliá Urban: - 11.4%) affected by both the 1) Business Segment (reduction of Business Travel, Congresses, Convention and Incentives) on the back of corporate cost reduction programmes, and the 2) Leisure Segment where international tour operators decreased city-break programmes and weekend travel continues to be affected due to decreased consumption by families. During 2008, RevPAR for owned and leased hotels decreased by 3.2%.

Sol Hotels

The **Sol brand** (100% resort, 100% Spain) saw RevPAR decrease by -10.6% during *Q4*, affected by the downsizing programme of tour operators, especially in the Balearic Islands (RevPAR 4Q08: -19.0%), and by the fall of the British feeder market, hit by the devaluation of the pound.

Year-to-date RevPAR decreased by 5.7% due to an occupancy rate fall of 7.1%. The weak performance of the Balearic Islands (-9.5%) as result of the decrease in the number of reservations from both the Spanish and British markets affected by 1) the current environment, 2) the reduction in capacity by tour operators following a process of consolidation (Thomson – First Choice and Thomas Cook – My Travel) and 3) the bankruptcy of some players in the industry like XL and Futura. On the other hand, it is worth mentioning the recovery of the Canary Islands (RevPAR: +3.9%).

Year-to-date **Operating Expenses** (excluding rental expenses) decreased by -3.7%, in part helped by the closure of several hotels, especially in areas like Menorca and Ibiza, to avoid further costs. **Ebitda** decreased by 24.4%.

Changes in the number of **Available Rooms** are related to the late opening of 4 seasonal hotels: Sol Principe (Malaga), Sol Costa Blanca (Alicante), Sol Guadalupe and Sol Trinidad (both in the Balearic Islands).

TRYP HOTELS

In *Q4*, RevPAR for the **Tryp brand** (100% city; 73% Spain) decreased by 11.2% due to the sluggish development of the hotel business in Spain (RevPAR: -14.9%). This fact was not compensated by the performance of the hotels in Germany (RevPAR: +0.8%) and France (RevPAR: +14.1%).

Year-to-date RevPAR fell by 4.6% due to decreases in occupancy rates by -5.4% and a decrease during the weekends (starting in Q2) and more obviously in Q4 in business travel.

Operating Expenses (excluding rental expenses) decreased by 1.8% partly due to the measures implemented to minimize energy costs by blocking of unoccupied floors, a reduction in advertising costs and a decrease in the hiring of temporary workers. Ebitda went down by 21.7%.

Decrease of the Available Rooms item is explained by the sale of the Tryp Hidalgo during 2Q07 and Paris Boulogne during 4Q07.

In *Q4* RevPAR for **Meliá** (44% Spain, 21% LatAm, 35% EMEA) decreased by -9.9%, particularly affected by the sharp slowdown in the urban segment (-11.4%), especially in the UK (-20.3% / -4.3% in GBP), Barcelona (-20.1%), Madrid (-17.3%) and Seville (-28.7%) due to the aforementioned reasons affecting city hotels. In this brand the large city hotels explain a good part of the deviation (M. Barcelona, M. Sitges, M. Galgos, M. Madrid Princesa, M. Barajas, M. Sevilla and M. Lebreros)

In the resorts, RevPAR decreased by -1.4%, explained by the behaviour of hotels on the coast (Balearic Islands: -8.6%) where both British and Spanish markets did not respond to last minute offers. It is also fair to mention the good performance of ski resort hotels during the quarter, particularly the Meliá Sol y Nieve, where RevPAR increased by +22.3%.

Year-to-date RevPAR decreased by -3.2% (-0.3% on a constant exchange rate basis). During 2008 the urban segment was characterized by a progressive decrease in international leisure and business travel.

Operating Expenses (excluding rental expenses) and **Ebitda** changed by +7.9% and -6.3% respectively. Excluding changes in the perimeter, these figures decreased by -0.8% and -9.8% respectively due to the incorporation of the Innside brand. The company has implemented measures to generate energy savings and the reduction in recruitment due to the drop in occupancy.

The incorporation on the Innside hotels is behind the 57.0% increase in rental expenses. Excluding these properties this item increases by 6.8%.

In terms of **Available Rooms** the increase is explained by the incorporation of Meliá Athens and the Innside brand within Meliá Hotels offset by the sale of Meliá Caceres, Meliá Mérida, Meliá Trujillo and Meliá Avenue Louise during 2007.

