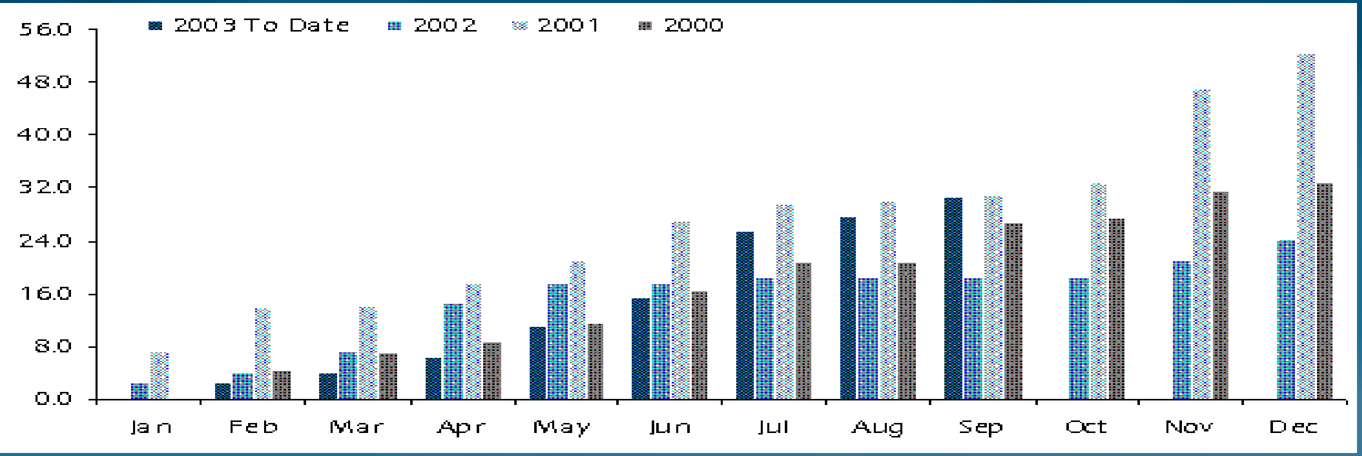
Sol Meliá

Exchangeable Bond Issue, October 2003

Optimal timing given strong equity-linked market conditions

- Very strong demand for new equity-linked issuance in 2003:
  - 2002 issuance was much lighter than 2001 (€23bln vs. €51bln in Europe)
  - Declining equity markets have left most existing equity-linked bonds trading as bonds
  - Huge redemptions in 2003, 2004 and 2005 (about €30bln each year)
- Opportunity to take an unprecedented advantage given:
  - Strong investor demand
  - High volatility levels
  - Historically low interest rates and tightening credit spreads

Equity-linked Issuance Volume



Source : Barclays Capital

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Exchangeable Bond Terms and Conditions

- **Issuer:** Sol Meliá Europe B.V.
- **Guarantor:** Sol Meliá, S.A.
- **Securities:** Senior unsecured bonds exchangeable for existing ordinary shares of the Guarantor or cash at the election of Sol Meliá
- **Amount:** € 150,000,000
- **Coupon / Yield to Maturity:** 4.30%
- **Exchange Premium:** 80%
- **Strike Price:** € 11.90
- **Maturity :** 5 years
- **Denomination of the Bonds:** € 10,000
- **Issuer Ratings:** BB+ (stable outlook) by S&P BBB- (negative outlook) by Fitch Ibca
- **Issue Price:** 100%
- **Redemption Price:** 100%
- **Issuer Call Option:** Non-callable during the first 4 years; callable thereafter at par subject to a 130% trigger.
- **Bookrunner:** Barclays Capital

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Use of Proceeds

- Refinancing the existing debt
- Lengthening Company’s Debt Maturity
- Strengthening Sol Meliá's financial profile

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Financial Strengths

1. **Strong Asset Base**:

- Sol Meliá's 90 owned hotels are worth € 2.7bn, according to American Appraisal:
  - 75% of this value corresponds to European Assets
  - Only 17% of these hotels are mortgaged
  - € 2.2bn of assets value unencumbered
- Regarding the 76 leased hotels, 91% of their value is located in Europe

2. **Solid Base for Strong Cash Flow Generation**:

- Sol Melia is at a turning point in its investment cycle:
  - c.€ 2bn investment during 1999-2003
  - € 600m FF&E Capex during 1999-2003: 4 out of 5 hotels in the portfolio upgraded
  - Projected CAPEX down to c.€ 50M p.a. (Maintenance Capex) in next few years
  - Additional expansion through management and, a lesser extent, lease contracts
- Sale of selected non-strategic assets: Source of additional debt reduction
- EBITDA has outperform peers thanks to diversified and balanced hotel portfolio

