SM'05

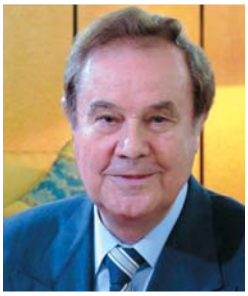
ANNUAL REPORT 2005

CONTENTS

FINANCIAL REPORT
CORPORATE GOVERNANCE REPORT

CONTENTS

LETTER FROM THE CHAIRMAN



Dear shareholders,

I am proud to have the chance to address you on the fiftieth anniversary of the birth of Sol Meliá in 1956. Back in 1956, Mallorca was beginning to become a popular destination for European tourists, and I was eager to get involved in the new tourism industry, an industry which has continued to become more and more important to the national and international economy as time has moved on.

Since then, Spain has become the second most popular tourism destination in the world, and Sol Meliá has grown alongside Spain thanks to our constant innovation, our creativity, our attention to personalised service, and our drive to be in all those countries in which our customers hoped to find us.

On reaching our fiftieth anniversary, I am proud to reflect on our leadership. Leaders in both city and resort hotels in Spain, world leaders in resort hotels, and leaders in the Caribbean and Latin America. I am also proud of the capacity we have shown to overcome economic downturns and to develop new hotel brands and satisfy our customers.

The strategy Sol Meliá put in place in 2004 has provided positive results in both of our lines of business. Our hotel operations confirm the upward trends in the economic cycle, while our asset management business enjoys high returns on the acquisition and disposal of key properties.

The development of our brand equity and brand attributes will benefit both areas of the business. The capacity of the Company to detect current and future customer needs and the positioning of our brands to respond to those needs is a key factor in adding value to any hotel, vacation club or condo-hotel development.

Sol Meliá will continue to benefit from the progressive increase in direct sales in short-haul destinations caused by the transformation taking place in the travel industry. This trend is clearly seen in sales through centralised channels, including a 50% increase at solmelia.com.

In 2005, Sol Meliá increased sales to 1,165 million euros, an 11% increase over 2004. EBITDA increased by 21% to 288 million euros, while net profit grew to 90 million euros, a 105% increase. This is largely explained by the positive growth in the hotel business, as well as by encouraging developments in the asset management business, including Sol Meliá Vacation Club (SMVC).

In 2005, Sol Meliá continued to grow, adding 13 new hotels with 2,500 rooms both in Spain and abroad in Portugal, Egypt, Tunisia, the Dominican Republic, Argentina and Brazil.

With respect to the Company's business divisions, we are optimistic about our prospects due to the general growth in travel worldwide and also to the positive economic and consumer data in our main feeder markets. Spanish macroeconomic indicators also point towards a recovery in business.

The development of Flintstone Land themed areas has been a great success as a differentiating factor with respect to competitors, as well as an additional source of revenues. With eight hotels added in 2005, the Company now provides 12 Flintstone Land hotels. The re-opening of the Meliá Gorriones with 575 rooms in Fuerteventura (Canary Islands) after a very thorough renovation is also a positive differentiating factor.

Regarding asset rotation, the redistribution of funds generated by the sale of non-strategic hotels to high-growth businesses or regions is creating immediate value while also benefiting Company growth in the longer term. The acquisition of Tenerife Sol S.A. (Canary Islands), the Paradisus Palma Real (Dominican Republic), and the SMVC development in Puerto Rico are key projects unveiled in 2005. Sol Meliá has also made disposals for a total value of 124 million euros at an EBITDA multiple of 26.6x and has made acquisitions for 117 million euros at an EBITDA multiple of 8.9x. It is important to emphasise the major difference between the EBITDA multiples for disposals and acquisitions.

The acquisition of the Paradisus Palma Real in Punta Cana has allowed us to strengthen our Paradisus portfolio and its innovative resort hotel concept, fully integrating elements of their architecture, design, lighting and layout with their natural environments and providing superior quality customer experiences.

The asset management team is also focusing on maximising alternative revenue streams within hotels both through Company initiatives and through partnerships with other market-leading brands.

With regard to the condo-hotel business, in January Sol Meliá began to sell units at the Paradisus Puerto Rico after a sales and marketing push in the country. The sale of condo-hotel units helps the Company to recover part of the capital invested in the project and also share in the net profit generated by the unit together with its new owner.

After initially setting up in Mexico, the Dominican Republic, Puerto Rico and Panama, Sol Meliá Vacation Club has now launched in Europe at the Meliá Tamarindos (Gran Canaria, Canary Islands) and Gran Meliá Salinas (Lanzarote, Canary Islands). Sales offices will also be opened in Madrid, Barcelona and the Canary Islands. In the Americas, the Meliá Cozumel and Paradisus Palma Real will also join the Vacation Club programme in Mexico and the Dominican Republic.

The Vacation Club business allows Sol Meliá not only a foothold in the fastest-growing part of the hospitality industry, it also generates synergies with the hotel business and improves the return on Company assets.

Company debt has been reduced by 113 million euros. In February 2006, the Company met its obligations on the due date of the 340 million euro, 5-year bond (fixed coupon rate of 6.25%) issued under the EMTN (European Medium Term Notes) programme, showing its ability to meet with repayment schedules and allowing the Company to refinance debt under more favourable conditions which have reduced the average cost of debt from 6.1% to 5.5%.

In 2006, the Company hopes to further reduce debt for the third consecutive year and consolidate the comfortable financial position with regard to leverage, interest coverage and the EBITDA to net debt ratio.

The positive performance of the business in 2005 and the outlook for the future led to a 47% increase in the share price. The positive impact of the revaluation on investors that share a stake in the Company has also allowed the share price to maintain this growth, with an increase of over 20% in the current year.

The revaluation of the share price also responds to a Company objective to gradually reduce the 30% discount between the net value of Company assets (which would value shares at 18 euros) and their market price via the more proactive management of the 4 billion euros of assets owned. This asset management includes a) asset rotation, b) Sol Meliá Vacation Club, and c) condo-hotels. Together with the positive performance of the hotel business in all areas, the Company expects to achieve the stated objective.

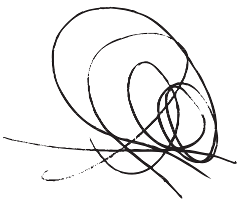
Sol Meliá has made community involvement an integral part of its business strategy in order to contribute to a more responsible and sustainable travel industry. The heavy involvement of staff also helps to make the solidarity message even more profound. For the second consecutive year Sol Meliá held a Solidarity Day in 12 company hotels with customers also joining in activities to promote solidarity and raise environmental awareness. Activities such as these have made Sol Meliá a point of reference in the industry and has also given shareholders, partners, suppliers, customers, employees and others a chance to take part and magnify the impact of the activities.

During the year Sol Meliá took part in 509 projects with 246 NGOs and foundations which collected more than a million euros in donations, and also made purchases worth more than four million euros from special employment centres.

Sol Meliá has received many awards over the last year: "Flintstones Land: Best Idea 2005" from the Actualidad Económica financial magazine, "Best Spanish Company in France" from the Spanish Chamber of Commerce in France, "Best Company 2005" from the Dirigentes management magazine, "Tourism Excellence Award" from the travel agency association GEBTA, "Best Company of the Year" from the Andalusia Hotel Managers Association, and a special award from the Cuban Ministry of Tourism for the 15 years Sol Meliá has worked to promote tourism in the island.

I would like to thank all of the management team, all of our staff and partners, the owners of our hotels, the members of Sol Meliá Vacation Club and owners of condo-hotels, our customers, our shareholders, and all of those people that have been with us at some time over the last fifty years for their dedication and their confidence, their devotion and their perseverance. Thank you to you all for everything you have contributed to Sol Meliá.

We are proud to celebrate our fiftieth anniversary in 2006, more focused than ever on our vocation as hoteliers and looking forward to the next 50 years with enthusiasm and confidence in our industry.



Gabriel ESCARRER
Chairman

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COMPANY PROFILE 2005

01

COMPANY PROFILE

328 HOTELS IN 27 COUNTRIES

ASIA

Indonesia	5
Malaysia	1
Vietnam	1
TOTAL	**7**

MEDITERRANEAN

Egypt	4
Tunisia	13
TOTAL	**17**

AMERICAS

Argentina	2
Brazil	21
Colombia	6
Costa Rica	3
Cuba	23
United States	3
Mexico	10
Panama	1
Peru	1
Puerto Rico	1
Dominican Republic	4
Uruguay	1
Venezuela	2
TOTAL	**78**

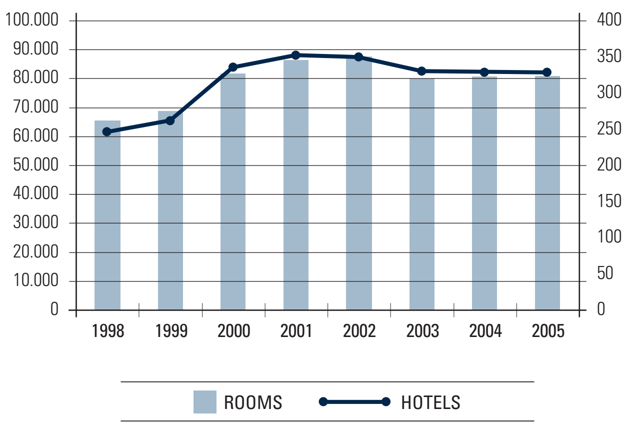
EUROPE

Germany	12
Belgium	1
Croatia	16
Spain	170
France	8
Italy	5
Portugal	12
United Kingdom	1
Switzerland	1
TOTAL	**226**

SOL MELIÁ CURRENT POSITIONING

- Largest resort hotel company in the world.
- Leading hotel company in Spain, in both city and resort hotels.
- Leading hotel company in Latin America and the Caribbean.
- Number thirteen in the world ranking by number of rooms.
- Hotels in 27 countries.
- More than 32,500 employees.

HOTEL, ROOM AND BEDNIGHT GROWTH

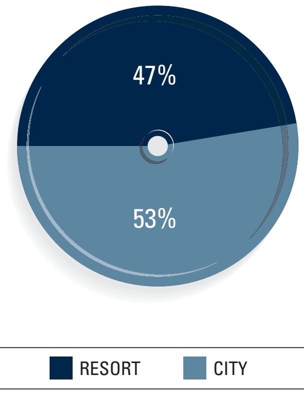


Years	Rooms	Hotels
2001	86,554	352
2002	87,717	350
2003	80,494	330
2004	80,834	328
2005	81,282	328

Years	Number of stays
2001	23.7 millions
2002	24.3 millions
2003	26.2 millions
2004	27.3 millions
2005	27.4 millions

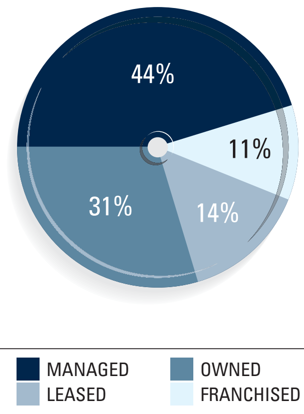
CITY AND RESORT HOTEL DISTRIBUTION

(by number of hotels)

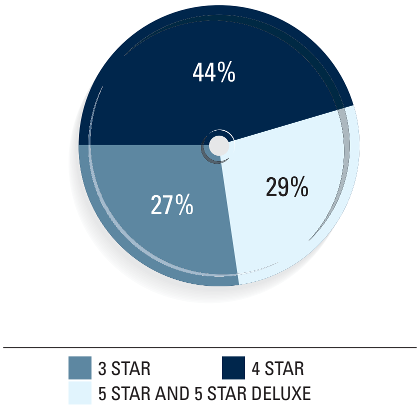


DISTRIBUTION BY TYPE OF OPERATION

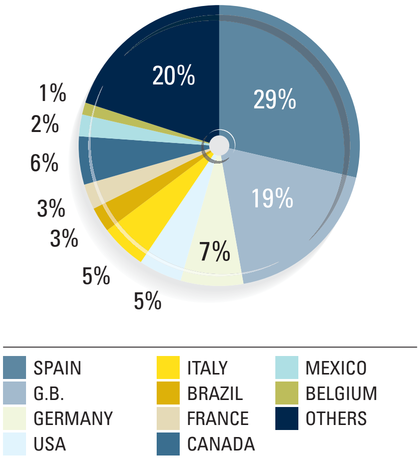
(% of rooms)



PERCENT OF ROOMS BY CATEGORY

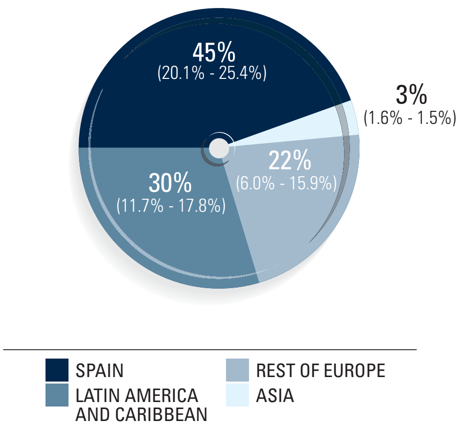


CUSTOMERS BY COUNTRY OF ORIGIN



PERCENT OF ROOMS BY GEOGRAPHIC LOCATION

(% City - % Resort)



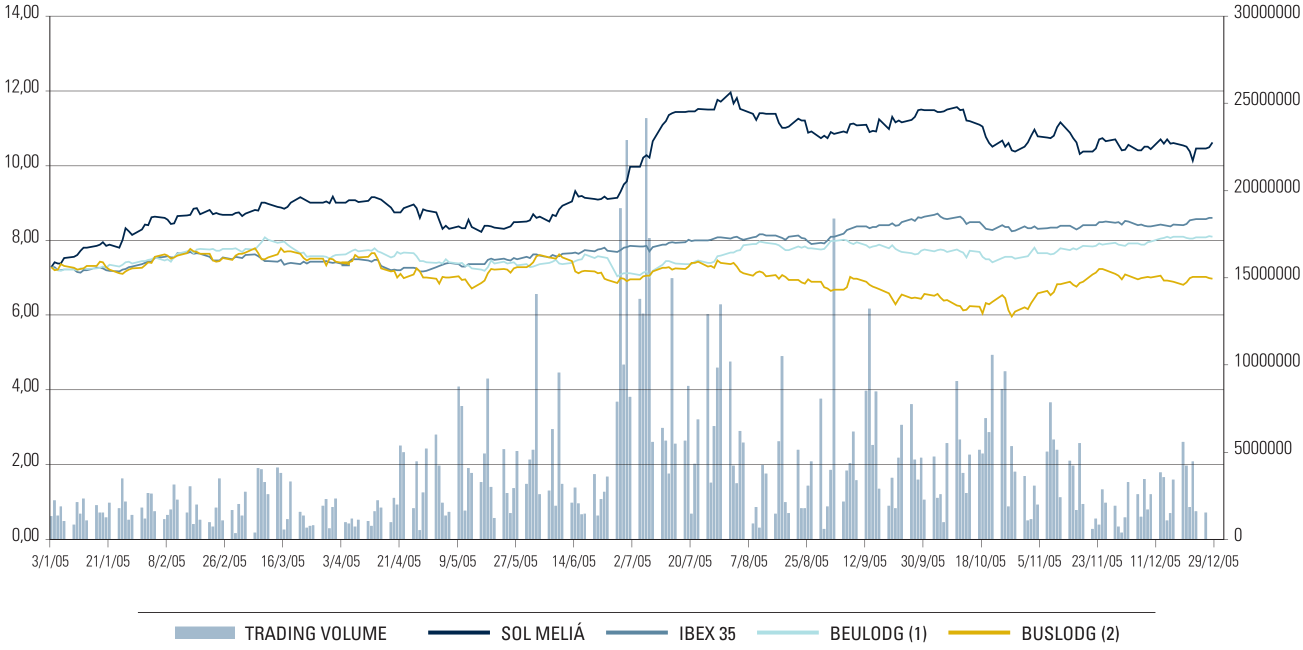
		TOTAL	City	Resort	% City	% Resort
Spain	45%	36,936	16,331	20,605	20.1%	25.4%
Rest of Europe	22%	17,871	4,916	12,955	6.0%	15.9%
Asia	3%	2,518	1,315	1,203	1.6%	1.5%
Latin America and Caribbean	29%	23,957	9,471	14,486	11.7%	17.8%
TOTAL	**100%**	**81,282**	**32,033**	**49,249**	**39.4%**	**60.6%**

SOL MELIÁ CURRENT POSITIONING

Company founded:	1956
Company IPO:	2 July 1996
Initial share price (before split):	5.41 €
Ticker symbol:	SOL.MC / SOL SM
Stock market:	Continuous market (Spain)
Number of shares;	184,776,777
Share price at 31 Dec 2005	10.74 €
Share performance from IPO to 31 Dec 2005:	98.5%
Share performance from 31 Dec 2004 to 31 Dec 2005:	47.1%
Rating BB+ stable outlook from Fitch Ratings	
Rating BB+ stable outlook from Standard&Poor's	

	2005	2004
EBITDA / NET INTEREST EXPENSE	3,9 x	3,0 x
PER (PRICE EARNINGS RATIO)	22,0 x	30,7 x
MARKET CAP.	1.984,5 €	1.348,9 €
EV / EBITDA	10,4 x	10,3 x
NET DEBT (TOTAL DEBT - CASH - IFT)	999 €	1.112 €

SHARE PERFORMANCE 2004



(1) BEULODG: Bloomberg Index of European hotel companies · (2) BUSLODG: Bloomberg Index of North American hotel companies

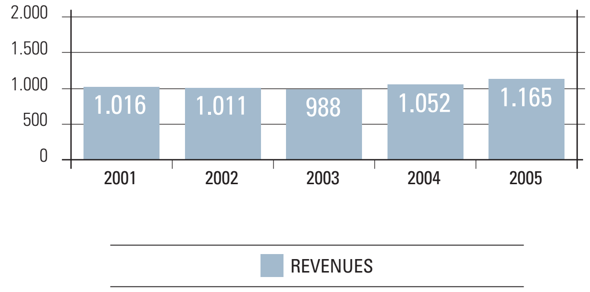
	Share price in €	% change	IBEX - 35	Max.	Min.	Average daily volume Shares	Euros (M)	Dividend €	EPS	CFPS
31/12/05	10.74	47.12%	18.20%	11.95	7.38	384,994	3.87	0.081	0.49	0.97
31/12/04	7.30	27.85%	15.39%	7.80	5.63	232,394	1.60	0.054	0.24	0.76

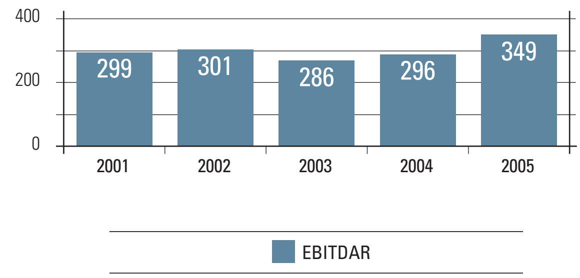
FINANCIAL PERFORMANCE

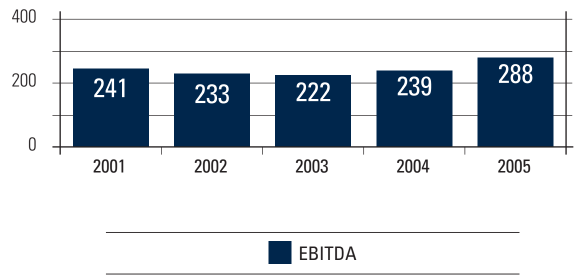
In million euros

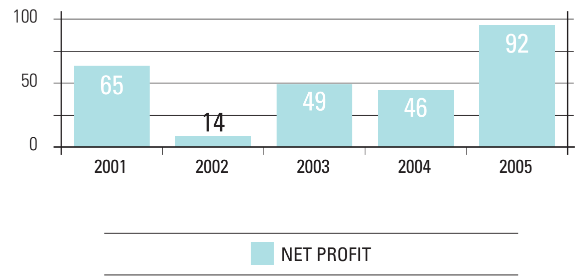
	2001	2002	2003	NIC 2004	NIC 2005	C.A.G.R. 05
REVENUES	**1,016**	**1,011**	**988**	**1,052**	**1,165**	**3%**
	14%	-1%	-2%	7%	11%	
EBITDAR	**299**	**301**	**286**	**296**	**349**	**4%**
	3%	1%	-5%	3%	18%	
EBITDA	**241**	**233**	**222**	**239**	**288**	**5%**
	-7%	-3%	-5%	7%	21%	
NET PROFIT	**65**	**14**	**49**	**46**	**92**	**9%**
	-46%	-79%	261%	-7%	101%	
PROFIT PARENT COMPANY	**59**	**4**	**38**	**44**	**90**	**11%**
	-48%	-93%	812%	15%	105%	

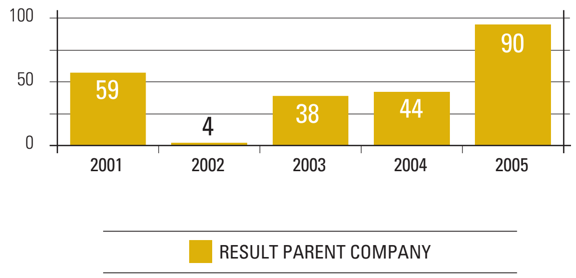
2004 and 2005 using new international accounting regulations











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COMPANY HISTORY

02

SOL MELIÁ: THE HISTORY OF A DREAM

THE BIRTH OF A DREAM...

1956

At only 21 years of age, a young and entrepreneurial Gabriel Escarrer Juliá begins to lease and operate his first hotel: the Altair Hotel located in the residential area of Son Armadams (Palma de Mallorca, Spain), the first 60 rooms of the future Sol Meliá.

60's

The tourism boom of the 1960's were fundamental to the consolidation of the structure of a growing business. Through reinvestment of profits, increased co-operation with Tour Operators and bank loans, the company began to take shape. The tenacity of Gabriel Escarrer and his team, led by Juan Vives, his charisma and innate flair for sales and marketing would do the rest.

70's

A time for growth in the Balearic Islands, the most popular destinations on the Spanish mainland, and the Canary Islands, with the acquisition of the company's first resort hotels. The entrepreneurial vision and spirit of its founder and, once again, a risky but firm commitment to making his name in the hotel business, were key to growth.

Over a 20 year period, coinciding with the growth of Spain as a major travel destination, Escarrer built up a small hotel chain with a strong presence in the Balearic Islands named Hoteles Mallorquines until 1976, and also laid the foundations for what is still company philosophy: reinvestment of profits in new hotels, growth through the purchase of other hotel chains and constant renovation of hotel facilities.

THE EMBRYO OF A MAJOR COMPANY...

At the end of the 70's, Sol Meliá began to consolidate its expansion in Spain with a presence in most of the country's most popular travel destinations on the mainland and in the Canary Islands, changing its name along the way to Hoteles Sol.

1984

Time for real growth. In a joint deal with Aresbank (financial representative of the KIO group in Spain), the 32 hotels of the HOTASA chain in Spain were acquired. The purchase meant the beginning of activities in the city hotel market and the company moved up to number 37 in the world ranking of hotel chains. At the same time, the company also became the largest hotel chain in Spain, a position it has held ever since.

Gran Meliá Victoria

Meliá Tamarindos

1985

The company began its international expansion with its first hotel outside Spain: the Bali Sol. The business instincts of Gabriel Escarrer once again brought success as the company became the first international chain to build a hotel in the then-unknown destination of Bali. It seemed like a risky bet. Nowadays all of the major international hotel companies are there, but only one can proudly claim to have been a pioneer.

1986

Continuing with the policy of growth through acquisition, Hoteles Sol took over Compañía Hotelera del Mediterráneo, including 11 hotels partly owned by the airline British Caledonian.

AND THEN THERE WAS MELIÁ

1987

27 June 1987 was the date for another milestone in company history. Owned by the Luxembourg-based company Interport, with Giancarlo Parretti at its head, the 22 Meliá hotels were the object of desire of major international hotel groups such as Sheraton, Wagon-Lits or Hilton. Arduous negotiations finally led to Gabriel Escarrer becoming the new Chairman of Hoteles Meliá.

Assisted by the international recognition of the Meliá brand, growth continued in Europe, the Americas, the Caribbean, South-east Asia and the Mediterranean. Globalisation and diversification became the watchwords of the times.

Meliá Castilla

NEW MANAGERS ARRIVE...

1993

The incorporation of Sebastián Escarrer Jaume brought a fresh air and new ways to the company as he began a revolution in Sol Meliá business strategy and implemented the organizational structure that is still in place today.

To favour continued growth, the management team was strengthened and changes were made in management procedures and systems (information technology, accounting, quality control, bonus systems, financial management, added values for the 5 key client types, etc...). Faithful to its origins, the company

Meliá Bali

Meliá Cabo Real

also adopted a management style aimed at encouraging an entrepreneurial and team spirit, with fluid lines of communication and a greater focus on the market and the customer.

That same year, the company was named as the recipient of the Prince Felipe Award for excellence in tourism for its management and growth policies.

GOING PUBLIC...

1996

Once the new organization and management systems had been consolidated, on 2 June 1996, Sol Meliá became the first hotel management company in Europe to be floated on the stock exchange. Prior to the flotation the company had been split in two: Inmotel Inversiones, the owner of hotels, and the new Sol Meliá S.A., a hotel management company and target of the flotation.

On 30 December 1996, the value of the company's shares had increased by 72.2% and had been added to the IBEX 35 index along with other major Spanish public companies.

Just six months later, the US agency Standard & Poor's granted a credit rating of BBB+, rating Sol Meliá as the most solvent hotel company in Europe and allowing much greater capacity to obtain financing on capital markets.

TIME FOR INTEGRATION: THE NEW SOL MELIÁ...

1998-1999

Due to the situation in the international travel industry at the time, characterized by major vertical and horizontal mergers, a strategic decision was made to reintegrate the hotel management and property businesses. The integration ended in 1999 with the take-over of Meliá Inversiones Americanas (MIA) and the merger with Inmotel Inversiones.

The operation provided a strong spur for company growth, and also laid the basis for the company's technological transformation. The new Sol Meliá became the 12th largest hotel group in the world with more than 260 hotels in 27 countries and a market capitalisation of 2,300 million euros.

After the creation of the new Sol Meliá, another of the Chairman's sons, Gabriel Escarrer Jaume, joined the company as Chief Executive Officer. He had held the same position with Inmotel Inversiones, a period during which he brought about an important modernization and adaptation of the company to prepare for its merger with Sol Meliá, while also initiating an ambitious and highly successful plan for the renovation of the hotel portfolio.

1999

In 1999, the company added 27 hotels and purchased 34, further reinforcing and developing its presence in its three key natural markets: Latin America, the Mediterranean and major European cities. The investment made in purchases reached nearly 605 million euros.

Thanks to these investments, the company established a presence in Europe's foremost capital cities and business and leisure tourism destinations: Rome, Paris and London.

Tryp Cibeles

ADAPTING TO A NEW AGE: E-TRANSFORMATION...

One of the pillars on which the international growth and development of Sol Meliá has been based has been the company's use at different times in its history of leading technologies. First came the creation of a pioneering Central Reservations System (SolRes) and connection with the world's leading GDS booking systems, followed by the launch of the first website and the incorporation of broadband connections in many hotels. In 1999, there was a further revolution.

At the height of the "new economy", Sol Meliá began to prepare for the twenty-first century by adapting all of its internal and external operations to the latest modern technology and carrying out a significant transformation in 3 specific areas named the Inside, the Sell Side and the Buy Side.

TRYP HOTELES, THE LATEST MAJOR DEAL...

2000

On 21 August 2000, Sol Meliá sealed its purchase of Tryp Hotels. With the addition of 60 hotels, Sol Meliá further consolidated its leadership position in both the business and leisure hotel markets in Spain, Latin America and the Caribbean, and its ranking as number 3 in Europe. At the same time, the company achieved a place amongst the top ten hotel companies in the world by number of rooms and became the undisputed leader of the Spanish city hotel market.

Tryp Atocha

YEARS THAT HAVE LEFT THEIR MARK...

2001

A new year dawned with the optimism created by the launch of a new approach to brand innovation and the focus of the company on 4 major hotel brands: Meliá, Tryp, Sol and Paradisus. An ambitious project aimed at strengthening brand image and standardization. Near the end of the summer, however, there was a tragic event. 11 September affected the entire planet, and especially the travel industry. The sudden halt and later slow-down in the world travel business was reflected in the annual results of a large number of companies, amongst them Sol Meliá.

Paradisus Puerto Rico

Hard Rock Hotel Reina Victoria

2002

2002 was a difficult year in which political, financial and social instability were the dominant threads. Fortunately, it was not all bad news, and in some cases the crisis was transformed into an opportunity for progress and improvement. Sol Meliá used the year to consolidate achievements to date and the fruits of its labours are now excellent products, one of the best sales forces in the business, modern and fully-integrated distribution systems and a solid financial structure.

2003

2003 saw the beginnings of a recovery in the international travel industry after two years of major difficulties. At Sol Meliá, improvements were accompanied by the reactivation of innovation and growth. The company achieved growth through major partnerships with other leading travel companies (Cendant, Rank Group, Warner Bros. Consumer Products, lastminute.com) and the creation of new hotel products.

NEW BUSINESS FOCUS

2004

The creation of the Asset Management Department has given Sol Meliá a double focus to the business: hotel management and asset management. The restructuring of the Marketing Department has also helped develop the brand standardisation strategy while also establishing new product research, development and innovation procedures. The development of the Food and Beverage Department has also strengthened this key area and standardisation.

A YEAR FOR CONSOLIDATION

2005

Implementation of the new Sol Meliá strategies leads to positive results in both lines of business. The performance of the hotel business accompanies the upturn in the economic cycle, while the asset management business consolidates high yield disposals and the purchase of key hotels. Sol Meliá Vacation Club emerges as the third strategic line of business, completing the approach to the full life cycle of Sol Meliá customers.

A DREAM COME TRUE...

Sol Meliá ended 2004 with 328 hotels in 27 countries on 4 continents and with 32,000 employees. Sol Meliá is the largest hotel company in Spain, Latin America and the Caribbean, the third largest in Europe and number twelve in the world ranking. Sol Meliá is also the largest resort hotel chain in the world.

SM'05

03

4.1 FINANCIAL RESULTS

HOTEL PERFORMANCE

RevPAR for owned and leased hotels increased by 7.4%. This positive trend in 2005 is largely explained by the progressive quarterly improvement in Spanish city hotels and the positive RevPAR growth in the European Resort Division during the summer season. Both European divisions report a combined RevPAR increase of 4.4% (+2.5% in occupancy). The performance of the Americas Division, where RevPAR increased by 26.7%, is also a factor driving positive consolidated RevPAR growth.

In the European Resort Division, RevPAR increased by 2.9% thanks to the positive performance of the Spanish resorts. By region, RevPAR in the Balearic Islands and southern Spain increased by 5.0% and 3.7% respectively. The resilience of the domestic feeder market together with the positive evolution of the UK market and the recovery of the German market to Mallorca largely explains the growth. The growth in direct sales, the majority of them through solmelia.com is also a factor behind the RevPAR increase.

RevPAR in the European City Division increased by 4.8% thanks to the good performance of the hotels in major European cities such as London and Milan. A recovery in occupancy has enabled Spanish city hotels to increase RevPAR by 3.5% in total, comparing well with a 1.1% increase in Spain overall according to the latest Deloitte&Touche (D&T) survey.

In Spain, RevPAR increased by 5.7% thanks to positive quarterly growth in the cities after a first quarter decrease, largely explained by the recovery of congress, convention and business groups.

Table 1: Hotel statistics 05/04 (RevPAR and ARR in Euros)

OWNED AND LEASED HOTELS Dec. 05/04		OCCUPANCY	RevPAR	ARR
EUROPEAN RESORT	2005	71.3%	39.5	55.3
	% o/ 2004	**0.3%**	**2.9%**	**2.6%**
	2004	71.1%	38.3	53.9
EUROPEAN CITY	2005	66.5%	54.9	82.5
	% o/ 2004	**4.8%**	**4.8%**	**-0.1%**
	2004	63.5%	52.4	82.6
AMERICAS	2005	67.3%	48.40	71.9
	% o/ 2004	**4.9%**	**26.7%**	**20.7%**
	2004	64.2%	38.2	59.5
TOTAL	2005	68.4%	48.14	70.4
	% o/ 2004	**3.0%**	**7.4%**	**4.3%**
	2004	66.4%	44.8	67.5

In the Americas Division, 26% RevPAR growth is largely explained by the performance in Mexico, where resorts increased RevPAR by 18.8%, and the contribution of the Paradisus Puerto Rico. The recovery of the Gran Meliá Caracas and the Gran Meliá Mofarrej in Sao Paulo also contributed to the improvement.

See table 2 for the growth of room revenues for owned and leased hotels for the whole company.

In the European Resort Division, the decrease in available rooms is explained by the disposal of the Meliá Torremolinos, the disaffiliation of the Sol Brisamar in Fuerteventura (Canary Islands), and the closure of the Sol Gorriones for refurbishment.

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. The decrease in available rooms is explained by the disposal of the Tryp Caballo Blanco (in 2004), the Meliá Las Palmas in the Canary Islands and the disaffiliation of two Meliá Boutique Hotels in Switzerland.

In the Americas, the decrease in available rooms is explained by the reduction in the number of days the hotels opened due to the damage caused by Hurricane Wilma.

Table 2: Total revenues for owned and leased rooms 05/04

% INCREASE DEC 05 / 04	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPAR	2.9%	4.8%	26.7%	7.4%
Rooms available	(5.2%)	(3.0%)	(5.6%9	(4.2%)
Revenues per room	(2.3%)	1.5%	19.6%	2.9%

Table 3: Revenues by Division 05/04. Owned and leased hotels

(Million Euros)

DIC 05 / 04	EUROPEAN RESORT			EUROPEAN CITY			AMERICAS			TOTAL		
	05	%o/04	04	05	%o/04	04	05	%o/04	04	05	%o/04	04
ROOMS	167	-2%	171	296	2%	291	90	20%	75	553	3%	538
F&B	93	-6%	99	106	-1%	107	93	6%	88	292	-1%	294
OTHER REVENUES	12	3%	11	31	12%	28	23	19%	19	66	13%	59
TOTAL REVENUES	**272**	**-3%**	**282**	**433**	**2%**	**426**	**206**	**13%**	**183**	**911**	**2%**	**890**

ASSET MANAGEMENT PERFORMANCE

The Asset Management Division, which includes the asset rotation activity as well as Sol Meliá Vacation Club, achieved the goal for the year of selling 100 million Euros on an annual basis in the medium term within the asset rotation business.

