

Profit & Loss Account on IFRS basis

(Million Euros)	Jun 05	Jun 04 (*)	%
REVENUES	532.5	501.3	6.2%
EXPENSES (ex - Operating leases)	(381.3)	(358.0)	6.5%
EBITDAR	151.1	143.3	5.5%
Rental expenses	(28.6)	(26.6)	7.5%
EBITDA	122.5	116.6	5.0%
Depreciation and amortisation	(56.0)	(53.3)	5.0%
EBIT	66.5	63.3	5.0%
Total financial profit/(loss)	(34.7)	(42.3)	-18.0%
Profit/(loss) from equity investments	0.6	1.1	-42.7%
Continuing EBT	32.4	22.1	46.9%
Discontinuing Operations	0.0	0.0	
Profit before taxes and minorities	32.4	22.1	46.9%
Net Profit	29.2	19.9	46.9%
Net Profit attributable	27.1	19.2	41.1%

(*) Pro-forma

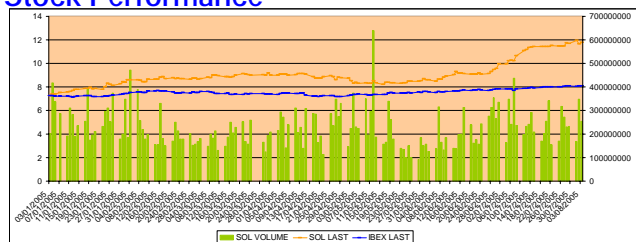
Operational Ratios

	Jun 05	Jun 04 (*)	%
REVPAR	45.3	42.2	7.3%
EBITDAR MARGIN	28.4%	28.6%	-19 bp
EBITDA MARGIN	23.0%	23.3%	-26 bp
EBT MARGIN	6.1%	4.4%	168 bp
NET PROFIT MARGIN	5.1%	3.8%	126 bp

Financial Ratios

	Jun 05	Jun 04 (*)	%
EBITDA / NET INTEREST	3.25x	3.16x	2.6%
EBIT / NET INTEREST	1.76x	1.72x	2.6%

Stock Performance



Average Daily Volume 2005 (€)	3.761.623
2005 High, July 28th	12.00
2005 Low, January 3 rd	7.20
Historical High, Jun 9 th 2000	14.28
Market cap August 1 st 05 (€ 11.80)	2.180.365.969

Highlights

Revenues, EBITDA and Net Profit attributable increase by 6.2%, 5.0% and 41.1% respectively

As anticipated, Sol Meliá has seen a progressive recovery from Q1 to Q2. Evolution in 1H05 is explained by: a) the asset management activity and Sol Meliá Vacation Club where revenues have gone up by 58% together with b) the recovery of the Spanish city business throughout Q2 where sales have increased by 6% and the continuing positive evolution of European cities and the Caribbean.

Outlook 05. Minor impact of London bombings and hurricane

Prospects for summer season 2005 remain positive in terms of RevPar evolution on the back of demand in the major feeder markets together with the increasing importance of Company's owned distribution channels. As anticipated, the Company is seeing an improvement in the market month after month. In terms of the city business, the recent evolution of the domestic market and Company's hotels in the Spanish cities (RevPAR: +6% in Q2) along with prospects for September and October, make Sol Meliá see the progressive recovery of the business. Bombings in London are likely to have an impact in the short term limited to the leisure segment with occupancy recovering to normal levels in not more than six months according to the experience of Madrid in 2004. In the Caribbean, Hurricane Emily caused minor damages and hotels are functioning as normal.

Asset management activity: further rotation

On the acquisition side of asset rotation, the Company has bought 50% of the Tenerife Sol S.A. company from My Travel for 28.7 Mn Euros at a 7.0x Ebitda multiple and 10x P/E. This company owns three resorts (1,215 rooms) in the Canary Islands.

On the sell side, the call option for the purchase of the Meliá Las Palmas hotel (310) in the Canary Islands will be executed in September. The Company has agreed a 10 year management contract, therefore the 34 million Euros sale has been achieved at a multiple of 23.4x Ebitda while generating 17.5 million of profit.

Sol has reached an agreement with the local building company Horcona for the sale of 50% of the M. Zaragoza for a full hotel value of 42.5 million Euros at 26x Ebitda multiple. Sol will maintain a 50% stake in the Meliá Zaragoza (247) and a 40 year management contract. Further project opportunities are being studied with this partner in existing Sol Meliá's plots of land.