In *Q4* **Premium brands** (74% of the portfolio in the Americas) increased RevPAR by +0.5%. Paradisus RevPAR decreased by 3.2% due to a renovation project which restricted the full availability of the facility at Paradisus Punta Cana. Regarding the Gran Meliá brand, RevPAR increased by 4.6%, explained by the performance of the hotels in America, where RevPAR increased by +23.8% primarily due to the GM Caracas which offset performance in Europe and Puerto Rico. RevPAR for Me by Meliá brand decreased by -1.1%.

Year-to-date RevPAR decreased by -3.5% (+1.8% excluding forex effect). By brands, Paradisus has decreased by -10.3% affected by the performance of the Paradisus Punta Cana. Regarding the Gran Meliá brand, RevPAR decreased by 1.3%, due to the negative evolution of the property in Puerto Rico. RevPAR for ME by Meliá brand increased by 10.1%, due to the performance of the Company's property in Cancun.

Operating Expenses (excluding rental expenses) and **Ebitda** changed by -0.6% and –20.3% respectively.

Regarding **Available Rooms** within the Premium brands**,** this figure decreased by 1.1% due to the refurbishment of the Gran Meliá Colón (218 rooms) which re-opened on 3rd February, 2009, and the disaffiliation of the Gran Meliá Mofarrej in June 2008, partially offset by the expansion of Paradisus Palma Real (192 rooms) in the Dominican Republic.

Table 1: Hotel statistics Owned and Leased hotels 08 / 07 (RevPAR & A.R.R. in Euros)

		% Occupancy	RevPAR	A.R.R.	Available rooms
SOL	**2.008**	68.3%	36.6	53.6	3,245,590
	% o/ 2007	**-7.1%**	**-5.7%**	**1.5%**	**-3.4%**
	2.007	73.5%	38.8	52.8	3,359,751
TRYP	**2.008**	65.1%	48.9	75.1	3,025,609
	% o/ 2007	**-5.4%**	**-4.6%**	**0.9%**	**-2.4%**
	2.007	68.8%	51.2	74.5	3,098,697
MELIÁ (1)	**2.008**	67.7%	62.6	92.4	3,839,468
	% o/ 2007	**-5.8%**	**-3.2%**	**2.7%**	**10.1%**
	2.007	71.8%	64.6	90.0	3,487,705
PREMIUM (2)	**2.008**	58.5%	70.5	120.6	1,703,272
	% o/ 2007	**-5.5%**	**-3.5%**	**2.1%**	**-1.1%**
	2.007	61.9%	73.1	118.0	1,722,648
TOTAL (3)	**2.008**	65.9%	53.1	80.6	11,813,939
	% o/ 2007	**-5.6%**	**-3.2%**	**2.5%**	**1.2%**
	2.007	69.8%	54.8	78.6	11,668,801

(1) RevPAR and ARR changes by -0.3% and +5.8% on a constant exchange rate basis

(2) RevPAR and ARR changes by +1.8% and +7.7% on a constant exchange rate basis

(3) RevPAR and ARR changes by -1.1% and +4.7% on a constant exchange rate basis

Table 2: Hotel revenues split 08 / 07 for owned/leased hotels

		Room Revenues	F&B and Other	Total Revenues	Total Expenses (*)	Ebitda
SOL	**2,008**	118.6	73.8	192.4	144.5	47.9
	% o/ 2007	**-8.9%**	**-10.8%**	**-9.7%**	**-3.4%**	**-24.4%**
	2,007	130.3	82.7	213.0	149.6	63.4
TRYP	**2,008**	148.0	55.2	203.1	176.8	26.3
	% o/ 2007	**-5.9%**	**-1.1%**	**-4.7%**	**-1.5%**	**-21.7%**
	2,007	157.3	55.8	213.1	179.5	33.6
MELIÁ(4)	**2,008**	240.2	157.9	398.1	286.7	111.4
	% o/ 2007	**4.5%**	**6.2%**	**5.2%**	**10.4%**	**-6.3%**
	2,007	229.9	148.6	378.5	259.6	118.9
PREMIUM(5)	**2,008**	120.1	120.3	240.4	191.1	49.4
	% o/ 2007	**-2.1%**	**-7.9%**	**-5.1%**	**-0.1%**	**-20.3%**
	2,007	122.7	130.5	253.3	191.2	62.0
TOTAL(6)	**2,008**	626.9	407.1	1,034.0	799.2	235.0
	% o/ 2007	**-2.1%**	**-2.5%**	**-2.3%**	**2.5%**	**-15.4%**
	2,007	640.2	417.7	1,057.9	780.0	277.8

(*) Includes rental expenses

(4) Total Revenues change by +8.1 % on a constant exchange rate basis

(5) Total Revenues change by -0.1% on a constant exchange rate basis

(6) Total Revenues change by +0.0% on a constant exchange rate basis

Table 3: Third parties management fees

Management fees from third party hotels decreased by -5.1%. On a comparable hotel basis, and excluding the currency effect, this fee increased by +3.3%, mainly due to the fact that fees from Cuban hotels increased by 8.7% in total on a constant exchange rate basis.