Asset rotation

Within the strategic framework defined for asset management, the Company sold the Tryp Macarena, Meliá Las Palmas, Meliá Torremolinos, and Tryp Alcano hotels generating capital gains of 60 million euros.

With regard to acquisitions, the Company achieved a 100% stake in the company Tenerife Sol S.A. after purchasing the 50% in the hands of third parties.

70% of the company ALCAJAN XXI S.L. (owner of the Paradisus Palma Real) from G.I. CARTERA, S.A. – a subsidiary of Caja de Ahorros del Mediterráneo (CAM) – was added to the scope of consolidation after the Company assumed control. In total the project involves a net investment of 88 million Euros.

Sol Meliá Vacation Club (SMVC)

Total Sol Meliá Vacation Club (SMVC) revenues increased by +118% up to December, including 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. The increase is explained thanks to the good performance of the operations launched last year in Mexico, Dominican Republic, Puerto Rico and Panama, as well as the launch of timeshare activities in the Paradisus Puerto Rico and the Meliá Turquesa. In late 2005, Sol Meliá Vacation Club also began operations in the Canary Islands in Spain.

Condo – hotels

Within the asset management business 2005 does not include any revenues derived from the sale of condo-hotel units. In January 2006, Sol Meliá has started to sell existing units in the Paradisus Puerto Rico.

Table 5: Sol Meliá Vacation Club (SMVC)

	NUMBER OF WEEKS SOLD			EQUIVALENT NUMBER OF CLUB UNITS		
	2005	%o/04	2004	2005	%o/04	2004
Europe	11		0	0		0
Americas	1,997	19%	1,684	38	19%	32
Total	2,008	19%	1,684	38	19%	32

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (*)

(in thousands of euros)

	2005	2004
OPERATING ACTIVITIES		
PROFIT BEFORE TAXES AND MINORITY INTEREST	100,939	52,282
Adjustments for:		
- Profit/(Loss) in associates	1,375	(1,074)
- Financial results	76,446	79,506
- Amortisation/depreciation charges	109,168	108,247
- Impairment	139	0
- Investing activities result	(59,335)	(992)
+ Dividends from associates	1,078	887
+ Insurance indemnities	15,673	
+ Income to be allocated in various years	20,551	1,138
- Changes in payables and other non-current accounts payable	(4,836)	(12,927)
- Corporation Tax	(9,059)	(8,132)
+/- Changes in payables and other current accounts payable	17,915	96,596
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**270,053**	**315,531**
FINANCING ACTIVITIES		
- Dividends paid to Meliá S.A.	(11,515)	(8,625)
- Dividends paid to minority interest		(610)
+ Collection for new bank financing (**)	111,637	79,461
- Payment of bank debts	(183,768)	(338,132)
- Interest paid	(66,689)	(55,528)
- Payment for capital leases	(11,001)	(10,774)
- Payment of preference dividends	(8,337)	(8,329)
+ Other financial collections	6,143	4,534
+ Receipt of capital grants		478
+/- Variations in portfolio	(1,936)	(5,706)
TOTAL CASH FLOWS FROM FINANCING ACITIVITIES	**(165,466)**	**(343,230)**
INVESTING ACTIVITIES		
- Acquisition of Intangible Fixed Assets	(7,481)	(9,107)
- Acquisition of property, plan and equipment (**)	(162,825)	(61,572)
- Acquisition of financial assets (***)	(30,371)	(17,579)
+ Proceeds from sale of property, plant and equipment	103,288	16,232
+ Proceeds from sale of financial assets	21,383	2,831
- Increase of credits to associates	(6,962)	
+ Receipt of investment incentives	1,347	3,563
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**(81,621)**	**(65,632)**
Exchange rate changes in cash and cash equivalents	6,492	(3,527)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**29,458**	**(96,858)**
Cash and cash equivalents at January, 1	101,457	198,315
CASH AND CASH EQUIVALENTS AT DECEMBER, 31	**130,915**	**101,457**
Cash and banks	88,268	75,153
Cash equivalents	42,647	26,304

Explanation Notes:
The cash flow has been elaborated using the indirect method and correcting all those significant entries which are not considered cash movements.
(*) The consolidated cash flow statement corresponding to 2004 is presented for information purposes only.
Non-monetary transactions
(**) The assets acquisitions, by means of financial leases, made in 2004 and 2005 of 20.9 and 17.6 million euros respectively are not considered cash movements.
(***) During 2005 the Group acquired the remaining 50% of Tenerife Sol. Part of the purchase was made by a debt compensation for an amount of 7.7 million euros.

CONSOLIDATED PROFIT & LOSS STATEMENT

(Million Euros)

	Dec 2004	Dec 2005
Hotel Revenues	890.1	910.8
Real Estate Revenues	61.5	136.5
Other revenues	100.6	118.0
Total Revenues	1,052.2	1,165.3
Raw Materials	(133.2)	(139.3)
Personnel expenses	(334.7)	(354.9)
Other operating expenses	(288.5)	(321.9)
Total Operating Expenses	(756.4)	(816.1)
EBITDAR	295.8	349.2
Rental expenses	(56.8)	(61.1)
EBITDA	239.0	288.1
Depreciation and amortisation	(107.6)	(109.3)
EBIT (OPERATING PROFIT)	131.3	178.8
Net Interest Expense	(68.5)	(62.5)
Exchange Rate Differences	(0.2)	(3.3)
Other Interest Expense	(10.8)	(10.7)
Total financial profit/(loss)	(79.5)	(76.4)
Profit/(loss) from equity investments	0.5	(1.4)
Profit/(loss) from ordinary activities	52.3	100.9
Extraordinary profit/(loss)	0.0	0.0
Profit before taxes and minorities	52.3	100.9
Taxes	(6.4)	(8.9)
Group net profit/(loss)	45.9	92.0
Minorities (P)/L	(2.0)	(1.9)
Profit/(loss) of the parent company	43.9	90.1

Information based on new international accounting regulations.

RATIOS

INTEREST COVERAGE	2005	2004
FFO / NET DEBT	17.9%	14.0%
NET DEBT / EBITDA	3,5 _	4,7 _
EPS	0.49 €	0.24 €
SHARE PRICE	10.74 €	7.30 €
EBITDA / NET INTEREST EXPENSE	**3.9 x**	**3.0 x**
PER (PRICE EARNINGS RATIO)	**22.0 X**	**30.7 X**
MARKET CAP.	**1,984.5 €**	**1,348.9 €**
EV / EBITDA	**10.4 X**	**10.3 X**

LIQUIDITY	2005	2004
FFO / CURRENT LIABILITIES	25.5%	42.8%
CURRENT ASSETS / CURRENT LIABILITIES	0.6 X	0.9 X
FFO / TOTAL DEBT	17.9%	14.0%

LEVERAGE	2005	2004
AVERAGE COST OF DEBT	5.1%	5.2%
NET DEBT / TOTAL ASSETS	35.1%	41.6%
NET DEBT / MARKET CAP. (1)	50.4%	82.4%
NET DEBT (TOTAL DEBT - CASH - IFT)	**999.2 €**	**1,112.0 €**

(1) Share price at 31 Dec 2005 of 10.74 Euros
2004 and 2005 using new international accounting regulations

BALANCE SHEET

Million Euros

	Dec 2005	Dec 2004
CASH	130.9	101.5
SHORT-TERM INVESTMENTS	34.3	21.5
DEBTORS	77.7	77.5
INVENTORY	44.9	33.1
OTHER CURRENT ASSETS	124.0	69.0
CURRENT ASSETS	**411.8**	**302.6**
GROSS FIXED ASSETS	2,187.7	2,123.6
DEPRECIATION	0.0	0.0
NET FIXED ASSETS	2,187.7	2,123.6
FINANCIAL INVESTMENTS	246.8	264.8
OTHER FIXED ASSETS	0.0	0.0
TOTAL ASSETS	**2,846.3**	**2,690.9**

	Dec 2005	Dec 2004
TRADE ACCOUNTS PAYABLE	159.5	133.2
SHORT-TERM LOANS	459.5	151.2
OTHER SHORT-TERM LIABILITIES	82.4	69.8
CURRENT LIABILITIES	**701.4**	**354.1**
LONG TERM LOANS	704.9	1.081.5
OTHER LONG TERM LIABILITIES	496.0	446.8
TOTAL LIABILITIES	**1,200.9**	**1,528.3**
MINORITY INTEREST	45.3	62.9
TOTAL COMMON EQUITY	898.7	745.6
SHAREHOLDERS EQUITY	944.0	808.5
TOTAL LIABILITIES & EQUITY	**2,846.3**	**2,690.9**

Information based on new international accounting regulations.

4.2 OUTLOOK 2006

The most important companies and institutions involved in travel and tourism are optimistic about 2006 with regard to the major markets in which Sol Meliá operates.

The performance of the European City Division is expected to be influenced by the continued recovery in the Spanish city hotel market already witnessed in 2005. The increase in hotel supply over the last two years is being gradually absorbed into the market and growth is expected to slow from 2006 onwards. Spanish macroeconomic indicators also point towards a recovery in the business. On a corporate travel level, the Company expects an increase in demand for corporate groups, congresses and conventions, allowing operators to increase RevPAR and Average Room Rates which is expected to feed through into greater margins and profits for the Division. With regard to operations outside Spain, the outlook remains positive, especially in Italy and the United Kingdom.

The outlook for the European Resort Division is also positive. The Company expects to see a positive trend in bookings from Germany, Benelux and, at a slightly lower level, in the United Kingdom, all of which should assist in producing a good summer season in Spain, in spite of the difficult first quarter seen in the Canary Islands. The performance of the Division is expected to improve quarter on quarter after a weak first quarter which has also suffered from a comparison with the previous year due to the fact that the Easter holidays fall in the second quarter in 2006.

Sol Meliá is expected to continue to benefit from the progressive increase in direct sales for short-haul destinations thanks to the transformation of the package holiday business. These trends are already producing greater numbers of bookings through Company-owned distribution channels, including solmelia.com. The development of Flintstone-themed areas is proving to be a success as a differentiating factor before competitors, as well as a source of extra income. With the eight hotels added in 2005, the Company now has 12 Flintstone-themed hotels. The re-opening of the Meliá Gorriones in Fuerteventura (Canary Islands) after a major renovation is also expected to be an important differentiating factor.

The outlook for the Americas is positive thanks in part to the greater propensity of the North Americans to travel given the positive macroeconomic environment. The weakness of the dollar together with recovery and growth in certain South American feeder markets is expected to benefit the Caribbean destinations where Sol Meliá operates hotels, and destinations have already seen an important increase in charter flights in 2006 into, for example, Punta Cana (Dominican Republic), Los Cabos and Vallarta (Mexico), and Puerto Rico. The bookings already taken at Sol Meliá confirm the trend for at least the first half of the year.

With regard to the impact of Hurricane Wilma in Cancun, re-opening dates for hotels have occurred and remain on schedule.

Paradisus Punta Cana

Paradisus Puerto Rico

Meliá San Lucas

In relation to Asset Management, the redistribution of the flow of funds from the sale of non-strategic hotels or hotels that do not meet standards to businesses or destinations with greater growth potential creates immediate value while also favouring the growth of the Company in the long term.

Regarding the outlook for the asset management business, Sol Meliá expects revenues of 100 million Euros from the disposal of assets as part of our normal business activity. The Company is finalising the development of a Paradisus branded project in the Canary Islands with a partner. In addition, the Asset Management team is working on maximising alternative revenue streams within our hotels, both through or own ideas and also through partnerships with market leaders consistent with each hotel brand.

With regard to the condo-hotel business, after a sales and marketing drive in the country, in January, Sol Meliá began to sell existing units at the Paradisus Puerto Rico. Through the sale of condo-hotel units, the Company aims to recover part of the capital invested and, together with new owners, share in the net profits generated by the condo-hotel unit.

Paradisus Punta Cana

Meliá Gorriones

Paradisus Palma Real

Paradisus Palma Real

After beginning operations in Mexico, the Dominican Republic, Puerto Rico, and Panama, Sol Meliá Vacation Club has started business in Europe. Activities have started in the Canary Islands, while Vacation Club sales will begin in other hotels in Spain. Sales offices will open in Madrid, Barcelona and the Canary Islands. The Vacation Club programme will also be started in extra hotels in Mexico and the Dominican Republic. The Vacation Club concept allows Sol Meliá to get involved in the fastest growing part of the hotel industry while creating synergies with the hotel business, and also allows a return on assets throughout Sol Meliá through the use of existing rooms and the profits from the business in itself.

At the financial level, in 2006 the Company expects to reduce debt for the third consecutive year, allowing successful completion of the debt reduction programme in the three year strategic plan. This will allow a comfortable situation with regard to leverage, interest coverage and EBITDA to net debt ratio. From the point of view of economic results, financial results are expected to improve significantly thanks to the debt reduction and refinancing of the 340 million Euros 5-year bond (fixed coupon rate of 6.25%) within the EMTN programme (European Medium Term Notes) as referred to in the section on "Events after close of financial year" in this management report.

The development of our Brand Equity and the attributes of our brands will benefit both the hotel business and the real estate business. The capacity of the Company to identify the current and future needs of consumers and the positioning of each of its brands are key factors to adding value to any hotel development, Vacation Club or condo-hotel. It is therefore fundamental that Sol Meliá continues to innovate, differentiate itself from competitors, and offer even better service quality. To assist in this process, the Company has separated the Sales & Marketing departments, leaving the latter to focus on increasing brand value in the medium and long term.

Finally, the Company is proud to celebrate its fiftieth anniversary in 2006 more focused than ever on its vocation as a hotelier, and looking forward to the next 50 years with enthusiasm and confidence in the travel and tourism business.

Paradisus Puerto Rico

4.3 OUR BUSINESS

4.3.1 SOL MELIÁ VACATION CLUB

Sol Meliá Vacation Club (SMVC) has been designed by Sol Meliá to provide its members with a great choice of the most exotic and spectacular destinations for their vacations year after year. The Club gives members an exclusive right to use one of the Vacation Club units in a first class vacation resort for one week every year, and also enjoy the superior quality services expected from Sol Meliá hotels all over the world at the same time.

The business has existed for over 40 years, and currently generates revenues of more than $9,400 million each year. According to forecasters, the sector is expected to grow twice as fast as the rest of the travel and tourism industry over the next decade. There are currently 6.7 million owners of timeshare properties all over the world, of which more than one and a half million live in Europe.

The Vacation Club is a modern concept which gives people planning their vacations a unique combination of consistency and range of choice. Consistency, because they can acquire rights to their favourite vacation destination in future years; and range of choice because these rights can be exchanged through specialist international brokers for other first class resort destinations all over the world, or through new types of vacation clubs based on a points system which offer even greater flexibility.Sol Meliá Vacation Club (SMVC) is now a strategic business for the Company and has been developed as an integrated yet self-sufficient business. The first operations were set up in Mexico (Gran Meliá Cancún, Meliá Puerto Vallarta, Meliá Turquesa and Meliá Cozumel), in the Dominican Republic (Meliá Caribe Tropical and Paradisus Palma Real), Puerto Rico (Paradisus Puerto Rico), Central America (Meliá Panamá Canal) and Europe.

In Europe, business has started in the Meliá Tamarindos (Gran Canaria, Canary Islands) and the Gran Meliá Salinas (Lanzarote, Canary Islands), while the sales of vacation club units will soon begin in other hotels in Spain. Sales offices will also be opened in Madrid, Barcelona and the Canary Islands. New properties will also open soon in Europe, North America and the Caribbean.

Meliá Puerto Vallarta

Gran Meliá Cancún

The SMVC brand has also been developed to create a "look and feel" in line with the brand message, accompanied by important developments in sales and marketing techniques with experienced personnel and the launch of the Sol Meliá Vacation Network and design and consultancy work.

BUSINESS OBJECTIVES AND SYNERGIES

Sol Meliá Vacation Club provides the Company not only with a chance to take part in the fastest growing part of the industry, but also a return and profit on assets through the use of existing rooms. Apart from these benefits, it also provides extra opportunities for growth of our brands and a means of approaching new customer segments.

The Vacation Club also creates synergies with the hotel business. The greater spending capacity of Club members means a more frequent use of hotel facilities (restaurants, health and beauty centres, etc.), while the Club also creates an additional source of revenues through the financing of the sales of vacation units. The extraordinary profits that Sol Meliá Vacation Network provide also have an influence on increasing the loyalty of our customers.

Meliá Caribe Tropical

Paradisus Puerto Rico

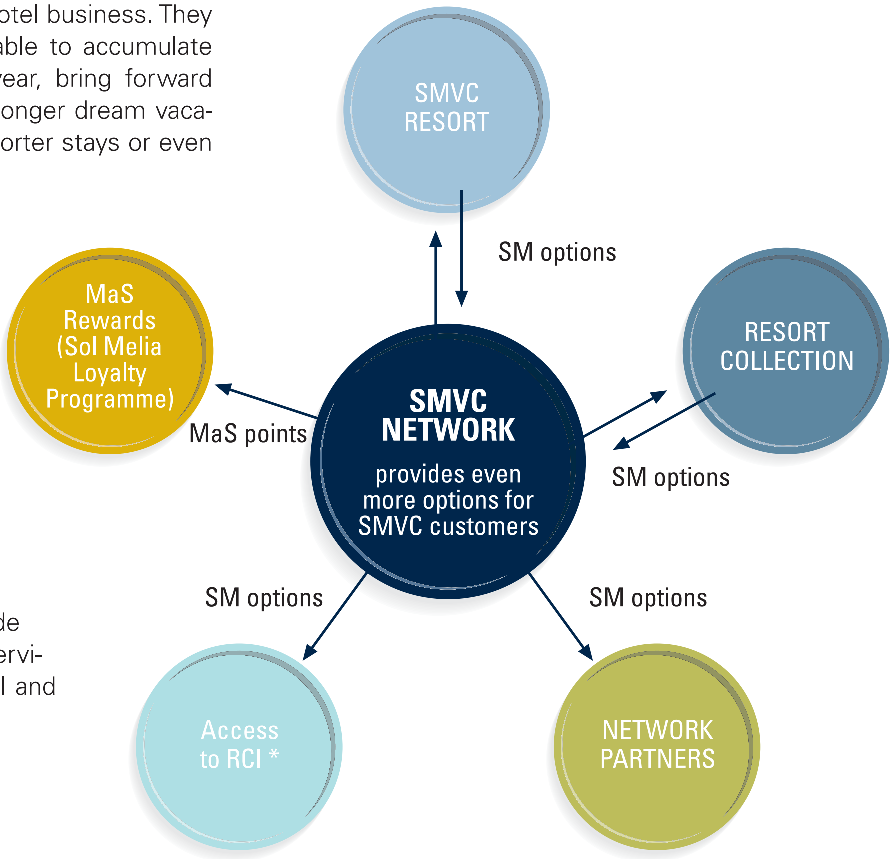
SECURITY, FLEXIBILITY AND EXCLUSIVE BENEFITS

Members of Sol Meliá Vacation Club enjoy the security and guarantees provided by the Sol Meliá name and our 50 years of experience in the hotel business. They also enjoy the flexibility of being able to accumulate their vacation periods year after year, bring forward future vacations to create a much longer dream vacation, or divide the time between shorter stays or even overnight stays.

Members of SMVC automatically receive all of the exclusive benefits of the MaS Gold Rewards programme. Their vacation periods can also be exchanged for MaS rewards points, allowing them to stay in any of the city and resort hotels operated by Sol Meliá worldwide.

They also have the chance to have access to 3,700 resorts worldwide with the innovative SMVNetwork service, as well as to cruises, car rental and flights through partner companies.

BENEFITS OF SOL MELIÁ VACATION NETWORK



(*) Resort Condominium International (subsidiary of Cendant)

4.3.2 ASSET MANAGEMENT DEPARTMENT

In 2005 the Asset Management Department has worked on its key objective: to consolidate the real estate business as a complement to the hotel business of Sol Meliá.

The Asset Management Department was created in 2004 to maximise the value of the Company's real estate assets through their active management.

The Spanish hotel real estate market is currently very dynamic and has seen significant growth in transactions and hotel openings. The market is attractive due to solid profitability in hotel operations and for hotels as real estate investments. Within the context of a very dynamic market, the autonomous management of real estate assets to maximise value for shareholders is considered of fundamental importance.

The Asset Management Department has moved forward in four main directions: asset rotation, real estate development, the optimisation of profitability from hotel spaces, and the creation of the tools required to manage information on assets.

Meliá Zaragoza

ASSET ROTATION

Within the asset rotation strategy, in 2005 properties have been sold for a total value of 124 million euros, generating gross capital gains of 69.6 million euros, and investments have been made for 125 million euros.

The Asset Management Department has organised *asset sales* involving the disposal of the Tryp Macarena in Seville, Meliá Torremolinos in the Costa del Sol, Meliá Las Palmas in the Canary Islands, 50% of the Meliá Zaragoza, and the Tryp Alcano in Granada. Sales have been made at an average of a multiple of 24.6 times EBITDA(1) 2004.

In the first quarter of the year, the Tryp Macarena (Seville) was sold for 42 million euros, at a multiple of 19.0 times EBITDA 2004, generating 24 million euros of capital gains. Sol Meliá used a "sale and lease back" formula and so continues to manage the hotel under a lease agreement. The lease costs include a 5.25% share of the sales as well as a variable amount equivalent to 50% of the remaining EBITDA after making the lease payment. The duration of the contract is 25 years and Sol Meliá reserves a right to extend the contract by a further 10 years.

The first quarter of 2005 also saw the sale of the Meliá Torremolinos (Malaga) for 23 million euros at a multiple of 62 times EBITDA 2004, generating capital gains of 17.4 million euros. This was a pure real estate transaction.

In the second half of the year, the Tryp Alcano was sold due to its incompatibility with brand standards for a total of 3.7 million euros at an EBITDA multiple of 16.7 times, generating capital gains of 2 million euros.

(1) Detail of the operations in tables 1 and 2 .


Paradisus Palma Real


Paradisus Palma Real

In the third quarter of 2005, the Meliá Las Palmas (Canary Islands) was sold under a "sale and lease back" formula for 34 million euros, an EBITDA multiple of 23.4 million, and with capital gains of 17.5 million euros. At the same time, the Company signed a management contract for 10 years which may also be extended for further five year periods. Sol Meliá will receive a 5% Basic Fee and a 10% Incentive Fee.

Finally, in the fourth quarter, there was a "sale and development" deal done for the Meliá Zaragoza with a joint venture company 50% owned by Sol Meliá and 50% owned by an investment partner. The sales price of 50% of the hotel was 21.3 million euros at an EBITDA multiple of 25.7. This generated capital gains of 8.7 million euros which must be discounted as the asset is still consolidated on the balance sheet. Sol Meliá will retain 50% of the shares in the hotel and a 40-year management contract with fees of 5% on revenues and 10% on profits.

The Joint Venture formed for the Meliá Zaragoza is currently analysing ways of improving profitability per metre squared through the development of 60 residential units.

With regard to the investments made, this year the Company acquired a further 50% share in Tenerife Sol S.A., a company in which it already owned the other 50%, thus making Sol Meliá the sole owner. The Sol Jandiamar, Sol Tenerife and Sol Lanzarote hotels belong to the mentioned company.

The purchase was made for 28.75 million euros at a multiple of 7.0 times EBITDA 2004. The acquisition was also positive from a tax point of view as it allowed the Company to use part of tax reserves in the Canary Islands.

In December 2005, Sol Meliá acquired 70% of ALCAJAN XXI, S.L. for 10.2 million euros, making it sole owner of an exclusive development in Palma Real (Dominican Republic). The transaction includes the luxurious Paradisus Palma Real resort development in Punta Cana, opened in December 2005 and providing 350 rooms, 372 Sol Meliá Vacation Club (SMVC) units and 200,000 square metres of additional land for potential development.
The resort also provides excellent complementary facilities, including a 2,625 m2 spa, access to the 27-hole Cocotal golf course, 6 restaurants and a modular 3,800 m2 meeting room and 4,000 m2 multi-function room, both of them equipped with the latest technology.

The incorporation of the Palma Real development comes within a framework of asset rotation activities by Sol Meliá which includes both acquisitions and disposals and is seen as an important and recurrent part of the business. The entire development involves a total investment of 88 million euros, 50 million of which has been financed through bank loans. The EBITDA multiple is estimated at 9.8 times for 2006 and 6.7 times for the second year of operations, bearing in mind both the hotel business and the activities of Sol Meliá Vacation Club.

The purchase of the Paradisus Palma Real complies with Sol Meliá general requirements: a) acquisitions at an EBITDA multiple below 10 times, b) improvement in Return On Capital Employed (ROCE), c) strategic relevance – enhanced brand image, growth in priority markets and compatibility with the real estate business via Sol Meliá Vacation Club -, as well as d) increasing capacity and complementing the existing portfolio in an area of high profitability.

DISPOSAL OF ASSETS

Asset	Location	Sale price (MM €)	Profit (MM €)	EBITDA (X)
Tryp Macarena	Seville, Spain	42.0	24	19.4
Meliá Torremolinos	Costa del Sol, Spain	23.0	17.4	61.6
Meliá Las Palmas	Canary Islands, Spain	34.0	17.5	23.4
Meliá Zaragoza (50%)	Zaragoza, Spain	21.3	8.7	25.7
Tryp Alcano	Granada, Spain	3.7	2.0	16.7
TOTAL		124.0	69.5	24.6

(Table 1)

INVESTMENTS

Asset	Location	Precio de Compra (MM €)	EBITDA (X)
50% Tenerife Sol S.A.	Tenerife, Spain	28.7	7.0
Paradisus Palma Real	Dominican Republic	88	9.8
SMVC Puerto Rico "Phase A"	Puerto Rico	8	2x
TOTAL		125	7.3

(Table 2)

To provide a clearly defined strategy on asset rotation for forthcoming years, in 2005 the Company prepared a Strategic Asset Plan based on an analysis of every single one of the Company's assets both from an internal, strategic and financial point of view as well as from a market trends and expectations perspective.

Also in 2005 the Company appointed CBRE to value the Company's assets, with their study concluding that total asset value at market rates was 4,217 million euros.

REAL ESTATE DEVELOPMENTS

In 2005, the Company began its condo-hotels activities, providing benefits for developers, hoteliers and owners due to:

- The attractiveness of risk reduction and high rates of return thanks in part to a pre-sales process which generates funds to finance construction.
- The sale of rooms appealing to a wide market of investors.
- Fixed assets converted into liquid assets.
- High levels of demand for the product.
- The creation of new opportunities for growth and management agreements.
- The promotion of brand awareness.

Hoteliers:

- Vision of condo-hotels as an interesting additional distribution channel as well as source of increased management fees.

Owners:

- Benefits from their personal use of the unit, a foothold in the real estate market at low interest rates, and potential future capital gains.
- Just as with a traditional holiday home, owners may use the unit whenever they wish. Unlike a holiday home, they also have the chance to receive part of the profit from the benefits generated by the rental of their unit.
- Comfort for owners thanks to maintenance and rental management being in the hands of management company experts.

Also in 2005 in the field of condo-hotels and real estate development the Company started to sell 144 "luxury condo-hotel" units at the Paradisus Puerto Rico named "Paradisus Residences". This is a high quality product with a great location (Coco Beach, Rio Grande) and with a growing demand base which will generate a share in operating profits for unit owners. Unit owners may also use their properties during certain periods in the year while also enjoying access to all of the resort and condo-hotel facilities, spa and golf course. En el próximo ejercicio se tiene previsto el desarrollo de unidades adicionales de condo-hotel que se llevarán a cabo en los 122 apartamentos del Gran Meliá Caracas.

Extra condo-hotel units are scheduled for development in 2006 in the 122 apartments available at the Gran Meliá Caracas.

Paradisus Puerto Rico

Meliá Caribe Tropical

Progress was also made on another real estate development in the Dominican Republic, beginning with the acquisition of land where another resort (Meliá Caribe Tropical) and golf course (Cocotal Golf & Country Club) are currently located. This location is also now used for the promotion and sale of residential villas and building plots under the name of "Palma Real Villas". In 2005 we also extended the hotel portfolio with the addition of the Paradisus Palma Real and the new Sol Meliá Vacation Club units.

In 2006, Sol Meliá will also begin to build the new "Palma Real" shopping mall together with a local investment partner.

The Sol Meliá management team, and the Asset Management Department team in particular, have set an objective for forthcoming years of continuing to create value through the strengthening of the Sol Meliá real estate business via the rotation of more than 4,000 million euros of Company assets, the development of new businesses (condo-hotels and Sol Meliá Vacation Club), and the maximisation of the use of space.

The asset management business will continue to be an important part of Company operations and a fundamental element to reduce the difference between Sol Meliá's asset value and market capitalisation.

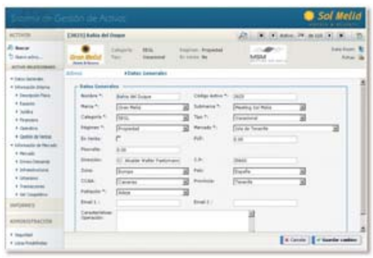
ENHANCED PROFITABILITY

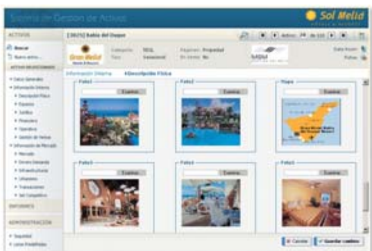
The Asset Management Department has also made progress in improving the profitability of different spaces available within Sol Meliá assets. In 2005, the Company carried out an analysis of the number of square metres available within assets located in Spain to help identify underused spaces or spaces with lower than expected profitability levels. The Company then defined alternative uses for certain spaces which is expected to improve their returns. The alternatives proposed include both Company-operated initiatives and partnerships with other leading service providers (car parks, spas, telecommunications, boutiques, etc.)

Information management tools

Finally, in 2005 the Asset Management Department also worked on the development of tools required to support centralised asset management, including a network database with all of the relevant information on each of the assets (legal, physical, operational, etc.).

In forthcoming years this tool will continue to be developed in two ways: the first will aim to make it easier for Company staff to access and consult the database, while the second will aim to increase the quantity and quality of the data it contains.

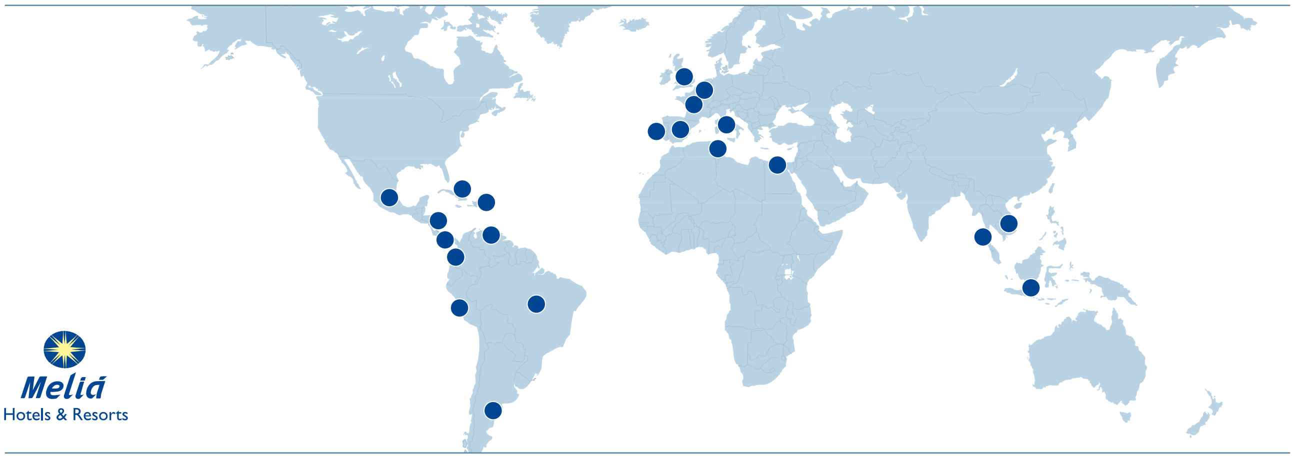




Paradisus Punta Cana

MELIÁ HOTELS

MELIÁ HOTELS WORLDWIDE



Meliá hotels and resorts enjoy enormous international prestige for their highly personalised and friendly service. They are the perfect choice for business and leisure travellers. The Meliá name is synonymous with superior quality products and services provided in magnificent locations in some of the word's most important cities and first-class resort destinations.

In Caribbean and Central American destinations we have also created new resort formulas through a superior all-inclusive vacation concept. As expected from the Meliá brand, the all-inclusive resorts provide a great choice of food and beverage options and an extensive entertainment and activity programme for all ages offering, amongst many other things, water sports, evening shows and guided activities.

MELIÁ CUISINE

In 2005 efforts focused on enhancing and refining the level of cuisine available in Meliá restaurants, making them a point of reference in the domestic and international hotel industry, and providing a modern and innovative service that also includes the finest of local culinary traditions. The bar menu implemented the previous year has seen further development, based around a great range of dishes which aim to satisfy the needs of guests that prefer a quicker, quality meal.

Following on from the success of previous years, Meliá has continued to stage Food Festivals which include the best recipes from world cuisine prepared with the experience gained in 50 years of innovative, quality food service.

Gran Meliá Salinas. Garden Villas.

Meliá White House

Meliá Royal Tanau

In 2005 the Company also began to develop a new leisure concept named the "Gabi Club", which offers a chill-out setting with Balinese beds, vanguard design and music lounge. Gabi Clubs have already opened at the Meliá Caribe Tropical and Meliá Gorriones. Facilities are complemented by a restaurant offering the most modern dishes in a stunning setting.

Within the Meliá All Inclusive hotel range, 2005 saw the inauguration of new theme cuisine areas at the Meliá Caribe Tropical: "Moonlight Bistro" with open-air dining, "Los Panchos" a Mexican Hacienda, the "American Grill" and "El Guarapo" with "à la carte" Dominican specialities.

ACTIVITIES

2005 saw the consolidation of new activities recently introduced in Meliá hotels. The astronomic observatory, spinning sessions, cybercafés and health workshops (tai chi, yoga, aromatherapy) now form part of standard hotel programmes.

2006 will witness the consolidation of the Descubra programme for leisure and entertainment options in resort hotels and in city hotels at the weekend.