All in all, on the disposal side, the Company has executed in 05 the sale of 120 million Euros worth of assets at a combined EBITDA multiple of 25x which compares with the 7.0 x Ebitda multiple on the acquisition side.

The new valuation made by CBRE of 4.2 billion Euros confirms the high discount between Net Asset Value per share and the current share price.

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

Dear friend,

Sol Meliá is pleased to release its 2005 first half results report in which we include the breakdown at the operating level of the two main Company's businesses, i.e. Hotel and Asset Management. Sol Meliá is focused on the creation of value not only based on the maximization of the hotel business but also reinforcing the Asset Management business through not only the rotation of its assets but also condo-hotels, Sol Meliá Vacation Club, and streamlining of the use of spaces.

Regarding the hotel business, as we anticipated to the market, we have seen an improvement in hotel operations quarter after quarter. The second quarter was characterised by an improvement in the RevPAR of our Spanish city hotels which offset the negative performance seen in the first quarter (Q1: -4.8%; Q2: +5.9%; 1H: +0.8%). In light of the performance seen in our hotels in recent months, Sol Meliá believes that Q2 figures are explained by a positive underlying performance rather than just the comparative effect of the Easter holidays. Moreover, the perspectives for the second half of the year, give us reason to believe that the progressive positive trend will continue throughout the year, although still too soon to say whether this is going to be sustainable in the long run. The flexibility of our sales division to respond to changing market conditions, the evolution of business group activity and the quality of the recently incorporated / refurbished Tryp branded hotels contributed to the change in trend. Madrid, Barcelona and Palma are the main drivers.

European cities report a positive underlying performance as reflected in the evolution of the Meliá White House (London) and the Meliá Milano where RevPAR grew by 15.0% and 8.5% respectively. Total RevPAR of European cities (ex-Spain) went up by 7%.

Regarding the impact of the terrorist attacks in London on July 7th, the sturdiness of London as a business destination along with the experience in the aftermath of the attacks in Madrid where occupancies recovered to normal levels quite quickly, make us believe that the impact is likely to be small and limited to the short term and to the more volatile leisure segment.

The European Resort Division has reported a 0.4% RevPAR increase for the semester while revenues have gone down principally due to the closure for refurbishment of the Sol Gorriones (575) in the Canary Islands and the disposal of the Sol Aloha Playa (172) in the Costa del Sol. Going forward, the summer season appears positive in light of the evolution of our major feeder markets, especially Spain, along with a substantial increase in sales through our own distribution channels. Solmelia.com sales have risen by 56% up to June. We therefore continue to see a positive trend in the Mediterranean resorts for the key summer months.

We believe that the Sharm El-Sheik bombings will have a negative effect in Egypt in the short term and will have to see how it recovers. Sol Meliá currently has three management contracts in the region with no investment and therefore very little impact in our consolidated P&L account. We are however seeing a transfer of travellers to alternative destinations in the Mediterranean, especially from September onwards.

In Latin America and the Caribbean, a positive underlying performance along with our latest incorporation in Puerto Rico largely explains the 30% RevPAR increase and the sharp improvement at the revenues level. However, as anticipated, the appreciation of the Dominican peso, highly affects the cost and the Ebitda of the Division as well as the initial stages of the Paradisus Puerto Rico hotel are putting pressure at the EBITDA margin level.

Such effects are likely to be diluted in the following quarters as the appreciation started in 4Q04 and Puerto Rico reaches cruising speed. Hurricane Emily which affected the Caribbean in mid-July caused no injuries to our clientele or personnel and minor damage at the hotel level, which will be covered by insurance. At the moment, the hotels are functioning as normal. For August, although there have been some cancellations, the majority of bookings are confirmed, therefore we expect a good month not only in Mexico but also in Punta Cana which has benefited from some diversion in routes. Nevertheless, the Company is still monitoring travel activity in the area.

... positive evolution of Spanish cities in Q2. Good prospects going forward...

... promising outlook for summer season 2005...

... performance in the Caribbean, offset by cost inflation due to Dominican Peso...

Regarding the Asset Management business, the Company has taken further steps forward in the rotation of its property portfolio.

On the buy side of asset rotation, Sol Meliá achieved a 100% stake in the company Tenerife Sol S.A. following the acquisition of the 50% stake in the hands of third parties (My Travel). This company is the owner of three of Sol Meliá's hotels in the Canary Islands with 1,215 rooms: Sol Tenerife (522), Sol Jandamar (363) and Sol Lanzarote (330). Total transaction represents 28.75 million Euros at a 7.0x Ebitda multiple. Additionally, the deal is positive from a fiscal standpoint as it enables using part of the fiscal reserves in the Canary Islands.