The Sol brand decreased its management fees by -0.5% due to a -20.2% decrease in the performance of the Spanish resorts. This could not be compensated by the incorporation of 3 resorts in Bulgaria (Nessebar Palace, Nessebar Bay and Nessebar Mare) or by the performance of Croatian resorts, where management fees increased +11.3% during last year.

Tryp management fees decreased by -3.2% due to two opposite effects: the disaffiliation of the hotels Corobici (Costa Rica), Brooklin and Porto Alegre (Brazil) and, on the other hand, the good results achieved by Brazilian hotels, where management fees increased by +14.6% when excluding forex and changes in the perimeter.

Management fees for the Meliá brand decreased by -6.3% mainly due to the less contribution of hotels, change in the perimeter and the currency effect. Excluding the depreciation of the currency and changes in the perimeter, management fees decreased by -1.0%.

Premium brands decreased management fees by -8.9% due to the disaffiliation of the Bahia del Duque hotel (Spain) and the trend of hotels in Cancun (-18.2%), affected by forex. On a comparable hotel basis and excluding the depreciation of the currency, management fees have increased by +14.4%.

MANAGEMENT FEES REVENUES (million Euros)		**Dec 08**	***Var 08 / 07***	**Dec 07**
SOL	**Basic**	4.6	-10.5%	5.2
	Incentive	3.9	14.7%	3.4
		8.5	-0.5%	**8.6**
MELIA	**Basic**	15.5	-5.3%	16.9
	Incentive	5.0	-10.7%	5.6
		20.6	-6.3%	**21.9**
TRYP	**Basic**	4.4	0.1%	4.4
	Incentive	2.9	-7.7%	3.1
		7.3	-3.2%	**7.5**
PREMIUM	**Basic**	5.3	-23.8%	6.9
	Incentive	2.5	47.1%	1.7
		7.8	-8.9%	**8.6**
TOTAL BASIC		29.8	-9.3%	32.9
TOTAL INCENTIVE		14.3	3.6%	13.8
TOTAL		**44.1**	**-5.1%**	**46.6**

2.2 Sol Meliá Vacation Club

Total Revenues (include not only the Vacation Club sales, but also, amongst others, the revenues derived from Interest Income, Maintenance and Management fees as well as Network fees) decreased by 10.9% (-11.9 Mn Euros) (-4.7% on a constant exchange rate basis). Vacation Club Sales (number of weeks x price per week) decreased by -9.6% (-3.3% on a constant exchange rate basis).

Revenues derived from the Net Interest Income increased by 10.9% in Euros (16.7% in USD) derived from the increase in financing of the Sol Meliá Vacation Club receivables and the cost reduction of bank transactions.

During the last quarter of the year, Total Revenues decreased by 23.6% (-35.2% on a constant exchange rate basis). Vacation Club Sales decreased by -27.9% (-41.6% excluding forex effect).

Table 4: Sol Meliá Vacation Club Sales evolution

	NUMBER OF WEEKS SOLD			NUMBER OF EQUIVALENT CLUB UNITS			AVERAGE PRICE			VACATION CLUB SALES (IN ´000 €)		
	2008	%o/07	2007	2008	%o/07	2007	2008	%o/07	2007	2008	%o/07	2007
Premium	2,269	-18.7%	2,791	44	-18.7%	54	19,399	11.2%	17,444	44,006	-9.6%	48,678
Meliá	1,251	-16.7%	1,501	24	-16.6%	29	12,532	8.4%	11,559	15,672	-9.7%	17,350
Total	**3,519**	**-18.0%**	**4,292**	**68**	**-18.0%**	**83**	**16,959**	**10.2%**	**15,386**	**59,678**	**-9.6%**	**66,028**

2.3 Leisure Real Estate

6 million Euros of cash inflow and 3.8 million of profit were generated by asset rotation activity during 2008 from the sale of the hotel Tryp Los Bracos, versus the 129.5 Mn Euros generated in 2007 (43.1 million Euros of profit).