Gran Meliá Cancún

In the all-inclusive hotels, the Meliá Puerto Vallarta has added theme areas to its children's facilities: Bamm Bamm Club; Cool Club; Baby Rock; Rockaflash; and fun park, joining the Meliá Cozumel and Meliá Caribe Tropical which both added Flintstone's Land facilities in 2004. In 2005 a new Flintstones Land activities and adventure pack has been developed for the three hotels, making "The Flintstones Land " another attractive attribute of Meliá all-inclusive resorts.

ADDITIONS IN 2005

- *Meliá El Mouradi Gammarth (Gammarth-Tunisia).* The Meliá El Mouradi Gammarth is located in the Tunisian city of Gammarth with direct access to the beach and only 10 kilometres from Tunis airport. The hotel provides 508 rooms with magnificent views over the beach, swimming pool or gardens, as well as a buffet restaurant for breakfast, lunch and dinner, an "à la carte" restaurant with terrace service, a pizzeria, a wet bar in the pool, and a wide range of additional services.

- *Meliá Villa Gadea (Alicante, Spain).* The Meliá Villa Gadea is located in a privileged spot overlooking the Mediterranean Sea over the picturesque fishing village of Altea. Its innovative architecture, inspired by the design of the traditional whitewashed houses in the region, perfectly combines modernity with tradition to provide guests with a most comfortable hotel experience as well as marvellous gardens, several restaurants and Thalasso-Spa, and the charm, peacefulness and tranquillity so typical of Altea. Attributes that have attracted numerous painters and artists of every type to make it a cultural reference point along the Alicante coast.

- *Meliá Ría (Aveiro, Portugal)*. The new Meliá Ria Hotel is located in a superior quality residential development in the heart of Aveiro (Portugal), with views of the lake formed by the Ria de Aveiro. Located alongside the Culture and Congress Centre and the train station, a short distance from the historic city centre and 7 km from the beaches, the hotel provides 128 double rooms with premium television services and high speed Internet access.

- *Meliá Alto Aragón (Formigal-Spain).* In December 2005 Sol Meliá opened the Meliá Alto Aragón, a new hotel in the ski resort of the same name in Huesca in the Spanish region of Aragon.

Meliá Cayo Guillermo

The hotel provides 135 rooms, the "à la carte" and buffet restaurant "Lanuza", cafeteria, and "Izas" bar. The Meliá Alto Aragón also provides a covered car park for 90 vehicles and open-air car park for another 40, as well as a fitness centre, gardens and 350 square metres of meeting and conference facilities.

RENOVATIONS IN 2005

- *Meliá Barcelona.* The hotel continues with an extensive renovation of all of its facilities, guestrooms and public areas. 2005 saw the completion of stages 2 and 3 which included 84 rooms and 6 suites. The new spa and fitness centre currently being prepared will provide guests with swimming pool-jacuzzi facilities, dry sauna, wet sauna, shower and massage. The cost of the renovation is over 6 million euros.

Meliá Poltu Quatu

Gran Meliá Cancún

- *Meliá Gorriones.* Located on the peninsula of Jandía, in the upper part of Playa Barca Beach in Fuerteventura. After the thorough renovation of all of its facilities, the Meliá Gorriones is perfectly in tune with its natural environment. In food and beverage options, the hotel provides a modern and relaxed experience, both in the Gabi Club and Oasis restaurant, as well as in a welcoming bar with a family atmosphere and an auditorium for shows and musicals. The total investment in renovated has been greater than 10.2 million euros.

HOTELS OPENING SOON

- *Meliá Golf Vichy Catalan, (Gerona, Spain)*. The Meliá Golf Vichy Catalán is located in the heart of the PGA Golf de Catalunya, alongside Caldes de Malavella, a thermal resort on the Costa Brava, and is perfectly integrated with its natural environment, its modern architecture and building materials blending in perfectly with its surroundings and the two gold courses on the resort. Decorated in warm tones and with superior quality finish providing a great welcome.

  The Meliá Golf Vichy Catalan also has several advantages when it comes to food service, particularly the fact that service is guided by Dani García, the famous chef from the Calima Restaurant at the Gran Meliá Don Pepe (Marbella, Malaga). Breakfast, the show-cooking menu at the Brasserie "Tast" and the Mediterranean cuisine at the "Quimera" restaurant will all have the Dani García seal of approval on their preparation and presentation.

- *Meliá Berlín (Germany)*. The Meliá Berlin is located on Friedrichstraße/Weidendamm crossroads in the heart of the German capital just a few minutes walk from many of Berlin's tourist attractions such as the Brandenburg Gate, the museums of the Island of Art, the Nikolai district or Alexanderplatz. And near the centre of power and the Reichstag and Kanzleramt. Thanks to its facilities and its central location near the metro and the Friedrichstrasse tram, and only 15 km. from the airport, the is ideal for both business and leisure travellers.

Gran Meliá México Reforma

Gran Meliá Don Pepe

Meliá San Lucas

GRAN MELIÁ

The very highest category of Meliá Hotels. Their design and location make them the hotel of choice for the most discerning guests. They provide superior luxury service in unique surroundings in privileged business and leisure travel destinations.

GRAN MELIÁ CUISINE

In 2005 the Sol Meliá Food and Beverage Department continued to focus on ensuring that Sol Meliá's highest quality hotels continued to provide the most excellent food and beverage service. With Jacinto del Valle advising the Veritas Restaurant at the Gran Meliá Victoria in Palma de Mallorca, we continued to develop a modern Mediterranean menu with a distinct Mallorcan influence which has been extremely warmly received both by guests and by local customers. In 2005 Dani García opened the new Calima Restaurant at the Gran Meliá Don Pepe in Marbella in which García serves a very personal and modern style of cuisine using techniques that involve liquid nitrogen, low temperatures and new work with textures designed to enhance flavour. García has also been awarded the Chef of the Year prize by the Spanish TV cookery channel and Best Chef of the Year award at the Congress of the Best in Gastronomy.

RENOVATIONS IN 2005

- *Gran Meliá Don Pepe.* Apart from the new Calima Restaurant by Dani García, the Gran Meliá Don Pepe has also seen an extension made to its meeting facilities, a new spa offering massages, Turkish bath, sauna and showers. Two presidential suites on the penthouse floor offer magnificent sea views and are decorated in luxurious Asian style with their own private terrace. The improvements have involved a total investment of 2.4 million euros..

MELIÁ BOUTIQUE

Smaller hotels with their own special personality offering luxury and exclusive design together with highly personalised service, right down to the very finest details. Many of these Boutique hotels are located in outstanding buildings such as palaces, castles, or convents, in strategic locations.

MELIÁ BOUTIQUE CUISINE

The restaurants in Meliá Boutique hotels are emblematic and historic attractions in their particular locations, preparing dishes with the freshest and highest quality local products to produce the highest standards in traditional local cuisine for hotel guests.

LUXURY LIFESTYLE HOTELS AND RESORTS

The 50/50 joint venture between Sol Meliá hotels and resorts and The Stein Group has made progress in the sales, distribution and marketing of international, small, luxury, exclusive and charming hotels designed for the most discerning and wealthy guests, an ideal platform for the distribution of the Meliá Boutique of Sol Meliá.

Luxury Lifestyle is committed to maintaining the superior product and service quality standards of successful boutique hotels while making full use of the bookings capacity and customer reach provided by the Sol Meliá hotel distribution technology.

The more than 60 hotels that form part of Luxury Lifestyle feature in a hotel directory and website (www.llhotels.com) and the company aims to extend its reach to bring in new hotels in Europe, particularly in Spain, Italy, the United Kingdom, Germany and France.

ADDITIONS IN 2005

- *Meliá Palacio da Lousa Boutique Hotel (Portugal).* Located in the idyllic district of Lousã, 23 km from Coimbra, 160 km from Porto and 230 km from Lisbon. The hotel was once the ancient palace of the Viscount of Espinal, a building dating back to the 17th and 18th centuries. Near many cultural and historic attractions, the modern interior facilities and privileged location make it an ideal location for short breaks in an exceptional setting.
- *Meliá Palacio de Tudemir Boutique Hotel (Spain).* Built within an ancient palace dating back to 1755, restored to retain all of the splendour and character of the original building. Set in the historical heart of the city of Orihuela (Alicante, Spain), surrounded by monuments and stores. The hotel provides 47 spacious double rooms, 1 Suite and 4 Junior suites, all magnificently decorated with period furniture.
- *Meliá Recoleta Boutique Hotel (Argentina).* Meliá Recoleta Plaza Boutique Hotel is located in the heart of the luxury neighbourhood of Recoleta, only 10 minutes from the administrative and commercial heart of Buenos Aires, near the most important art galleries, shopping centres, restaurants and leisure facilities.
- *Meliá Recoletos Boutique Hotel (Valladolid, Spain).* The new Meliá Recoletos Boutique Hotel is built within one of the most splendid mansions in the historical heart of Valladolid – the most important city in Castilla Leon, home to many kings and illustrious Spanish authors.

MELIÁ ALL INCLUSIVE RESORTS

Meliá All-Inclusive Resorts are the perfect choice for an all-inclusive family vacation in the Mexican Caribbean and Pacific, Caribbean islands, the Canary Islands and

Meliá Cala d'Or Boutique Hotel

Meliá Trujillo Boutique Hotel

Asia. Meliá All-Inclusive provides great facilities and services for family groups, leisure groups and incentive trips. The resorts provide service around the clock and have a great choice of food options and entertainment for all ages, including water sports, Flintstones Land themed areas and an extensive daytime and evening schedule of activities.

MELIÁ ALL-INCLUSIVE RESORT CUISINE

2005 saw the opening of a new à la carte themed dining concept at the Meliá Caribe Tropical. New restaurants include a Hacienda Mexicana, an American Grill and a restaurant specialising in Dominican dishes. There is also a new "Avenue Bar" lounge bar as well as a moonlit international dining option on the terrace of the Moonlight Bistro.

The Company has also begun to develop a new leisure concept named the "Gabi Club". Gabi Club is a beach club with private swimming pool, a chill-out setting with Balinese beds, vanguard design and music lounge. Facilities are complemented by a restaurant offering the most modern dishes in a stunning setting à la carte or buffet-style depending on the time of day. It is an ideal location for people something even more exclusive from their resort and a different taste experience. The Gabi Club at the Meliá Caribe Tropical is part of a new exclusive Royal Service area.

MELIÁ ALL INCLUSIVE ACTIVITIES

In January 2005, the Meliá Puerto Vallarta has added theme areas to its children's facilities: Bamm Bamm Club; Cool Club; Baby Rock; Rockaflash; and fun park, joining the Meliá Cozumel and Meliá Caribe Tropical which both added Flintstone's Land facilities in 2004. In 2005 a new Flintstones Land activities and adventure pack has been developed for the three hotels, making "The Flintstones Land " another attractive attribute of Meliá all-inclusive resorts.

In 2006 the Flintstones Land concept will be added to more Meliá All Inclusive resorts. Meliá All Inclusive resorts also hold national theme days depending on the country in which they are located as part of the hotel "Soul and Magic" programme. The days help guests enjoy an extraordinary experience with all of their five senses.

Meliá Caribe Tropical

2006 will also see the implementation of new Meliá All Inclusive attributes such as:

- The FAST service (Family Assistance SpoT) which will help families to organise and schedule their activities inside and outside the hotel.
- Family Beach Club with evening beach activities for all the family.

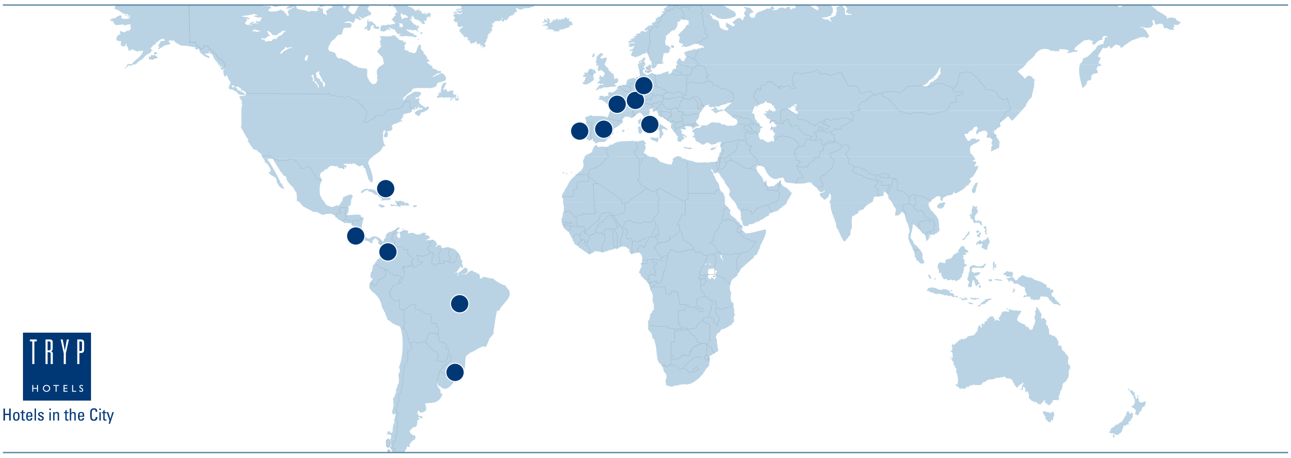
RENOVATIONS

In the second half of 2005, the Meliá Puerto Vallarta, Meliá Cozumel, Meliá Turquesa and Meliá Cabo Real introduced new categories. The new Meliá Experience adapts guest vacation to their lifestyle and adds a more relaxing atmosphere within which guests need less time to organise their vacation time and more time to enjoy the vacation thanks to 24/7 assistance. The new rooms have drinks in the minibar, a bathrobe and slipper service, evening courtesy service and cleaning two times a day, an M bed with a new pillowcases, and an M bathtub with a new energising shower.

The new "Family Rooms" at the Meliá Puerto Vallarta and Meliá Caribe Tropical will open for the 2006 winter season with capacity for 2 adults and up to three children, equipped with bunk beds or double beds, themed sheets and amenities and Flintstones Land activities for the kids.

TRYP

TRYP HOTELS WORLDWIDE



A suitcase full of work, another taxi and yet another meeting... When a business traveller reaches a new city it all looks more or less the same. But luckily the day comes to an end and only a great hotel can calm the tension built up during the day. Tryp hotels have been created to provide a comfortable and functional environment in a great location and with exceptional service.

But Tryp hotels are not just for business. They are city hotels in some of the most important cities, providing a great opportunity for a weekend or a short break in the city, enjoying the nightlife and restaurants. Tryp Hotels are ideal hotels for an unforgettable city break.

TRYP CUISINE

Tryp hotels have always been extremely proud of the extensive variety, quality and design of their breakfast service. Young and sporty Tryp customers require healthy and balanced meals. Well aware of the importance of the service to guests, in 2005 Tryp hotels began to implement a process of innovation that will guarantee even further enhancements to quality.

In Tryp Hotels keeping in shape is our way of life. That's why our breakfast buffets provide a great, modern choice of fresh fruit, cereals and dried fruit to provide the energy needed to face the new day.

In the interests of nutritional balance, special attention has also been given to the health food corner including low-calorie products and a selection of fresh fruit, cereals and dried fruit to help keep a healthy, balanced diet.

Tryp Oviedo

Tryp Azafata

Tryp hotels have also seen the introduction of a newly-designed style of coffee lounge where guests may enjoy modern and innovative cuisine while they read, watch a little TV or surf the Internet.

To continue to guarantee that Tryp hotel guests may enjoy the latest, quality products in their rooms, Sol Meliá continued to develop its strategic alliance in 2005 with Telepizza, allowing guests staying at Tryp hotels to request Telepizza products from room service just as they could if they were at home. The service has been extremely well received by guests.

Tryp Oceanic

TRYP HOTEL ACTIVITIES

Sport and leisure are activities that are highly valued by Tryp hotel customers and more and more Tryp hotels are adding special areas for relaxation and for exercise.

In 2005 the brand launched the "Alone At Last" promotion, a new leisure programme for parents with children, or for children with parents consisting of a night of camping, adventure and surprises for children aged 5 to 12 accompanied by specialist monitors, while parents enjoy a night of intimacy in a Tryp hotel room or the great leisure options available in the city.

RENOVATIONS

- *Tryp Menfis.* This hotel in Madrid has completed the second stage of a thorough renovation with a total investment of 1,656,956€ which has improved the security and comfort of guests with new facilities for fire prevention and better temperature control installations. Rooms have also been prepared to incorporate fitness equipment.
- *Tryp Azafata.* Renovation of 67 rooms at the Tryp Azafata in Valencia with an investment of 1.8 million€. 2006 will see the completion of the full renovation.
- *Tryp Bellver.* In 2005, the renovations carried out in recent years have continued with 3 further floors being modernised at a cost of 325,000 euros.
- *Tryp Alameda Aeropuerto.* The work has contributed to improvements in hotel public areas at a cost of more than 9,000 euros.

ADDITIONS IN 2005

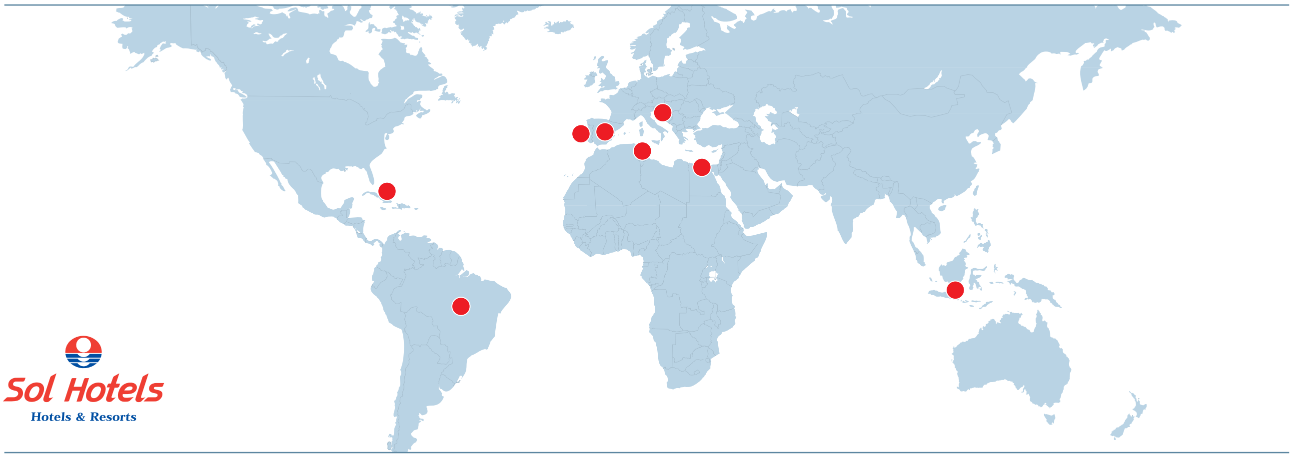
- *Tryp Oviedo.* The Tryp Oviedo (4*) is located in the heart of the city of Oviedo (Asturias). This new hotel provides 118 fully-equipped rooms on 7 floors, all outward-facing. There are also 4 meeting and banqueting rooms making it ideal for both business and leisure travellers.
- *Tryp Florazar.* Located in the north of Valencia, only 300 m. from the coast and 9 km. from the city centre. A new hotel with the latest in modern, hospitality technology. Its strategic location make it and ideal hotel for both business and leisure travellers.

Por Fin Solos

Tryp Florazar

SOL

SOL HOTELS WORLDWIDE



Sol hotels are ideal for a fun family holiday. They are located in major Mediterranean and Caribbean tourist destinations and provide comfortable rooms, a wide range of restaurants and bars, swimming pools and an extensive programme of activities for guests of all ages, especially for children.

Everything at a Sol hotel has been designed to ensure that all members of the family can find a perfect activity for them to enjoy the daytime and evening hours. A vacation at a Sol hotel will help you discover the true meaning of "family fun".

Some Sol hotels have added Flintstones Land theme areas, a new way of enjoying an activity-packed vacation with the children's favourite cartoon characters.

GREAT FOOD AT SOL HOTELS

In 2005 the Sol hotels buffet meals have been a focus for attention to even further improve the quantity and quality and add a hint of local flavour. Special emphasis has also been placed on making important improvements to the children's buffets.

Another thing that has been attracting attention is "show-cooking", with the range of products on offer being increased and getting guests involved in creating their own salads, fried fish and meat dishes, Italian pasta with different sauces, and on-the-spot preparation of main meals and desserts.

Sol Verginia

ACTIVITIES AT SOL HOTELS

Climbing walls, camping in the hotel gardens, cybercafés, spinning classes, observatories and superjumpers have all remained popular activities in Sol Hotels in 2004.

In addition, four new hotels, the Sol Pelícanos Ocas, Sol Lanzarote, Sol Timor and Sol Princesa Dácil have adapted their facilities to the new Sol Flintstones concept: children's clubs (Bamm Bamm Club and Cool Club), Betty's Kitchen (Flintstone area in the restaurant for children), adventure facilities (climbing wall and camping), and mini check-in gift for kids and all of the other activities to be enjoyed with the world's favourite stone age family.

In 2005 the new Rocapacks have been very successful in the nine Sol Flintstones hotels. Rocapacks are packages of Flintstone-themed and adventure activities led by a team of experienced monitors with a special, affordable price for children.

The last quarter of 2005 has seen the start of the implementation of the Senior Packs: packages that form part of the Descubra programme with lifestyle, cooking and workshop activities with specialist monitors designed for adult clients staying in Sol hotels over the winter.

RENOVATIONS

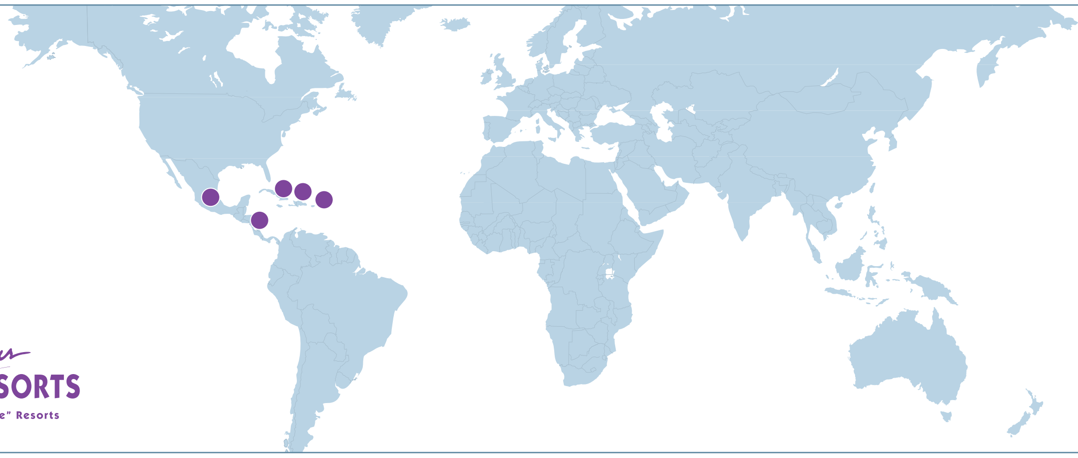
- *Sol Sancti Petri.* Second stage of the renovation completed at a cost of 702,873 €.
- *Sol Príncipe-Principito.* renovation of the third tower completed at a cost of 1,537,344 €.
- *Sol Tenerife.* 1.3 million € invested in the Sol Tenerife to install new air-conditioning systems in 60 rooms to increase guest comfort. New kitchens and two new restaurants allow 800 diners to enjoy great food in pleasant surroundings with abundant natural light.

ADDITIONS IN 2005

- *Sol Ifach (Alicante, Spain)*. The Sol Ifach hotel is located only 150 m from Fossa Beach, an excellent beach with fine sand bordered by a charming seafront promenade and bathed by the warm waters of the Mediterranean Sea. 1.5 km from the city of Calpe and the famous Peñón de Ifach Rock, and the monuments of its ancient quarter, city walls and old church, the only Moorish church in the province of Valencia. The location enjoys a privileged climate almost all year round. The spacious and bright lobby leads the way into a modern hotel, designed for your vacations and the celebration of very special events.
- *Sol Verginia (Sharm, Egypt)*. The hotel is located in Sharm el Sheikh, in the south of the Sinai peninsula. Only 5 minutes from the beach in a free shuttle bus, next to the Ras-Om El Sid hill, and only 4 km from the ancient heart of the city centre.

PARADISUS

PARADISUS HOTELS WORLDWIDE



Located in exotic areas of outstanding natural beauty with first class facilities, Paradisus Resorts offer an oasis for adult "all-inclusive" vacations and charming family breaks. With resorts all over the Caribbean, Costa Rica and Mexico, Paradisus Resorts are an ideal choice for people looking for exclusive vacations in very special locations and perfectly integrated with spectacular natural environments.

PARADISUS CUISINE

In our exclusive "all-inclusive" five star resorts, great cuisine is one of the features that is most highly valued by our guests. That's why our restaurants and buffets are constantly working on improving their quality and diversity. Guests can enjoy the finest of haute cuisine and traditional cuisine of the highest quality in numerous restaurants, The bars also offer a great choice with specialties such as chocolate cocktails.

PARADISUS ACTIVITIES

The most prestigious Sol Meliá brand in the Caribbean also features activities for all ages and preferences.

Paradisus guests enjoy activities that not only entertain but which also enrich. Now in Paradisus guests can join in classes on things like dancing the tango, astrology, or even learn how to make sushi.

Couples and newlyweds can reserve Royal Service rooms with ocean views which also provide Jacuzzis for two and private butler service. In 2006 at the Paradisus Palma Real, Royal Service will be reserved exclusively for couples.

But families are not excluded, as Paradisus Resorts have created the "Family Concierge" to help families enjoy a memorable and worry-free vacation.

Guests can book a suite with a Family Concierge who will take care of all of the help they need with personalised activities and services. Children receive a Paradise Kidz gift pack with a cap and t-shirt, rubber ring, mini

Paradisus Palma Real

sunscreen and an activities menu, while parents get a two-way radio to keep them in touch all day long with the Family Concierge.

Paradisus Palma Real

NEW OPENINGS AT PARADISUS RESORTS

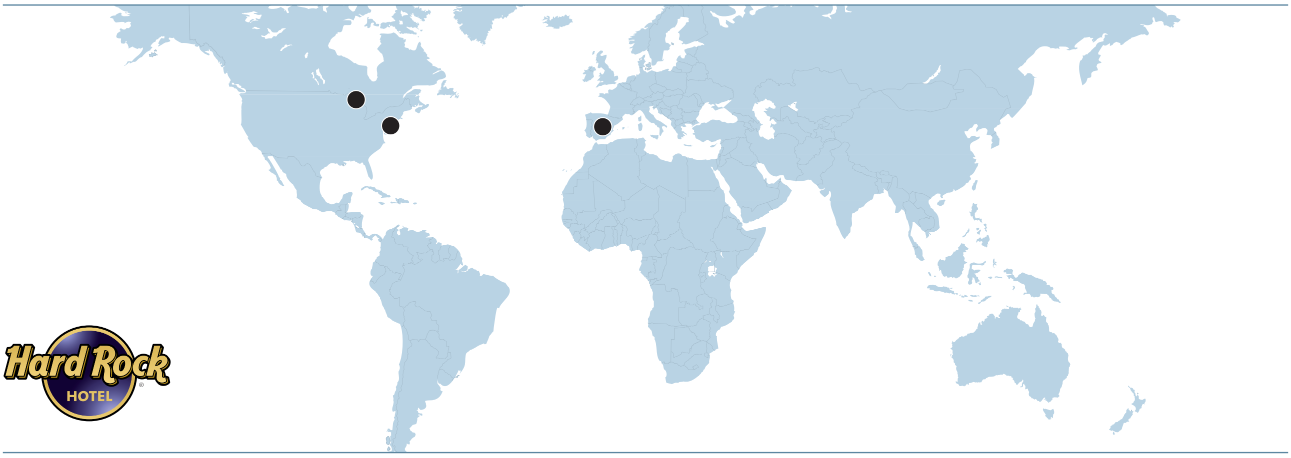
The Paradisus Palma Real in the Dominican Republic opened in December. The hotel is built within an enormous garden with lagoons right alongside Bávaro Beach. A privileged location for a luxury "all-inclusive" hotel only 20 minutes from Punta Cana airport. Each of its 554 oversized suites in several three-storey buildings boasts a Jacuzzi for two, flat screen television, and a private terrace. The resort also features 102 Royal Service Suites providing adults with exclusive, personalised service. The resort entices guests with 9 contemporary cuisine experiences in 6 fine restaurants as well as an extensive programme of sports and life-enriching activities such as Zen philosophy, tango, wine tasting, candle making and star gazing.

The facilities at the Paradisus Palma Real also include a magnificent spa, conference and meeting rooms, and the 27-hole "Cocotal" golf course.

The hotel provides 1,300 m2 of space for meetings, conventions and special events in 5 meeting rooms, all equipped with cutting-edge technology, and a business centre.

HARD ROCK HOTELS

HARD ROCK HOTELS WORLDWIDE



Contemporary hotels located in the heart of major cities and leisure destinations, with a modern design and ambience, spectacular bars and restaurants and superior quality service. Hotels with all of the spirit and glamour of "Hard Rock", splendidly combined with the "savoir faire" of traditional hospitality. A completely new hotel experience. The first hotels of Sol Meliá's Hard Rock Hotels is located in Chicago, New York and Madrid.

Hard Rock Hotel Reina Victoria

OPENING SOON

Hard Rock Hotel Reina Victoria (Madrid-Spain).
The Hard Rock Hotel in Madrid will soon rock onto the European scene, bringing renewed vitality to the historic Gran Hotel Reina Victoria, deep in the heart of Spain's capital. The joint venture, managed by Spain's largest hotel group, Sol Meliá and the U.S.-based Hard Rock, brings the Hard Rock Hotel brand to Europe for the first time ever, transforming the hotel interior into a sleek and contemporary space while maintaining the architectural integrity of the building's exterior. Scheduled to open in late Summer 2006, the 192-room Hard Rock Hotel in Madrid will offer guests a total sensory experience combined with one-of-a-kind service, guaranteed to exceed expectations.

Hard Rock Hotel Reina Victoria

The hotel also provides 450 m^2 of meeting space divisible into 7 seperate meeting rooms for up to 220 guests, and a roof terrace for exclusive parties for up to 200 people.

Gran Meliá Salinas

SM'05

SOL MELIÁ AND CORPORATE SOCIAL RESPONSIBILITY

04

5.1 CORPORATE GOVERNANCE

Meeting on 31 March 2006, the Board of Directors approved and made available to Company shareholders the Annual Report on Corporate Governance for the financial year ending 31 December 2005, in compliance with Law 26/2003 of 17 July, by which a modification was made to Stock Market Law 24/1998 of 28 July and the Revised Text of Company Law, approved by RDLeg.1564/1989 of 22 December, to promote transparency in publicly quoted companies.

The Annual Report on Corporate Governance has been produced in accordance with the aforementioned Law 26/2003, as well as with the contents of Ministerial Order ECO/3722/2003 of 26 December on the annual report on corporate governance and other informational tools used by publicly quoted companies and other entities, and applying the model defined in Circular 1/2004 of 17 March from the Spanish Stock Exchange Commission.

The regulation of corporate governance at SOL MELIÁ S.A. is contained within Company Bylaws, in the Regulations of the Board of Directors and in the Internal Code of Good Conduct in matters relating to the stock market, all available to shareholders and investors both at Company headquarters and through the Company website (www.solmelia.com) in the section on Corporate Governance.

The most recent changes in the Company corporate governance regulations were approved at the General Shareholders Meeting of 8 June 2004. The Meeting approved the proposals of the Board of Directors to modify Company Bylaws and the Regulations of the General Shareholders Meeting. In compliance with article 115 of the Stock Market Law, the General Shareholders Meeting was also informed of the approval by the Board of Directors of the new Regulations of the Board of Directors in their meeting of 30 March 2004. All proposals mentioned have the objective of reviewing Company regulations and adapting those regulations to the criteria on transparency for publicly quoted companies contained within the report by the Special Committee for the Promotion of Transparency and Security in Financial Markets and Public Companies ("Aldama Report"), in Law 44/2002 of 2 November on reforms in the financial system and in the aforementioned Law 26/2003.

The Board of Directors meeting of SOL MELIA S.A. held on 7 September 2004 also approved some modifications to the Internal Code of Good Conduct in matters relating to the stock market to further increase protection of investors and transparency in the markets.

No changes have been made in the Company Corporate Governance regulations in 2005.

5.2 HUMAN RESOURCES

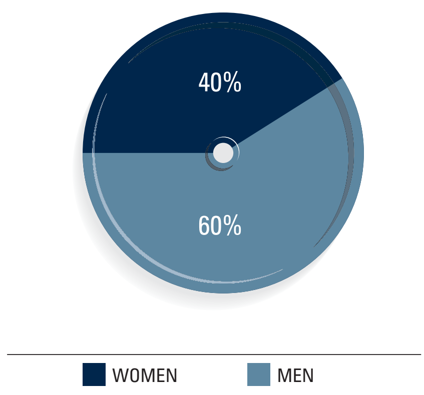
Without a shadow of a doubt, one of the foundations of the success of Sol Meliá is its people. The personal and professional skills of each and every one of the people that form part of Sol Meliá is a decisive factor in transmitting to our customers our passion for service, something that has always been a trademark of the Company and which has been key to its success over time.

32,500 people formed part of the Sol Meliá team in 2005.

One of the highlights of the team is the enormous diversity of origins and cultures of our people worldwide, a fact which helps to enrich the organisation and also create experience in multicultural management.

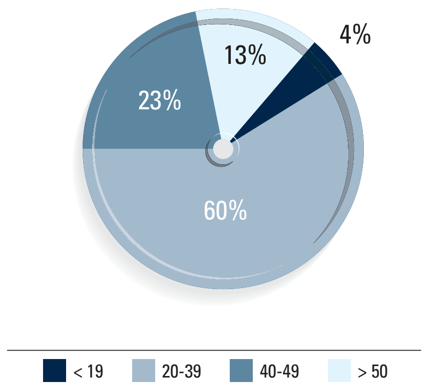
The distribution of the team is as follows:

BY GENDER



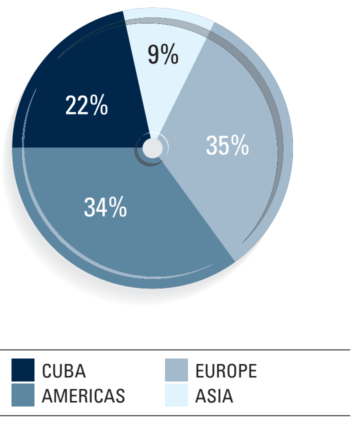
MEN	WOMEN
59,77%	40,23%

BY AGE



<19	20-39	40-49	>50
4%	60%	23%	13%

BY COUNTRY



EUROPE	AMERICAS	CUBA	ASIA	TOTAL
11,405	10,894	7,147	3,031	32,477

Company personnel management is structured as follows:

- Recruitment
- Training and development
- Quality and workplace environment
- Recognition
- Organisation
- New technology
- Labour relations

1. RECRUITMENT

Recruitment policy is guided by a selection policy based on competencies which aims to identify the capacities, skills and know-how in candidates that are most closely related to excellent performance.

