Sol Meliá HOTELS & RESORTS

2008 9M Results

Profit & Loss Account

(Million Euros)	Sep-08	Sep-07	%
REVENUES	**991.7**	**1,022.1**	**-3.0%**
EXPENSES (ex - Operating leases)	**711.8**	**699.4**	**1.8%**
EBITDAR	**280.0**	**322.7**	**-13.2%**
Rental expenses	59.1	51.2	15.3%
EBITDA	**220.8**	**271.4**	**-18.6%**
Depreciation and amortisation	73.3	78.7	-7.0%
EBIT	**147.6**	**192.7**	**-23.4%**
Total financial profit / (loss)	**(55.5)**	**(44.2)**	**-25.5%**
Profit/(loss) from equity investments	-3.0	8.3	**-136.7%**
Continuing EBT	**89.1**	**156.8**	**-43.2%**
Discontinuing Operations	0.0	0.0	0.0%
Profit before taxes and minorities	**89.1**	**156.8**	**-43.2%**
Net Profit	**81.8**	**141.9**	**-42.3%**
Net Profit attributable	**80.0**	**137.1**	**-41.7%**

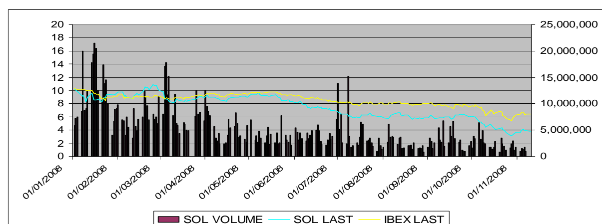
Operational Ratios

	Sep-08	Sep-07	%
RevPAR	55.2	56.4	-2.1%
RevPAR (ex – currency effect)	56.9	56.4	0.8%
EBITDAR MARGIN	28.2%	31.6%	-334 bp
EBITDA MARGIN	22.3%	26.6%	-429 bp
EBITDA MARGIN (ex-asset rotation)	*22.3%*	*25.7%*	*-340 bp*
EBT MARGIN	9.0%	15.3%	-636 bp
NET PROFIT MARGIN	8.1%	13.4%	-535 bp

Financial Ratios

	Sep-08	Sep-07	%
EBITDA / NET INTEREST	4.2x	5.9x	-30.0%
EBIT / NET INTEREST	2.8x	4.2x	-34.1%
EBITDA / NET INT. (ex - asset rotation)	4.2x	5.0x	-17.5%
EBIT / NET INT.(ex - asset rotation)	2.8x	3.5x	-20.8%

Stock Performance



Average Daily Volume 2008 (€)	5.287.622
52- Week High, November 14th 07	€ 13.08
52- Weel Low, Agust 28th 08	€ 3.12
Market cap Nov 10th 08 (€ 3.81)	€ 704.0 mn / $895.9 mn

Bloomberg: SOL SM ; Reuters: SOL.MC

Highlights

Revenues, EBITDA and Net Profit attributable decreased by 3.0%, 18.6% and 41.7% respectively

These figures are mainly explained by a) the sluggish summer season in Spain, specifically in the Balearic Islands (RevPAR: -9.3%) where bookings in the UK and Spanish markets decreased significantly due to the overall decrease in consumption, 14% depreciation of the Pound Sterling together bankruptcies and other problems of tour operators and airlines; both affecting Company's main feeder markets; b) the absence of capital gains from the asset rotation business derived from the restricted availability of credit (versus 23.1 Mn Euros during 9M07); c) the economic downturn, and d) the currency effect. On the positive side, RevPAR for Premium brand hotels has risen by 4.6% when excluding the currency effect, due to Caribbean resorts. On the same basis, Melia hotels increased RevPAR by 2.0% due to LatAm and European cities, and Total Hotel revenues also increased by 2.6%

On a constant exchange rate basis and excluding capital gains from asset rotation, Ebitda and Net Profit change by -9.3% and -20.7%.

Outlook Q4 and 2009

Q4 is being negatively impacted by the slowdown in business travel. In September alone RevPAR in European City hotels went down by 5.8% and the trend is likely to continue in the last quarter for city hotels. In LatAm, in spite of the good level of bookings in the Dominican Republic, the progressive slowdown of demand of the US and Mexican feeder markets and last-minute bookings is likely to affect yield management in the region.