Table 5: Asset Rotation evolution

ASSET	ROOMS		PRICE		EV/EBITDA		Profit	
	2008	2007	2008	2007	2008	2007	2008	2007
Tryp Los Bracos (Logroño, Spain) 4Q08	71	-	6	-	16.7	-	3.8	-
Tryp Hidalgo (Ciudad Real, Spain) 2Q07	-	54	-	2.3	-	40.0	-	1.7
Business Premise (Mallorca, Spain) 2Q07	-	-	-	0.9	-	-	-	0.9
Plot of land in the Dominican Republic 2Q07	-	-	-	8.8	-	-	-	3.8
15.0% Paradisus Playa Conchal (Costa Rica) (*)2Q07	-	406	-	23.4	-	14.7	-	5.7
17.4% Paramount NY (New York, USA) (*)2Q07	-	567	-	25.1	-	21.2	-	5.1
Other assets 3Q07	-	-	-	15.5	-	-	-	5.8
Meliá Caceres, Merida & Trujillo (Extremadura, Spain) 4Q07	-	269	-	30.0	-	18.9	-	9.7
Tryp Paris Boulogne (Paris, France) 4Q07	-	75	-	12.5	-	17.3	-	5.0
Meliá Avenue Louise Boutique Hotel (Brussels, Belgium) 4Q07	-	80	-	11.0	-	19.3	-	5.3
TOTAL	**71**	**1,451**	**6**	**129.5**	**16.7**	**18.2**	**3.8**	**43.1**

In addition, total sales of plots of land in the *Desarrollos Sol* development business in the Dominican Republic decreased by 41.9% down to 6.2 million at the income level due to the lack of land for sale in Dominican Republic.

3. Income Statement

- **Revenues**

Total Operating Revenues decreased by 5.3% (-71.7 Mn Euros) derived from the decrease in the Leisure Real Estate division (-63.3%, -29.4 Mn Euros). This is explained by the decrease in the sales of plots of land and the decrease of capital gains from asset sales generated during 2008 (-88.1%, -28.5 Mn Euros).

In addition, revenues from Hotels and Sol Meliá Vacation Club decreased by -2.3% (-23.9 Mn Euros) and -10.9% (-11.9 Mn Euros) respectively, +0.0% and -5.4% on a same exchange rate basis.

Other Revenues decreased during the year by -6.5 million Euros, explained by the -2.4 Mn Euros decrease of Management Fees, the decrease of -2.5 Mn Euros from casinos, and from other Sol Meliá businesses under management.

- **Operating Expenses**

Total Operating Expenses increased by +1.3%. When excluding changes in the perimeter, hotels under refurbishment and other items that distort the analysis (such as the evolution of the Sol Caribe Tours, the tour operator in Cuba, which significantly increased its activity), total operating expenses decreased by -0.1%. This decrease is aided by the depreciation of the US dollar and British pound. Excluding these currency effects, operating expenses increased by +2.7%.

Rental expenses increase by +12.7%, explained by the incorporation of the Innside brand within Meliá Hotels. Excluding these hotels, rental expenses increase by +2.7%.

- **Ordinary Profit / Net Profit**

Depreciations and amortizations decreased by 13.4% explained by 1) the sale of assets, the 2) transfer of the distribution platform to the 50% Tradyso joint venture, the 3) end of the amortization of investments in technology in the years 2001/2002 and the 4) stop of the amortization of technology licenses of which an annual maintenance fee is paid.

Financial results decreased by 39.5% (-26.0 million Euros) due to 1) the increase of the Net Interest Expense by 17.0 Mn derived from the increase of the 3 month Euribor average by 37 basis points and 2) the increase of the Exchange Rate Differences by 8.5 million, mainly due to inter-company loans made in local currency.

Profit/(loss) from equity investments decreased by -179.3% (14.9 million Euros) due to, on the one hand, losses from the new associates "Inversiones Hoteleras la Jaquita S.A." and "Altavista Hotelera S.A." of 7.1 million Euros. These associates are owners of the hotels "Gran Meliá Palacio de Isora" and "ME Barcelona" respectively, which began their operations in 2008 and are currently under a process of positioning in their respective markets. On the other hand the dissolution of the associate "Lifestar Hoteles España, S.L." which reported 5.9 million Euros in 2007. This associate managed the hotels resulting from the dissolution of the strategic alliance held with the Rank Group, constituted for the joint development of the Hard Rock hotels.

Net profit, excluding total capital gains and currency effects decreased by 48.4%.