Focus on customers, service and personal improvement are competencies common to all members of the Sol Meliá team. These competencies are key factors in a Company for which quality service is a major business priority.

Sol Meliá is a major employer and incorporated more than 2,900 people worldwide in 2005, with the food and beverage and rooms divisions being the areas of highest demand.

Sol Meliá is also proud of its commitment to education and the assistance it provides in helping students at universities and other educational institutes learn more about the workplace.

In 2005, more than 3,200 students from different universities, hotel schools and other educational organisations were given a taste of employment through placements.

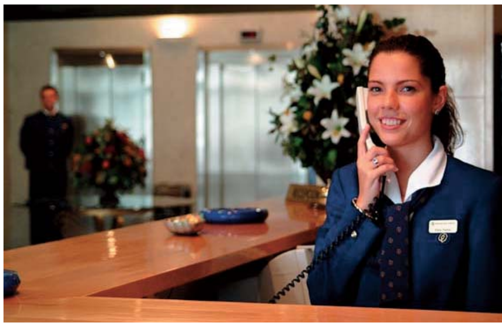
The sources of candidates for new positions are as follows:

- Internal promotions and transfers
- Students on placements
- Sol Meliá CV database
- Sol Meliá website
- Other websites
- Educational institutions (universities, business schools, hotel schools, technical schools)
- Other specialist databases
- Public recruitment services
- International programmes

2. TRAINING AND DEVELOPMENT

Sol Meliá is convinced that the Company can only generate value through the appropriate management of the talent within its team. This is the objective of personnel development in key areas of the business.

The Company strives to identify employees with high growth potential and to help them increase their know-how and skills, guaranteeing them not only a high level of development in their current positions, but also preparing them to occupy positions of greater responsibility.



Development plans are the tool used to organise the different tasks for the employee and encourage their progress within the organisation. These plans generate value for the Company and also encourage employee retention.

2005 saw the full implementation of the policy of identifying personnel for development at three levels: general staff, middle management and senior management.

Sol Meliá currently has a development plan model for each of the positions that exist in a hotel. The plans are customised to the needs of employees and the needs of the hotel to focus attention on areas where improvement is required.

The progress of employees involved in development plans is then monitored by the tutor assigned to them in the hotel and a member of the corporate Human Resources team.

The development plans currently in use at Sol Meliá are:

- Horizontal development plans
- Vertical development plans
- Head of department development plans
- Assistant General Manager development plans
- General Manager development plans
- Internal Development Plan

Every year Sol Meliá organises training campaigns based around the objectives in the company Strategic Plan.

The detection of training needs is also carried out on an annual basis to assist in personalising training activities.

Sol Meliá currently has agreements with many hotel schools, universities and reputable business schools worldwide focused on identifying common areas of interest: consultancy in the creation of new education programmes, exchange of services and research, cooperation to improve service quality, staff training, etc.

To help encourage learning, research and publication in tourism, in 2002 the Company created the Sol Meliá Chair in Tourism Research together with the Balearic Islands university. Every year the faculty awards the Gabriel Escarrer International Award for Tourism Research, now one of the most important prizes in the world of tourism, and also provides support for the research carried out by staff at the university.

3. QUALITY AND WORKPLACE ENVIRONMENT

The Sol Meliá quality and workplace environment programme aims to ensure the satisfaction of guests and thus earn their loyalty.

The programme reveals the needs and expectations of customers, measures their satisfaction, and helps to create a quality culture focused on service excellence. The programme is built around the Company philosophy, values and objectives and the slogan that "Everything is possible".

Every member of the team has to contribute to achieving these objectives. Customer needs and expectations are constantly changing, and the team needs to act, innovate, and stand out for its personalised service.

It is the team that delivers quality, and this makes the workplace environment and motivation important factors in achieving our aims.

Both quality and job satisfaction have to be measured and monitored. This is achieved through a number of internal and external surveys which offer a global vision and details for each brand, staff category or department.

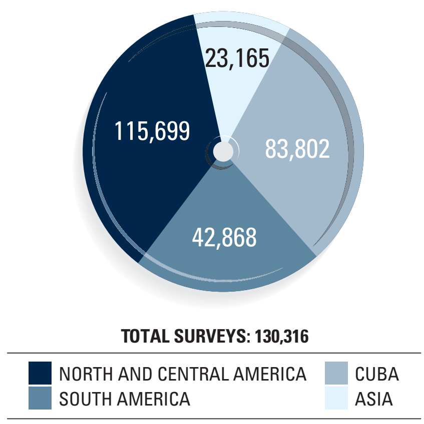
In 2005, the European Division carried out **130,316** quality surveys, the North and Central American Division **115,699**, the South American Division **42,868**, the Cuban Division **83,802**, and the Asian Division **23,165**.

With regard to the workplace environment and job satisfaction, the European Division alone carried out 8,548 surveys amongst staff.

Another fundamental factor in identifying areas for improvement is the Mystery Guest programme. This tool is used in a representative sample of hotels, with 55 visits being made throughout 2005.

The results obtained from each of the different tools are analysed and used to create Action Plans for each hotel. In 2005 there were 376 Action Plans implemented in hotels.

QUALITY SURVEYS



4. RECOGNITION

Sol Meliá firmly believes that excellent employee performance is a key factor in providing highly differentiated quality service.

The Company has a formal employee recognition programme which aims to reward the following values:

- Customer satisfaction
- Service quality
- Effort
- Commitment
- Participation
- Cooperation between departments
- Communication
- Tutoring

The remuneration system is also a key element of Human Resources management and an important motivating factor for staff, and is fully aligned with the Company's business objectives:

- Quality
- Performance
- Development
- Promotion
- Service
- Strategic Plan
- Results

The global bonus system helps to link the achievement of overall Company objectives with those of each division, business unit and department.

To ensure the achievement of objectives in the medium and long term, there are also a number of long-term incentives which guarantee the continuity of business projects.

5. ORGANISATION

In 2005 the Company created an organisational model based on processes after an analysis of existing processes and their adjustment to the needs of customers.

The Company also designed new processes for existing areas and for new areas that were created during the year.

The objective of the new model is to lay the foundations for an organisational structure which provides a faster and more agile response to customer needs.

To make this possible, the model has also taken into account the strategic vision of the Company, its business processes and the organisational culture.

Sol Meliá also focuses on the management of its know-how and the vast amount of experience and information that the Company has generated ever since it was created. The collection, processing, updating and distribution of know-how helps to improve both operations and productivity.

Communication and cooperation between departments also promotes improvements in operations and customer service quality. At Sol Meliá this is encouraged through:

- *Sol Meliá "Hablemos" (Let's Talk)*: a forum in which general staff share their thoughts on areas for improvement with hotel General Managers.

- *Notice board*: for the publication of internal information and news which is relevant for the hotels.

- *Operations Committee*: regular meetings between hotel general management and heads of department to analyse both quantitative and qualitative results and create action plans for improvements.

- *General Assembly*: meeting at which hotel management reports the strategy, objectives and comparative results to staff.

- *"Sugiere" Project*: created as part of the Company Strategic Plan to encourage the active participation of all Sol Meliá employees.

The programme allows employees to transmit ideas or ways of doing things which might improve key aspects of the business such as quality, service, profitability, efficiency or operations.

6. NEW TECHNOLOGY

During 2005, further improvements were made in the SAP R/3 application which is used for many Human Resources processes.

These improvements helped to achieve greater integration and consistency of information and also make it easier to access the information and share it with others.

This new technology is also a key tool in helping generate improvements in quality due to the fact that it provides constantly updated information which allows a more rapid and effective response to any changes in company planning or goals.

Good progress has also been made in productivity and in optimising human and financial resources in key Human Resources processes.

The SAP system has become a fundamental support for the strategy of decentralisation of corporate functions and the automation of processes.

New technology also plays a fundamental role in the management know-how project, making it easier and more participative to share information and know-how within the organisation.

7. LABOUR RELATIONS

Code of Ethics

Sol Meliá applies general global criteria to the behaviour of executives that are extremely important to the company. This ethical code also applies to conflicts of interest, use of information or resources, policies on family relations, personnel policies and sanctions.

Policies on conflicts of interest and the use of information or resources limit the use of past, current or future corporate information for any ends other than that of the development of company business. It also forbids a Sol Meliá executive from occupying a position as an employee or shareholder of supplier companies or other companies that compete in the same business. Policies also regulate confidentiality of information and the use of real estate or other assets in company interests.

The policy on family relations deals with the possibility of executives employing direct family relations in the department or business unit they run.

Personnel policies demand the respectful treatment of colleagues and customers, particularly avoiding any behaviour that might offend the dignity of the person involved or any discrimination based on gender, race, age, religion, nationality or any other such factor.

The duties of loyalty and good faith of employees are supervised by the Human Resources Department and by the Compensation and Appointments Committee based on evaluation procedures for each of the aforementioned policies.

The company recognises full equality of opportunities for all employees and candidates regardless of their race, colour, religion, gender, sexual orientation, natio-



nality, marital status, disabilities, age or any other consideration, in accordance with applicable international, national and local law.

The policy of equal employment opportunities at Sol Meliá is applied to all employment terms and conditions, including, without limits, the employment contract, contracting, promotion, termination, authorised absence, remuneration and training.

In particular, the company prohibits any conduct that represents harassment of or between employees.

Any conduct experienced by an employee which they believe to represent harassment or discrimination must be communicated immediately to their hierarchical superior given that the company is unable to investigate nor intervene in any case if it is not informed of its existence. As far as is possible, any complaints will remain confidential.

If the employee believes it would not be appropriate to report such an incident to their hierarchical superior, the matter should be reported to the superior on the next level of the hierarchy who must then carry out an investigation and report to the regional human resources department.

If the company considers that an employee is guilty of harassment or discrimination towards other employees, the most appropriate measures will be taken in each case within the limits of the law.

Sol Meliá prohibits any form of reprisals against any employee presenting a complaint in good faith within the framework of this policy or as a result of an investigation of a complaint. Nevertheless, if the company determines that no measures need to be taken after investigation, the company also reserves the right to take disciplinary measures against the person that registered the complaint or provided false information.

As an integral part of the Sol Meliá team, the company expects each employee to accept certain responsibilities and maintain the highest levels of personal integrity.

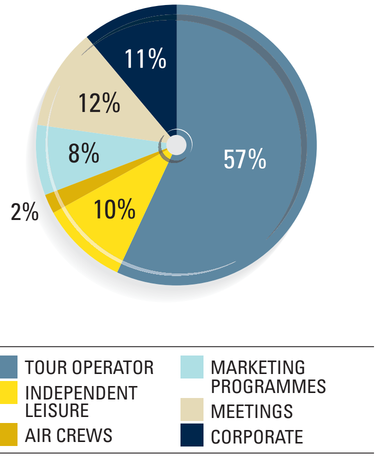
5.3 CUSTOMERS

1. SOL MELIÁ CUSTOMERS WORLDWIDE

Segmentation by nationality

Country of origin	Stays	% of stays
SPAIN	7,801,063	28%
UNITED KINGDOM	5,134,619	19%
GERMANY	1,944,844	7%
USA	1,368,901	5%
ITALY	1,464,109	5%
BRAZIL	737,162	3%
FRANCE	878,067	3%
CANADA	1,510,452	6%
MEXICO	652,759	2%
BELGIUM	406,576	1%
OTHER COUNTRIES	5,475,253	20%
TOTAL	**27,373,804**	**100%**

Segmentation by customer type



2. THE SEGMENTS: MEETING SOL MELIÁ. CORPORATE AND TOUR OPERATORS

At Sol Meliá we segment our customers by the way they buy our services. We have four major segments: Meeting Sol Meliá, Corporate, Tour Operator and Independent Leisure.

MEETING SOL MELIÁ (MSM)

this was created in 2003 and has been developed over the last two years and is responsible for all of the initiatives related to meetings and events products, service and the sales team for conventions, incentives and events at Sol Meliá.

Hoteles Meeting Sol Meliá and Selected Destinations

This is the name given to those Spanish and international hotels that are best equipped to host events, meetings and incentives: the so-called MSM hotels. Customers may select the general destination or the specific location, the preferred characteristics of the hotel and the amount of space they require from a selection of 105 hotels worldwide.

The MSM Selected Destinations are included in an exclusive directory and comprise the most relevant destinations for special events thanks to the location and the hotel facilities.

MSM sales management

The MSM sales force works in 13 countries and represents Sol Meliá in general and the hotels that specialise in the conventions, congresses and incentives business in particular.

Sales management at Meeting Sol Meliá is based on specialisation and market segmentation, with account managers responsible for key accounts and MSM sales executives clearly focused on generating new meetings and events business.

All of this is supported by the Corporate Group Desks which manage sales and operations with small and medium-sized groups and both local and international events.

MSM Standardisation Project

Meeting and event organisers are served by expert professionals.

This was how we presented the MSM standardisation project at the end of 2004, a project which was fully implemented in MSM hotels throughout Europe in 2005.

The objective of the project was to implement the procedures and standards defined for sales and planning for groups, conventions, incentives and events and, as a result, saw the publication of the MSM groups and Events Manual containing the mentioned standards and procedures.

After implementation in Europe (with a total of 17 courses for 225 people), an internal audit has been developed which allows an assessment of the degree to which the processes have been implemented in MSM hotels.

The challenge for 2006 is to adapt this MSM standardisation to the American market and to implement the MSM Groups and Events Manual in the 61 MSM hotels in the Americas and the Caribbean which employ a total of 300 MSM staff.

2nd Meeting Sol Meliá International Convention

In June 2005 the Gran Meliá Cancún hotel in Mexico hosted the second MSM International Convention attended by all the MSM teams from regional offices and by Directors of Sales from Meeting Sol Meliá hotels.

After the first MSM International Convention held in Sardinia in 2004 which created a number of new internal procedures, this second MSM International Convention promoted networking and the application of best practises to improvements in current MSM processes worldwide.

Gran Meliá Cancún

MSM trade fairs attended 2005

JANUARY	
19 – 23	BTL, Bolsa de Turismo de Lisboa (Lisbon, Portugal)
24 – 25	FITUR CONGRESOS (Madrid, Spain)
26 – 30	FITUR, Feria Internacional de Turismo (Madrid, Spain)
FEBRUARY	
12 – 15	BIT, Borza Internazionale de Turismo (Milan, Italy)
15 – 17	CONFEX, Conference Exchange (London, United Kingdom)
MARCH	
11 – 15	ITB, Internationale Tourimus-Börse (Berlin, Germany)
23 – 28	MITT, Moscow International Travel & Tourism Exhibition (Moscow, Russia)
APRIL	
19 – 21	IMEX, Worldwide Exhibition for Incentive Travel, Meetings & Events (Frankfurt, Germany)
SEPTEMBER	
22 – 24	TOP RESA (Deauville, France)
27 – 29	IT&ME, The Motivation Show (Chicago, United States)
OCTOBER	
05 – 08	M&IT, Meetings & Incentives Travel Show (London, United Kingdom)
25 – 27	BTC, International Congress and Incentive Bourse (Florence, Italy)
NOVEMBER	
7 – 10	WTM, World Travel Market (London, United Kingdom)
28 – 1/12	EIBTM (Barcelona, Spain)

Paradisus Puerto Rico

New MSM hotels. New products, new destinations, new business.

2005 was a great year for new MSM products. Highlights included the opening of important hotels for the incentive and convention market such as the Paradisus Palma Real (Punta Cana, Dominican Republic) with more than 1,700 m2 of meeting space, the thorough renovation of the Tryp Alameda Aeropuerto (Madrid, Spain) which improved the portfolio of business hotels right next to Madrid Barajas international airport, and the consolidation of the Paradisus Puerto Rico as a key destination for incentives and conventions in the Caribbean.

In 2005, Cancun in Mexico, one of the most important tourism resorts and event destinations in the world, suffered the impact of Hurricane Wilma and the closure of hotels for repairs. With the hotels reopening in the first half of 2006, the challenge for the rest of the year will be to win back business in the MSM segment.

CORPORATE

This segment includes all of the customers from companies all over the world which use our city hotels for their individual business travel and our MSM hotels for Conventions and Incentives.

This segment is managed by a sales network of more than 100 people. In 2005 we began to implement a new model of Key Account Management to optimise business from our highest potential clients. Flexibility in negotiation and greater knowledge of the needs of each account have been the basis for strong growth in the past and will remain so in the future.

In 2006 a new model of Key Accounting for multinationals, creating teams which work across borders.

Paradisus Palma Real

TOUR OPERATION

It may be said that our relation with Tour Operation is as old as the Company itself, bearing in mind that the first contractor at Sol Meliá was our Chairman and founder, Gabriel Escarrer, back in 1956.

Tour operator contracting at Sol Meliá is centralised together with the whole process of planning, negotiating and monitoring of all of the contracts signed with tour operators worldwide. In 2005 the Company signed 29,000 contracts which generated a total of 563 million euros in revenues, around 32.5% of total Sol Meliá revenues. Twelve key tour operators alone generated 304 million euros over the year, 54% of the total.

Behind this contracting is a sales effort including private meetings, Road Show presentations, Workshops, and a presence at the most important trade fairs such as BTL- in Lisbon, FITUR- in Madrid, BIT- in Milan, ITB- in Berlin, MITT in Moscow, TOUR- in Gothenburg, STEPS- London, TOP RESA- Deauville (France), WORLD TRAVEL MARKET London, POW-WOW- USA, TIANGUIS- Acapulco, PATA- Asia, the exhibition in Dubai, etc.

3. CUSTOMER INFORMATION: CRM AND LOYALTY PROGRAMMES

Unlike some companies, Sol Meliá focuses sales efforts directly on customers, making it of fundamental importance a capacity to identify those customers and anticipate and satisfy their needs.

In recent years the Company has defined an advanced Customer Relationship Management (CRM) programme focused on companies and intermediaries, and Loyalty Programmes focused on individual customers.

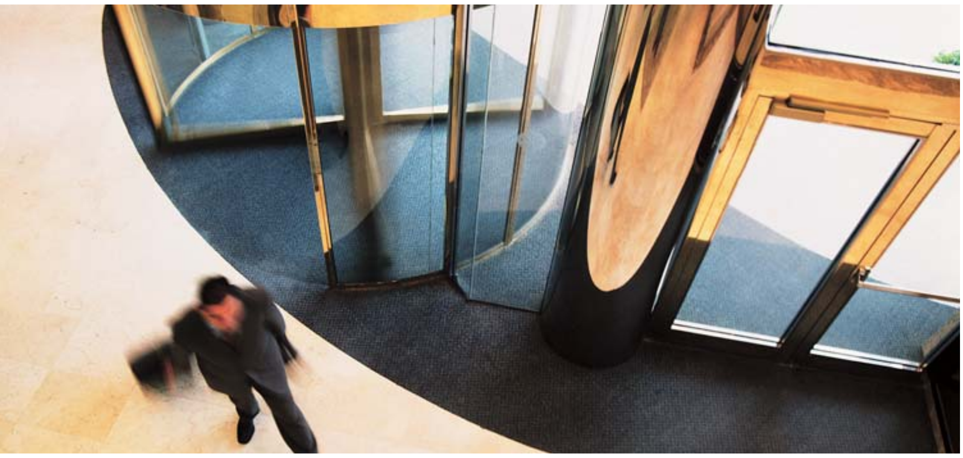
CRM (Customer Relationship Management) with consumers, companies and intermediaries

As seen previously, more than 80% of Sol Meliá revenues comes from the MSM, Corporate and Tour Operator segments.

Six years ago, Sol Meliá saw a great opportunity to increase revenues using CRM and advanced customer management tools given that these systems contained valuable commercial information which could be put to better use.

GDS systems, call centres, Internet and third party affiliation programmes also provide very precise data on the buying behaviour of companies and intermediaries – both existing customers and potential customers – which also help to optimise sales efforts.

The relatively low cost of new technologies and interactive sales media, together with the ability to measure the success of campaigns, provides great opportunities to improve our sales efforts and penetration of the B2B market.



Faced with this opportunity, Sol Meliá started an ambitious project to equip all of the sales force with CRM and advanced customer management tools which would unify, standardise and automate sales processes and customer databases worldwide.

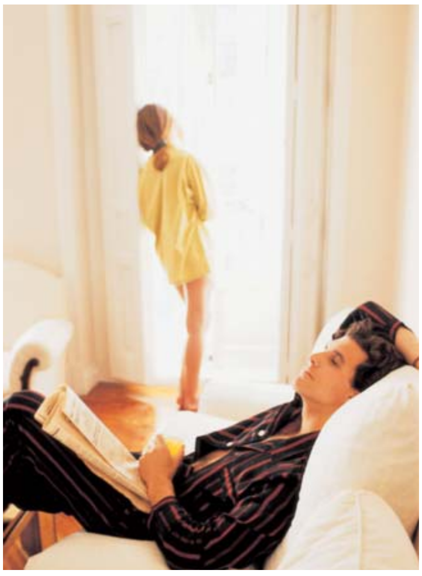
The CRM tool is known as SMART (Sol Meliá Account Relationship Tool). The system allows a much more personalised approach to customers, strengthening both the incoming and outgoing business. The system provides the information required to evaluate the profile and needs of customers and create a specific action plan for each of them, either by region or segment, or on a global basis for the whole Company.

Sol Meliá has built a sales model around specialisation by activity and account assignment and management in the MSM, Corporate and Tour Operation segments, creating telesales and promotion departments focused on smaller accounts.

The model aims to ensure that the sales force is able to work more efficiently to achieve the strategic objectives of the Company bearing in mind the following points:

- The professionalisation and automation of sales.
- The globalisation of Sol Meliá sales.
- Provide support to customer relations (Corporate and Intermediaries).
- To improve the coordination and management of the external and internal sales force.

CRM has been implemented in Spain, Portugal, France, Belgium, Germany, Italy, Switzerland, the UK, Costa Rica, Panama, the Dominican Republic, the United States and Mexico and now has more than 400 users within the Meeting Sol Meliá, Corporate, and Tour Operator sales force and the Telesales and Promotion Departments.



The objective for CRM and advanced customer management tools for 2006 is to increase the volume of business and customer loyalty through new types of "relational sales", segmentation, and promotion in the B2B market, with special emphasis on penetration of markets not reached by the sales force and micro-segments in which the cost of sales is unprofitable by traditional means.

4. LOYALTY PROGRAMMES: OUR INDIVIDUAL CUSTOMERS.

Sol Meliá and partners

In 1993, Sol Meliá began its participation in loyalty programmes by forming part of the Iberia Plus programme. In subsequent years the company extended its participation to other programmes until reaching the current total of twenty airline loyalty partners.

Sol Meliá currently participates in the loyalty programmes of:

- AAdvantage (American Airlines)
- AMC Miles (ANA)
- Binter Mas (Binter Canarias)
- Club Premier (Aeroméxico)
- Club Ave (AVE_Renfe)
- Distancia (Grupo Taca)
- Eurobonus (SAS)
- Fidelitas (Air Europa)
- Fly Pass (Meridiana)
- Frecuenta (Mexicana de Aviacion)
- Hi-Fly (Meridiana)
- Iberia Plus (Iberia Lineas Aereas)
- Jal (Japan Airlines)
- Krisflyer (Singapore Airlines)
- Lanpass (Lan Chile)
- Victoria (Tap Air Portugal)
- Sky Miles (Delta Airlines)
- Sky Club (Portugalia)
- Spanair Plus (Spanair)
- Swiss Travel CLub (Swiss Int.)
- Top Bonus (Air Berlin)
- Travel Club (Air Miles Spain)
- Trip Rewards (Cendant)

The company has also entered negotiations to form part of the loyalty programmes run by:

- Alitalia
- Air Canada
- Air France - KLM
- Finnair

MaS Rewards

In 1994, after witnessing the numerous benefits of loyalty programmes, including the creation of customer databases to allow regular communication of new hotels or special offers for specific customer types, Sol Meliá decided to create its own loyalty programme to reward frequent guests: the MaS Rewards programme.

MaS Rewards was aimed at providing guests with a more personalised hotel experience and also generating points additional benefits whenever they stayed at company hotels: free newspapers, priority bookings, express check-in and late check-out, etc. Since then, the number of programme members has never stopped growing, and the programme has also added a long list of partners and additional benefits. At the end of 2005 there were 1,044,000 members of Mas Rewards, an increase of 49 % over 2004.

The Sol Meliá website at www.solmelia.com provides a special section for MaS members allowing them to consult their accounts, statements, gift catalogue, etc., all in real time. The website also allows a more direct communication with members through e-mail newsletters announcing the latest offers available at solmelia.com. At the end of 2005, 310,562 members had signed up for the online service.

Club Amigos

The "Club Amigos" programme for travel agents was created by Sol Meliá in 1997 and launched in Germany and Switzerland. After the success of the programme launch, the company extended the programme to Spain and Portugal. Other countries soon joined the programme:

- 1999 Club Amigos United States and Canada
- 2000 Club Amigos Mexico
- 2002/2003 Club Amigos United Kingdom and Scandinavia
- 2004 Virtual Club Amigos (Rest of the world)

Loyalty programmes are closely involved with the Sol Meliá Community Involvement programme, providing members of Club Amigos and also of MaS Rewards the possibility of donating points to the NGOs Intermón Oxfam and "Nuevo Futuro".

Sol Meliá loyalty in figures

More than two million people check in to company hotels thanks to a loyalty rewards programme and two out of every five individual guests staying at Sol Meliá hotels present a loyalty card when making their booking through the company central reservation systems. Since 1997, the SolRes central reservation system has seen an increase of 30% in revenues thanks to the booking requests from travel agents following the launch of "Club Amigos" Spain.

When these figures are added to a database of almost 45 million international frequent travellers, more than 1,000,000 MaS Rewards members and 115,000 travel agent members of the "Club Amigos", the extraordinary influence of loyalty rewards programmes on Sol Meliá hotel sales is plain to see.

5. DISTRIBUTION CHANNELS: CALL CENTRES, GDS AND SOLMELIA.COM (CUSTOMER INTERACTION)

solmelia.com: market leaders

Sol Meliá launched an entirely new version of its website at solmelia.com in September 2005 incorporating a large number of important changes designed to make it easier to search for and book hotels and spe-

cial offers as well as improvements to the presentation of hotels. The website has also added a new special offer search engine. Visitors only have to enter where they would like to travel and solmelia.com will show hotels with special offers in that destination for the next three months, including the daily room rate. If the visitor already has a date in mind but is flexible about the destination, they may select the dates they wish to travel and a list of hotels with offers will automatically appear so that they may choose at leisure.

As well as an improvement in the hotel presentation and description (new photographs and richer information) the new solmelia.com is now available to Asian clients in Mandarin Chinese, Japanese and Korean, in addition to the versions already available in English (U.K., U.S. and a new Canadian version), Spanish (versions for Spain, Mexico and now for Latin America), Portuguese (Brazil and Portugal), German, Italian and French.

Solmelia.com is the best-selling hotel website in Spain. Sales grew by 49% in 2005 to 94.5 million euros, while the number of visitors grew by 53%to 26.5 million. In parallel, the solmelia.com team also focused on increasing subscribers to online newsletters through exciting promotions and games. The number of subscribers grew from 222,000 in 2003 to 630,000 in 2004 and to 1,125,000 in 2005, an increase of more than 400% in two years.

Sol Meliá continues to strongly promote the solmelia.com Lowest Online Rate Guarantee which ensures users will find the lowest rate for company hotels on the company website rather than any other website. If this is not the case, the Company will match the lower rate and also give customers an extra 10% discount.

Reservation management: Call Centres and GDS

Sol Meliá operates four major reservations call centres which handle a major part of the bookings made by customers. The call centres are located in Madrid, Miami, Mexico City and Sao Paulo. More than 90 staff answered a total of 1,064,327 calls in 2005 and made a total of 469,000 reservations.

The Sol Meliá booking system is also connected to the world's most important Global Distribution Systems (GDS) -Amadeus, Worldspan, Galileo and Sabre– allowing travel agencies all over the world to book a Sol Meliá hotel in real-time. One out of every four bookings made through company systems are made through the GDS.

In 2005 call centre services were implemented for Sweden, Norway, Finland and Denmark.

The technology that supports Sol Meliá reservations management is named Sirius and has been wholly developed by the company. In 2005 the system has become the true sales engine of the Company, home to the functionality for the Central Reservation System, tour operator contracting, corporate clients, loyalty programmes and interfaces with intermediaries selling Sol Meliá hotels.

5.4 SHAREHOLDERS AND INVESTORS

In 2005, the Sol Meliá Investor Relations Department has carried out a number of activities focused on communication with company shareholders and potential investors. Specifically, a number of road shows were held in major European cities (Madrid, Paris, London, Amsterdam, and Frankfurt).

The road shows are used to inform the market on company performance and provide a vision of how events may affect results. Information is also provided on advances in distribution, research, development and innovation, the financial situation and the development of new hotels and new business units.

In 2005, visits were made to more than one hundred institutional investors in Europe during the following road shows organised by a wide range of financial institutions:

- On 25 January 2005, the Investor Relations team through the BBVA visited the managers of a new Spanish "Mid & Small Caps" fund. In the same city a visit was paid to the managers of an important European institutional investor.

- On 8 and 9 March 2005, Sol Meliá met with a dozen institutional investors from Germany, the United Kingdom and France at a roadshow in Madrid organised by Kepler Equities.

- On 14 March 2005, at the "Iberian Mid Cap Conference" organised by Deutsche Bank in Madrid, Sol Meliá made a company presentation including financial results for 2004 and corporate strategy to 30 institutional investors from Europe and the United States. The Company also held three individual meetings with European fund managers.

- On 20 April 2005, Sol Meliá met with eight institutional investors at a roadshow in Madrid organised by Banesto Bolsa S.A.

- On 12 April 2005, the Investor Relations team met with 15 important French institutional investors at a roadshow in Paris organised by Banco de Santander.

- On 18 May 2005, Sol Meliá met with twelve institutional investors at a roadshow in Madrid organised by BBVA.

- On 30 June 2005, the Company met with two institutional investors at a roadshow in London organised by Cazenove.

- On 6 and 7 July 2005, Sol Meliá took part together with 79 publicly-listed companies in the first forum organised by "Bolsas y Mercados Españoles" (Spanish Bourses and Markets) by "Empresas de Mediana Capitalización" (MEDCAP), an initiative set up by the "Mid & Small Caps Project", attended by analysts and investors from Spain and all over Europe to debate the future of the sector.

- On 27 and 28 September 2005, the Company met with nine institutional investors at a roadshow in Paris organised by Kepler Equities.

- On 28 and 29 September 2005, Sol Meliá met with ten institutional investors at a roadshow in London organised by BBVA.

- On 19 October 2005, the Company met with four institutional investors at a roadshow in Amsterdam organised by BBVA.

- On 24 October 2005, Sol Meliá met with four institutional investors at a roadshow in Frankfurt organised by Ibersecurities AVB.

- On 14 and 15 December the Investor Relations team visited the analysis and sales departments of seven banks that actively cover Sol Meliá stock from Madrid at a roadshow organised by the Company.

The Investor Relations team was rated by Thomson Extel one of the best in Spain and its Director, Carlos López, was ranked fifth in the category of "Best Professionals in Spain in Investor Relations" according to the "Thomson Extel Pan – European Survey 2005". This survey, a point of reference in European stock markets for more than thirty years, aggregates the votes by agents in financial markets on the best fund managers, analysts and investor relations teams.

In addition, according to a survey this year by the Institutional Investor Research Group (subsidiary of Euromoney), Sol Meliá, was rated one of the ten best companies in investor relations from amongst 50 companies in the Leisure and Hotels business. The survey was carried out amongst 40 sell-side analysts and based on 14 communication criteria.

The "Real IR" magazine (published in London, distributed in Europe and specialising in investor relations issues) in its October 2005 edition featured the Director of the Investor Relations team on the front cover and also an in-depth interview about Sol Meliá's experience in communication with financial markets. The report was part of a series of analysis of investor relations departments in companies such as Benetton, Vivendi, Siemens or Deutsche Bank.

The Investors' Club provides shareholders with a direct line of communication with company management to ensure they are kept up to date with all company developments, and also provides an opportunity to make suggestions.

This direct communications channel between shareholders and the company is provided through the website (www.solmelia.com), in which both current and historical financial information is available, through e-mail (club.accionista@solmelia.com) and through a direct phone line (+34 971 22 45 54).

Every shareholder member of the Club is also given a card which provides access to a series of benefits in company hotels such as discounts, free newspapers, second person stays free, priority reservations, guaranteed room, etc., depending on the shareholder type: Gold Shareholder, with more than 1,000 shares and holders of the MaS Gold card, and shareholders with less than 1,000 shares with the MaS Blue card.

Shareholders with the cards can earn points during their hotel stays that they may later exchange for free hotel stays. At the end of 2005, there were 160 MaS Gold Shareholders and 2,704 MaS Blue Shareholders. Every month they receive a points account statement, every three months an exclusive newsletter with special offers and benefits, and twice a year a newsletter with news on company performance.

The Sol Meliá website at www.solmelia.com has a special new section for financial information with an attractive design which provides full and accessible information on finances and corporate governance. The section is in full compliance with the directives on transparency in financial information issued by the Spanish Stock Exchange Commission.

The section contains updated information on quarterly results, issues of securities, financial news, share price, and information from the General Shareholders Meeting , Board of Directors meeting, as well as information on the Investors Club in a new section specially designed for members.

5.5 PURCHASING

The general Sol Meliá purchasing policy aims to "meet the operational needs of hotels and corporate offices that may be covered by acquisition or contracting in order to generate revenue increases or cost reductions at acceptable quality levels".

PURCHASING AND SUPPLY MANAGEMENT POLICIES

The mission of the Purchasing Department is thus to apply supplier management criteria that meet the needs of hotels and corporate offices in a balanced and sustainable way.