On the sell side, the company granted a call option for the purchase of the **Melia Las Palmas** hotel (310) in the Canary Islands, to be executed in September. The Company has also negotiated a 10 year management contract. Total transaction represent 34 million euros at a Ebitda multiple of 23.4x while generating 17.5 million Euros of profit.

Additionally, Sol Melia has reached an agreement for the sale of the 50% stake of **Melia Zaragoza** (247) to Spanish building company Grupo Horcona for a full hotel value of 42.5 million Euros at 26x Ebitda Multiple. Sol Melia will maintain a 50% stake in the hotel and a 40 year management contract. Both companies are analysing ways to improve profitability per square metre including the development of condo-hotels in part of the establishment. Although the transaction generates a latent profit of 17.4 million Euros, it will not be reflected in our P&L account as the joint venture will be fully consolidated. Further projects are being studied with the same partner in existing Sol Melia's plots of land.

Apart from these latest transactions, Sol Melia carried out two additional disposals during the first quarter: 1) the Tryp Macarena hotel whose sale represented 42 million Euros and 24 million Euros of profit at 19.0x Ebitda multiple and 2) the Melia Torremolinos for 23 million Euros at a 62x Ebitda multiple, generating 17.4 million Euros of profit that will be accounted in our P&L account in Q4, when the transaction will be fully effective.

The Company's goal of selling some 100 million Euros on a yearly basis in the medium term has already been surpassed in 2005. We are now concentrating our efforts in 2005 in selling hotels that do not fit in our brand standards while developing the condo-hotel business as well as further analysing potential joint ventures to enter into mixed projects (hotel/resorts with condo-hotels and/or timeshare, etc) in existing and new plots of land.

All in all, disposals made so far (Tryp Macarena, Melia Torremolinos, Melia Las Palmas and 50% Melia Zaragoza) imply an Ebitda multiple of 25x of a volume of 120 million Euros and 67.6 million Euros of profit of which only 58.9 will be included in our P&L account since those generated in the Meliá Zaragoza transaction will not be reflected as we maintain full consolidation. On the other hand, the acquisition of the 50% stake of the Tenerife Sol S.A. company was made at a 7.0x Ebitda multiple (10x P/E ratio) with a total volume of 28.75 million Euros.

With regard to the Vacation Club business, the Company would like to point out that in the space of eighteen months Sol Melia Vacation Club (SMVC) has become a strategic business for Sol Melia and has developed as a fully integrated self-contained and self-sufficient business within the Sol Melia Group: it has launched its operations in Mexico, Dominican Republic, Puerto Rico, Central America and soon in the European markets, developed the SMVC branding creating a "look and feel" consistent with the brand message, carried out the important tasks in terms of the development of marketing and sales processes with brand experienced personnel and launched the Sol Melia Vacation Network as well as design and consultancy works.

SMVC keeps on setting the solid business basis to guarantee the future growth of the business from which we expect a double digit growth by year-end at the Ebitda level in USD, enhancing the return on Assets of the whole Sol Melia group. Going forward, SMVC is meant to represent over 10% within two years.

Asset rotation 2005:

*25x Ebitda multiple on disposal;
7.0x on acquisition*

In relation to the condo-hotel business, the Company will start to sell in the fourth quarter, the first phase of condo-hotels of the Paradisus Puerto Rico as part of the total 144 units. Such deals represent a win-win situation since Sol Melia recovers part of the capital invested and participates in the profit generated by the condo-hotel unit. On the other hand, the real estate investor, not only shares the profit of the room but also they enjoys 30 days per year while having access to the services and public areas of the hotel. Additionally, they benefit from the real estate price growth to which a prestigious brand contributes.

We are pleased to report that the asset valuation carried out by CB Richard Ellis as of December 2004, has been completed and reflects the positive evolution of the real estate market over the past years and thus our property valuation is 4.2 billion euros considering a dollar/euro exchange rate of 1.3. Total value per room in Spain and Europe represent 134,865 Euros and 311,168 Euros respectively which implies a +36% and +24% increase versus the valuation made in 2001 by American Appraisal. In Latin America and the Caribbean value per room are 192,110 US dollars which also represent a sharp increase of +34% in comparison with American Appraisal.

The valuation of CB Richard Ellis states that total amount of plots of land represent 1,559.1 million Euros versus 448 million Euros of book value which implies a difference of 1,111.2 million Euros.