Table 6: Sol Meliá Consolidated Income Statement

Million Euros	Dec 08	Dec 07	%
Hotels	1,034.0	1,057.9	
Leisure Real Estate	17.1	46.5	
Vacation Club	97.4	109.3	
Other Revenues	130.5	137.0	
Total revenues	**1,279.0**	**1,350.7**	**-5.3%**
Raw Materials	155.8	168.2	
Personnel expenses	414.3	403.5	
Other operating expenses	375.0	361.4	
Total operating expenses	**945.1**	**933.1**	**1.3%**
EBITDAR	**333.9**	**417.6**	**-20.0%**
Rental expenses	(77.2)	(68.5)	
EBITDA	**256.7**	**349.1**	**-26.5%**
Depreciation and amortisation	(97.5)	(112.5)	
EBIT	**159.2**	**236.6**	**-32.7%**
Net Interest Expense	(71.0)	(54.0)	
Exchange Rate Differences	(9.1)	(0.6)	
Other Interest Expense	(11.7)	(11.2)	
Total financial profit/(loss)	**(91.8)**	**(65.8)**	**-39.5%**
Profit/(loss) from equity investments	(6.6)	8.3	
Continuing Earnings Before Taxes	**60.9**	**179.1**	**-66.0%**
Discontinuing Operations	**0.0**	**0.0**	
Profit before taxes and minorities	**60.9**	**179.1**	**-66.0%**
Taxes	(6.3)	(14.5)	
Group net profit/(loss)	**54.6**	**164.6**	**-66.8%**
Minorities (P)/L	(3.4)	(2.7)	
Profit/(loss) of the parent company	**51.2**	**161.9**	**-68.4%**

Table 7 : Business Segmentation of Sol Meliá's Consolidated Income Statement

millon euros	HOTEL BUSINESS														
	SOL			TRYP			MELIÁ			PREMIUM			OWNED AND LEASED		
	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%
REVENUES	192.4	213.0	-9.7%	203.1	213.1	-4.7%	398.1	378.5	5.2%	240.4	253.3	-5.1%	1034.0	1057.9	-2.3%
EXPENSES	138.4	143.8	-3.7%	130.5	132.9	-1.8%	265.6	246.2	7.9%	186.2	187.4	-0.6%	720.7	710.2	1.5%
EBITDAR	54.0	69.2	-22.0%	72.6	80.2	-9.4%	132.5	132.3	0.1%	54.2	65.9	-17.7%	313.3	347.6	-9.9%
RENTAL EXPENSES	6.1	5.9	4.3%	46.3	46.6	-0.6%	21.1	13.4	57.0%	2.9	3.8	-23.8%	76.5	69.8	9.6%
EBITDA	47.9	63.4	-24.4%	26.3	33.6	-21.7%	111.4	118.9	-6.3%	51.3	62.0	-17.3%	236.9	277.8	-14.8%
D&A	19.3	18.2	6.5%	6.8	6.9	-2.0%	32.7	37.5	-12.9%	28.6	28.4	0.7%	87.3	90.9	-4.0%
EBIT	28.5	45.2	-36.9%	19.5	26.7	-26.7%	78.7	81.4	-3.3%	22.7	33.7	-32.5%	149.5	186.9	-20.0%

millon euros	LEISURE REAL ESTATE			SMVC			OTHER BUSINESS & OVERHEAD EXPENSES			AGGREGATED			CONSOLIDATED		
	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%	12M08	12M07	%
REVENUES	17.1	46.5	-63.3%	97.4	109.3	-10.9%	214.8	259.8	-17.3%	1363.3	1473.5	-7.5%	1279.0	1350.7	-5.3%
EXPENSES	12.8	10.2	25.3%	70.7	73.5	-3.7%	225.2	259.9	-13.3%	1029.4	1053.8	-2.3%	945.1	933.1	1.3%
EBITDAR	4.3	36.3	-88.3%	26.6	35.8	-25.6%	-10.4	0.0	-20980.6%	333.8	419.7	-20.5%	333.9	417.6	-20.0%
RENTAL EXPENSES	0.0	0.0		0.0	0.0		0.7	-1.3	149.7%	77.1	68.4	12.7%	77.2	68.5	12.7%
EBITDA	4.3	36.3	-88.3%	26.6	35.8	-25.6%	-11.1	1.3	-962.9%	256.7	351.3	-26.9%	256.7	349.1	-26.5%
D&A	0.4	0.9	-54.9%	1.2	0.9	44.4%	9.9	18.7	-47.2%	98.8	111.4	-11.3%	97.5	112.5	-13.4%
EBIT	3.9	35.4	-89.1%	25.4	35.0	-27.3%	-20.9	-17.4	-20.2%	157.9	239.9	-34.2%	159.2	236.6	-32.7%

4. Balance Sheet

Assets

The increase in Receivables for associates by 25.0 million Euros is mainly linked to loans made to the associate “Inversiones Hoteleras la Jaquita” for the development of the hotel Gran Meliá Palacio de Isora located in Tenerife – Spain (23.4 million).