The following criteria, however, are also taken into account:

- The geographical limits of the supplier
- Type of industry: manufacturer, importer, exporter, distributor, installer and/or maintenance supplier
- Quality certification
- Environmental certification
- Health and safety certification
- Special Employment Centre certification
- Economic conditions

PROCESS IMPROVEMENTS AND AUTOMATION

Together with other departments, in 2005 the Purchasing Department assisted in the implementation of a communications platform with suppliers. Apart from the benefits its brings to other departments the Purchasing Department will benefit from:

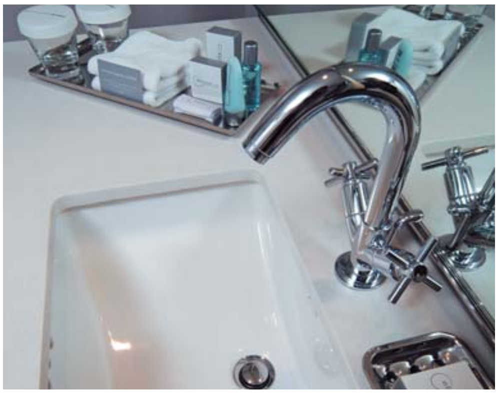
- Direct financial savings (reduction of use of paper, savings on telephone and other consumable goods)
- Automation of processes with no added value and time savings.
- Reduction in human error.
- Access to greater market information: suppliers, articles and conditions.
- Improvement in capacity for comparison.

DEPARTMENT STATISTICS

The volume of data processed by the system and from which the Purchasing Department receives information on buying patterns by region, hotel category and hotel brand in 2005 was:

- 586,359 purchase orders
- 9,001 suppliers in 2005
- Amount of transactions in purchase orders in 2005 from hotels and corporate headquarters: 244,317,577.56 €.

Hotels and corporate offices with purchasing data on the system are located in 15 different countries with the following distribution:



In euros

Organización de compra	Vol. Contratación
Purchasing Spain	167,163,584.51
Purchasing Dominican Republic	27,301,997.47
Purchasing Mexico	22,044,029.68
Purchasing Puerto Rico	6,962,254.18
Purchasing Venezuela	5,269,299.15
Purchasing Italy	4,154,809.65
Purchasing Brazil	3,021,993.79
Purchasing Germany	2,782,121.18
Purchasing UK	2,196,744.35
Purchasing US	1,154,000.20
Purchasing France	918,175.09
Purchasing Peru	719,574.11
Purchasing Portugal	374,977.25
Purchasing Switzerland	244,095.71
Purchasing Argentina	9,921.24
TOTAL	**244,317,577.56**

Note: this table does not include the amounts classified as investments in the Americas. These investments have gone towards the opening of a hotel, renovation of rooms, and the growth Sol Meliá Vacation Club, for a total of 31 million € (not including the amounts for public works, plumbing, electricity, air-conditioning and boilers). The volume of business in purchase orders would thus rise to a total of 275 million €.

5.6 FOOD SERVICE

The Food and Beverage Department is guided by an extensive Quality Manual which defines the fundamental procedures related to food preparation in order to guarantee the highest standards of hygiene in dishes prepared in company kitchens.

DRINKING WATER SUPPLY PROGRAMME

This programme guarantees the delivery of drinking water supplies and defines the corresponding control mechanisms.

At the beginning of every day, the Chief Engineer is responsible for measuring the residual free chlorine of the drinking water supply and for carrying out a more detailed chemical analysis twice each week.

The relevant sanitation authorities are then contacted if the results of the analysis indicate that that the water being used might contaminate food preparation due to the fact that it does not comply with microbiological, chemical or physical standards.

CLEANING AND DISINFECTION PROGRAMME

This programme guarantees that the cleaning and disinfection of equipment, machinery and tools used in food preparation and service is carried out correctly and that staff behave accordingly to prevent contamination.

This is implemented through specific instructions regarding the daily cleaning of work surfaces, storage areas, kitchen equipment and utensils. Special attention is also paid and rigorous standards applied to the personal hygiene of staff handling food.

STAFF TRAINING PROGRAMME

This programme guarantees that all staff involved in food handling and preparation receive appropriate training in relevant food hygiene standards and apply what they have learned correctly. The programme also ensures that staff are fully aware of the principal causes of food-related illnesses and the means by which they may be prevented.

FOOD HANDLING BEST PRACTISES

From the moment food is delivered until the time a meal is served from the kitchens there are a number of stages in which appropriate hygiene standards must be applied.

1. Purchase and delivery of products
Suppliers must provide products that comply with regulations and must be fully registered with the appropriate sanitation authorities. Retail goods must be acquired from local suppliers whenever possible and delivered in authorised vehicles. When the products are delivered they must be inspected and rejected if they do not comply with quality standards.

To ensure the application of rigorous quality standards, the person receiving the delivery must be fully aware of the product characteristics and of what is required of suppliers. These characteristics are defined in the Supply Specifications and Supplier Certification programme. When goods are being purchased or delivered, staff must check their labels and packaging as well as their freshness.

Food must be received in a location which provides appropriate standards of cleanliness and disinfection, avoiding the unloading of food in areas with significant environmental pollution.

2. Storage of food
2.1 *Storage at room temperature:* Product use-by dates are monitored along with compliance with food storage best practises to prevent contamination.
2.2 *Chilled or frozen storage:* Chilled or frozen food products must be stored with a sufficient distance between them to ensure that they do not contaminate each other.

3. Defrosting
Food products are not defrosted at room temperature, but rather in refrigerators where the products cannot be contaminated by other products.

Defrosted products may not be refrozen and must be prepared immediately as soon as they have defrosted.

4. Preparation of raw materials
Hotels must have an area, preferably air-conditioned, reserved exclusively for the preparation and cleaning of raw materials. When this is not viable, both the preparation of raw materials and the preparation of meals may take place in the same location provided they take place at different times, and also at a different time from the cleaning and disinfection of work surfaces and utensils used in food preparation.

5. *Preparation of unheated food*
All food products to be consumed raw must be submerged in drinking water with an appropriate disinfectant solution for the amount of time recommended by suppliers and then rinsed in abundant drinking water to ensure that there is no trace of disinfectant.

6. *Preparation of heated food*
Time and temperature limits must be set for each type of food preparation, product and quantity.

PEST CONTROL PROGRAMME

This programme aims to control pests in hotels by:

- Applying preventative and corrective measures and products appropriate for food preparation areas to avoid the appearance of pests.

FACILITY AND EQUIPMENT MAINTENANCE PROGRAMME

All facilities, equipment, machinery and utensils are subject to a maintenance programme.

This preventative programme aims to guarantee the correct state of maintenance of facilities, equipment, machinery and utensils over time and is carried out by hotel staff.

PRODUCT ORIGIN MONITORING

The tracing of products begins with the registration of raw materials delivered to the hotel. The product delivery sheet is used to register the state and reference numbers of products received.

The kitchens department then uses a FOOD PREPARATION SHEET which defines the name of the dish, its ingredients, and the way it should be prepared and stored. Dishes are prepared fresh each day following a menu cycle. Food is not prepared one day to be consumed the next day.

To control the food preparation process the following procedures are applied:

1.1 Pre-defined menus are used which detail the dishes to be offered to customers each day.



2.2 2. Those products that are not consumed on the day they are prepared and which may be consumed the following day such as certain cakes, for example, are identified with a sticker on their container indicating the name of the product and the date it was prepared.

Products prepared at the hotel are consumed within the hotel, thus eliminating the need for control over products consumed off site.

WASTE AND WATER DISPOSAL PROGRAMME

Waste products generated by the company include solid waste such as the remains of food, products past their expiry date, cooking oil and packaging. There is also waste water from cleaning operations to be disposed of.

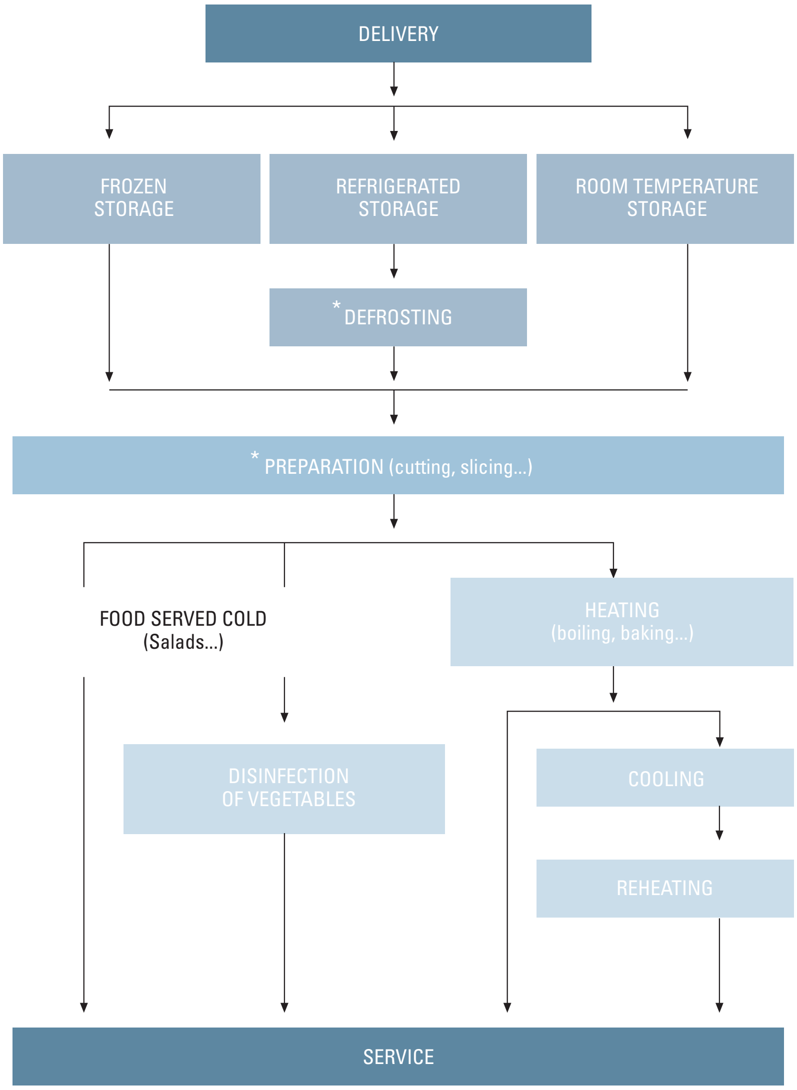
Solid waste products are disposed of using hermetically sealed waste bins near the place of work which use disposable bin bags which are changed regularly. All waste products are removed at the end of the working day and never remain on site.

Cooking oil is removed by authorised companies after being stored in containers in the kitchen or general stores area. This area is also used to store food packaging waste.

Waste water from the cleaning of the facilities drains directly through to the municipal drainage network.

CRITICAL POINT ANALYSIS

Process flow diagram



* Indicates area of increased potential contamination

REGISTERS OF CRITICAL POINT ANALYSIS SYSTEM (APPCC)

- Register of goods delivery.
- Register of storage temperatures.
- Register of daily inspections.
- Register of anomalies.
- Register of drinking water analysis.
- Register of disinfection of vegetables.
- Register of temperature at product core.

5.7 THE ENVIRONMENT

Meliá Hanoi

Sol Milanos Pinguinos

ENVIRONMENTAL POLICY

The commitment of Sol Meliá to environmental protection drives the running of the company on principles of sustainable development. Sol Meliá's commitment to the environment made it the first Spanish hotel company to create an Environmental Protection Manual back in 1995, the guidelines of which have been implemented gradually in all of the company's hotels.

Amongst many other things done by Sol Meliá to protect the environment, many company hotels have taken measures that range from the more rational use of resources (energy, water, toxic substances, etc.) and the reduction and separation of waste products, to the greatest respect for the flora, fauna and culture of each location in which Sol Meliá has hotels.

ENERGY SAVING

The emission of pollutants into the atmosphere in the tourism industry is closely related to the consumption of energy. These emissions may occur in the hotel through the use of combustible fuels or may occur in the locations in which electrical energy is generated.

Sol Meliá policy in this area is focused on two basic premises: the first is that the cleanest energy is the energy you do not use, and the second is that the greatest energy efficiency comes from only using energy when and where it is needed and to the degree that it is needed.

The commitment of Sol Meliá to environmental protection is demonstrated by the launch this year of the SAVE 2005 project.

Meliá Varadero

Meliá Girona

SAVE 2005 aims to increase energy efficiency in two key areas:

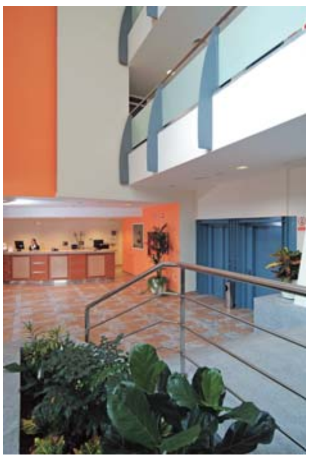
- Do more with less, increasing energy efficiency in hotel facilities.
- To create a culture of responsible use of energy and water resources. The cleanest energy is the energy you do not use.

The first of these areas is specially relevant to our engineering and maintenance managers, the people responsible for making sure our facilities work correctly. Several tools have been developed to improve performance which allow ideas to circulate and be applied in different hotels. With this aim in mind, the Company produced:

- A hotel energy saving guide. A 54-page presentation gives a review of every area and every installation and the opportunities for improvement in each.

- Recommended materials fact sheets. A 22-page document which review the materials currently available on the market with reduced environmental impact.

To encourage participation and also to thank staff for their efforts, the ACTION SAVE competition was created with every activity being given points and then ranked each month.



Tryp Almussafes

The ACTION SAVE competition attracted 36 improvement activities including the installation of water-saving devices in the Meliá Tamarindos and Meliá Granada, the installation of low-energy lighting at the Meliá Barcelona Aeropuerto and in Palma headquarters, the installation of new timers and adjustment of water pressure at the Tryp Almussafes, amongst others.

The second key area is the creation of a culture of responsible use of energy and water resources. To assist in this task the Company created the SAVE suggestion competition for all hotel staff.

In cooperation with the Quality Department, a set of SAVE ideas is sent to every hotel every month with slides on creating awareness and energy saving ideas,

The Sugiere suggestion boxes installed in hotels were also used to collect ideas on better use of energy, and the Quality Department makes sure that the suggestions are received once a month by the Works and Maintenance Department and added to the general ranking of SAVE ideas.

The SAVE suggestion competition attracted 60 participants.

Sol Meliá also has a computerised system for monitoring and analysis which allows supervision of energy and water consumption in hotels in Spain to help identify opportunities for improvement.

Meliá Tamarindos

SAVING WATER

Water-saving systems have been installed this year at the Meliá Tamarindos and Meliá Granada. Allowing reductions of more than 6,200 m^3 of water and thus making a contribution to halting the growth of the desert in areas with sever water shortages.

The Company is currently working on implementation over the coming months in 22 additional centres in Andalusia and the Canary Islands (Spain) which will improve on the results already obtained.

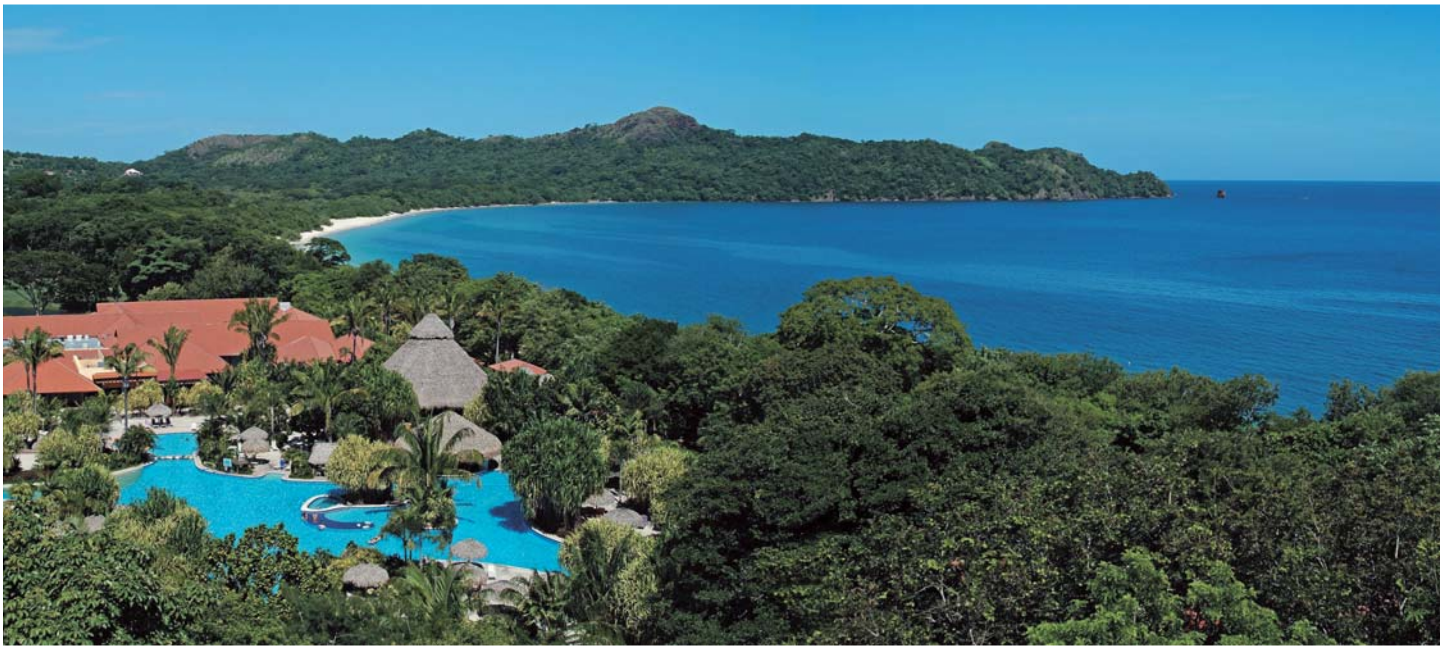
We would also like to emphasise that a more rational use of water has allowed the Company to avoid the emission of 40 tonnes of CO2 required for heating the water.

Several seawater swimming pools have also been created in several hotels in the Canary Islands avoiding the unnecessary use of fresh water and also providing guests with new experiences.

USE OF ALTERNATIVE ENERGY SOURCES

Sol Meliá is also beginning to use sources of geothermal energy, a novelty in Spain but increasingly common in the rest of Europe.

The installation of this type of technology in temperature control systems at the Sol Mirlos Tordos en Palmanova (Mallorca) has not only reduced operating costs, but also avoids the emission of more than 200 tonnes of CO2 into the atmosphere. The cost of the implementation of the technology is another sign of the company's commitment to environmental protection.



Paradisus Playa Conchal

Gran Meliá Don Pepe

PERMANENT ACTIVITIES

Within the company's Environmental Policy and the commitment to the environment, both in hotels and in corporate offices, Sol Meliá constantly promotes the following activities:

Meliá Granada

- Use of low-energy lighting.
- Recycling of paper.
- Recycling of printer cartridges, etc.
- Priority use of recycled paper for internal consumption.
- Priority use of recycled office equipment.
- Priority purchase of products in bulk or with packaging which may be recycled.
- Priority purchase of concentrated products.
- Priority use of products that do not harm the natural environment.
- Gradual substitution of basic hygiene products such as bleach, etc.
- Priority purchase of artificial Christmas trees.
- Separation of waste products in areas where local authorities process separately.
- Priority purchase of bathroom fittings with water-saving devices in cisterns.
- Minibars with ISO 7371 certification (low-energy).
- Inclusion in hotel activities of trips to view the local environment and participation of guests in environmental activities, promoting hiking, biking and horse riding.
- Information for hotel guests on company and hotel environmental policy, inviting them to help with sensible use of water and electricity.

HOTELS WITH ENVIRONMENTAL CERTIFICATION

- **Paradisus Playa Conchal** (Costa Rica): ISO 14001 (2005)
- **Meliá Girona** (Catalonia, Spain): Certification EMAS (2005)
- **Gran Meliá Don Pepe** (Málaga, Spain): ISO 14001 and R. (CE) 761/2001 (2005)
- **Meliá Bali** (Nusa Dua, Indonesia): Green Globe XXI and TUI Enviromental Champion 2005
- **Meliá Varadero** (Varadero, Cuba): Cuban National Environment Award (2000)
- **Tryp Montevideo** (Uruguay): ISO 14001 (2000)
- **Sol Cala D'Or** (Mallorca, Spain): EMAS (2000)
- **Sol Falcó** (Menorca, Spain): ISO 14001, EMAS (2000) and Star Product Certification "Menorca: biosphere reserve" 2004
- **Sol Gavilanes** (Menorca, Spain): ISO 14001 (2004) EMAS (2004), Marque of Excellence & Responsible Tourism Award (2004) and Star Product Certification "Menorca: biosphere reserve" 2004
- **Sol Pinet Playa** (Ibiza, Spain): EMAS (2000)
- **Sol Magalluf Park** (Mallorca, Spain): ISO 14001 (2000)
- **Sol Milanos Pingüinos** (Menorca, Spain): ISO 14001 (2000) and Star Product Certification "Menorca: biosphere reserve" 2004
- **Meliá Barcelona** (Barcelona, Spain): EMAS (2001)
- **Tryp Apolo** (Barcelona, Spain): EMAS (2001)
- **Meliá Sitges** (Tarragona, Spain): EMAS (2001)
- **Sol Pelícanos Ocas** (Benidorm, Spain): ISO 14001 (2001)
- **Sol Menorca** (Menorca, Spain): ISO 14001 (2002) and Star Product Certification "Menorca: biosphere reserve" 2004
- **Gran Meliá Victoria** (Mallorca, Spain): ISO 14001 and ISO 9001 (2002)
- **Sol Cala Blanca** (Mallorca, Spain): ISO 14001 (2003)
- **Tryp Bellver** (Mallorca, Spain): ISO 14001 (2003)
- **Meliá Purosani** (Java, Indonesia): Green Globe XXI (2004)
- **Meliá Benoa** (Tanjung Benoa, Indonesia): Green Globe XXI (2004) and Green Paradise-Tri Hita Karana (2004)
- **Gran Meliá Jakarta** (Jakarta, Indonesia): Green Globe XXI (2004)
- **Meliá Hanoi** (Hanoi, Vietnam): Green Globe XXI (2004)
- **Meliá Kuala Lumpur** (Kuala Lumpur, Malaysia): Green Globe XXI (2004)
- **Meliá Costa del Sol** (Malaga, Spain): Certification EMAS (2004) and ISO 14001 (2004)

CONTACT

If you or your company have information on environmentally-friendly products or processes that may be of interest, please contact our environmental department:

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07009 Palma de Mallorca, Spain
Tel.: +34 971 224 473
medio.ambiente@solmelia.com

Meliá Sitges

Sol Pelícanos Ocas

1. COMMUNITY INVOLVEMENT AT SOL MELIÁ

1.1 Origins

Since its foundation in 1956, Sol Meliá has carried out a large number of projects aimed at assisting in promoting development, working together with NGOs, foundations and other organisations that aim to help people in need. Originally these projects normally came from hotels and their employees as they were the people with the best idea of the needs that existed in each of the areas where the company operated hotels.

The main driver of these activities is the experience the company has gained over so many years in the tourism industry, generating wealth, values and employment in all of the countries in which it is present.

Over time, the company saw that community involvement was more effective when project management was more systematic and projects were seen as an investment rather than an expense. Community involvement thus became a natural component of the value-creation process, integrated within the concept of a socially responsible company, a key factor for the future success of the company.

Presentation of the Vicente Ferrer Foundation at the Tryp Almussafes.

Sol Meliá therefore defends the idea that community involvement is a company duty, and that all companies must strive to the best of their abilities to prevent the enormous inequality that exists in the world. All of the initiatives that Sol Meliá undertakes in this field are framed within the global nature of the business, as a key component of company organisation, and as one of the most prominent features of Sol Meliá corporate culture.

After fifty years in the business, the company has achieved a presence in thirty countries. Many of them are developing countries. As well as being a powerful driver of economic development, the tourism industry is also one of the best means of promoting greater tolerance and understanding between more and lesser developed nations. Sol Meliá also assists in creating a multiplier effect of tourism in creating greater wealth and development in many areas.

2. COMMUNITY INVOLVEMENT PROGRAMME

2.1 Principles

The Community Involvement Plan has been created using a method which involves an analysis of the priorities of the hotels and corporate offices, the community involvement projects carried out in the past, the environment, innovative projects, and the opinion of employees.

Community Involvement at Sol Meliá focuses on the principle of "supporting local sustainable development activities in the areas around company hotels and corporate offices attending to the assistance needs of both individuals and groups".

The principle aims to emphasise that Sol Meliá community involvement is mainly carried out in countries in which the company operates to help reinforce the posi-

The Gran Meliá Volcán de Lanzarote actively supported the launch of the "Infancia Sin Fronteras" campaign which aims to create a home and dining facilities for 70 children in Nicaragua.

The General Manager of the Meliá Atlanterra presents materials to the "Madre Coraje" association to help support women in Peru.

tive activity that the company helps to generate in thirty countries on four continents and, above all, with the intention of making the best possible use of the resources, services and infrastructure within the company hotel network.

2.2 *Programmes*

The programmes in the Community Involvement Plan are divided into five priority programmes and four additional programmes. All of these programmes are also based on the support resources included in the Plan and include such actions as the use of hotel facilities, the donation of used assets and direct sponsorship.

2.2.1 PRIORITY PROGRAMMES

1. *Training and employment.* To promote access to employment for disadvantaged people from the areas around company facilities. Immediate action includes the recruitment of disabled people and women that are victims of domestic violence, as well as offering training in areas around company facilities, preferably to people with special educational needs.

2. *Purchasing*. To favour purchases from Special Employment Centres (companies whose labour force is made up of at least 70% of disabled people), "Inclusion" Companies (companies whose labour force is made up of people from disadvantaged groups, with difficulties or at risk of exclusion) and from local suppliers of typical handicrafts, products that are difficult to transport and/or typical food and beverage products that are exclusive to the region.

3. *Employees*. To promote community involvement amongst our employees. To create a register of volunteers from hotels and corporate offices willing to assist in development projects.

4. *NGOs.* To offer services to NGOs at special conditions (discounts, use of meeting rooms, free stays, etc.).

5. *Sports.* To support charity sports events related to community development.

2.2.2 ADDITIONAL PROGRAMMES

1. *Customers:* promotes community involvement amongst our guests and customers. Creates systems by which customers may provide funds to assist in company community involvement projects (a percentage per invoice, cash collections, donation of MaS Rewards points...). Community involvement projects are carried out in which guests can take part during their stay, mainly in resort hotels.

2. *Accessibility.* To improve access to hotel services for people with mobility difficulties when carrying out renovation programmes.

3. *Business forums.* To take part in the most important forums for debate and specialist working groups, defending the idea of sustainable tourism as a fundamental source of wealth and development in society.

4. *Investors.* To attract investors interested in socially responsible companies through the communication of the activities carried out by the company.

2.2.3 SUPPORT RESOURCES

Defined as means of providing support to programmes to complement the time dedicated by company personnel either in project management or volunteer work. They include:

1. To support projects using the *general infrastructure* of Sol Meliá (providing meeting rooms and other facilities, guest rooms, catering services or phone help lines).

2. *To donate used assets:* furnishing, computer equipment, linen, cutlery, bathroom amenities, entertainment materials, excess fresh foods and all unrequired office and hotel equipment.

3. *To develop sponsorship and advertising* to support research, publications and events related with the other programmes.

Susana Sirtori, Community Involvement Coordinator at the Meliá Sancti Petri, presents clothing donated by hotel staff to “Cáritas Diocesana”.

The Meliá Sevilla hotel often helps the missionaries at the “Comunidad de San Pablo Apóstol”.

3. COMMUNITY INVOLVEMENT IN FIGURES

3.1 Results in 2005

COMMUNITY INVOLVEMENT 2005

Projects carried out:	509
NGO's, foundations and organisations benefited:	246
Investment in community involvement projects:	1,107,080.92 euros
Purchases from Special Employment Centres:	4,118,791.05 euros

DEVELOPMENT

SOL MELIA COMMUNITY INVOLVEMENT	2001	2002	2003	2004	2005
Number of projects	131	205	628	852	509
NGO's and Foundations	71	145	360	470	246
Investment (euros)	78,232	384,859.74	1,153,043.30	1,203,475.92	1,107,080.92
Purchases from SEC's (euros)	1,718,817	3,763,771.35	3,775,270.88	3,892,564.70	4,118,791.05

3.2 NGO's, foundations and organisations assisted

1. SPAIN

Acción Contra el Hambre
AECC (Asociación Española Contra el Cáncer)
AFAM (Asociación de Familiares de Alzheimer)
AIPSD (Asociación para la integración de personas con Síndrome de Down)
Albergue Municipal Maria Rosa Araoz
Aldeas Infantiles SOS
Almacera City Hall
ANESVAD
APACI (Asociación de Padres y Amigos de Cardiopatías Infantiles)
ARCA (Asociación Autoayuda sobre Síndrome Dependencia Alcohólica)
Asilo de Ancianos Los Desamparados
Asociación Catalana de Integración y Desarrollo Humano
Asociación contra la Dislexia
Asociación Club Juvenil ASPACEN
Asociación Cristina "El Refugio"
Asociación Navarra Nuevo Futuro
Asociación Personas Mayores Plaza de Toros
Asociación RETO
Asociación Reyes Magos
ASPACE (Asociación Enfermos Parálisis Cerebral)
ASPANOB
Avenir Nepad Internacional
Ayuda en Acción
Caldera de Taburiente City Hall
CARITAS
CEAR (Comisión Española de Ayuda al Refugiado)
Centro Clínico Nutricional Doña Menca de Leoni
Centro de Atención Terapéutica PROBOSCO
Centro de Refugiados de San Agustín
Centro Ocupacional Taburiente
Cirujanos Plástikos Mundi
Club Elsa
Club Los Leones
Club Rotario Colegio de la Santísima Trinidad
Colegio del Sagrado Corazón
Colegio Nuestra Sra. Del Carmen
Colegio Pureza de María
Colegio Salesianos
Colegio Santo Domingo de Guzmán
Colombian Embassy in Spain
Comunidad Misionera de San Pablo
Comunidad Terapéutica La Fortaleza de Ansite
Confederación Estatal de Personas Sordas
Economistas Sin Fronteras
El Temple (Hogar de Menores)
Escuela Taurina de Chiclana
Feria de Acción Social de Valencia
FESORCAM (Federación de Personas Sordas de la Comunidad de Madrid)
Fundación Vicente Ferrer
Fundación Activa
Fundación Banco de Alimentos de Baleares
Fundación Canaria contra el Cáncer Camilo Sánchez
Fundación contra la Fibrosis Quística
Fundación Dexailles
Fundación IVUE
Fundación Nelson Mandela
Fundación Pequeño Deseo
Fundación Pere i Tarrés
Fundación Raíces Paraguayas
Fundación RAIS
Fundación Sophia
Fundación Theodora
Grupo de Discapacitados Belgas
Hermanas de San José de la Montaña
Hermandad de Donantes de Sangre
Hermanos Franciscanos de la Congregación de la Cruz Blanca
Hermanos Salesianos de Campano
Hogar Provisional de Alicante
Iglesia de Es Migjorn
Infancia Sin Fronteras
Institución Familiar de Educación Mestral
Intermón Oxfam
Jóvenes Violinistas de la Cuesta
Llanos de Aridane City Hall
Madre Coraje
Manos Unidas
Médicos Mundi
Mestral
Música Mallorca 2005
Nuevo Futuro
Parroquia San Amaro Parroquia Sant Joseph del Terme
Party Against Poverty
Proyecto FUM (Fiestas Unidas por la Música 2005)
Proyecto Joven
Proyecto Hombre
Red Cross
Rotaract Rotary Club
San Bartolomé de Tirajana City Hall
Save The Children
Solidaridad Médica Canaria

Children at the Sol Mirlos Tordos launch a balloon with their wish inside as part of the activities organised by the hotel for "Solidarity Day".

Torneo Benéfico Golf Club Zaudín
UNICEF
UPACE (Centro para Parálisis cerebral SAR Infanta Cristina)
Valid Artesans
Zahara de los Atunes City Hall

2. UNITED KINGDOM

International Social Service
Royal United Hospital
Belgravia Trade Association
Royal Marsden Hospital Children Cancer Unit
The Beresford Clinic
St. John's Hospital
Breakthrough Breast Cancer
Harley Taylor doctors
Camden Town Hall
Great Ormond Street Hospital

3. ITALY

Pime missionaries
Villa Chiara Foundation

4. ARGENTINA

Fundación Hospital Garrahan
Comedor Comunitario Los Ángeles de Magdalena y su Mamá

Personnel from the Meliá Milano, with the General Manager to the front, actively support the PIME missionaries in their community development projects in Brazil, India, China and New Guinea, amongst other countries.

5. BRAZIL

Ação da Cidadania
Agência Adventista de Desenvolvimento e Recursos Assistenciais.
Amigos da Vida (children with the AIDS virus)
APAE - Associação de Pais e Amigos dos Excepcionais de São Paulo
ASA - Associação Santo Agostinho
Assistência Vicentina de São Paulo
Associação Arte Sem Fronteira
Associação Beneficente Benedito Pacheco
Associação Casa de Apoio Amigos da Vida
Associação Comunitária Monte Azul
Associação Pró-Hope
Associação SOS Carentes
CAMP Pinheiros (Centro de Aprendizagem e Monitoramento Profissional)
Casa da Crianças de Sousas
Casa Hope
Casa Transitória Fabiano de Cristo
Centro de Reintegração de Pessoas à Sociedade "Serviço de Saúde Dr. Cândido Ferreira"
Centro Promocional Dino Bueno
Cores da Terra
Escola Infantil Frei Luis Amigó
Escolas Parque do Distrito Federal
Escola João Clímaco
Escolas de Brasília y Senac
Feira da Torre dos Artezazo
Fundação FEAC (Federação das Entidades Assistenciais de Campinas)
Fundação Maria Carolina
Fundação Pró-Sangue
Fundação Rolando Boldrin
Fundo Social de Solidariedade de São Paulo
GRAACC
Grupo Chaverim
Grupo de Apoio Televisa
Grupo Herekut
Grupo Santa's Goodwill - Adventure World do Brasil y Projeto PIVI - Projeto de Incentivo à Vida
IBCC - Instituto Brasileiro de Controle do Câncer
Instituição Paulista Adventista de Educação e Assistência Social
Lar Criança Feliz
Lar dos Velhinhos Maria Madalena
LARAMARA
NGO "Teu sonho, meu sonho"
NGO Fala Preta
NURAP
Orfanato Cristiano Santa Maria
Programa "Mesa Brasil"
Projeto Âncora
Projeto Casulo
Projeto Felicidade
Projeto Florecer
Projeto Nós do Cinema
Recanto dos Avós
Rotaract Club

Personnel from the kitchens at the Sol Calablanca help at the market organised in the hotel by Club Elsa.