3. **Diversified Sources of Funding**

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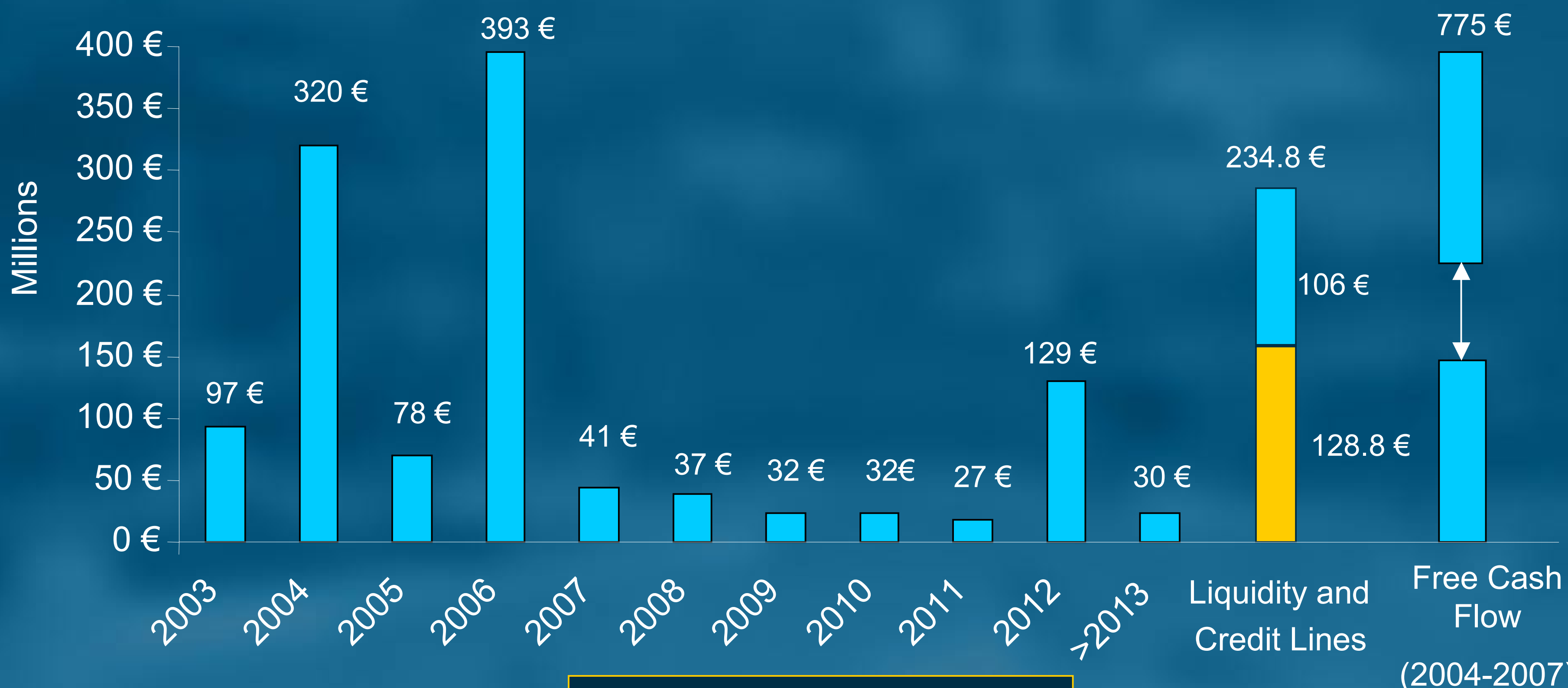
Debt by maturity – liquidity generation and cash flows (*)



Average Cost 2003 – 5.13%
Mid Maturity – 4.9 years
Mid Length – 8.3 years

(*) Before Exchangeable Bond Issuance

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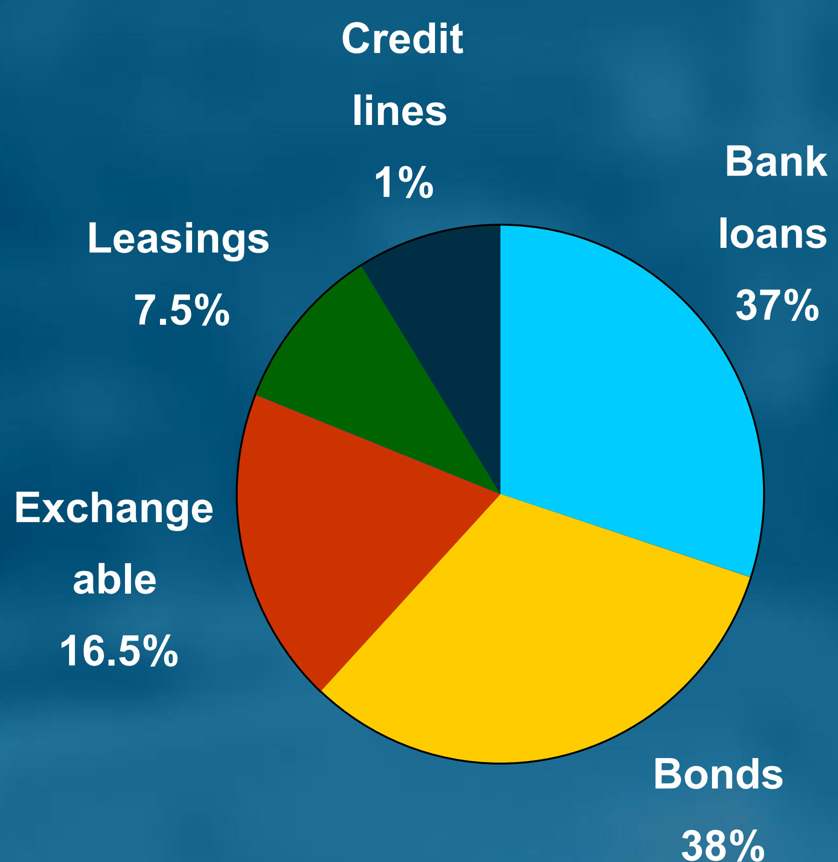
Debt by nature – low securing ratio (*)



Sol Meliá is further diversifying its sources of financing

(*) Before Exchangeable Bond Issuance

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