In 2009, the company will be affected by the slowdown in consumption in the travel market and consolidation of major consortia distribution. This will be partially offset by the US dollar appreciation in H1 and progressive easy-comps throughout H2. To soften the impact a set of measures have been implemented involving a) greater sales flexibility and very clear focus on remuneration for distributors based on performance and strategic alliances with partners, b) cost efficiency, and c) capex restraint.

Future Incorporations

Over the third quarter the Company has signed agreements for the future incorporation of three establishments: the Melia Madeira (Portugal) with 220 rooms under a franchise agreement, Tryp Berlin Mitte (Germany) with 225 rooms under a lease contract, and Gran Melia Crete (Greece) with 303 rooms under a management contract located in Agios Nikolaos, one of the most select destinations on the island of Crete. Considering agreements signed during the year, 4,389 total additional accommodation units will be incorporated in coming years, 3,567 units under management and franchise agreements (81%) and 822 units under lease agreements (19%).

GRAN MELIÁ HOTELS & RESORTS · Paradisus RESORTS · ME · MELIÁ HOTELS · INNSIDE PREMIUM HOTELS · TRYP · Sol Hotels · Sol Meliá Vacation Club

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

Dear friend,

Sol Meliá is releasing its nine-month results in a difficult situation for the economy in which the International Monetary Fund forecasts that growth in advanced economies will be negative next year, reduced by a weak performance in the UK, Germany, Spain and France. The US is also expected to decrease by 0.3%.

In the last quarterly report, Sol Meliá advanced several factors that would impact our business. That included the economic slowdown and the lack of confidence in our feeder markets. Apart from these factors we should add some difficulties related with the bankruptcies of major tour operators in the UK along with problems in the airline sector that have had a more than expected negative impact during this summer season.

The aforementioned economic environment will not allow us to report positive news for our profit and loss account performance neither for 2008 nor 2009 as was anticipated by the Company in August 7th 2008 on the release of the first semester results. We have a conservative stance regarding what may happen over the next 13 – 14 months. In the medium to long term we believe that Sol Melia will benefit from its comparatively positive financial position.

Over the 52 years of company history we have faced difficult situations and have always come out of them even more sturdy. The actions taken by Sol Melia's management team in the past enables us to face this slowdown from a highly resilient position at all levels, not only financially but also strategically, at an operational level and in terms of our systems and human resources. The 350 million Euros debt reduction (2004-07) within an environment of progressive indebtness amongst most Spanish companies, allows us to enjoy an optimal financial position and an ability to leverage our a) business diversification, b) location of our hotels and resorts, c) guest satisfaction, d) range of distribution flexibility, along with e) a completed process of internal restructuring.

From a tactical point of view, to soften the potential impact of trading performance in 2009, we have implemented a set of measures that defensive measures including a) cost control, b) capex restraint, and c) the intensification of the management of our client portfolio, and in addition, d) flexibility in room sales and e) promotion of revenues other than room revenues.

In 2009, capex will be limited to the 100 million Euro figure that primarily includes FF&E reserve.

Regarding the 2008-2010 Strategic Plan, the Company has not altered the vision of its main priorities (1. Brand Equity, 2. Customer Knowledge, 3. Vacation Club transformation model, 4. People's Talent & Empowerment and 5. Sustainability), although we are currently more focused on the measures aimed at managing the current market difficulties.

On the cost side the Company implemented in 2008 a set of measures approved by the Senior Executive Team (SET) that included:

A. Launch of the Operational Contingency Plan to streamline structures and cost per stay with the aim of reducing operating expenses.

B. Enhancing the implementation of Hospitality Business Services (HBS) - Sol Melia's shared-services centre – by clusters of hotels, in order to streamline back-office tasks via centralization of the same, starting in Spain and Mexico and to continue in the Dominican Republic and Germany.