Sebastián Darder, General Manager of the Sol Calablanca, accompanied by Guillermo Bennasar, the hotel Front Desk Manager, assisting the Balearic Islands Red Cross.

Setor de Doenças Neuromusculares do Hospital São Paulo
SOS Mata Atlântica
Street dwellers
Unibes - União Brasileiro- Israelita do Bem-Estar Social
UNICEF
VIA (Voluntários em Ação). Volunteer training school
WWF / ADENA

6. MEXICO

Buttercup Treasure Hunt
Casa Juan Diego
CRREAD
Instituto Roman Wilkens
Life Source
Teleton
UNICEF

7. PERU

ADULAM
Albergue Municipal Maria Rosa Araoz
Asilo de Ancianos de los Desamparados
Asociación al Niño Peregrino Nstra. Señora del Prado
Asociación Cristiana "El Refugio"
Asociación de Esposas de Diplomáticos
Asociación Hellen Keller Perú
Asociación Peruana de los Caballeros de Malta
Club de Madres Hortensia Pardo
Club de Madres Santa Rosa
Comedor E Maus
Comisaría de Orrantia del Mar
Comisaría de San Isidro
Cruz Roja
Embajada Indonesa en Perú
Fundación Centro Victoria
Fundación Ciudad de Papel
Fundación Por los Niños del Perú
Hogar Canevaro
Hogar de Cristo
Hogar Nuevo Amanecer
Institución Albergue de María
Institución FUNDADES
Institución Peruano Salvadoreña
Los Niños de Manchay
Movimiento de Educación Popular Integral Fé y Alegría
Nuestra Señora del Niño Peregrino
Organización de Liga de Mujeres por la Paz y la Libertad
Parroquia Inmaculada Concepción
REMAR
Sociedad Humanitaria Sarita Colonia
Terapistas Ciegos Masaje Miraflores
Tierra de Niños
Unión Nacional de Ciegos del Perú

8. PUERTO RICO

Escuela Elemental Pública Rafael de Jesús

9. DOMINICAN REPUBLIC

Consejo Nacional de la Persona Envejeciente
Escuela Los Manantiales

10. URUGUAY

Hospital Pereira Rossel
REPAPEL y Escuelas públicas
Unidad de Apoyo del Ejército Nacional

11. VENEZUELA

Embajada de España (Kermesse de Damas Diplomáticas)
Fondo Social de Ayuda al Anciano
Fundación Forjando Futuro
Fundación Unamos al Mundo por la Vida
Fundación Venezuela Sin Límites
FUNDANA (Fundación Amigos del Niños que Amerita Protección)
Hospital JM de los Ríos (Caracas)
Hospital San Juan de Dios (Caracas)
Hospital de San Juan de Dios Iglesia Parroquial de Montalbán Ntra. Sra de la Paz
SENOSALUD

12. CUBA

Mediterránea

13. INDONESIA

Cruz Roja
DELTA FM Radio Listeners and Charity Gathering
Employment for Yayasan Khazanah Kebajikan's Student
Indonesian Disabled People in Arts
Mezquita Al Barokah
Mezquita Al Muttaquin Ainin
Mezquita Baitur Rahmah
Mezquita Nurul Iman
PT Nusantara Capital
UNICEF
Yayasan Khazanah Kebajikan
Yayasan Emanuel's Children (Yakarta)
Yayasan Khazan Kebakijan
Yayasan Panti Asuhan Sos Desa Taruna

14. VIETNAM

Asociación Navarra Nuevo Futuro
Víctimas del Agente Naranja

Mr Tiplady, General Manager of the Gran Meliá Jakarta, together with Ruth Abellán, General Manager of the Tryp Apolo and Mr Fenanlampir, Director of Human Resources at the Gran Meliá Jakarta, at a blood donation day held at the Gran Meliá Jakarta.

Mr Tiplady, General Manager of the Gran Meliá Jakarta, with Hana Hoed, the hotel Public Relations Manager and local coordinator of Sol Meliá Community Involvement, at the presentation of the Ramadan breakfast with the children from the Yayasan Khazanah Kebajikan orphanage in Jakarta.

4. AGREEMENTS WITH FOUNDATIONS

4.1 *Business and Society Foundation*

FUNDACION EMPRESA Y SOCIEDAD
Empresas comprometidas con la acción social

Founded in 1995 and supported by entrepreneurs and independent professionals, the mission of the Business and Society Foundation (www.empresaysociedad.org) is to promote community involvement activities in Spanish companies. The Foundation provides advisory services and also carries out research and promotion activities aimed at businesses and society in general.

Sol Meliá defends the idea that companies will play a greater role in society only if they are socially responsible. Amongst other things, this means that their products and services must be accepted by society and comply with all existing legislation, their executives must behave with impeccable ethics, they must take their relations with their employees seriously, they must be respectful of their natural environment, and they must support the most disadvantaged members of their community.

The Business and Society Foundation is currently formed by more than 100 member companies, all leaders in community involvement. Sol Meliá has been a patron of the foundation since 1999 and thus committed to:

1. Improving its community involvement strategy and activities.
2. Appropriately reporting its community involvement.
3. Supporting the institutional activities of the foundation to promote community involvement in the business world.

4.2 Business and Growth Foundation

The mission of the Business and Growth Foundation, of which Sol Meliá is a patron and board member, is to help provide an effective contribution by Spanish companies with direct investments to the economic and social development of developing countries through the creation and growth of small and medium-sized companies. Based on business criteria, the foundation promotes the creation and management of funds specifically for the development of small and medium-sized companies in Latin America.

Founded in February 2001, the Business and Growth Foundation is also very much involved in the training of entrepreneurs in developing countries through its own programmes or in cooperation with specialist organisations.

4.3 Adecco Foundation

The Adecco Foundation was formed in July 1999 with the objective of assisting the disadvantaged in finding employment. The Foundation is supported by the Adecco Group which includes 7 different companies in Spain specialising in Human Resources with 300 offices all over the country.

4.4 "Lealtad" Foundation

To assist with project management on the Sol Meliá Community Involvement Programme, Sol Meliá signed an agreement in December 2003 with the "Lealtad" Foundation. This committed the company to promoting principles of transparency and good conduct amongst company employees and related companies, as well as the "Guide to Transparency and Good Conduct in NGOs" edited by the Foundation. Sol Meliá will also cooperate every year with at least one of the organisations audited by the Foundation.

The work and research carried out by the Foundation has made it a reference point for companies and individuals in the selection process of NGOs or other organisations for cooperation projects.

The "Lealtad" Foundation was founded in 2001 and is an independent charitable institution that aims to promote confidence amongst the public and corporations in associations and foundations working on assistance and development projects. The Foundation operates throughout Spain and meets its objectives via its website and the publication of the "Guide to Transparency and Good Conduct in NGOs".

Once again this year, the Gran Meliá Jakarta served a Ramadan breakfast to children from the Yayasan Khazanah Kebajikan orphanage in Jakarta, giving the kids a chance to enjoy the fun activities provided by the hotel.

Hana Hoed, Public Relations Manager at the Gran Meliá Jakarta, presents gifts to the children from the Yayasan Panti Asuhan SOS DESA TARUNA orphanage in Cibibur to the west of Jakarta, during the party for turning on the hotel Christmas tree lights.

Sol Meliá Community Involvement committed to supporting the reconstruction efforts in Aceh, the area devastated by the tsunami in 2004. In the photo, Daniel Lozano, Executive Vice President of the Asian Division, presents the Indonesian Red Cross with 8 computers and a set of Oxford student encyclopaedias for children in Aceh.

4.5 Balearic "Proyecto Hombre" Association

PROJECTE HOME BALEARS

Concerned about the problems caused by drug addiction and well aware of the prestige earned by the Project Hombre in the Balearic Islands, and the Project Hombre Association throughout the whole of Spain, Sol Meliá has signed a number of cooperation agreements with the Association, including:

- Offering young "Project Joven" residents work experience and training with the Engineering Departments at several Sol Meliá hotels in the Balearic Islands.
- Holding workshops on the prevention of addictive behaviour at work as part of the Risk Prevention programme already in place at Sol Meliá.
- Providing "Project Hombre" with products and services under special conditions at Sol Meliá hotels.

Project Hombre has been working to help prevent drug abuse and assist addicts since 1984 and now operates 26 centres in 15 cities in Spain, attending to more than 12,000 addicts every year. In the last 17 years, "Project Hombre" in the Balearic Islands has assisted more than 4,000 people, of which around 25% are now completely recovered and living in the community.

5. CORPORATE PROJECTS

5.1 Sol Meliá Solidarity Day

As part of the company Community Involvement programme, in summer 2005 Sol Meliá created a "Solidarity Day". The idea was based on the Art Workshops set up by the Sol Meliá hotel entertainment team in 2004, and was implemented in "Flintstones Land" hotels in Spain, along with the Sol Tenerife, Sol La Palma and Sol S'Argamassa hotels.

Solidarity Day consisted of one day per week of children's activities based on solidarity and environmental projects, helping to encourage children to learn more about problems in developing countries and respect their natural environment.

More than 1,000 children and more than 1,000 adults took part and raised 14,500 . The money was used to help a UNICEF project in the Dominican Republic which aims to improve education opportunities for kids up to 5 years of age, a project which Sol Meliá also supported in 2004 by raising funds through art workshops, one of many Sol Meliá activities aimed at improving education in poorer countries and respect for the environment.

5.2 Business and the Disabled

As part of the cooperation between Sol Meliá and the Business and Society Foundation aimed at encouraging corporate community involvement, in 2005 Sol Meliá agreed to take part in the Business and the Disabled Programme.

Solidarity bingo session at the Meliá Lima to raise funds to buy materials to build a roof at the "Colegio Borbón", a school which the hotel regularly works with through the NGO "Tierra de Niños".

Personnel from the Meliá Lima at a donation of toys made by the hotel to the "El Refugio" Christian Association which helps to raise abandoned children living on the streets of Lima.

The Business and the Disabled Programme is a multi-corporation task aimed at exchanging information and experiences on the following subjects:

- Design of products and services to make them more accessible.
- Accessibility of facilities.
- Employment of the disabled.

The tangible results in 2005 include the employment of 15 disabled people (3 more than 60% disabled), investments of 440,000 in improvements to accessibility in hotels, and purchases from Special Employment Centres amounting to 4,118,791.05€.

The employment of disabled staff in Sol Meliá hotels has been acknowledged by the Training and Employment Institute in the Majorcan municipality of Calviá.

The commitments of Sol Meliá for 2006, the fiftieth anniversary of the company's foundation, include:

- To consolidate the recruitment process of disabled staff.
- To increase improvements in hotel accessibility.
- To continue to implement plans for purchases from Special Employment Centres.
- To analyse all of the products and services in which accessibility may be improved (website, amenities, invoices, menus, reception, etc.)
- To provide information on accessibility to disabled groups through internal and external channels.

5.3 Assistance for natural disasters

Hurricane Katrina

In August 2005 Hurricane Katrina hit the south and centre of the United States, producing serious damage in Florida, Bahamas, Louisiana, Mississippi and New Orleans and making it one of the most violent hurricanes in the recent history of the United States and possibly the greatest natural disaster the country has seen in its history.

Sol Meliá used its website to help the victims, providing three different ways for visitors to make contributions: a link to the American Red Cross website to make direct donations; the donation of points by MaS Rewards members; and, a "1 Booking, 1 Euro" campaign by which Sol Meliá donated funds from its Solidarity Funds to the American Red Cross for bookings made through solmelia.com.

Hurricane Wilma

On the weekend of 22 October 2005 Hurricane Wilma hit Cancun and the island of Cozumel causing major damage to hotels in the region and to the houses and belongings of many Sol Meliá employees. The violence of the storm meant that hotels had to be evacuated and guests moved to safer regions, where they stayed for more than six days along with many employees.

The fact that the hurricane had such a major effect on the way of life of so many company employees led Sol Meliá to mount a wide range of activities through the Community Involvement programme to help the needy.

Firstly, the ***Solidarity Fund*** was activated through the website, together with the possibility of donating MaS Rewards points. There were also many internal initiatives, amongst them the creation of an Assistance Fund where staff could make donations to help out their colleagues.

The culmination of activities was a Solidarity Day organised by employees at corporate headquarters in Palma de Mallorca and involving employees from all of the hotels in Mallorca as well as employees from corporate offices in Madrid in a prize draw.

A large number of suppliers also joined in by donating gifts, money and electrical appliances which were handed out in the disaster zone.

The money raised helped to fully or partially rebuild 47 houses and thus give the most direct sort of help to more than 50 employees.

5.4 Purchasing

In 2005, as part of the "Purchasing Programme" contained in the Sol Meliá Community Involvement programme, a large number of products and services were purchased from several Special Employment Centres (companies in which at least 70% of employees are disabled).

The unemployment rate amongst the disabled in Spain currently stands at around 70%, a sign of the major disadvantages suffered by the disabled in the labour market. Special Employment Centres create permanent positions for the disabled and enjoy a considerable reduction in Social Security contributions.

In 2005 Sol Meliá continued with its purchases from Special Employment Centres, making purchases from 14 different companies in Spain alone for a total amount of 4,118,791. 50 euros, making Sol Meliá one of the leading companies in Spain in purchases from Special Employment Centres.

Company	ID number	Purchases
SEMPRE-VERD	B07489123	11,449.92
AMADIP-ESMENT	G-07065709	259,809.33
ATAM CEE LAVANDERIAS	G-28456283	843,119.54
ARTESA, S.L.	B-79415618	307,494.84
FUNDOSA LAVANDERIAS INDUSTRIALES S.A.	A-79475729	2,597,307.04
LAVAHOTEL, S.L. (Granada)	B-18294629	55,009.55
PILSA (CEEPILSA)	A-79384525	2,573.30
A.E.I.P.M. Asoc. Emple. Iber.Padres Minus.	G-28641116	
SOPORTE INFORMATICO DE BALEARES, S.L.	B-07491160	983.45
A.I.P.S.D. Menorca (Asoc. Integracion Sindrome Down)	G-07726458	700.00
DONAR PLAST, S.A.	B-30561690	
VALIDS ARTESANS	B-07559909	39,724.64
FUNDACION CUBANO-BALEARES	G-57006066	619.44
Total 2005		**4,118,791.05**

Solidarity Corner at the Sol Príncipe, organised with UNICEF as part of the activities organised for the "Solidarity Day" run by Sol Meliá in 2005.

Ricardo Verdayes, General Manager at the Paradisus Riviera Cancún, helping with reconstruction work on the homes of employees damaged by Hurricane Wilma.

Hana Hoed from the Gran Meliá Jakarta presents the Indonesian Red Cross with assistance for the victims of the landslide on the island of Java.

6. COMMUNITY INVOLVEMENT MANAGEMENT

6.1 General framework

The majority of the actions carried out by Sol Meliá start as ideas from the hotels in 30 countries on 4 continents where assistance programmes for disadvantaged people and communities form part of a global Community Involvement programme which aims to better focus our efforts and better plan and coordinate activities.

Our previous efforts and this new drive to improve community involvement are the result of:

- The defence and application in Sol Meliá of the concept of "a socially responsible company" in our day-to-day business and as a key part of our wider corporate culture.
- Our experience as a company in contributing to progress in countries in which we operate, an experience which helps us ensure our community involvement activities are responsive and productive.
- The professionalism and expertise of the people that coordinate our community involvement activities, including representatives of all departments and all of the company's international divisions.
- The company's desire that community involvement become something in which all of our employees feel encouraged to take part. To promote participation the company provides regular updates on the activities of hotels and corporate offices in internal newsletters and has created an e-mail address for exchanging suggestions and proposals.

6.2 Project selection criteria

Community Involvement project selection must comply with all of the requirements described in the Community Involvement Plan, including the definition of objectives and benchmarks, the analysis of NGOs, foundations or organizations with which we carry out projects, the verification, control and economic impact of projects or the final analysis from the point of view of constant improvement.

Deciding whether Sol Meliá should get involved in a project depends on two priority criteria. The first is to ensure that the NGO, foundation or organisation is able to demonstrate its transparency and good conduct (professionalism, philosophy and defined objectives, and correct use of funds). The second criteria is based on an analysis of the compatibility of the project with the specific programmes in the Sol Meliá Community Involvement Plan.

Sol Meliá is also proactive in community involvement and makes direct contact with organisations that it thinks are appropriate for the development of projects, as well as analysing in detail all of the proposals that are received to assess whether the requests are compatible with the objectives of the Community Involvement Plan.

Invitation from Intermón Oxfam to the presentation of the organisation to new partners made at the Meliá María Pita hotel in La Coruña.

6.3 Monitoring group

A Community Involvement Monitoring Group formed by representatives of almost all of the company's service and operations departments has been set up to coordinate company activities. All of the projects approved are subject to constant supervision to ensure that they meet their objectives and achieve the expected results, regardless of whether they are projects that are the direct responsibility of an NGO or whether they require coordination with the hotel corporate office.

The success of projects carried out at company hotels is the direct responsibility of the Hotel General Manager, as well as the compilation of information on the type of activity, its objectives, the locations in which it is carried out, the schedule, the beneficiaries, the participants, the economic impact, and any other additional information thought relevant. All of this information is drawn up at the hotel and then submitted to the Community Involvement Department at corporate headquarters.

A dossier is then put together containing the information mentioned above along with a final evaluation of the project made by project coordinators when it is over. This evaluation is one of the key factors analysed by the "Monitoring Group" to assess the quality of the projects carried out and to propose aspects in which improvements might be made.

6.4 Project management in hotels

Although Sol Meliá coordinates and supervises the development of the Community Involvement Plan from corporate headquarters (from which numerous projects to help the disadvantaged are also created), the majority of community involvement projects at Sol Meliá involve hotels, their guests and their employees.

To ensure Community Involvement projects are managed correctly in each hotel, the Hotel General Manager is directly responsible for all projects as well as for compliance with any guidelines applied to them. In some hotels, the General Manager may delegate responsibility for project management to a "Community Involvement Coordinator".

The Coordinator is in constant contact with hotel management, presents project proposals, assesses and responds to all proposals received from hotel employees, from guests and from corporate headquarters, and is also proactive in analysing initiatives that might be applicable in the hotel. The Community Involvement Coordinator is also responsible for relations with NGO's or other organisations involved in any project that receives support from the hotel.

7 CONTACT

If you, your company, NGO, foundation or public or private institution would like more information on Sol Meliá community involvement projects, please contact us.

Community Involvement Department
SOL MELIA
Gremio de Toneleros, 24.
07009 Palma de Mallorca, Spain
Telephone: +34 971.224473
fax: +34 971.224427
accion.social@solmelia.com
community.involvement@solmelia.com
www.solmelia.com

Paradisus Puerto Rico

REGULATORY NOTIFICATIONS

Date 25/02/05 (Notification number 17906)
The Company issues information on financial results for 2004.

Date 30/03/05 (Notification number 56451)
The Company issues information on resolutions approved by the Board of Directors, and also reports the calling of the Ordinary and Extraordinary General Shareholders Meeting for 7 June 2005.

Date 06/05/05 (Notification number 57452)
The Company issues an official announcement of the calling of the Ordinary and Extraordinary General Shareholders Meeting for 7 and 8 June 2005 (first and second calling respectively).

Date 07/06/05 (Notification number 58658)
The Company announces the resolutions adopted at the General Shareholders Meeting held on 7 June 2005. Amongst the resolutions approved is the distribution of a dividend of 0.054 euros per share.

Date 28/06/05 (Notification number 59108)
The Company issues the Annual Report on Corporate Governance for 2004.

Date 04/08/05 (Notification number 60147)
Sol Meliá, S.A. reports that at 10 Feb 05 the Company contracted the services of CB Richard Ellis to value the Company's real estate assets. The real estate assets of Sol Meliá consist of 63 hotels in Spain, 11 hotels in Europe, 13 hotels in Latino America and 13 diverse assets in Spain and 5 diverse assets in Latin America. The purpose of the valuation is to estimate the market value of each property at date 31 Dec 04.

Date 03/02/06 (Notification number 63802)
The Company announces that it has acquired from G.I. Cartera, S.A. 70% of the capital stock of Alcajan XXI, S.L. for 10.2 million euros.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Name	Position
Gabriel Escarrer Juliá	Chairman
Sebastián Escarrer Jaume	2nd Deputy Chairman and Chief Executive Officer
Gabriel Juan Escarrer Jaume	Chief Executive Officer

OUTSIDE INSTITUTIONAL DIRECTORS

Name	Representative	Position	Shareholder represented
Juan Vives Cerdá		1st Deputy Chairmanº	Hoteles Mallorquines Asociados S.L.
Hoteles Mallorquines Consolidados S.A.	María Antonia Escarrer Jaume	Director	Hoteles Mallorquines Consolidados S.A.
Ailemlos S.L.	Ariel Mazín Mor	Director	Ailemlos S.L.
Caja de Ahorros del Mediterraneo	Armando Sala Lloret	Director	Caja de Ahorros del Mediterraneo

OUTSIDE INDEPENDENT DIRECTORS

Name	Position
José María Lafuente López	Secretary
Alfredo Pastor Bodmer	Director
Eduardo Punset Casals	Director
José Joaquín Puig de la Bellacasa Urdampilleta	Director
Emilio Cuatrecasas Figueras	Director

GRI REFERENCE LIST

CHAPTER	SCOPE	INDICATORS	CENTRAL/ADDITIONAL	SUBJECTS
1. VISION & STRATEGY				
2. ORGANISATIONAL PROFILE				
3. GOVERNANCE STRUCTURES AND MANAGEMENT SYSTEMS				
PERFORMANCE INDICATORS	ECONOMIC PERFORMANCE INDICATORS		CENTRAL INDICATORS	Customers Suppliers Employees Capital providers Public sector
	ENVIRONMENTAL PERFORMANCE INDICATORS		CENTRAL INDICATORS	Material Energy Water Biodiversity Emissions, effluents & waste Products and services Compliance
			ADDITIONAL INDICATORS	Energy Transport Overall
	SOCIAL PERFORMANCE INDICATORS	LABOUR POLICY, TRAINING AND EDUCATION	CENTRAL INDICATORS	Employment Training and further education Diversity and opportunity
			ADDITIONAL INDICATORS	Employment Training and further education
		SOCIAL	CENTRAL INDICATORS	Guidelines on communities Bribery and corruption Political contributions
			ADDITIONAL INDICATORS	Guidelines on communities Political contributions Competition and pricing
		PRODUCT RESPONSIBILITY	CENTRAL INDICATORS	Consumer health and safety Products and services Respect for privacy
			ADDITIONAL INDICATORS	

1. VISION AND STRATEGY

1.1.	Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	AR 5, 82.
1.2.	Statement from the CEO.	AR 5

2. ORGANISATIONAL PROFILE

2.1.	Name of reporting organisation.	AR 7; FR 15
2.2.	Major products and/or services.	AR 28, 31, 36
2.3.	Operational structure of the organisation.	AR 25
2.4.	Description of major divisions, operating companies, subsidiaries and joint ventures.	FR 35, 66
2.5.	Countries in which the organisation's operations are located.	AR 7
2.6.	Nature of ownership; legal form.	AR 7; FR 15
2.7.	Nature of markets served.	AR 13
2.8.	Scale of the reporting organisation.	AR 7, 53
2.9.	List of stakeholders, key attributes of each, and relationship to the reporting organisation.	AR 52, 53, 60, 68, 70, 82
2.10.	Contact person(s) for the report including e-mail and web addresses.	http://prensa.solmelia.com/contact.html
2.11.	Reporting period (e.g., fiscal/calendar year) for information provided.	2005
2.12.	Date of most recent previous report (if any).	2004
2.13.	Boundaries of report and any specific limitations on the scope.	FR 16
2.14.	Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.	AR 3, 31, 36
2.15.	Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations parameters that can significantly affect comparability from period to period and/or between reporting organisations.	FR 19
2.16.	Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such restatement.	NAp
2.17.	Decisions not to apply GRI principles or protocols in the preparation of the report.	NAp
2.18.	Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	FR 19, 22
2.19.	Significant changes from previous years in the measurement methods applied to key economic, environmental and social information.	FR 19
2.20.	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the Sustainability Report.	FR 126
2.21.	Policy and current practice with regard to providing independent assurance for the full report.	FR 4
2.22.	Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available).	http://prensa.solmelia.com http://inversores.solmelia.com

AR: Annual Report **FR**: Financial Report **NAp**: Not applicable to SOL MELIÁ **NAv**: Not available

3.	GOVERNANCE STRUCTURES AND MANAGEMENT SYSTEMS	
3.1.	Governance structure of the organisation.	FR 102, 118
3.2.	Percentage of the board of directors that are independent, non-executive directors.	FR 103
3.3.	Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities.	NAv
3.4.	Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities.	NAv
3.5.	Linkage between executive compensation and achievement of the organisation's financial and non-financial goals.	FR 108, 136
3.6.	Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.	FR 118
3.7.	Mission and values statements, internally developed codes of conduct or principles, and polices relevant to economic, environmental, and social performance and the status of implementation.	http://inversores.solmelia.com; Corporate Governance; Internal regulations on Good Conduct
3.8.	Mechanisms for shareholders to provide recommendations or direction to the board of directors.	http://inversores.solmelia.com; General Shareholders Meeting; regulations of the General Shareholders Meeting
3.9.	Basis for identification and selection of major stakeholders.	NAv
3.10.	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	AR 53
3.11.	Type of information generated by stakeholder consultations.	AR 53
3.12.	Use of information resulting from stakeholder engagements. Overarching Policies and Management Systems.	AR 53
3.13.	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	AR 72
3.14.	Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.	AR 82
3.15.	Principal memberships in industry and business associations, and/or national/international advocacy organisations.	NAv
3.16.	Policies and/or systems for managing upstream and downstream impacts.	AR 92
3.17.	Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities.	AR 77
3.18.	Major decisions during the reporting period regarding the location of, or changes in, operations..	NAp
3.19.	Programmes and procedures pertaining to economic, environmental, and social performance.	AR 77, 82
3.20.	Status of certification pertaining to economic, environmental, and social management systems.	AR 81

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PERFORMANCE INDICATORS
ECONOMIC PERFORMANCE INDICATORS

CENTRAL INDICATORS

Customers		
EC1.	Net sales.	FR 8
EC2.	Geographic breakdown of markets.	FR 13
Suppliers		
EC3.	Cost of all goods, materials, and services purchased.	NAp
EC4.	Percentage of contracts that were paid in accordance with agreed terms.	100%
Employees		
EC5.	Total payroll and benefits.	FR 13
Capital providers		
EC6.	Distributions to providers of capital.	FR 49
EC7.	Increase/decrease in retained earnings at end of period.	FR 9
Public sector		
EC8.	Total sum of taxes of all types broken down by country	FR 55
EC9.	Subsidies received.	FR 52
EC10.	Donations	AR 82

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PERFORMANCE INDICATORS ENVIRONMENTAL PERFORMANCE INDICATORS	AR 77
CENTRAL INDICATORS	
Material	
EN1. Total materials used other than water, by type.	NAp
EN2. Percentage of materials used that are wastes.	NAp
Energy	
EN3. Direct energy use.	Spain: Electricity kwh: 177,925,765 Propane Kg: 534,636 Natural gas m^3: 3,785,500 Gas-oil L: 4,781,552
EN4. Indirect energy use.	NAv
Water	
EN5. Total water use.	Spain: 9,432,750 m^3; AR 79
Biodiversity	
EN6. Biodiversity-rich habitats	NAv
EN7. Impacts on biodiversity.	NAv
Emissions, Effluents, and Waste	
EN8. Greenhouse gas emissions.	Spian: 102,954.21 CO_2Tonnes
EN9. Use and emissions of ozone-depleting substances.	NAv
EN10. NOx, SO2 and other significant air emissions by type	NAv
EN11. Total amount of waste.	AR 75
EN12. Significant discharges to water by type.	NAp
EN13. Significant spills of chemicals, oils, and fuels.	NAp
Products and services	
EN14. Significant environmental impacts.	NAv
EN15. Recyclable products.	NAp
Compliance	
EN16. Fines for non-compliance.	Zero

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PERFORMANCE INDICATORS ENVIRONMENTAL PERFORMANCE INDICATORS	AR 77
ADDITIONAL INDICATORS	
Energy	
EN33. Activities of suppliers in relation to environmental aspects of the programmes and procedures prepared in response to the section on Governance structure and management systems.	NAv
Transport	
EN34. Significant environmental impact of logistics-related transport.	NAp
Overall	
EN35. Total environmental expenditures by type.	NAv

PERFORMANCE INDICATORS SOCIAL PERFORMANCE INDICATORS	
CENTRAL INDICATORS	
Employment	
LA1. Workforce.	AR 53
LA2. Net employment creation and average turnover.	AR 53
Training and further education	
LA9. Average hours of training per year per employee.	AR 53
Diversity and opportunity	
LA10. Equal opportunity policies and programmes.	AR 53
LA11. Composition of senior management and corporate governance bodies (including the Board of Directors).	FR 102
ADDITIONAL INDICATORS	
Employment	
LA12. Social provisions for employees not required under law.	NAv
Training and further education	
LA16. Description of the procedures which encourage the constant contracting of employees and manage retirement programmes.	AR 53
LA17. Special policies focused on the management of practical know-how or constant training.	AR 53

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SOCIAL PERFORMANCE INDICATORS

SOCIAL	AR 82
CENTRAL INDICATORS	
Guidelines on communities/companies	
SO1. Description of policies to manage impacts on communities areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.	NAp
Bribery and corruption	
SO2. Guidelines to addressing bribery and corruption.	FR 124, 126
Political contributions	
SO3. Guidelines to managing political lobbying and contribution.	FR 124, 126
ADDITIONAL INDICATORS	
Guidelines on communities/companies	
SO4. Awards received in relation to social, environmental or ethical performance.	AR 77, 82
Political contributions	
S05. Amount of funds donated to political parties or institutions whose main function is to finance political parties or their candidates.	NAp
Competition and pricing	
SO6. Court decisions pertaining to anti-trust and monopoly regulations	Zero
SO7. Guidelines to prevention of anti-competitive behaviour.	Zero

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SOCIAL PERFORMANCE INDICATORS
PRODUCT RESPONSIBILITY

CENTRAL INDICATORS

Consumer health and safety		
PR1.	Guidelines to preservation of customer health and safety	FR 125
Products and services		
PR2.	Guidelines to product information and labelling.	NAp
Respect for privacy		
PR3.	Guidelines to consumer privacy	Hotels and corporate offices Data Protection Manual; external audits

ADDITIONAL INDICATORS

PR4.	Number and type of incompliance with regulations on customer health and safety, as well as any sanctions or fines imposed for the infractions.	Zero
PR5.	Number of claims confirmed for health and safety in products and services.	Zero
PR6.	Labelling of products and compliance with voluntary codes or awards related to social and/or environmental responsibility received by the organisation.	NAp
PR7.	Number and type of incompliance with regulations on product information and labelling, as well as any sanctions or fines imposed for the infractions.	NAp
PR8.	Analysis of management policies and systems / procedures, as well as the compliance mechanisms related to customer satisfaction, and the results of surveys which evaluate satisfaction.	AR 53
PR9.	Description of management policies and systems / procedures, as well as the compliance mechanisms related to legal regulations and voluntary codes in advertising.	NAv
PR10.	Number and type of infractions committed cometidas within the framework of regulations on marketing and advertising.	Zero
PR11.	Number of claims accepted in respect to violations of customer personal privacy.	Zero

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CORPORATE INFORMATION

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COMMUNITY INVOLVEMENT AND THE ENVIRONMENT

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ANNUAL GENERAL MEETING

Palma de Mallorca
Date: 7th. June, 2004
Location: Hotel Gran Meliá Victoria
Dividend payment: 0.054 euros per share

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SM'05

FINANCIAL REPORT 2005

01

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AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Translation of reports and accounts originally issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails.

To the shareholders of SOL MELIA, S.A.
Palma de Mallorca

1. We have audited the consolidated financial statements of SOL MELIA, S.A. and Subsidiaries (the Group), which consist of the consolidated balance sheet at December 31, 2005, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in net equity and the consolidated notes thereto for the year then ended, the preparation of which is the responsibility of SOL MELIA, S.A.'s directors. Our responsibility is to express an opinion on these consolidated financial statements taken as a whole, based upon work performed in accordance with generally accepted auditing standards, which require the examination, through the performance of selective tests, of the evidence supporting the consolidated annual accounts, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

2. The accompanying 2005 consolidated annual accounts are the first ones which the Group has prepared by applying the international financial reporting standards adopted by the European Union (IFRS-EU), which in general require that comparative information be included in the financial statements presented. Thus, in accordance with mercantile law, for comparative purposes the Parent Company's directors have included for each of the captions included in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and the notes thereto, in addition to the figures of 2005, those of 2004, which have been obtained by applying IFRS-EU in effect at December 31, 2005. Consequently, the 2004 figures differ from those set forth in the approved consolidated 2004 annual accounts which were prepared in accordance with the accounting principles and criteria in effect at the time. The principal differences arising as a result of applying IFRS-EU to consolidated equity at January 1 and December 31, 2004 and 2004 consolidated income statement of the Group are set forth in Note 20 included in the accompanying consolidated financial statements. Our opinion refers only to the consolidated financial statements for 2005. On April 1, 2005 we issued our audit report on the 2004 consolidated annual accounts prepared in conformity with accounting principles and criteria in effect said year, in which we expressed an unqualified opinion.

ERNST & YOUNG

AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS
(CONTINUED)

To the shareholders of SOL MELIA, S.A.
Palma de Mallorca

3. In our opinion, the accompanying 2005 consolidated financial statements give a true and fair view, in all material respects, of the consolidated net equity and consolidated financial position of SOL MELIA, S.A. and Subsidiaries at December 31, 2005 and of the consolidated results of their operations, consolidated cash flow and changes in consolidated equity for the year then ended and contain the required information necessary for their adequate interpretation and comprehension, in conformity with the international financial reporting standards adopted by the European Union which are consistent with those applied to the figures and information corresponding to the 2004 consolidated financial statements which have been included in the 2005 annual accounts for comparative purposes.