Regarding Trade and other receivables, this increased by 10.9 million euros, basically explained by a corporate account to be recovered by the Gran Meliá Caracas hotel.

Other current financial assets decreased by 34.0 million euros, due to the decrease of the entries “Receivables from Public Treasury” by 12.2 million and “Insurances” by 8.0 million respectively, this latest linked to the refurbishment after Hurricane Wilma in Mexico.

Liabilities & Shareholder’s Equity

Net Debt increased by 175.3 million euros from December 07 to December 08 up to 1,064.3 million Euros. This is mainly explained by 1) the provision for depreciation of the Equity Linked Swap by 81.2 million euros, 2) the increase of the use of credit facilities by 122 million Euros to cover the working capital due to the fact that operating cash flow has been lower than expected in the fourth quarter and 3) capex level at 180.4 million Euros explained by the finalization of major refurbishment processes. No other refurbishment process is in course in 2009 that represent a significant cash outflow.

Table 8: Consolidated Balance Sheet (million Euros)

	Dec 2007	Dec 2008	%
ASSETS			
i INTANGIBLE FIXED ASSETS	**106.6**	**95.2**	**-10.6%**
Software	13.0	14.3	
Goodwill	19.5	19.0	
Other Intangibles	74.1	62.0	
ii PROPERTY. PLANT AND EQUIPMENT	**1,986.8**	**2,006.3**	**1.0%**
Land	432.4	406.0	
Constructions	1,095.8	1,084.2	
Technical plant and machinery	232.4	235.7	
Other assets	172.6	180.7	
Prepayments and assets in progress	53.5	99.7	
iii INVESTMENT PROPERTIES	**118.7**	**128.4**	**8.2%**
iv OTHER NON-CURRENT ASSETS	**201.9**	**217.9**	**7.9%**
Available-for-sale investments	25.1	25.2	
Investments in associates	34.4	39.2	
Loans to associates	8.8	7.6	
Deferred tax assets	96.2	124.1	
Other non-current financial assets	37.3	21.8	
TOTAL NON-CURRENT ASSETS	**2,414.0**	**2,447.8**	**1.4%**
v NON-CURRENT ASSETS FOR SALE	**0.0**	**0.0**	
vi CURRENT ASSETS	**451.9**	**489.4**	**8.3%**
Inventories	28.8	36.2	
Trade and other receivables	85.8	96.7	
Receivables for associates	12.5	37.5	
Other current assets	2.6	9.0	
Other current financial assets	87.5	53.5	
Cash and short-term deposits	234.8	256.5	
TOTAL CURRENT ASSETS	**451.9**	**489.4**	**8.3%**
TOTAL ASSETS	**2,865.9**	**2,937.2**	**2.5%**

EQUITY AND LIABILITIES *(Million Euros)*	Dec 2007	Dec 2008	%
i EQUITY	**859.2**	**941.6**	**9.6%**
Issued capital	37.0	37.0	
Share premium	764.8	764.8	
Reserves of the parent company	169.9	178.0	
Results from prior years	(377.3)	(377.5)	
Reserves in co. full consolidation method	395.3	512.4	
Reserves in associates	1.9	1.9	
Exchange differences	(132.3)	(174.8)	
ii PROFIT AND LOSSES ATT. TO THE GROUP	**161.9**	**51.2**	**-68.4%**
Consolidated profit and loss	164.6	54.6	
Minority interests profit and loss	(2.7)	(3.4)	
Iii TREASURY SHARES	**(42.0)**	**(102.8)**	**144.7%**
Iv TOTAL EQUITY	**979.1**	**890.1**	**-9.1%**
v DIVIDEND DISTRIBUTION	**0.0**	**0.0**	
Vi MINORITY SHAREHOLDERS	**47.9**	**40.5**	**-15.5%**
TOTAL NET EQUITY	**1,027.0**	**930.6**	**-9.4%**
Vii NON-CURRENT LIABILITIES			
Issue of debentures and other marketable securities	0.0	0.0	
Preference shares	101.3	102.5	
Payable to associates	1.0	1.9	
Bank debt	747.6	907.5	
Capital grants and other deferred income	3.7	2.4	
Provisions	30.8	39.6	
Deferred tax liabilities	175.0	182.2	
Other non-current liabilities	179.4	177.0	
TOTAL NON-CURRENT LIABILITIES	**1,238.9**	**1,413.1**	**14.1%**
viii CURRENT LIABILITIES			
Issue of debentures and other marketable securities	150.5	0.0	
Bank debt	124.4	310.8	
Payables to associates	4.7	2.2	
Trade payables	196.5	159.3	
Other current liabilities	16.8	15.7	
Other financial liabilities	107.2	105.5	
TOTAL CURRENT LIABILITIES	**600.0**	**593.5**	**-1.1%**
TOTAL EQUITY AND LIABILITIES	**2,865.9**	**2,937.2**	**2.5%**