C. Renegotiation of third-party services (mainly energy, maintenance, gardening, water management, amenities, F&B and others) as well as travel expenses and consultancy at the overheads level

D. Disaffiliation / renegotiation of loss-making business units

E. Revision of priorities of inventory in seasonal destinations

F. Reductions of rental expenses of overhead offices by either remerging offices or integrating them in hotels

G. Centralization of the marketing and promotion expenses within a “global marketing fund”.

These measures will allow us to further deepen our switch from fixed to variable costs.

The previous actions will also have an ongoing impact in 2009 as well as an extra set of measures the Company is working on that will be implemented in 2009 and also incorporated in the Company’s budget for next year, currently being prepared.

At the financial cost level, the recent interest rate reduction by the European Central Bank will benefit future interest expense since the Company currently has 71.3% of interest floating debt. Nevertheless, Sol Melia is working to progressively switch to a more 50/50 floating / fixed debt structure.

As far as flexibility in sales is concerned, Sol Melia has implemented the “Top-10 Sales Strategies Programme” that includes a range of actions focused on a a) greater presence in new feeder markets, channels and segments, b) promotion of solmelia.com, c) increasing loyalty of key-accounts and strategic partners with a more appropriate remuneration scheme (co-ops, incentives and overrides) clearly focused on direct sales, Leisure Sales and Business Groups, d) defining a presales strategy by brand and segment, and e) promoting the upselling.

Relating to this latest point, in spite of the decrease in overall consumption, we are exploring creative and aggressive ways to increase spending in our hotels and resorts (breakfast, Spa, in-room snacks, restaurants, etc.). We are aware of the resistance that the decrease in consumption will represent in our sector but we continue to work on “other revenues” as a fundamental part of the Company’s strategic vision.

Regarding the financials, three days after the release of these results, Sol Melia will amortize 150 million Euros related to the convertible bond issue. This was partly financed through the 5-yr 200 million Euros syndicated loan signed in July 2008. The financial situation and the relationships with our banks are optimal: average interest rate is expected to represent some 5.7%, new credit lines have increased by only 20 basis points apart from the fact that we have guaranteed maturities up until 2010 year-end.

Nevertheless, we believe there is still a huge discrepancy between perceptions of financial risk regarding Sol Melia, particularly between the institutions from which we borrow money and the equity markets. As is the case with many companies, this factor is one of the most important factors decreasing the share price below Book Value (€ 5.29 per share). Current share price (€ 3.81) represents a 28.0% discount versus the aforementioned book value approach. This book value is based on historical asset value in the Company balance-sheet of 22.3 years-old average. Additionally the company is underpinned by the real estate asset value for which the cost of replacement is way above Book Value, moreover when only 21 of the 80 owned hotels have any remaining mortgage debt and where it represents a small part of their total market value (some 6%).

Since October 2007 the Escarrer family has increased its stake in Sol Melia by investing 46.7 million Euros in 5.7 million shares. This clearly demonstrates the confidence of the controlling shareholder, currently holding 63.984% of Sol Meliá, in the future evolution of the company and our positioning for long-term sustainable growth. The financial situation of the main shareholder is robust and no risk of sell-out exists due to potential shares to be used as pledge against any sort of loan.

We are aware, the Company is witness to one of the worst economic crises ever and, in our view, is responding with the most appropriate measures in terms of costs, sales focus and conservative financial approach to investments. As mentioned throughout this letter, fortunately this crisis finds Sol Melia in on of its most positive moments in its history at all levels, particularly at the financial level following the 350 million Euro debt reduction achieved during the 2004- 2007 period.

Best regards,

Sebastian Escarrer

Co- Vice Chairman and CEO

2. Information on Operations

2.1. Hotels

RevPAR for owned and leased hotels has decreased by 2.1% during the first 9 months, although on a constant exchange rate basis they have gone up by 0.8%. Occupancy rates have gone down by 4.8%.

The **Sol brand** (100% resort; 100% Spain) has seen RevPAR decrease by -5.1% due to decreases in occupancy rates (-6%) and the performance of the brand during the third quarter of the year, where RevPAR goes down by 7.2%. This is explained by the performance of the Balearic Islands (-9.3%) where the launch of a discount plan in late August for hotels in Menorca and Ibiza failed to mitigate the effect of the decrease in the number of reservations from the Spanish and British markets due to the current environment and the appreciation of the pound. The Spanair plane accident and bankruptcy of XL and Futura Airlines particularly affected August and September. On the other hand, mention must be made of the recovery of the Canary Islands where RevPAR increased by +1.3%.