Based on the CB Richard Ellis Valuation, the Net Net Asset value (Net Asset Value after Taxes) of Sol Melia, when excluding the properties sold throughout 2005, is 3.3 billion euros which implies 18 euros per share. The current stock price is therefore trading as of August 3rd 11.80 Euros at a 35% discount over the NNAV (see valuation presentation).

Best Regards,

Jaime Puig de la Bellacasa
E.V.P. of Communication & Institutional Relations

2. Information on Operations

Hotel Performance

RevPar increased by 7.3% largely explained by the recovery of the Spanish city hotels in the second quarter which offset the bad performance seen in April in the resorts, skewed by the early timing of the Easter holidays. Both European divisions report a combined RevPAR increase of 3% (+2% in occupancy). The performance of the Americas Division, where RevPAR has increased by 30%, is also largely behind total RevPAR evolution.

In the **European Resort Division**, RevPar has increased by 0.4%. By region, Alicante and the Balearic Islands keep on leading the way with a +5.3% and +2.6% respectively. In the Costa del Sol, the increase in competition and price discounts made by our competitors in the low season affected the evolution of Company resorts, specially those of lower category under the Sol brand. That said, Sol Melia expects RevPAR improvements for the summer season not only in this region but also at the Mediterranean level in light of current evolution of Company's main areas and feeder markets, specially the domestic one. First half only represent some 23% of the Ebitda of the Division while Q3 represent some 70%.

RevPar in the **European City Division** increased by 3.7% thanks to the evolution of the Spanish cities in the Q2 where RevPAR grew by 5.9% (Melia: +5.9%; Tryp: +5.5%). By cities, Madrid (+12%), Barcelona (+9%) and Palma (+18%) largely explain the evolution in Q2 in Spain. The month of June was particularly positive, especially in Madrid where RevPAR went up by 17.2% benefiting from the situation of the whole market (according to the Deloitte&Touche Survey figures, Madrid increased its RevPAR by 8.7% in June). For the semester, Sol Melia's Spanish cities have increased RevPAR by 0.8% (Melia: +1.6%; Tryp: +0.3%). Madrid, Barcelona and Palma have changed by +4.2%, -1.5% and +16.1% respectively. These figures compare with the +3.0% and -4.1% of Madrid and Barcelona according to the mentioned survey. Regarding operations outside Spain, London, Italy and Germany, have been the best performers during the semester with 5.4%, 6.1% and 15% RevPAR increases respectively. For the summer season, in the European city hotels, the Company has launched some offers and an advertising campaign in order to improve the occupancy levels during this period of the year. These measures have proven to be successful so far, specially when taking into consideration the level of use of Company-owned distribution channels.

Regarding the **Americas Division**, RevPAR growth is explained by the performance in Mexico where resorts went up by 16.6% along with the contribution of the Paradisus Puerto Rico. The recovery of the Gran Melia Caracas (664) and the Gran Melia Mofarrej (228) in Sao Paulo (Brazil) where RevPAR went up by 79% and 29.9% also contributes to this process.

Table 1: Hotel statistics 05/04 (RevPAR & A.R.R. in Euros)

OWNED & LEASED HOTELS Jun 05/04		Occupancy	RevPAR	A.D.R.
EUROPEAN RESORT	2.005	65.8%	29.7	45.1
	% o/ 2004	-0.7%	0.4%	1.1%
	2.004	66.3%	29.5	44.6
EUROPEAN CITY	2.005	65.4%	55.0	84.1
	% o/ 2004	5.3%	3.7%	-1.5%
	2.004	62.1%	53.0	85.4
AMERICAS	2.005	70.1%	51.3	73.2
	% o/ 2004	6.0%	30.0%	22.7%
	2.004	66.1%	39.5	59.7
TOTAL	2.005	66.3%	45.3	68.4
	% o/ 2004	3.2%	7.3%	4.0%
	2.004	64.3%	42.2	65.7

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.

In the **European Resort Division**, the decrease in available rooms is explained by the disposal of the Sol Aloha Playa in the Costa del Sol, the disaffiliation of the Sol Brisamar in Fuerteventura (Canary Islands) and the closure of the Sol Gorriones, also in Fuerteventura. The day less in February 2005 versus last year affects also the available rooms and therefore sales.

Table 2: Breakdown of total room revenues owned/leased hotels 05/04

% Increase Jun 05 /Jun 04	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	0.4%	3.7%	30.0%	7.3%
Available Rooms	-5.7%	-2.5%	-2.8%	-3.7%
Room Revenues	-5.3%	1.2%	26.3%	3.4%

In the **European City Division**, the extensive refurbishment which the Reina Victoria hotel in Madrid is undergoing due to its transformation into a Hard Rock Hotel together with the refurbishment process carried out in the Meliá Barcelona has affected total revenues in the division, including Food and Beverage.