5. Cash – Flow Statement

Table 9: Cash Flow Statement 2008 (Million Euros)

CASH FLOWS FROM OPERATING ACTIVITIES	**220.1**
Proceeds from operating activities	223.9
Proceeds / (payments) from profit taxes	-12.1
Other proceeds / (payments) from operating activities	8.3
CASH FLOWS FROM INVESTING ACTIVITIES	**-201.7**
Payments for investing activities:	**-222.3**
Companies of the Group, associates and business units (*loans to subsidiaries*)	-41.8
Fixed assets, intangible assets and property investments (*Company Gross Capex*)	**-180.4**
Other financial assets	-0.1
Other assets	0.0
Proceeds on sale:	**19.7**
Companies of the Group, associates and business units	9.1
Fixed assets, intangible assets and property investments	10.4
Other financial assets	0.2
Other assets	0.0
Other cash flows from investing activities:	**0.9**
Proceeds from dividends	0.7
Proceeds from interests	0.2
CASH FLOWS FROM FINANCING ACTIVITIES	**7.6**
Proceeds and (payments) for equity instruments:	**-6.3**
Issue	0.1
Acquisition	-6.4
Proceeds and (payments) for financial liabilities:	**120.6**
Issue	377.5
Repayment and Amortization	-256.9
Dividends paid and payments for other equity instruments:	**-31.9**
Other cash flows from financing activities:	**-74.7**
Interest paid	-70.7
Other proceeds and (payments) from financing activities	-4.0
EFFECT OF EXCHANGE RATE CHANGES	**-4.3**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**21.7**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	**234.8**
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR PERIOD	**256.5**

Payments for investment activities include 39.0 million Euros related to the construction of 196 Vacation Club units in Paradisus Palma Real (Dominican Republic), 11.6 million Euros related to the completion of 192 Vacation Club units in Paradisus Punta Cana, 15.0 million related to the acquisition of 40% stake in the Me Barcelona and 14.4 million in the extension of 60 rooms of the Meliá Sol y Nieve. The remaining amount includes Brand Equity capex in Company hotels and resorts such as: Meliá Barcelona, Sol Principe and Meliá Sevilla.

6. Expansion

The table below shows a description of the progress made in the Sol Meliá hotel portfolio up to December 2008.

Table 10. Expansion plan.