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

Premium brands (74% of the portfolio in the Americas) decreases RevPAR by -4.4%, although on a constant exchange rate basis it would have increased by 4.6% (+3.6% during the first half of the year). This is partially due to a) the positive evolution of Gran Melia Caracas where demand from local companies has increased significantly and b) Me Cancun. During the third quarter of the year, rates for hotels in the Dominican Republic and Puerto Rico have been adjusted due to the recession of US and Mexican feeder markets. For the last quarter of the year, although the level of bookings in Cancun and Dominican Republic is positive, significant levels of last minute reservations are expected.

Regarding **Available Rooms** within the Premium brands**,** this figure has remained stable due to the refurbishment of the Gran Meliá Colón and the disaffiliation of the Gran Meliá Mofarrej in June 2008, offset by the enlargement of Paradisus Punta Cana (+192 rooms) in the Dominican Republic.

Meliá (50% Spain; 25% LatAm; 25% EMEA) has seen RevPAR decrease by 1.3% (+2.0% on a constant exchange rate basis). In the cities RevPAR decreased by 3% mainly explained by the general slowdown in the economy, the erosion of business travel and the currency effect. A clear example of this is the Melia White House in London that has seen RevPAR decrease by 9.0%, while on a constant exchange rate basis it increases by +6.1%. In the resorts, Spanish properties increase RevPAR and Occupancy by 2.4% and 8% respectively, mainly fuelled by the positive performance of the Canary Islands where RevPAR and Occupancy increased by 5.5% and 16.5% respectively.

Regarding hotel revenues, the difference in the increase between “Room Revenues” (+10.7%) and “F&B and Other Revenues” (+3.8%) is related to the Melia Zaragoza where “Room Revenues” increased by 84.2% while “F&B and Other Revenues” went up by 8.3%. This is due to the ExpoZaragoza where most of the bookings were only for accommodation.

In terms of **Available Rooms** the increase is explained by the incorporation of Meliá Berlin, Meliá Athens, and the Innside brand within Meliá Hotels, also affecting the 15.3% increase in Rental Expenses, offset by the sale of Meliá Caceres, Meliá Mérida, Meliá Trujillo and Meliá Avenue Louise during 2007.

RevPAR for the **Tryp brand** (100% city; 73% Spain) has gone down by 2.3% due to decreases in occupancy rates by 4.4%. Spanish properties have decreased by 3.2%, mainly due to the performance of the Balearic Islands (-7.3%), Barcelona (-5.5%) and Madrid (-3.7%). This has been partially offset by the good performance of hotels in Germany and France, where RevPAR increased by 3.6% and 12.4% respectively. Changes in Available Rooms are explained by the sale of Tryp Hidalgo and Paris Boulogne during 4Q07.

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**	71.4%	40.3	56.4	2,624,942
	% o/ 2007	**-6.0%**	**-5.1%**	**1.0%**	**-3.5%**
	2,007	75.9%	42.4	55.9	2,720,111
TRYP	**2,008**	66.2%	50.2	75.9	2,282,555
	% o/ 2007	**-4.4%**	**-2.3%**	**2.2%**	**-0.9%**
	2,007	69.2%	51.4	74.3	2,302,536
MELIÁ(1)	**2,008**	69.6%	65.1	93.6	2,871,463
	% o/ 2007	**-4.3%**	**-1.3%**	**3.2%**	**12.2%**
	2,007	72.7%	66.0	90.7	2,559,383
PREMIUM(2)	**2,008**	60.8%	72.3	118.9	1,285,340
	% o/ 2007	**-4.3%**	**-4.4%**	**-0.1%**	**-0.9%**
	2,007	63.6%	75.7	119.1	1,296,381
TOTAL(3)	**2,008**	68.0%	55.2	81.2	9,064,300
	% o/ 2007	**-4.8%**	**-2.1%**	**2.8%**	**2.1%**
	2,007	71.5%	56.4	78.9	8,878,411