In the **Americas** "Room Revenues", "Food & Beverage", "Other Revenues" and "Total Revenues" increased by 16%, 4%, 18% and 10%, respectively, when excluding the currency effect and the Paradisus Puerto Rico, company's newest property in the division.

Table 3: Hotel revenues split 05/04 for owned/leased hotels

Jun 05/04 (Million Euro)	<u>E.RESORT</u>			<u>E.CITY</u>			<u>AMERICAS</u>			<u>TOTAL</u>		
	05	%o/04	04	05	%o/04	04	05	%o/04	04	05	%o/04	04
ROOMS	60	-5%	63	149	1%	147	48	26%	38	257	3%	249
F&B	39	-8%	42	52	-1%	53	48	6%	46	140	-1%	141
OTHER REVENUES	5	-9%	5	15	7%	14	10	22%	8	29	8%	27
TOTAL REVENUES	104	-6%	110	217	1%	214	107	16%	92	427	2%	417

3. Income Statement

- **Revenues**

Total Revenues increased by 6.2% explained not only by the positive performance at the hotel level but, more importantly, the 24.2 million Euros of capital gains derived from the disposal of the Tryp Macarena in the first half. In the IFRS P&L Proforma 2004 also include 8.9 million Euros generated by the disposal of the Sol Aloha Playa in the first half of 2004. Both benefits are included in the Asset management business along with figures included in Sol Melia Vacation Club, the company's Timeshare Division. In this regards, Timeshare revenues represent 18 million Euros, an increase of 58%.

Management fees from third party hotels represent 21.4 million Euros, a 10.5% increase. This growth is primarily explained by the improved performance of company hotels and resorts in the Caribbean, especially Cuba.

- **Operating Expenses**

"Raw Materials" increased by 7.5%, explained by the newest incorporation in Puerto Rico, the cost inflation in the Dominican Republic due to the Peso appreciation and the cost of good sold in the Sol Melia Vacation Club. Regarding the evolution of "Personnel" and "Other operating expenses", increases are also explained by these effects. As seen in the segmentation of the P&L account, the Americas Division is largely behind such cost evolution.

One-off marketing research, branding development and personnel training for the launching in Europe, is largely behind the cost evolution of the Sol Melia Vacation Club. At the Overhead expenses level, increases are explained by the creation of the Divisions of Food and Beverage, Asset Management as well as an increase derived from the new Marketing division.

The "Rental Expenses" item increased by 7.5%, explained by the hotels added throughout 2004 and 2005: Tryp San Lazaro (132 rooms in Santiago de Compostela, Spain), Tryp Indalo (186 rooms in Almeria, Spain), Tryp Almussafes (133 rooms in Valencia, Spain) and Tryp Oviedo (115 rooms in Oviedo, Spain). Additionally the lease contract of the Tryp Macarena following the disposal of the same is also behind such effect.

Linked to its two year strategic plan, Sol Meliá has offered its senior management a remuneration scheme based, among other things, on the stock price. The programme expires on the 30th June, 2006. In this moment, each participant will receive a fixed amount of cash (that increases as a function of seniority) if the stock price reaches 8.5 Euros. However, this cash amount increases up to a cap if the stock price at that time gets to 10 Euros or more.

The Company has hedged this remuneration plan through an Equity Linked Swap which strike is 6.93 Euros, similar to the existing stock price at the beginning of the two year plan. As of 30th June, 2006, the difference between the then existing stock price and 6.93 Euros will be received in cash from the counterpart. At the same time, that cash (up to a cap) will be delivered to the participants of the programme.

With the current stock price, 11.80 Euros the Equity Linked Swap is currently far in the money. It is accounted as a financial income, and currently, more than offsets the increase in personnel expense derived from the remuneration plan.

- **Ordinary Profit / Net Profit**

On the Financial Result side, the "Other financial expenses" item refers to reclassified rental expenses of long-term maturity contracts which are capitalised on the balance sheet. These contracts refer to 17 hotels included in the Tryp transaction in 2000. The improvement in "Exchange Rate Differences" is generated by the appreciation of the Euros versus foreign currencies, mainly the US dollar.