	01/01/2008		ADDITIONS		LOSSES		CHANGES		31/12/2008		SIGNED		TOTAL GROUP	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
SOL	**86**	**26,720**	**4**	**1,613**	**2**	**369**	**0**	**-603**	**88**	**27,361**	**3**	**952**	**91**	**28,313**
Owned Hotels	34	11,009							34	11,009			34	11,009
Leased hotels	9	2,007							9	2,007			9	2,007
Management & Franchised	43	13,704	4	1,613	2	369		-603	45	14,345	3	952	48	15,297
TRYP	**100**	**15,471**	**0**	**0**	**6**	**895**	**0**	**0**	**94**	**14,576**	**3**	**957**	**97**	**15,533**
Owned Hotels	10	1,218			2	146			8	1,072			8	1,072
Leased hotels	51	7,204			2	207			49	6,997	1	225	50	7,222
Management & Franchised	39	7,049			2	542	0	0	37	6,507	2	732	39	7,239
MELIÁ	**92**	**24,478**	**12**	**1,788**	**5**	**592**	**0**	**368**	**99**	**26,042**	**9**	**2,997**	**108**	**29,039**
Owned Hotels	26	7,304			1	77	0	68	25	7,295			25	7,295
Leased hotels	11	1,875	10	1,368					21	3,243	2	342	23	3,585
Management & Franchised	55	15,299	2	420	4	515		300	53	15,504	7	2,655	60	18,159
PREMIUM	**23**	**8,353**	**2**	**1,060**	**2**	**710**	**0**	**-155**	**23**	**8,548**	**3**	**1,244**	**26**	**9,792**
Owned Hotels	12	4,534		192			0	-117	12	4,609			12	4,609
Leased hotels	2	422			1	230			1	192	1	259	2	451
Management & Franchised	9	3,397	2	868	1	480	0	-38	10	3,747	2	985	12	4,732
TOTAL OWNED HOTELS	**82**	**24,065**	**0**	**192**	**3**	**223**	**0**	**-49**	**79**	**23,985**	**0**	**0**	**79**	**23,985**
TOTAL LEASED HOTELS	**73**	**11,508**	**10**	**1,368**	**3**	**437**	**0**	**0**	**80**	**12,439**	**4**	**826**	**84**	**13,265**
TOTAL MNGT& FR.	**146**	**39,449**	**8**	**2,901**	**9**	**1,906**	**0**	**-341**	**145**	**40,103**	**14**	**5,324**	**159**	**45,427**
TOTAL GROUP	**301**	**75,022**	**18**	**4,461**	**15**	**2,566**	**0**	**-390**	**304**	**76,527**	**18**	**6,150**	**322**	**82,677**

- **Additions (18 hotels / 4,461 rooms)**

During 2008, Sol Meliá fully added to its portfolio 9 hotels (1,232 rooms) under **lease** contracts from the Innside hotel chain, all of them located in Germany. The Company considers Innside a new sub brand within Meliá. The Company also incorporated under a lease contract one new hotel in Greece, the Meliá Athens (136 rooms).

Under a **management** contract and under 50% Joint-venture agreements, Sol Meliá opened the Gran Meliá Palacio de Isora in Tenerife (Spain), providing 409 hotel rooms and 200 vacation club units and the ME Barcelona (259 rooms). Also under a management contract, the Company incorporated 3 hotels (962 rooms) in Bulgaria, all of them managed under the Sol brand, and two hotels under the Meliá brand, one hotel in Brazil, the Meliá Angra Marina & Convention Resort (200 rooms) and one hotel in Madeira (Portugal), the Madeira Mare (220 rooms).

Under a **franchise** agreement, Sol Meliá incorporated one hotel in Greece, the Sol Kipriotis (651 rooms).

Regarding the Sol Meliá Vacation Club, the Company added 192 additional vacation club units in an adjacent plot of land in Punta Cana (Dominican Republic). Until they are sold these facilities will be used as hotel units.

- **Loses (15 hotels / 2,566 rooms)**

Throughout 2008 the Company removed from its portfolio the Tryp Paris Boulogne (75 rooms) in France and the Meliá Trujillo (77 rooms) in Cáceres (Spain) in 2007. In 4Q08 Sol Meliá formalized the disposal of the Tryp Los Bracos (71 rooms) in Logroño (Spain).

Under **lease** contract Sol Meliá disaffiliated the Tryp Langenselbold (82 rooms) and the Tryp Potsdam Michendorf (125 rooms), both hotels located in Germany. Also under lease contract the Company dropped the Gran Meliá Mofarrej (230 rooms) in Brazil.

Under **management** contracts, Sol Meliá disaffiliated the Sol Vista Sol (176 rooms) in Mallorca (Spain), the Sol Ifach (193 rooms) in Alicante (Spain), the Gran Hotel Bahía del Duque (480 rooms) in Tenerife (Spain) and the Tryp Barra First Class (406 rooms) in Brazil.

Under **franchise** contracts, the Company dropped out from its portfolio the Meliá Poltu Quatu (142 rooms) in Italy and four hotels (509 rooms) located in Valencia.

- **Future incorporations (18 hotels / 6,150 rooms)**

In 2009 the Company plans to open under **lease** contract 2 hotels (342 rooms): the Meliá Luxembourg (161 rooms) and the Innside Dresden (181) in Germany. Also under lease contract, Sol Meliá plans to add to its portfolio the Tryp Berlin (225 rooms) in Germany in 2010 and the Me Vienna (259) in Austria in 2011.

Under **management** contract, Sol Meliá plans to open during the period 2009-2012 a total of 14 hotels with 5.324 new rooms. 51% of these rooms will be incorporated in 2009, 13% in 2010, 17% in 2011 and 19% in 2012.