(1) RevPAR and ARR changes by +2.0% and +6.6 % on a constant exchange rate basis

(2) RevPAR and ARR changes by +4.6% and +9.3% on a constant exchange rate basis

(3) RevPAR and ARR changes by +0.8% and +5.9% 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
SOL	**2,008**	105.7	63.2	168.9
	% o/ 2007	**-8.4%**	**-8.5%**	**-8.4%**
	2,007	115.4	69.0	184.4
TRYP	**2,008**	114.7	40.8	155.4
	% o/ 2007	**-3.1%**	**-4.1%**	**-3.4%**
	2,007	118.4	42.5	160.9
MELIÁ(4)	**2,008**	186.9	119.1	306.1
	% o/ 2007	**+10.7%**	**+3.8%**	**+7.9%**
	2,007	168.8	114.8	283.6
PREMIUM(5)	**2,008**	93.0	91.1	184.0
	% o/ 2007	**-5.2%**	**-5.4%**	**-5.3%**
	2,007	98.1	96.3	194.4
TOTAL(6)	**2,008**	500.4	314.1	814.5
	% o/ 2007	**-0.1%**	**-2.6%**	**-1.1%**
	2,007	500.7	322.6	823.3

(4) Total Revenues change by +12.2% on a constant exchange rate basis (GBP and USD)

(5) Total Revenues change by +3.9% on a constant exchange rate basis (USD)

(6) Total Revenues change by +2.6% on a constant exchange rate basis (GBP and USD)

Table 3: Third parties management fees (included “Other Businesses and Overheads”)

Management fees from third party hotels have increased by 1%. On a comparable hotel basis, and excluding the currency effect, this increased by 8.6%, mainly explained by the fees from Cuban hotels collected in US dollars.

The Sol brand has increased its management fees by 8.9% mainly explained by the incorporation of 3 resorts in Bulgaria (Nessebar Palace, Nessebar Bay and Nessebar Mare).

Meliá management fees have decreased by 1.5% due to two opposite effects: on the one hand the sluggish performance of Spanish resorts and the disaffiliation of the hotels Cariari (Costa Rica), Pharaoh (Egypt) and Maceio (Brazil), and, on the other hand, the incorporation of the hotel Grand Hermitage (Bulgaria) and the positive evolution of Cuban resorts with an increase of 15.6%.

Management fees for the Tryp brand have increased by 5.5% mainly due to the incorporation of the hotel in Zaragoza (Spain) and the positive performance of Brazilian hotels where, excluding changes in the perimeter and currency effect management fees increase by 28%.

Premium brands have decreased management fees by -5.7% due to the disaffiliation of the hotel Bahía del Duque (Spain) and the currency effect. On a comparable hotel basis and excluding the depreciation of the currency, management fees increased by 23.8%.

MANAGEMENT FEES REVENUES (million Euros)		**Sep 08**	***Var 08 / 07***	**Sep 07**
SOL	**basic**	4.6	4.3%	4.4
	incentive	4.0	14.7%	3.5
		8.6	8.9%	**7.9**
MELIA	**basic**	12.6	-1.0%	12.7
	incentive	4.4	-3.0%	4.5
		17.0	-1.5%	**17.2**
TRYP	**basic**	3.5	4.9%	3.3
	incentive	2.6	6.2%	2.5
		6.1	5.5%	**5.7**
PREMIUM	**basic**	4.1	-22.7%	5.3
	incentive	2.0	69.8%	1.2
		6.2	-5.7%	**6.5**
TOTAL BASIC		24.8	-3.8%	25.8
TOTAL INCENTIVE		13.0	11.7%	11.6
TOTAL		**37.8**	**1.0%**	**37.4**

2.2 Sol Melia Vacation Club

Total Vacation Club revenues include Vacation Club unit sales (65.6% of the total), but also, amongst others, the revenues derived from Interest Income (24.5%), Maintenance and Management fees (7.1%) as well as Network fees (3.2%).

Since the bulk of the Vacation Club operations are based in LatAm, the evolution of underlying figures is impacted by the aforementioned Euro appreciation against the US dollar.

Total revenues in US dollars have gone up by 5.1% while changing by -7.1% when translated into Euros.