The corporate income tax rate at 10% reflects the ongoing tax management of the group in minimising the tax charge. The tax shield of the company maintains irrespective of the incorporation of the International Accounting Standards. The total amount of future taxable profits which may be covered is approximately 420 million Euros. The origin of these benefits is mainly due to the goodwill generated in the Tryp acquisition and tax losses generated by companies of the Sol Meliá Group in previous fiscal years. Additionally, the Group will enjoy fiscal credits that imply future reductions in the tax charge of some 45 million Euros mainly due to investments both in Europe and in emerging countries in Latin America. The combined effect of both of these phenomena will enable the Group to obtain a future benefit of some 190 million Euros, i.e. cash savings in tax expenses.

"Minority Interest" no longer includes the 7.8% interest on the 107 million Euros Preferred Shares issue.

Table 4 : Sol Meliá Consolidated Income Statement on IFRS basis

Million Euros	Jun-05	Jun-04 (Pro- forma)	
Hotel Revenues	426.5	417.0	
Real Estate Revenues	55.1	30.7	
Other revenues	50.8	53.6	
Total revenues	532.5	501.3	6.2%
Raw Materials	(65.8)	(61.2)	
Personnel expenses	(173.4)	(162.1)	
Other operating expenses	(142.1)	(134.7)	
Total operating expenses	(381.3)	(358.0)	6.5%
EBITDAR	151.1	143.3	5.5%
Rental expenses	(28.6)	(26.6)	
EBITDA	122.5	116.6	5.0%
Depreciation and amortisation	(56.0)	(53.3)	
EBIT	66.5	63.3	5.0%
Net Interest Expense	(32.6)	(31.5)	
Exchange Rate Differences	3.0	(5.4)	
Other Interest Expense	(5.1)	(5.4)	
Total financial profit/(loss)	(34.7)	(42.3)	-18.0%
Profit/(loss) from equity investments	0.6	1.1	
Continuing Earnings Before Taxes	32.4	22.1	46.9%
Discontinuing Operations	0.0	0.0	
Profit before taxes and minorities	32.4	22.1	46.9%
Taxes	(3.2)	(2.2)	
Group net profit/(loss)	29.2	19.9	46.9%
Minorities (P)/L	(2.1)	(0.6)	
Profit/(loss) of the parent company	27.1	19.2	41.1%

Table 5 : Business Segmentation of Sol Meliá Consolidated Income Statement

	HOTEL BUSINESS												REAL ESTATE BUSINESS			OTHER BUSINESSES AND OVERHEAD EXPENSES			AGGREGATED			CONSOLIDATED			
	EUROPEAN RESORTS			EUROPEAN CITIES			AMERICAS			OWNED AND LEASED			ASSET MGMT. BUSINESS												
	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	1H05	1H04	%	
<i>Data in Million Euro</i>																									
REVENUES	104,1	110,5	-5,0%	217,0	214,4	1,2%	107,0	92,1	16,2%	420,2	417,0	2,7%	55,1	30,7	79,6%	100,9	99,4	1,5%	504,2	547,1	7%	532,5	501,3	6%	
EXPENSES	85,1	87,5	-2,7%	140,4	142,3	-1,3%	73,0	58,8	24,0%	298,5	298,6	3,4%	17,1	10,1	68,8%	117,2	104,6	12,0%	432,8	403,3	7%	381,3	358,0	7%	
EBITDAR	19,0	23,0	-17,5%	76,7	72,1	6,3%	34,0	33,3	2,3%	129,7	128,4	1,0%	38,0	20,5	84,9%	-16,2	-5,2	-213,7%	151,4	143,7	5%	151,1	143,3	6%	
Rental Expenses	3,3	3,2	2,6%	24,6	22,7	8,3%	1,0	1,1	-2,9%	28,9	27,0	7,2%	0,0	0,0		0,0	0,0		28,9	27,0	7%	28,6	26,6	8%	
EBITDA	15,7	19,8	-20,7%	52,0	49,3	5,4%	33,0	32,2	2,5%	100,7	101,4	-0,6%	38,0	20,5	84,9%	-16,2	-5,2	-213,7%	122,5	116,7	5%	122,5	116,6	5%	
Depreciation and Amortization	12,1	12,2	-0,2%	14,6	14,9	-2,0%	12,1	9,5	27,8%	38,8	36,5	6,3%	0,4	0,0	625,2%	16,8	16,4	2,5%	56,0	53,0	6%	56,0	53,0	5%	
EBIT	3,6	7,6	-53,4%	37,4	34,5	8,6%	20,9	22,8	-8,1%	61,9	64,8	-4,5%	37,6	20,5	83,6%	-33,1	-21,6	-53,2%	66,5	63,7	4%	66,5	63,3	5%	

4. Balance Sheet

- **Assets**

The disposal of the Tryp Macarena and Melia Torremolinos hotels are included in the evolution of Net Tangible Fixed Assets. Their impact is not substantial due to their low book value, as they are almost fully amortised

"Trade Receivable" item increases by 29 million Euros due to the seasonality of the business.