4. The accompanying consolidated management report for the year 2005 contains such explanations as the directors consider appropriate concerning the situation of SOL MELIA, S.A. and Subsidiaries, the evolution of their business and other matters and does not form an integral part of the consolidated financial statements. We have checked that the accounting information contained in this report is in accordance with that of the consolidated financial statements for the year 2005. Our work as auditors is limited to the examination of the consolidated management report with the scope mentioned in this paragraph and does not include the examination of information other than that obtained from the accounting records of Sol Meliá, S.A. and Subsidiaries.

ERNST & YOUNG, S.L.
Signed by Antonio Bosch Tugores

April 1, 2006

CONSOLIDATED ASSETS

(in thousands of euros)

	31/12/05	31/12/04
INTANGIBLE FIXED ASSETS (Note 7)		
Software	42,540	57,862
Goodwill	20,150	19,777
Other Intangibles	61,842	62,998
PROPERTY, PLANT AND EQUIPMENT (Note 8)		
Land	450,187	431,731
Constructions	1,128,420	1,066,908
Technical plant and machinery	214,811	218,684
Other assets	154,757	168,228
Prepayments and assets in progress	19,764	3,270
INVESTMENT PROPERTIES (Note 9)	95,232	94,093
OTROS ACTIVOS NO CORRIENTES (Nota 10)		
Available-for-sale investments (Note 10.1)	40,996	34,492
Investments in associates (Note 10.2)	24,034	38,499
Loans to associates (Note 10.3)	12,490	1,628
Deferred tax assets	137,600	146,954
Other non-current financial assets (Note 10.4)	31,660	43,194
TOTAL NON-CURRENT ASSETS	**2,434,483**	**2,388,318**
NON-CURRENT ASSETS FOR SALE (Note 11)	9,402	
CURRENT ASSETS (Note 12)		
Inventories (Note 12.1)	35,487	33,059
Trade and other receivables (Note 12.3)	77,717	77,538
Receivables from associates (Note 12.3)	16,488	10,301
Other current assets (Note 12.4)	107,543	58,743
Other current financial assets (Note 12.5)	34,288	21,464
Cash and short-term deposits	130,915	101,457
TOTAL CURRENT ASSETS	**402,438**	**302,562**
TOTAL ASSETS	**2,846,323**	**2,690,880**

CONSOLIDATED EQUITY AND LIABILITIES

(in thousands of euros)

	31/12/05	31/12/04
EQUITY (Note 13)		
Issued capital (Note 13.1)	36,955	36,955
Share premium (Note 13.2)	770,273	785,893
Revaluation reserves (Note 13.2)	101,003	97,463
Distributable reserves (Note 13.2)	26,951	20,449
Non-distributable reserves (Note 13.2)	53,169	54,843
Results from prior years	(410,015)	(360,006)
Reserves in companies integrated by the full consolidation method (Note 13.3)	233,084	140,539
Reserves in associates (Note 13.4)	128	(1,187)
Exchange differences (Note 13.5)	32,781	(41,911)
PROFIT AND LOSSES ATTRIBUTABLE TO THE GROUP	90,095	43,871
Consolidated profit & loss	92,035	45,855
Minority interests' profit & loss	(1,940)	(1,984)
TREASURY SHARES (Note 13.6)	(35,692)	(31,313)
TOTAL EQUITY	898,732	745,596
MINORITY SHAREHOLDERS (Note 14)	45,273	62,856
TOTAL NET EQUITY	**944,005**	**808,452**
NON-CURRENT LIABILITIES (Note 15)		
Issue of debentures and other marketable securities (Note 15.1)	149,257	487,372
Preference shares (Note 15.2)	99,074	98,255
Bank debt (Note 15.3)	456,603	495,859
Capital grants and other deferred income (Note 15.5)	66,709	5,017
Provisions (Note 15.6)	28,552	28,432
Deferred tax liabilities (Note 16.2)	223,569	237,121
Other non-current liabilities (Note 15.7)	177,145	176,242
TOTAL NON-CURRENT LIABILITIES	**1,200,909**	**1,528,298**
CURRENT LIABILITIES (Note 15)		
Issue of debentures and other marketable securities (Note 15.1)	359,369	20,336
Bank debt (Note 15.3)	100,141	130,822
Payables to associates (Note 15.8)	273	265
Trade payables	159,463	133,154
Other current liabilities (Note 15.9)	82,163	69,553
TOTAL CURRENT LIABILITIES	**701,409**	**354,130**
TOTAL EQUITY AND LIABILITIES	**2,846,323**	**2,690,880**

CONSOLIDATED INCOME STATEMENT (Note 1)

(in thousands of euros)

	31/12/05	31/12/04
Operating income	**1,165,290**	**1,052,181**
Consumption of goods	(139,317)	(133,184)
Personnel expenses	(354,897)	(334,714)
Other expenses	(321,870)	(288,472)
EBITDAR (*)	**349,206**	**295,811**
Rentals	(61,139)	(56,850)
EBITDA (**)	**288,067**	**238,961**
Amortization/depreciation charges	(109,168)	(108,247)
Impairment loss for goodwill	(139)	
EBIT (***)	**178,760**	**130,714**
Other financial results	10,605	1,574
Exchange losses (gains)	(3,078)	(217)
Bank financing net results	(72,972)	(70,089)
Other financing results	(11,001)	(10,774)
Finance results	**(76,446)**	**(79,506)**
Profit / (Loss) in associates	**(1,375)**	**1,074**
PROFIT BEFORE TAXATION AND MINORITY INTEREST	**100,939**	**52,282**
Taxes	(8,904)	(6,428)
NET RESULT	**92,035**	**45,855**
(Profit) / Loss Minority interest	(1,940)	(1,984)
PROFIT / (LOSS) ATTRIBUTABLE TO PARENT COMPANY	**90,095**	**43,871**
BASIC EARNING PER SHARE	**0.50**	**0.24**
DILUTED EARNING PER SHARE	**0.50**	**0.24**

Explanation notes:

(*) EBITDAR (Earnings Before Interest, Tax, Depreciation, Amortization & Rent)

(**) EBITDA (Earnings Before Interest, Tax, Depreciation & Amortization)

(***) EBIT (Earnings Before Interest & Tax)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	Parent Company	Full integrated companies	Associates	Exchange differences	Results attributable to the Group	Minority interest	TOTAL NET EQUITY
Balance as of 01/01/2004	**624,157**	**140,286**	**(1,262)**	**(516)**		**60,672**	**823,337**
Merger, provisions and dividends transactions between the Group and the Parent	(11,764)	11,820	(56)				0
Distribution of 2003 dividends	(8,625)						(8,625)
Sale of revalued time-sharing units		(11,567)					(11,567)
Changes in the consolidation perimeter carried out in 2005			131			627	758
Evaluation of exchange rates during the year	515			(41,395)		(427)	(41,307)
2004 results					43,871	1,984	45,855
Balance at 31/12/2004	**604,283**	**140,539**	**(1,187)**	**(41,911)**	**43,871**	**62,856**	**808,452**
Distribution of 2004 results	(17,541)	60,338	1,074		(43,871)		0
Merger, provisions and dividends transactions between the Group and the Parent	(30,594)	31,889	(500)			(795)	0
Distribution of 2004 dividends	(11,515)						(11,515)
Treasury shares transactions	(1,936)						(1,936)
Changes in the consolidation perimeter carried out in 2005			741			(20,227)	(19,486)
Changes in amortization/depreciation policies in the Group companies located in France		318					318
Evolution of the exchange rates during the year	(54)			74,692		1,499	76,137
2005 results					90,095	1,940	92,035
Balance at 31/12/2005	**542,643**	**233,084**	**128**	**32,781**	**90,095**	**45,273**	**944,005**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (*)

(in thousands of euros)

	2005	2004
OPERATING ACTIVITIES		
PROFIT BEFORE TAXES AND MINORITY INTEREST	100,939	52,282
Adjustments for:		
- Profit/(Loss) in associates	1,375	(1,074)
- Financial results	76,446	79,506
- Amortisation/depreciation charges	109,168	108,247
- Impairment	139	0
- Investing activities result	(59,335)	(992)
+ Dividends from associates	1,078	887
+ Insurance indemnities	15,673	
+ Income to be allocated in various years	20,551	1,138
- Changes in payables and other non-current accounts payable	(4,836)	(12,927)
- Corporation Tax	(9,059)	(8,132)
+/- Changes in payables and other current accounts payable	17,915	96,596
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**270,053**	**315,531**
FINANCING ACTIVITIES		
- Dividends paid to Meliá S.A.	(11,515)	(8,625)
- Dividends paid to minority interest		(610)
+ Collection for new bank financing (**)	111,637	79,461
- Payment of bank debts	(183,768)	(338,132)
- Interest paid	(66,689)	(55,528)
- Payment for capital leases	(11,001)	(10,774)
- Payment of preference dividends	(8,337)	(8,329)
+ Other financial collections	6,143	4,534
+ Receipt of capital grants		478
+/- Variations in portfolio	(1,936)	(5,706)
TOTAL CASH FLOWS FROM FINANCING ACITIVITIES	**(165,466)**	**(343,230)**
INVESTING ACTIVITIES		
- Acquisition of Intangible Fixed Assets	(7,481)	(9,107)
- Acquisition of property, plan and equipment (**)	(162,825)	(61,572)
- Acquisition of financial assets (***)	(30,371)	(17,579)
+ Proceeds from sale of property, plant and equipment	103,288	16,232
+ Proceeds from sale of financial assets	21,383	2,831
- Increase of credits to associates	(6,962)	
+ Receipt of investment incentives	1,347	3,563
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**(81,621)**	**(65,632)**
Exchange rate changes in cash and cash equivalents	6,492	(3,527)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**29,458**	**(96,858)**
Cash and cash equivalents at January, 1	101,457	198,315
CASH AND CASH EQUIVALENTS AT DECEMBER, 31	**130,915**	**101,457**
Cash and banks	88,268	75,153
Cash equivalents	42,647	26,304

Explanation Notes:
The cash flow has been elaborated using the indirect method and correcting all those significant entries which are not considered cash movements.
(*) The consolidated cash flow statement corresponding to 2004 is presented for information purposes only.
Non-monetary transactions
(**) The assets acquisitions, by means of financial leases, made in 2004 and 2005 of 20.9 and 17.6 million euros respectively are not considered cash movements.
(***) During 2005 the Group acquired the remaining 50% of Tenerife Sol. Part of the purchase was made by a debt compensation for an amount of 7.7 million euros.

1. SEGMENT INFORMATION

1.1 Business segments 2005

(in thousands of euros)

	HOTEL BUSINESS	REAL ESTATE BUSINESS	STRUCTURE and MANAGEMENT	Write-downs	TOTAL 31/12/05
RESULTS					
Operating Income	910,801	136,531	232,618	(114,660)	1,165,290
Operating Expenses	(616,535)	(41,504)	(272,826)	114,781	(816,084)
EBITDAR	**294,266**	**95,027**	**(40,208)**	**121**	**349,206**
Rentals	(61,018)			(121)	(61,139)
EBITDA	**233,248**	**95,027**	**(40,208)**	**0**	**288,067**
Amortization/depreciation	(75,821)	(1,084)	(32,402)		(109,307)
EBIT	**157,427**	**93,943**	**(72,610)**		**178,760**
Financial results					(76,446)
Results in associates	(643)		(732)		(1,375)
EBT					**100,939**
Taxes					(8,904)
NET RESULT					**92,035**
Minority interest					(1,940)
RESULT ATTRIBUTED TO THE PARENT COMPANY					**90,095**
ASSETS AND LIABILITIES					
Intangibles and property, plant and equipment	1,917,966	32,859	141,646		2,092,471
Investments in associates	24,409		(375)		24,034
Other non-current assets					317,978
Current operating assets	159,792	19,025	24,401		203,218
Other current assets					208,622
TOTAL ASSETS					**2,846,323**
Financial debt					1,164,444
Other non-current liabilities					495,975
Current operating liabilities	85,256	5,565	68,642		159,463
Other current liabilities					82,436
TOTAL LIABILITIES					**1,902,318**

The operating revenue from the real estate business includes capital gains from sales through asset turnover relating to the disposal, for an amount of 60 million euros, of the Hotel Tryp Macarena, located in Seville, the Hotel Meliá Las Palmas, located in Las Palmas, the Hotel Tryp Alcano, located in Granada and the Hotel Meliá Torremolinos.

The sales of the Vacation Club units included in the real estate segment in 2005 have amounted to 52.4 million euros.
The passage of Hurricane Wilma through Cancun's hotel area has caused serious damage to the hotels operated by

the Group. In the hotel segment, the withdrawal of assets has been recorded as expenses and the compensation payouts received from the insurance companies, which amount to 25.1 million euros, have been recorded as income.

1.2 Business segments 2004

For comparative reasons, the segmentation of the 2004 pro forma statement of income is presented below:

1.3 Geographical segments

(in thousands of euros)

	HOTEL BUSINESS	REAL ESTATE BUSINESS	STRUCTURE and MANAGEMENT	Write-downs	TOTAL 31/12/04
RESULTS					
Operating Income	890,063	61,521	195,990	(95,393)	1,052,181
Operating Expenses	(610,985)	(23,001)	(217,903)	95,519	(756,370)
EBITDAR	**279,078**	**38,520**	**(21,913)**	**126**	**295,811**
Rentals	(56,724)			(126)	(56,850)
EBITDA	**222,354**	**38,520**	**(21,913)**	**0**	**238,961**
Amortization/depreciation	(76,313)	(99)	(31,835)		(108,247)
EBIT	**146,041**	**38,421**	**(53,748)**		**130,714**
Financial results					(79,506)
Rdo. Entidades Asociadas	1,220		(146)		1,074
EBT					**52,282**
Taxes					(6,428)
NET RESULT					**45,855**
Minority interest					(1,984)
RESULT ATTRIBUTED TO THE PARENT COMPANY					**43,871**
ASSETS AND LIABILITIES					
Intangibles and property, plant and equipment	1,878,911	4,435	146,112		2,029,458
Investments in associates	38,160		339		38,499
Other non-current assets					320,361
Current operating assets	120,502	13,345	27,983		161,830
Other current assets					140,732
TOTAL ASSETS					**2,690,880**
Financial debt					1,232,644
Other non-current liabilities					446,812
Current operating liabilities	78,301	1,593	53,260		133,154
Other current liabilities					69,818
TOTAL LIABILITIES					**1,882,428**

Segmentation by business type constitutes the primary format which best represents the Group's financial information, facilitating comprehension of the yield obtained and annual monitoring. Moreover, the breakdown of the geographical segments, by volume of income and assets, is as follows:

1.4 Consolidated personnel expense

(in thousands of euros)

	EUROPE	AMERICA	AFRICA	ASIA	Write-downs	TOTAL 31/12/05
Operating Income	904,550	366,835	6,680	1,885	(114,660)	1,165,290
Assets	1,535,508	556,963	0	0	0	2,092,471

	EUROPE	AMERICA	AFRICA	ASIA	Write-downs	TOTAL 31/12/04
Operating Income	846,101	295,154	5,031	1,288	(95,393)	1,052,181
Assets	1,567,914	461,544	0	0	0	2,029,458

The average number of employees during the last two years, by category, is as follows:

The breakdown of the consolidated personnel expense is as follows:

	2005	2004
EXECUTIVES	328	311
HEADS OF DEPARTMENT	1,334	1,267
TECHNICIANS	8,501	8,244
AUXILIARY STAFF	5,240	5,094
Total	**15,403**	**14,916**

(in thousands of euros)

	2005	2004
WAGES, SALARIES AND ASSIMILATED	283,108	266,285
SOCIAL SECURITY EXPENSES	58,066	56,517
OTHER WELFARE EXPENSES	13,723	11,912
Total	**354,897**	**334,714**

2. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year (adjusted by the effects of the diluted share options and the convertible redeemable preference shares).

The Group does not possess a financial instrument which causes differences between the basic and diluted earnings per share. The table below reflects the income and share data used in the earnings per share computations:

(units of euro)

	31/12/05	31/12/04
Result attributed to the Parent company	**90,095,171**	**43,871,083**
Number of ordinary shares	184,776,777	184,776,777
Weighted average number of shares	(5,340,992)	(5,071,121)
Total number of shares	**179,435,785**	**179,705,656**
Earning per share	**0.50**	**0.24**

At the General Shareholders' Meeting, the Board of Directors will propose the distribution of a gross dividend, excluding treasury shares, of 0.098 euros per share (net dividend of 0.081 euros). Said distribution will be charged to income for the year for the parent company, Sol Meliá, S.A. The total to be distributed amounts to 18,019,025 euros.

3. CORPORATE INFORMATION

The parent company, SOL MELIA, S.A., was formed in Madrid on June 24, 1986 with the name Investman, S.A. In February 1996, the Company modified its official name, becoming SOL MELIA, S.A., inscribed in the Mercantile Registry of the Balearic Islands Corporate volume 1335, folio nº PM 22603, third inscription, with its registered address in Calle Gremio Toneleros, 24 of Palma de Mallorca, Balearic Islands, Spain.

The activities of SOL MELIA, S.A and its associated companies (hereinafter "SOL MELIA" or the "Group") basically consist of tourism in general and, specifically, in the management and operation of owned or rented hotels under management or franchise agreements, as well as in vacation club operations. The Group's activities also consist in the promotion of any type of business related to the tourist and hotel trade or related to leisure, recreation or amusement as well as in the participation in the creation, development and operation of new businesses, establishments or entities within the tourism and hotel trade and in any leisure, recreation or amusement activity. Certain Group companies also carry out real estate activities, taking advantage of the synergies obtained from hotel developments due to the significant expansion process.

In all events, those activities, reserved by the special laws for companies who fulfill certain requirements that are not fulfilled by the Group, are expressly excluded from its corporate purpose; in particular, those activities reserved by the laws for Collective Investment Institutions or money market dealers are excluded.

The Group's activities are carried out in Germany, Argentina, Belgium, Brazil, Colombia, Costa Rica, Croatia, Cuba, Egypt, Spain, the United States, France, Indonesia, Italy, Malaysia, Mexico, Panama, Peru, Portugal, Puerto Rico, United Kingdom, Dominican Republic, Switzerland, Tunisia, Uruguay, Venezuela and Vietnam.

4. CONSOLIDATION SCOPE

The companies which comprise the Group present individual financial statements in accordance with the regulations applicable in the country in which they operate.

The breakdown of the participated companies at December 31, 2005, is presented in Appendixes 1 and 2, classified in the following categories:

- *Subsidiaries*: Those companies controlled, directly or indirectly, by the parent company, in such a way that the latter can direct financial and operating policies with an aim to obtain profit for the company.

- *Joint ventures*: Those companies which are jointly controlled through contractual agreements with a third party in order to share control over the company's activity. Financial and operating strategic decisions relating to the activity require the unanimous consent of all controlling parties.

- *Associates*: Those companies, excluded from the other two categories, in which the Group has a significant influence and maintains a lasting relationship favouring and influencing their activity.

Meliá Brasil Administraçao, whose corporate purpose is that of hotel management, operates one hotel on a leasing basis and the rest on a management basis. Since the hotels under management are of joint ownership and are not legally authorised to carry out operating activities, in view of the local requirements, Meliá Brasil Administraçao has assumed the operations of the hotels in Brazil on behalf of the joint owners. Since all risks and revenues will be returned to the joint owners, the consolidated profit and loss account only reflects the remuneration from the management of the hotels received by the Group and does not include income and expenses relating to their operation.

The company, Tryp Mediterranee, of which Sol Meliá owns 85.4%, is in dissolution and is excluded from the consolidation scope since, at present, the Group has no control or significant influence in the abovementioned company during said process.

The Group's participation in Comunidad de Propietarios Meliá Costa del Sol, through its subsidiary, Apartotel, S.A. is of 19.02%. As Apartotel, S.A. acts as Administrator and Secretary of said company and as the participations are highly diluted, the Group has a significant influence. For this reason, the company is included in the consolidation scope applying the participation method, despite the participation held being less than 20%.

The Group has a 49.84% holding in Casino Paradisus, S.A. corresponding to a 50% holding through the subsidiary Meliá Inversiones Americanas, N.V. Due to the Group holding the majority of the voting rights, said company is considered to be controlled.

4.1 Changes in the consolidation scope 2005

Additions in 2005		Disposals in 2005
Boscarla, S.L.	(*)	Akuntra XII, S.L.
Calimarest, S.A.	(*)	Azafata, S.A.
Hantisol Resorts, S.A.	(*)	Consorcio Europeo, S.A.
LH Miami LLC		Controladora Turística Cozumel, S.A. de C.V.
Luxury Lifestyle H&R	(*)	Darcuo, XXI, S.L.
Nyesa Melia Zaragoza, S.L.	(**)	Hoteles Turísticos, S.A.
PT Sol Meliá Indonesia	(**)	Industrias Turísticas, S.A.
SM Comercial	(*)	Inmobiliaria Bulmes, S.A.
SMVC España, S.L.	(*)	Inversiones Latinoamérica 2000, S.L.
SMVC Panamá, S.A.		Inversiones Turísticas Casas Bellas, S.A.
Sol Meliá Fribourg, S.A.	(*)	Lavanderías Compartidas, S.A.
	(*)	Meliá Catering, S.A.
		MIH UK, Ltd
	(**)	Moteles Grandes Rutas de España, S.A.
	(*)	Parking Internacional, S.A.
	(*)	Secade XXI, S.L.
	(*)	Inversiones Inmobiliarias Silverbay, S.L.
	(**)	Urme Real, S.A.

(*) Companies absorbed by Sol Meliá, S.A. (fair merger)
(**) Companies absorbed by Realizaciones Turísticas, S.A. (unfair merger)

During 2005, Controladora Turística Cozumel, S.A. de C.V. has been absorbed by Caribotels de México, S.A. de C.V., a company in which the Group owns a 50.91% participation and which is integrated by the full method.

The company MIH UK Ltd, which was dormant, has been dissolved at year-end.

During 2005, the Group has reduced its participation in Inversiones Turísticas Casas Bellas, S.A., and has changed from being integrated by the equity method in 2004 to being recorded under the "Available-for-sale Investments" caption at their carrying value" in 2005.

The operation relating to the Hotel Paradisus Palma Real, property of Alcajan XXI, S.L. began on December 22, 2005. Sol Meliá, S.A. owns a 30% participation in the latter, with an acquisition cost of 4 million euros. As explained in Note 19 "Post-balance sheet events", on February 2, 2006, the Group has formalised the acquisition of the remaining 70% participation in Alcajan XXI, S.L., for an amount of 10.2 million euros, in virtue of an agreement reached in December 2005. As a result, the company has changed, in the present balance sheet, to being recorded using the full method, as it is considered to be a controlled company at year-end. The total assets and liabilities of the company and its subsidiaries are recorded in the consolidated balance sheet, as are the economic rights of the minority shareholders for 70% of the participation corresponding to the abovementioned operation. Moreover, 30% of the participation in the 2005 results is recognised in the income statement as "Profit in associates" in the income statement. The balance sheet includes non-working capital amounting to 88.3 million euros and 5.8 million euros of working capital, as well as non-current liabilities amounting to 74 million euros and current liabilities amounting to 7.3 million euros.

The company Nyesa Meliá Zaragoza, S.L. has been constituted on October 27, 2005, with a Group participation of 50% and is included in the balance sheet by the full method, since the Company has the control by possessing the majority of the voting rights. The company has acquired a property owned by Sol Meliá, S.A. in order to partially develop the building, as well as continuing with the hotel operation activity. Latent surpluses, amounting to 17.4 million euros, derived from the sale of assets between Group companies, are not recorded.

During 2005, the Group has acquired participations from the minority shareholders of Tenerife Sol, S.A (48.40%) and Moteles Andaluces, S.A (20.17%). The present participation in these companies is now of 98.40% and 98.7%, respectively.

The remaining additions in 2005 have an immaterial effect on the Groups assets and contingent liabilities.

Additions and disposals in 2004 are detailed below:

Additions in 2004	Disposals in 2004
Alcajan XXI, S.L. (1)	Impulse Development, Inc (**)
Credit Control Co.	Inversiones Jacuey, S.A. (*)
Credit Control Riesgos, S.L.	Marmer, S.A. (*)
Golf del Cocotal, S.A.	Torresol De. Turísticos, S.A. (**)
Gupe Inmobiliaria, S.A.	
Inmob. Distrito Comercial, S.A.	
Inversiones Areito, S.A. (1)	
Leoford Investment Co. (1)	
Lifestar, LLC	
Lifestar Hoteles España, S.L.	
New Continent Ventures Co.	
Pájaro, S.A.R.L. (2)	
Operadora San Juan, S.E.	
Segunda Fase Corp. (2)	
Sierra Parima, S.A.	
SMVC Dominicana (2)	
SMVC México (2)	
SMVC Puerto Rico (2)	
Sol Meliá Vacation Club Co. (2)	
Vacation Club Services Co (2)	
Youth Journey	

(1) Companies in the same line of business for the development of a hotel complex in the Dominican Republic.
(2) Companies related to the growth of the Vacation Club business
(*) Merged companies
(**) Dissolved companies

The remaining additions relate to new subsidiaries whose aim is the development of hotel activities.

5. PRESENTATION BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Sol Meliá Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and its interpretations which were published by the International Accounting Standard Board (IASB) at December 31, 2005. The Group first prepared its financial statements in accordance with the IFRS as of December 31, 2005, date as from which the application of the IFRS has been compulsory. Due to this obligation, IFRS 1 "First-time adoption of International Financial Reporting Standards", which has been adopted and approved by the European Union, has been applied at the transition date (January 1, 2004).

The comparative information for the year 2004, included in the Group's 2005 annual accounts, has been prepared in accordance with the same standards. This has implied changes in the valuation, classification and presentation of certain items in the 2004 balance sheet and income statement, which were presented in accordance with generally accepted accounting principles and standards in Spain. Note 20 includes an explanation of the main effects of the transition from Spanish standards to NIIF on the Sol Meliá Group's financial and equity situations.

In order to prepare the financial statements, the Group management must judge, estimate and assume hypotheses which affect the application of the accounting policies and the amounts of assets, liabilities, income and expenses recorded. The estimates and hypotheses taken into account have been based on historical experience and other factors which have been considered reasonable in keeping with the circumstances. Consequently, the actual results may differ from said estimates.

These annual accounts have been prepared by the Board of Directors and are pending approval at the Annual Shareholders' meeting. It is expected that they will be approved without changes.

5.1 True and fair view

The consolidated balance sheet and profit and loss account have been prepared from the internal accounting records of the parent company, Sol Meliá, S.A., and from the accounting records of the other companies included in the consolidation as detailed above and duly adjusted according to the accounting principles established in the IFRS. The figures of the consolidated balance sheet, consolidated profit and loss account and of the Notes thereto are expressed in thousands of euros, unless otherwise indicated.

5.2 Comparison of information

The 2004 balance sheet, income statement, cash flow and changes in equity statements, are adjusted with the same presentation basis used for the 2005 accounts and are therefore comparable for both years.

In relation to the consolidation scope, the main changes which occurred in 2004 and 2005 with respect to the previous year, are commented upon in Note 4.

5.3 Consolidation methodology

Consolidation methodology is described in the following sections:

Consolidation methods

The methods applied in obtaining the consolidated annual accounts have been, in general, as follows:

- The full integration method for the subsidiaries.
- The equity method for the joint ventures.
- The equity method for the associates.

Regarding the participations in joint ventures, all of which are in jointly controlled companies, the Group has opted for the alternative method recognised in IAS 31, "Interests in Joint Ventures", as the management considers said method to be the most suitable for the Group's business situation and business and investment structure. The Group's objective is to avoid combining controlled and jointly controlled operations, a situation which would serve to hinder comprehension of the Group's financial statements.

Temporary and value uniformity

All the companies included in the consolidation perimeter close their financial year as of December 31, having used the respective 2004 and 2005 financial statements for consolidation purposes.

Business combinations

The Group has not retroactively applied IFRS 3 to business combinations which occurred before the transition date, taking advantage of the exemption included in IFRS 1 "First-time adoption of International Financial Reporting Standards". Consequently, first consolidation differences of the elimination between investments and equity arising from business combinations at the transition date, have been allocated, in as far as it was feasible, to assets and liabilities whose actual value at the purchase date differed from that reflected in the balance sheet of the company acquired. The remaining amounts, which could not be allocated, have been charged to goodwill, under the heading "Intangible assets".

In the business combinations subsequent to the transition date, the surplus between the cost of the business combination and the participation of the acquirer in the net fair value of the identifiable assets, liabilities and contingent liabilities are presented under the "Intangible Assets" caption as "Goodwill".

The surplus between the acquirer's participation, after reconsidering the identification and valuation of the identifiable assets, liabilities and contingent liabilities, and the cost of the business combination, is recognised in the results for the year.

Repurchase of minority interest

The difference between the acquisition cost and the value of minority interest at said date has been allocated to goodwill.

Elimination of intercompany operations

The various reciprocal balances for intercompany transactions relating to loans, leasings, dividends, financial assets and liabilities, sale and purchase of inventories and assets and rendering of services, have been eliminated. In relation to the sale and purchase operations, the unrealised profit margin with regards to third parties has been withdrawn in order to present the corresponding assets at their cost price, suitably adjusting the amortisations performed.

For transactions between controlled companies and associated companies or joint ventures, only the proportional part of the result relating to external participation is recognised. The remainder is deferred until the complete disposal of the asset in question.

5.4 Minority interest and result attributed to minority interest

Minority interest

The proportional part of the equity relating to third parties unrelated to the Group is recorded under this caption of the balance sheet liabilities.

Result attributed to minority interest

Result attributed to minority interest is the participation in the consolidated profit or loss for the year relating to minority interest.

5.5 Conversion of the foreign companies annual accounts

All the assets, rights and obligations of the foreign companies included in the consolidation scope are converted to euros using the end of period exchange rate.

The income statement items have been converted at a weighted average exchange rate, according to the volume of transactions occurring in each period.

The difference between the amount of the foreign companies' equity, including the income statement balance calculated as explained in the section above and converted at the historical exchange rate, and the equity situation arising from the conversion of the assets, rights and obligations as described in the first paragraph, is recorded with a positive or negative sign, as applicable, in the balance sheet equity under the heading "Exchange differences", deducting the part of said difference relating to minority interest and recorded under the caption "Minority Interest" on the liabilities side of the balance sheet.

6. ACCOUNTING POLICIES

6.1 Goodwill

The goodwill acquired in a business combination represents a prepayment of the value of the future profits arising from the net assets acquired. Rather than being amortised, goodwill is subject to annual reviews through studies to verify that the carrying amount has not been impaired. Impairment losses are recognised if the recoverable value determined using the actual value of the future cash flows expected for the cash-generating units related all goodwill is less than the carrying amount.

6.2 Other intangible assets

Intangible assets relate to various software applications, leaseholds and industrial property.

The software applications are valued at their acquisition price and are amortised on a straight-line basis throughout their useful life which is estimated to be between 5 and 8 years.

Investments made in trademarks are not amortised as their useful life is considered to be indefinite. Such intangible assets are subject to impairment testing. The remaining elements included in industrial property are amortised on a straight-line basis over a five-year period, while the leaseholds are amortised according to the length of their contracts.

Amortisation of intangible assets is included under the "Amortisation" caption of the income statement.

6.3 Activo material

Property, plant and equipment is stated at cost, including the additional expenses incurred until the asset is in conditions to be put into use, increasing its value through legal revaluations and updatings (see Note 8), decreased by accumulated amortisation and any impairment losses. The financial interest generated by the loans which finance the various projects is included as greater cost of the investment.

In 1996 tangible fixed assets were revalued in accordance with Royal Decree Law 7/1996 of June 7, (See Notes 8 and 13.2). The amount of the fixed assets revaluation was established by applying certain coefficients in view of the year of purchase of the items to the purchase or production cost and to the corresponding annual depreciation charges considered as deductible expenses for tax purposes. The figures thereby obtained were reduced by 40% to take into account the financing conditions in compliance with such rulings. Said values will be brought into line with the assets acquisition cost, as permitted in IFRS 1 "First-time adoption of International Financial Reporting Standards".

Repairs which do not represent an extension of the useful life and maintenance expenses are charged directly to the profit and loss account. Costs which prolong or improve useful life of the asset or can only be used with a certain assets are capitalised as an increase in their value.

The Group's tangible fixed assets are depreciated on the straight-line method over the estimated useful life of the assets which are as follows:

Buildings	20-50 years
Installations	8-18 years
Machinery	8-18 years
Furniture	10-15 years
Computer hardware	3-8 years
Vehicles	5-10 years
Other assets	4-8 years

The net book value of "Other assets" corresponds to the value as per stocktaking carried out in the different centres at year-end. Breakages and losses are recorded as "Disposals". These assets relate to glassware, crockery, hardware, cutlery, linen, tools and other fittings.

The revaluations and capital gains attributable to tangible asset items are depreciated following the same criteria applied to the revalued and/or affected items.

6.4 Investment property

Those investments made by the Group in order to obtain income or net gain and which generate cash flows which are independent from those deriving from the remainder of the Group's assets, are recorded under this caption.

Following the initial recognition made for the total amount of the costs related to the asset acquisition transaction, the Group has chosen the application of the fair value model. For this reason all investment property is recognised at fair value and any variation in value which arises is included in the income statement. All the securities have been supported by independent experts' appraisals and updated based on the Group's estimations.

6.5 Financial assets

Financial assets in the scope of IAS are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When the financial assets are initially recognised, they are recognised at fair value. In the case of investments not at fair value through profit or loss, directly attributable transaction costs are also added. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial assets transfer operations

The Group derecognises a transferred financial asset when it transfers all the contractual rights to receive from the cash flows generated, or still retaining said rights, it assumes an obligation to pay them to the assignees and the risks and rewards related to the ownership of the asset are substantially transferred.

Where the Group has transferred assets in which the risks and rewards related to the ownership of the asset are substantially retained, the transferred financial asset is not derecognised in the balance sheet and is recognised as a related financial liability for an amount equal to the reward received, which is subsequently valued for its amortised cost. The financial asset continues to be valued with the same criteria used before the transfer. Both income from the transferred asset and expenses of the financial liability are recognised in the income statement.

Guarantee deposits

Non-current guarantee deposits are carried at amortised cost using the effective interest rate. Current guarantee deposits are not discounted.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified under the other financial assets captions. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

In the case that an investment available-for-sale does not have a market price of reference in an active market and no other alternative methods exist in order to fairly determine this value, the investment will be valued at cost less the corresponding impairment loss.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from the changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of interest rate swap contracts is determined by valuation techniques such as the discount of cash flows using market interest rates.