2.3 Leisure Real Estate

No revenues have been generated in the asset rotation activity versus the 23.1 mn Euros generated in the first 9 months of 2007 (12.2 Mn Euros at the Ebitda level including the sale of the hotel Tryp Hidalgo, business premises in Mallorca and a plot of land in the Dominican Republic, plus 10.9 Mn Euros at financial level (5.7 million) and “Profit from equity investments” level (5.1 million), due to the disposal of a 15% and 17.4% stake in the Paradisus Playa Conchal (406) (Guanacaste, Costa Rica) and Paramount NY (567) (New York, EEUU) respectively.

3. Income Statement

▪ Revenues

Total Operating Revenues have gone down by 3.0% due to the absence of capital gains from asset sales during the first 9 months of the year and the currency effect. In fact, Revenues from Hotels and Sol Melia Vacation Club divisions have decreased 1.1% and 7.1% respectively, +2.6% and +3.3% on a constant exchange rate basis. Other Revenues have increased by 1.1% derived from the increase in activity of Sol Caribe Tours, a tour operator in Cuba.

▪ Operating Expenses

Total Operating Costs have increased by 1.8% during the first 9 months. When excluding changes in the perimeter, hotels under process of refurbishment and Sol Caribe Tours, total operating expenses decrease by 0.3%. These latest item increases by 4.6%, taking into consideration the depreciation of the US dollar and the British pound.

Rental expenses have gone up by 15.3% (7.9 Mn Euros), explained by the incorporation of the Innside brand within Meliá hotels during the last quarter of the year. Excluding these hotels, rental expenses increase by 2.4%.

▪ Ordinary Profit / Net Profit

Net Interest Expense has been affected by the increase of 3 month Euribor average by 65 basis points when comparing 9M07 vs 9M08.

Depreciations and amortizations decrease by 5.5 million Euros (-7.0%) explained by: a) the sale of a number of assets, b) the transfer of the distribution platform to the 50% Tradyso joint venture; c) the end of the amortization of investments in technology in the years 2001/2002 and d) the stop of the amortization of technology licenses which will be continue using indefinitely, paying an annual maintenance fee.

The low tax rate of the company (9.9%) is explained by the accumulated tax credits of 268.3 million Euros 2007 YTD, with a Net Present Value of 161.9 million Euros. This level is mainly due to the goodwill generated in the Tryp acquisition, tax losses generated by companies of the Sol Melia Group in previous fiscal years, and fiscal credits that imply future reductions in the tax charge derived from investments both in Europe and in emerging countries in Latin America.

Net profit decrease by 20.7% when excluding capital gains and currency effects.

Table 4: Sol Meliá Consolidated Income Statement

Million Euros	**Jun – 08**	**Jun - 07**	**%**
Hotels	814.5	823.3	
Leisure Real Estate	8.3	23.1	
Vacation Club	78.2	84.1	
Other Revenues	90.7	91.5	
Total revenues	**991.7**	**1,022.1**	**-3.0%**
Raw Materials	121.2	126.9	
Personnel expenses	315.2	304.7	
Other operating expenses	275.3	267.8	
Total operating expenses	**711.8**	**699.4**	**1.8%**
EBITDAR	**280.0**	**322.7**	**-13.2%**
Rental expenses	(59.1)	(51.2)	
EBITDA	**220.8**	**271.4**	**-18.6%**
Depreciation and amortisation	(73.3)	(78.7)	
EBIT	**147.6**	**192.7**	**-23.4%**
Net Interest Expense	(44.4)	(37.4)	
Exchange Rate Differences	(2.3)	1.6	
Other Interest Expense	(8.8)	(8.4)	
Total financial profit/(loss)	**(55.5)**	**(44.2)**	**-25.5%**
Profit/(loss) from equity investments	(3.0)	8.3	
Continuing Earnings Before Taxes	**89.1**	**156.8**	**-43.2%**
Discontinuing Operations	**0.0**	**0.0**	
Profit before taxes and minorities	**89.1**	**156.8**	**-43.2%**
Taxes	(7.3)	(14.9)	
Group net profit/(loss)	**81.8**	**141.9**	**-42.3**
Minorities (P)/L	(1.8)	(4.8)	
Profit/(loss) of the parent company	**80.0**	**137.1**	**-41.7**