Other Loans, in Financial Investments, increase as a result of deferred taxes generated by higher fiscal values relative to accounting values. These differences have to be recognized under IAS.

- **Liabilities & Shareholder's Equity**

The 340 million Euros EMTN issue due in February 2006 have been reclassified from Long Term to Short Term Bonds Payable.

Total Net Debt under IAS has been reduced from 1,111.9 million Euros as of December 31st, 2004 to 1056.8 million Euros as of 30th June, 2005, a decrease of 55.1 million Euros.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Dec 2004	Jun 2005	%
Cash on hand and banks	101.5	84.9	
C/A with equity affiliates	16.3	29.9	
Inventory	33.2	39.1	
Trade receivable	83.3	117.4	
Other receivable	64.7	57.1	
Allowance for doubtful accounts	0.0	0.0	
S/T securities portfolio	0.5	0.3	
Loans due from affiliates	0.0	0.1	
Short term deposits	21.0	16.3	
Prepaid expenses	4.7	9.6	
TOTAL CURRENT ASSETS	325.1	354.6	9.1%
Goodwill from co. Fully consolidated	0.0	13.3	
Goodwill from co. equity participated	0.0	0.4	
Intangible assets and rights	142.6	122.9	
Net intangible fixed assets	142.6	136.6	-4.2%
Land and buildings	1.566.2	1.582.9	
Technical installations and machinery	217.6	226.5	
Other fixed assets	172.4	172.3	
Tangible assets provision and depreciation	0.0	0.0	
Net tangible fixed assets	1.956.2	1.981.8	1.3%
Equity Affiliates	38.4	38.9	
L/T loans due from affiliates	5.2	11.8	
L/T securities portfolio	33.4	37.2	
Other loans	170.6	248.5	
Provisions	0.0	0.0	
Financial investments	247.6	336.3	35.8%
FIXED ASSETS	2.346.4	2.454.8	4.6%
TOTAL ASSETS	2.671.5	2.809.4	5.2%

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Dec 2004	Jun 2005	
Debenture Bonds Payable	19.9	352.4	
S/T loans	131.8	110.3	
S/T loans due to affiliated companies	0.3	1.6	
Trade accounts payable	133.1	141.6	
Other payable	74.3	103.1	
Prepaid income	3.3	2.4	
TOTAL CURRENT LIABILITIES	362.7	711.3	96.1%
Debenture Bonds Payable	487.8	148.7	
L/T loans	595.4	547.0	
L/T loans due to affiliated companies	0.3	0.3	
Other L/T Liabilities	376.9	379.3	
TOTAL L/T LIABILITIES	1.460.4	1.075.3	-26.4%
Share capital	37.0	37.0	
Share premium	785.9	785.9	
Distributable reserves	20.4	8.9	
Reserves in companies fully consolidated	487.0	521.4	
Reserves in companies equity participated	4.8	4.2	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	54.8	54.9	
Profit/(loss) previous year	(422.2)	(389.1)	
Differences in conversion of co. fully consolidated	(295.8)	(228.4)	
Differences in conversion of co. equity participated	(4.2)	(5.3)	
Consolidated profit/(loss)	43.9	29.2	
Profit/(loss) attributable to external shareholders	(2.2)	(2.1)	
TOTAL SHAREHOLDERS' EQUITY	758.8	865.8	14.1%
Deferred income	5.0	57.5	
Provisions for risks and expenses	25.9	36.8	
MINORITY INTERESTS	58.6	62.7	
TOTAL S/HS' FUNDS AND LIABILITIES	2.671.5	2.809.4	5.2%

5. Expansion

The table below shows a description of the progress made in the Sol Meliá hotel portfolio during the first half of 2005.

Table 7. Expansion plan.

Owned & Leased	01/01/2005		ADDITIONS		LOSSES		CHANGES		30/06/2005		SIGNED		TOTAL GROUP	
	H	R	H	H	R	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	95	15,430	1	115	3	224	0	0	93	15,321	4	879	97	16,200
Owned Hotels	35	7,244	0	0	0	0	-1	-331	34	6,913	0	0	34	6,913
Leased hotels	60	8,186	1	115	3	224	1	331	59	8,408	4	879	63	9,287
EUROPEAN RESORT	56	15,810	0	0	0	0	0	0	56	15,810	0	0	56	15,810
Owned Hotels	41	12,957	0	0	0	0	0	0	41	12,957	0	0	41	12,957
Leased hotels	15	2,853	0	0	0	0	0	0	15	2,853	0	0	15	2,853
AMERICA	15	5,626	0	0	0	0	0	0	15	5,626	0	0	15	5,626
Owned Hotels	14	5,398	0	0	0	0	0	0	14	5,398	0	0	14	5,398
Leased hotels	1	228	0	0	0	0	0	0	1	228	0	0	1	228
OWNED HOTELS	90	25,599	0	0	0	0	-1	-331	89	25,268	0	0	89	25,268
LEASED HOTELS	76	11,267	1	115	3	224	1	331	75	11,489	4	879	79	12,368
TOTAL	166	36,866	1	115	3	224	0	0	164	36,757	4	879	168	37,636

Management & Franchise	01/01/2005		ADDITIONS		LOSSES		CHANGES		30/06/2005		SIGNED		TOTAL GROUP		
	H	R	H	R	H	R	H	R	H	R	H	R	H	R	
EUR. CITY	M	20	3,673	1	45	1	146	0	0	20	3,572	0	0	20	3,572
	F	18	2,222	0	0	0	0	0	0	18	2,222	0	0	18	2,222
EUR. RESORT	M	38	12,619	1	120	1	149	0	0	38	12,590	3	660	41	13,250
	F	13	4,625	1	512	0	0	0	0	14	5,137	0	0	14	5,137
AMERICA	M	35	8,628	1	230	0	0	0	0	36	8,858	4	857	40	9,715
	F	8	1,207	0	0	0	0	0	0	8	1,207	0	0	8	1,207
ASIA-PACIFIC	M	7	2,518	0	0	0	0	0	0	7	2,518	0	0	7	2,518
	F	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CUBA	M	23	8,476	0	0	0	0	0	0	23	8,476	1	240	24	8,716
SUBTOTAL	M	123	35,914	3	395	2	295	0	0	124	36,014	8	1,757	132	37,771
	F	39	8,054	1	512	0	0	0	0	40	8,566	0	0	40	8,566
TOTAL		162	43,968	4	907	2	295	0	0	164	44,580	8	1,757	172	46,337
TOTAL GROUP		328	80,834	5	1,022	5	519	0	0	328	81,337	12	2,636	340	83,973

M= Management; F= Franchise

Portfolio evolution in 1H

During the second quarter of the year, the Meliá Palacio da Lousa (45 rooms) in Portugal and the Sol Verginia (120 rooms) in Egypt, both under management contract, were incorporated to the hotel portfolio and under franchise contract, the Meliá Mouradí Gammarth (512 rooms) in Tunisia

During the second quarter, the losses under lease contract are referred to the Meliá Boutique Carlton (47 rooms) and Meliá Boutique Rex (75 rooms) both in Switzerland. The three lease contracts dropped from the portfolio as of June 2005 (224 rooms) were loss-making contracts.

Sol Meliá added one new hotel under lease contract to its portfolio during the first quarter of the year, the Tryp Oviedo (115 rooms). With this 4 stars incorporation, the Tryp brand reaches 112 hotels in the world. In the Americas division, the Meliá Marquise (230 rooms) was opened in Brazil under management contract

During the first quarter of the year, Sol Meliá dropped from its portfolio the Meliá Golf Almerimar (149 rooms) and the Meliá Balneario Mondariz (146 rooms), in Spain and both under management contracts. Under lease, contract losses are explained by the Tryp Los Llanos (102 rooms) in Spain.

The Tryp Macarena (330 rooms) has been sold during this first quarter. Sol Meliá will run the hotel through a lease contract. The length of the contract is 25 years plus an option for Sol Meliá of 10 additional years.

From the first of July, Sol Meliá is managing the Royal Palm Hotel in South Beach, Miami, which consists of two towers totalling 417 rooms, of which, 167 will be converted into condo-hotel units, with the remaining 250 to be used as traditional hotel rooms and suites.

The Hotel will undergo a refurbishment to create a totally new design, including a new signature restaurant and bar, after which it will be managed under the Meliá brand. The Meliá Royal Palm joins Sol Meliá's portfolio as the fourth market in the U.S., Chicago, New York and Puerto Rico being the others.

Futur projects under lease contract include four hotels and 879 rooms to be open in 2006: in Germany, the Meliá Düsseldorf (250 rooms), the Tryp Kaiserslautern (125 rooms) and the Meliá Berlin (364 rooms), and in Italy, the Gran Meliá Roma, a new 5 star deluxe hotel with 140 rooms.