6.6 Non-current assets held for sale

Non-current assets held for sale includes those assets whose carrying amount is expected to be recovered through sale rather than continuing use.

They are recorded at the lower of its carrying amount and fair value less costs to sell. Losses through depreciation/amortisation of the asset, or gains arising from subsequent revaluations up to the limit of the previously recognised impairment losses are recognised as losses.

Assets classified as held for sale are not depreciated/amortised.

6.7 Inventory (merchandise, raw materials and other supplies)

Raw and ancillary materials are valued at their average acquisition cost which is generally lower than the realisable value. In the case that their value is less than cost, the necessary adjustments are made in order to reflect the estimated realisation value. The acquisition price includes the amount invoiced plus all additional expenses incurred until the goods are stored in the warehouse.

6.8 Trade and other receivables

Trade and other receivables are reflected in the balance sheet at invoiced value less the discounts and credit notes granted and are adjusted, whenever applicable, by the corresponding provision depending on the risk presented by contingencies involved due to possible insolvencies. Such provisions are applied when the debt is considered irrecoverable.

The provision for bad debt exists to cover possible losses which may arise in the complete recovery of the accounts receivable, decreasing the corresponding assets captions of the balance sheet.

6.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks as well as short-term deposits in banks and other financial institutions with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if applicable.

6.10 Impairment of assets

At each reporting date Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell of the asset and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in previous years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

6.11 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account over the expected useful life of the relevant asset.

6.12 Provisions

Provisions are recognised when the Group:

- has a present obligation (legal or constructive) as a result of a past event.
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- a reliable estimate can be made of the amount of the obligation.

In those cases where the time value of money is significant, the amount of the provision is determined as the present value of the expected future cash flows needed to settle the obligation.

A provision is made to cover the estimated future losses arising from onerous contracts, depending on the expected cash flows of the related cash-generating units, applying an appropriate discount rate.

Certain Collective Wage Agreements prevailing and applicable to several Group companies establish that permanent staff who have been employed by the Company for a specified length of time and take voluntary retirement will be entitled to a cash premium equivalent to a number of monthly salaries proportional to the number of years of service. In 2005 an evaluation of these commitments was performed in accordance with the actuarial assumptions contained in the Externalisation Regulations, by applying the calculation method known as the "projected unit credit" and the population assumptions corresponding to the ERM/F200p tables, applying a capitalisation rate of 3.24%, plus the assumption of a foreseeable turnover of between 2.34% and 6.86% of employees with an average retirement age of 62 years old. The provision for contingencies and expenses covers these commitments.
With regard to commitments related to pensions and obligations established in collective wage agreements, the companies affected have performed the corresponding externalisation through the contracting of fixed contribution insurance policies to cover risks and expenses. The Group maintains a retirement insurance policy with certain management members, by virtue of which the latter will be entitled to a life annuity on reaching the age of 65.

6.13 Impairment of financial assets

When the decrease in fair value of an available-for-sale financial asset has been directly recognised as equity and there is objective evidence that said asset is impaired, the accumulated losses that have been recognised as equity are transferred to the income statement. The amount of accumulated losses that has been recognised in profit or loss is the difference between its acquisition cost and its current fair value.

The recoverable amounts of the receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Short-term investments are not recognised at their discounted value. The Group's accounting policy is to provide for 100% of receivables relating to the hotel business which have been pending for over one year, as well as for any balance pending for less than a year which is considered unrecoverable.

6.14 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, which is the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective method, and taking into account any transaction costs, discounts or premiums.

6.15 Equity instruments

The Group assessed the conditions of the convertible bonds issue on said date, determining that said financial instrument should be completely classified as a liability.

6.16 Recognition of revenue and expenses

Revenue is recognised as soon as it is probable that the economic benefits corresponding to the transaction will flow to the Group and the revenue can be reliably measured.

Revenue from time-sharing is recognised when the significant risks and rewards corresponding to the ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured. This situation generally occurs on the effective delivery of the rights.

All net sales surpluses arising from turnover of assets are recognised as income, once the carrying amounts of the related assets have been discounted to sale price.

6.17 Leases

Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are classified as financial leases and are recognised in the consolidated balance sheet by the leaseholder at the inception of the lease, recording an asset and a liability for the same amount, equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged directly against income.

Capitalised lease assets are depreciated over their useful life.

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments under an operating lease are recognised as income over the lease term.

6.18 Income tax

Deferred income tax assets and liabilities are recorded according to the balance sheet method, for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxes are recognised for all taxable temporary differences, except those arising from goodwill whose amortisation is not deductible or taxable temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting result nor the taxable profit or loss.

Moreover, deferred tax is recognised for all taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except to the extent that both the following conditions are satisfied: it is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the carry-forward of unused tax credits and unused tax losses can be utilised, except in the case of deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Moreover, deferred tax assets for all taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, are only recognised when both the following conditions are satisfied: the temporary differences will reverse in the foreseeable future and taxable profit will be available against which said differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available.

Deferred income tax assets and liabilities are measured based on their expected materialisation and on the tax legislation and tax rates approved, or on the point of being approved at the balance sheet date.

6.19 Foreign currency transactions

Debit and credit balances in foreign currency are valued at the exchange rate prevailing on the corresponding transaction date and are converted at year-end at the rate then in effect. Exchange differences are recorded as income or expenses when they occur.

6.20 Treasury shares

Own shares are presented under "Treasury shares", decreasing the Group's equity. They are valued at cost without performing any adjustments.

6.21 Functional currency and hyperinflationary economies

The Group's functional currency is euros. None of the companies included in the consolidation perimeter are considered to be in hyperinflationary economies at closing 2004 and 2005.

7. INTANGIBLE ASSETS

The breakdown of the cost and accumulated amortisation of intangible assets is as follows (in thousands of euros):

The main additions recorded in 2005 relate to the incorporation of software applications for several areas of the

(in thousands of euros)

	BALANCE 31/12/04	2005 Amortisation	Additions	Disposals	Conversion differences	BALANCE 31/12/05
GROSS VALUE						
Goodwill	19,777		455	(140)	58	20,150
Lease hold	70,836				2,355	73,191
Industrial Property (I+D+I)	6,529		418		17	6,964
Software	105,951		6,926	(4,505)	68	108,440
Total VALUE	**203,093**		**7,799**	**(4,645)**	**2,498**	**208,745**
ACCUMULATED AMORTISATION						
Lease hold	(11,789)	(2,390)			(441)	(14,620)
Industrial Property (I+D+I)	(2,578)	(829)	(270)	2	(18)	(3,693)
Software	(48,089)	(19,826)	(1,044)	2,673	386	(65,900)
Total ACCUMULATED AMORTISATION	**(62,456)**	**(23,045)**	**(1,314)**	**2,675**	**(73)**	**(84,213)**
CARRYING VALUE	**140,637**	**(23,045)**	**6,485**	**(1,970)**	**2,425**	**124,532**

Company which will permit the integration of the Group's management and facilitate growth and globalisation processes within the Group. Among these are the hotel applications Front Office, point-of-sale, SAP, reservations systems and Internet applications.

The amount recorded for leaseholds relates to the long-term leasing contract of a hotel in the United Kingdom, depreciable over a period of 33 years of which 27 are still pending.

The comparative figures for 2004 were as follows:

(in thousands of euros)

	BALANCE 1/1/2004	2004 Amortisation	Additions	Disposals	Conversion differences	BALANCE 31/12/2004
GROSS VALUE						
Goodwill	20,019			(247)	5	19,777
Lease hold	70,957				(121)	70,836
Industrial Property (I+D+I)	5,679		986	(129)	(7)	6,529
Software	99,560		6,687	(160)	(136)	105,951
Total VALUE	**196,215**		**7,673**	**(536)**	**(259)**	**203,093**
ACCUMULATED AMORTISATION						
Lease hold	(9,526)	(2,409)	(3)	3	146	(11,789)
Industrial Property (I+D+I)	(1,618)	(1,468)	(388)	890	6	(2,578)
Software	(27,825)	(18,542)	(1,899)	95	82	(48,089)
Total ACCUMULATED AMORTISATION	**(38,969)**	**(22,419)**	**(2,290)**	**988**	**234**	**(62,456)**
CARRYING VALUE	**157,246**	**(22,419)**	**5,383**	**452**	**(25)**	**140,637**

Differences in value arising from business combinations are recognised in the goodwill balance. No movement has been recorded for impairment losses in the year. The breakdown of the amount by company is as follows:

(in thousands of euros)

	31/12/05	31/12/04
Apartotel, S.A.	504	504
C. Tamarindos, S.A.	527	527
Cadlo France	1,181	1,181
Cadstar France	1,138	1,138
Ihla Bela de Gestao e Turismo	927	927
Lomondo Ltd.	5,706	5,651
Hotel Alexander, S.A.	8,499	8,499
Operadora Mesol, S.A. De C.V.	465	465
Tenerife Sol, S.A.	318	
Sol Meliá Croacia	886	886
Total	**20,150**	**19,777**

Goodwill recorded at year-end has been subject to impairment testing based on the discounted values of the estimated future cash flows expected for the cash-generating units operated by each of the related companies. The company Hotel Alexander, S.A. is the owner of a hotel in Paris whose market value, according to appraisals performed by independent experts, is higher than the carrying value of the assets.

In 2004 no significant movements occurred and goodwill was also subject to impairment testing applying the same assumption calculations as in 2005.

8. PROPERTY, PLANT AND EQUIPMENT

Movement in the different property, plant and equipment headings and the related accumulated depreciation during 2005 is as follows:

The main additions recorded in 2005 relate to the incorporation in the consolidation perimeter of the company

(in thousands of euros)

	BALANCE 31/12/04	2005 Amortisation	Additions	Disposals	Conversion differences	BALANCE 31/12/05
GROSS VALUE						
Land	**431,731**		**27,170**	**(18,472)**	**9,758**	**450,187**
Buildings	**1,387,561**		**117,040**	**(92,529)**	**48,203**	**1,460,275**
Technical plant	320,537		12,998	(16,405)	2,885	320,015
Machinery	58,718		4,549	(2,513)	815	61,569
Subtotal	**379,255**		**17,547**	**(18,918)**	**3,700**	**381,584**
Furniture	282,986		9,904	(31,284)	7,060	268,666
Tools	3,965		287	(532)	(257)	3,463
Vehicles	15,859		310	(172)	66	16,063
Computer equipment	38,950		1,366	(2,848)	625	38,093
Other assets	27,096		5,028	(4,532)	1,077	28,669
Subtotal	**368,856**		**16,895**	**(39,368)**	**8,571**	**354,954**
Works in progress	**3,270**		**18,871**	**(2,811)**	**434**	**19,764**
Total GROSS VALUE	**2,570,674**		**197,524**	**(172,097)**	**70,667**	**2,666,765**
ACCUMULATED AMORTISATION						
Buildings	**(320,653)**	**(34,034)**	**(3,843)**	**40,178**	**(13,502)**	**(331,854)**
Technical plant	(133,693)	(21,845)	(560)	18,330	(351)	(138,119)
Machinery	(26,878)	(3,083)	(151)	1,544	(87)	(28,655)
Subtotal	**(160,571)**	**(24,928)**	**(711)**	**19,874**	**(438)**	**(166,774)**
Furniture	(156,008)	(19,078)	(506)	29,868	(5,404)	(151,128)
Tools	(2,364)	(109)	(102)	27	(2)	(2,550)
Vehicles	(8,582)	(1,856)	(684)	1,064	(194)	(10,252)
Computer equipment	(30,034)	(3,620)	(162)	3,006	(562)	(31,372)
Other assets	(3,640)	(2,500)	(161)	1,380	25	(4,896)
Subtotal	**(200,628)**	**(27,163)**	**(1,615)**	**35,345**	**(6,137)**	**(200,198)**
Total ACCUMULATED AMORTISATION	**(681,852)**	**(86,125)**	**(6,169)**	**95,397**	**(20,077)**	**(698,826)**
CARRYING VALUE	**1,888,823**	**(86,125)**	**191,355**	**(76,700)**	**50,590**	**1,967,945**

Inversiones Areito, S.A. (see Note 4), owner of the Hotel Paradisus Palma Real, for an amount of 98.7 million euros, as well as major refurbishments undertaken by the hotel operating companies included in the Group.

The effect of Hurricane Wilma on the hotels located in Cancun has resulted in the derecognition of assets amounting to 25.1 million euros. At year-end the hotels remain closed and the investments to renovate said hotels will mainly be made throughout 2006.

During 2005 the Hotel Tryp Macarena in Seville, the Hotel Meliá Las Palmas in Las Palmas, the Hotel Tryp Alcano in Granada and the Hotel Meliá Torremolinos have been sold for a net carrying amount of 40.2 million euros.

Moreover, 84 rooms of a hotel in Puerto Rico, amounting to 9.4 million euros, have also been derecognised due to having been transferred to non-current assets maintained for sale. Said rooms will be sold to property investors on a condo-hotel basis.

Several of the owned properties are mortgaged in guarantee of various loans. The directors of SOL MELIA consider that the insurance coverage of the property, plant and equipment is sufficient at December 31, 2005.

There is a very significant difference between the carrying value of the Group's property, plant and equipment and its fair value, due to the tacit surpluses of several properties and supported by the independent expert's appraisals dated December 31, 2004. On August 4, 2005 the Group provided information on the aforementioned external valuations to the Securities and Investments Board (Comisión Nacional del Mercado de Valores - Communication number 60147).

The Group operates a total of 75 hotels under leasing, of which 2 are five-star with 276 rooms, 47 are four-star with 8,027 rooms, 20 are three-star with 2,702 rooms, 2 are two-star with 92 rooms and 4 are 3-key establishments with 752 apartments.

In 1993, Hoteles Meliá, S.A. (now Sol Meliá, S.A.) merged several hotel-owning companies, causing the revaluation of the plots occupied by said hotels. At December 31, 2005 the carrying value of said plots relates to 28 hotels for an amount of 168.7 million euros and a tax value of 6.5 million euros.

The amount of land and constructions includes capital gains arising from consolidation differences prior to the transition date for a net carrying value of 104.4 million euros. These values will be matched to cost value as indicated in IFRS 1 "First-time adoption of International Financial Reporting Standards".

The effect of the abovementioned transactions on deferred taxes is reflected as non-current liabilities in the liabilities caption "Deferred tax liabilities".

The net surplus derived from the revaluations of assets carried out prior to 1997, as permitted by various legal regulations and voluntary revaluations in order to correct the effects of inflation are as follows:

Additionally, the balance sheet at December 31, 2004 includes revaluations of land and buildings for a total cost of 174.4 million euros that were recorded according to Law 29/91.

(in thousands of euros)

	31/12/05
Update 76/61	55
Update 12/73	2.579
1979 Budget updating	29.936
1980 Budget updating	28.852
1981 Budget updating	4.323
1982 Budget updating	26.480
Update of 1983 Law	1.437
Voluntary updating prior to 1990	3.146
Update of Royal Decree 7/96	58.408
Total Revaluation Reserves	**155.216**

The comparative details of movements in 2004 are as follows:

The main property, plant and equipment additions recorded in 2004 related to the completion of the construction of the Hotel Paradisus Puerto Rico, amounting to 31.3 million euros, as well as to refurbishments in Group-owned

(in thousands of euros)

	BALANCE 1/1/04	2004 Amortisation	Additions	Disposals	Conversion differences	BALANCE 31/12/04
GROSS VALUE						
Land	**432,428**		**5,058**	**(50)**	**(5,705)**	**431,731**
Buildings	**1,334,672**		**135,949**	**(49,040)**	**(34,020)**	**1,387,561**
Technical plant	298,088		26,866	(2,716)	(1,701)	320,537
Machinery	51,696		9,008	(1,336)	(650)	58,718
Subtotal	**349,784**		**35,874**	**(4,052)**	**(2,351)**	**379,255**
Furniture	274,674		23,526	(9,029)	(6,185)	282,986
Tools	3,760		368	(163)	0	3,965
Vehicles	15,575		364	(52)	(28)	15,859
Computer equipment	38,928		1,115	(668)	(425)	38,950
Other assets	25,253		9,872	(7,752)	(277)	27,096
Subtotal	**358,190**		**35,245**	**(17,664)**	**(6,915)**	**368,856**
Works in progress	**101,648**		**7,005**	**(107,295)**	**1,912**	**3,270**
Total GROSS VALUE	**2,576,722**		**219,131**	**(178,101)**	**(47,079)**	**2,570,674**
ACCUMULATED AMORTISATION						
Construcciones	**(308,097)**	**(34,222)**	**(4,904)**	**19,388**	**7,182**	**(320,653)**
Technical plant	(121,735)	(15,617)	(988)	4,155	492	(133,693)
Machinery	(24,681)	(2,769)	(379)	903	48	(26,878)
Subtotal	**(146,416)**	**(18,386)**	**(1,367)**	**5,058**	**540**	**(160,571)**
Furniture	(148,538)	(17,844)	(943)	5,927	5,390	(156,008)
Tools	(2,140)	(330)	(6)	110	2	(2,364)
Vehicles	(6,373)	(1,441)	(973)	183	22	(8,582)
Computer equipment	(27,714)	(3,983)	(336)	1,492	507	(30,034)
Other assets	(4,260)	(9,622)	(262)	10,358	146	(3,640)
Subtotal	**(189,025)**	**(33,220)**	**(2,520)**	**18,070**	**6,067**	**(200,628)**
Total ACCUMULATED AMORTISATION	**(643,538)**	**(85,828)**	**(8,791)**	**42,516**	**13,789**	**(681,852)**
CARRYING VALUE	**1,933,184**	**(85,828)**	**210,340**	**(135,585)**	**(33,290)**	**1,888,823**

hotels and purchases of hotel equipment.

Disposals in 2004 included the sale of the hotels Aloha Playa and Caballo Blanco, whose carrying values amounted to 2.5 million euros and 1.2 million euros respectively, the sale of time-share units in Mexico amounting to 44.2 million euros and hotel equipment disposals.

In 2004 the Group operated a total of 75 hotels under leasing: 2 five-star with 256 rooms, 47 four-star with 7,125 rooms, 19 three-star with 2,396 rooms, 2 two-star with 92 rooms, 2 four-key establishments with 336 apartments and 3 three-key with 726 apartments.

9. INVESTMENT PROPERTIES

This balance includes the net fair value of investments made by the Group to obtain income or capital gain, such as participations in apartments in the apartment owners' associations of Meliá Castilla, Meliá Costa del Sol and Meliá Alicante, as well as commercial premises next to the Hotel Gran Meliá Caracas. All the valuations are of independent experts and have been updated by Group estimates.

(in thousands of euros)

	31/12/2004	Additions	Conversion differences	31/12/2005
Apartamentos Meliá Castilla	59,206			59,206
Apartamentos Meliá Alicante	11,729			11,729
Apartamentos Meliá Costa del Sol	2,093			2,093
Premises in Caracas	21,065	735	404	22,204
Total	**94,093**	**735**	**404**	**95,232**

There has been no material effect on income during the year. In 2004, no significant movements occurred.

10. OTHER NON-CURRENT ASSETS

10.1 Available-for-sale investments

The Group's shares are listed below, in thousands of euros:

(in thousands of euros)

	%	Balance 31/12/04	Additions	Disposals	Conversion differences	Balance 31/12/05
D.H. Guanacaste	15.0%	16,576				16,576
D.I.Guanacaste	15.0%	793				793
Fundación Empresa y Crecimiento	4.2%	176	37			213
H. Sancti Petri	19.5%	1,172				1,172
Horotel S.A.	12.4%	301				301
I.H. Los Cabos	15.0%	3,306				3,306
I.H. Playa del Duque	5.0%	2,682				2,682
Inmobiliaria Conchal Pacífico	15.0%	276				276
Inversiones Turísticas Casas Bellas	13.7%		6,519			6,519
Lanzarote 6 S.A.	5.4%	1,696				1,696
P.T. Surlaya Internacional	16.5%	9,015				9,015
Port Cambrils Inv.	10.0%	651	141			792
Turismo de Invierno S.A.	19.5%	1,079				1,079
Valle Yamury, S.A.	15.0%	346				346
Plaza Puerta del Mar S.A.	7.1%	426				426
Other		70	469	(24)	5	520
Total investments		**38,565**	**7,166**	**(24)**	**5**	**45,712**
Impairment losses		(4,073)	(643)	0	0	(4,716)
Total carrying value		**34,492**	**6,523**	**(24)**	**5**	**40,996**

Sol Meliá, S.A. has sold part of its participation in the company Inversiones Turísticas Casas Bellas, S.A., in which the Group had significant influence in 2004 and which was integrated by the equity method. In 2005, the company's participation is of 13.74% and it is therefore included at its carrying value under the caption "Available-for-sale investments".

The registered address, activity and accounting data (in thousands of euros) of the companies are indicated below, except for those whose participation is insignificant:

(in thousands of euros)

	COUNTRY	ACTIVITY	Capital	Reserve	Results	%	TAV	NAV
D.H. Guanacaste	C. RICA	Land owner	36,364	13,340	6,678	15,00%	8,457	16,576
D.I.Guanacaste	C. RICA	Hotel owner and operator	7,888	1,131	(14)	15,00%	1,351	793
H. Sancti Petri	SPAIN	Hotel owner and operator	6,010	239	(962)	19,50%	1,031	1,172
Horotel S.A.	SPAIN	Hotel owner and operator	4	688	(570)	12,40%	15	301
I.H. Los Cabos	PANAMA	Holding	39,882	(2,320)		15,00%	5,634	3,306
I.H. Playa del Duque	SPAIN	Hotel owner and operator	2,582	58,012	7,371	5,00%	3,398	2,682
Inmobiliaria Conchal Pacífico	C. RICA	Land owner	2,639	89	(10)	15,00%	408	276
Inversiones Turísticas Casas Bellas	SPAIN	Land owner	47,464	(650)	(87)	13,74%	6,420	6,304
Lanzarote 6 S.A.	SPAIN	Hotel owner and operator	31,471	(4,882)	(1,928)	5,40%	1,332	1,696
P.T. Surlaya Internacional	INDONESIA	Hotel owner and operator	8,546	1,429	(14,442)	16,52%	(738)	9,015
Port Cambrils Inv.	SPAIN	Hotel owner and operator	4.120	(11)	4	10,00%	411	792
Turismo de Invierno S.A.	SPAIN	Hotel owner and operator	677	4,398	1,744	19,47%	1,328	1,079
Valle Yamury, S.A.	SPAIN	Holding	4,329	(1,840)	372	15,00%	429	346
Plaza Puerta del Mar S.A.	SPAIN	Hotel owner and operator	6,000	(132)	995	7,10%	487	426
Total			**197,976**	**69,491**	**(849)**	**2**	**29,964**	**44,765**

Adjustments for impairment losses are not performed in those companies which have an underlying surplus due to the favourable forecast of results and the realisable value of their net assets.

Comparative information regarding movement of available-for-sale investments in 2004 is as follows:

(in thousands of euros)

	%	Balance 01/01/04	Additions	Disposals	Conversion differences	Balance 31/12/04
D.H. Guanacaste	15.0%	15,346	1,230			16,576
D.I.Guanacaste	15.0%	793				793
Fundación Empresa y Crecimiento	4.2%	0	176			176
Gupe Inmobiliaria, S.A.	100.0%	425		(425)		0
H. Sancti Petri	19.5%	1,172				1,172
Horotel S.A.	12.4%	301				301
Hotel Net B2B.com, S.A.	26.5%	3,388		(3,388)		0
I.H. Los Cabos	15.0%	3,306				3,306
I.H. Playa del Duque	5.0%	2,682				2,682
Inmobiliaria Conchal Pacífico	15.0%	276				276
Lanzarote 6 S.A.	5.4%	1,696				1,696
P.T. Surlaya Internacional	16.5%	9,015				9,015
Port Cambrils Inv.	10.0%	651				651
Shanghai, S.A.	19.6%	3,502		(3,502)		0
Touroperador Viva Tours, S.A.	19.0%	3,531		(3,531)		0
Turismo de Invierno S.A.	19.5%	1,079				1,079
Valle Yamury, S.A.	15.0%	346				346
Plaza Puerta del Mar S.A.	7.1%	426				426
Other		576	0	(529)	(3)	44
Total investments		**48,536**	**1,406**	**(11,375)**	**(3)**	**38,564**
Impairment losses		(4,073)	0	0	0	(4,073)
Total carrying value		**44,463**	**1,406**	**(11,375)**	**(3)**	**34,492**

10.2 Investments in associates

Investments corresponding to participations existing in associates have been accounted for by the equity method. The amounts obtained are as follows:

(in thousands of euros)

	Balance 31/12/2004	2005 results	Additions	Disposals	Conversion differences	Balance 31/12/2005
Alcajan/Inv. Areito/Leoford/Punta Cana (1)	4,063	261		(4,324)		
Aparthotel Bosque, S.A.	1,244	189		(25)		1,408
C.P. Meliá Castilla	2,326	863		(833)		2,355
C.P.Meliá Costa del Sol	1,540	207		(209)		1,539
Detur Panamá, S.A.	1,110	(870)			(44)	196
Hantinsol Resorts, S.A.		(1)	20			20
Lifestar Hoteles España, S.L. (JV)	2	(436)				(434)
Hellenic Hotel Management	(76)					(76)
Inversiones Turísticas Casas Bellas, S.L.	9,007			(9,007)		
Inversiones Guiza, S.A.	(0)	(1)			0	(2)
LH Miami Llc (JV)		(0)				(0)
Lifestar, Llc. (JV)	5,936	(242)			964	6,658
Luxury Lifestyle H&R (JV)		(10)		(58)		(68)
Meliá Mérida, S.L.	544	(176)		8		376
Meliatour, S.L.	275	(615)				(340)
Mogan Promociones S.A. CV	15	(128)			(6)	(118)
Nexprom/Promedro (1)	3,219	335		(21)		3,533
Prom. Playa Blanca, S.A. De C.V.	6,075	(324)			(10)	5,741
Punta Elena S.L.	62	(117)				(55)
Sierra Parima, S.A.	2,992	(373)	1,025		(567)	3,077
Sol Hoti Portugal Hoteis	165	61	1			226
Total	**38,499**	**(1,375)**	**1,046**	**(14,470)**	**337**	**24,034**

The Group has a 50% interest in the company Lifestar Hoteles España, S.L. This company was created as a joint venture for the management of Hard Rock hotels in Spain, the first of which is a hotel in Madrid operated by Sol Meliá, S.A. which is presently undergoing a complete renovation. Within the abovementioned agreement, Sol Meliá, S.A. and Lifestar Hoteles España, S.L. have subscribed a 20-year management contract by virtue of which the alter has paid an amount of 24 million euros to be amortised over said period.

In the jointly controlled company Sierra Parima, S.A., there are commitments between the partners to finalise the building of a shopping centre in the Dominican Republic. At closing, said building work is in its first phase and has a total estimated value of 12 million euros.

The additions and disposals relate mainly to the changes occurred in the Group's consolidation perimeter (see Note 4) and the adjustments inherent to the consolidation process between Group companies.

The Group's participations include capital gains arising from consolidation differences at the transition date for a carrying value of 3.4 million euros. These values will be matched to cost value as indicated in IFRS 1 "First-time adoption of International Financial Reporting Standards".

The aggregate amount of assets, ordinary income and results for 2005 relating to participations in associates is as follows:

(in thousands of euros)

		Non-current Assets	Current Assets	Total ASSETS	Equity	Non-current Liabilities	Current Liabilities	Total LIABILITIES	Ordinary Income	NET RESULTS
Aparthotel Bosque, S.A.	25.00%	1,710	298	**2,008**	1,226	340	442	**2,008**	1,083	**190**
C.P. Meliá Castilla	29.22%	6,511	1,610	**8,121**	2,355	1,021	4,745	**8,121**	11,818	**863**
C.P. Meliá Costa del Sol	19.02%	5,012	744	**5,756**	5,269	75	412	**5,756**	2,181	**207**
Detur Panamá, S.A.	49.93%	9,126	(217)	**8,908**	364	7,499	1,045	**8,908**	1,881	**(870)**
Hantisol Resorts, S.A.	33.33%		20	**20**	20		1	**20**		**(1)**
Hellenic Hotel	40.00%	25	7	**32**	(76)	5	103	**32**		
Inversiones Guiza, S.A.	49.84%	1	18	**18**	(2)		20	**18**	1	**(1)**
LH Miami LLC (JV)	50.00%		138	**138**	(0)		138	**138**	240	**(0)**
Lifestar Hot. España, S.L. (JV)	50.00%	12,000	4,976	**16,976**	(434)	13,920	3,491	**16,976**	60	**(436)**
Lifestar LLC (JV)	50.00%	6,573	1,355	**7,929**	6,658		1,271	**7,929**	1,495	**(242)**
Luxury Lifestyle H&R (JV)	50.00%	5	63	**68**	(57)		125	**68**	239	**1**
Meliá Merida, S.L.	41.76%	4,994	821	**5,816**	354	5,036	426	**5,816**	819	**(176)**
Meliá Tour, S.L.	50.00%	107	913	**1,020**	(340)		1,359	**1,020**	1,573	**(615)**
Mogan Promoc., S.A. DE CV	33.33%	1,126	782	**1,908**	(118)	2,006	20	**1,908**		**(128)**
Nexprom, S.A.	20.00%	4,095	857	**4,952**	3,028	804	1,121	**4,952**	3,746	**376**
Promedro, S.A.	20.00%	710	(0)	**709**	312	96	301	**709**	0	**(8)**
Prom.Playa Blanca S.A. De C.V.	33.00%	10,295	498	**10,793**	5,363	5,086	344	**10,793**	7,226	(346)
Punta Elena, S.L.	50.00%		480	**480**	(55)	361	174	**480**		**(117)**
Sierra Parima, S.A. (JV)	49.00%	2,248	784	**3,032**	2,984		48	**3,032**		**(373)**
Sol Hoti Portugal Hoteis, Ltd.	45.00%	2	264	**266**	226		39	**266**	229	**75**
Total		**64,538**	**14,413**	**78,951**	**27,076**	**36,248**	**15,626**	**78,951**	**32,591**	**(1,600)**

In 2004 movement of investments in associates was as follows:

Moreover, comparative information of the aggregate amounts of assets, ordinary income and results for 2004 rela-

(in thousands of euros)

	Balance 01/01/04	2004 results	Additions	Disposals	Conversion differences	Balance 31/12/04
Alcajan/Inv.Areito/Leoford/Punta Cana (1)		44	4,024	(5)	0	4,063
Aparthotel Bosque, S.A.	1,125	245		(126)		1,244
C.P. Meliá Castilla	2,439	833		(947)		2,326
C.P.Meliá Costa del Sol	1,589	230		(278)		1,540
Detur Panamá, S.A.	1,243	(63)	5		(74)	1,110
Hellenic Hotel Management	(76)					(76)
I.Turísticas Casas Bellas, S.L.	9,007					9,007
Inversiones Guiza, S.A.	(1)	1			0	(0)
Lifestar Hoteles España, S.L. (JV)			2			2
Lifestar, Llc. (JV)		(951)	6,856		31	5,936
Meliá Mérida, S.L.	849	(328)	23			544
Meliatour, S.L.	(29)	(135)	441			277
Mogan Promociones, S.A. De C.V.	(0)	15				15
Nexprom/Promedro (1)	3,136	215		(132)		3,219
Prom. Playa Blanca, S.A. De C.V.	5,361	954	230		(470)	6,075
Punta Elena,S.L	73	(11)				62
Sierra Parima, S.A. (JV)	(1,792)		4,784			2,992
Sol Hoti Portugal Hoteis, Ltd.	138	25	1			165
Total	**23,061**	**1,074**	**16,365**	**(1,489)**	**(513)**	**38,499**

(1) Companies corresponding to the same business line. (JV) Joint ventures

ting to participations in associates, is offered.

(in thousands of euros)

		Non-current Assets	Current Assets	Total ASSETS	Equity	Non-current Liabilities	Current Liabilities	Total LIABILITIES	Ordinary Income	NET RESULTS
Alcaján XXI,S.L	30.04%	8,752	2,704	**11,456**	3,919	7,109	428	**11,456**		**(107)**
Aparthotel Bosque, S.A.	25.00%	1,795	355	**2,150**	1,096	510	544	**2,150**	1,012	**135**
C.P. Meliá Castilla	29.22%	7,236	1,701	**8,936**	2,326	2,123	4,488	**8,936**	11,547	**833**
C.P. Meliá Costa del Sol	19.02%	4,807	645	**5,452**	4,956	83	412	**5,452**	2,054	**230**
Detur Panamá, S.A.	49.93%	8,451	(68)	**8,383**	1,110	6,426	847	**8,383**	1,574	**(603)**
Hellenic Hotel Management	40.00%	25	7	**32**	(76)	5	103	**32**		
Inversiones Areito, S.A.	30.04%	4,198	94	**4,292**	522	3,618	152	**4,292**	33	**1**
Inversiones Guiza	49.84%	1	13	**14**	(0)	14		**14**	49	**1**
Inv. Tur. Casas Bellas, S.L.	23.75%	9,133	21	**9,154**	9,007		147	**9,154**		
Leoford Investment Co	30.04%	336		**336**	336		0	**336**		**(0)**
Lifestar Hoteles España (JV)	50.00%		2	**2**	2			**2**		
Lifestar LLC (JV)	50.00%	6,269	722	**6,991**	6,563		428	**6,991**	784	**(293)**
Meliá Merida, S.L.	41.76%	5,174	861	**6,035**	552	3,721	1,762	**6,035**	736	**(293)**
Meliá Tour, S.L.	50.00%	112	1,318	**1,431**	442		988	**1,431**	3,403	**1**
Mogan Promociones, S.A. C.V.	33.33%	936	752	**1,688**	17	1,668	4	**1,688**		**(16)**
Nexprom,S.A.	20.00%	4,029	875	**4,904**	2,652	823	1,429	**4,904**	3,621	**49**
Promedro,S.A.	20.00%	818	7	**825**	320	144	361	**825**	196	**187**
Prom. Playa Blanca, S.A. C.V	33.00%	8,880	1,571	**10,450**	4,220		6,230	**10,450**	7,573	**735**
Punta Cana Reservations	30.04%	2	1	**2**	(8)		11	**2**		**(2)**
Punta Elena, S.L.	50.00%		1,698	**1,698**	663	361	675	**1,698**		**(11)**
Sierra Parima,S.A. (JV)	49.00%	2,330	161	**2,491**	2,446		45	**2,491**		
Sol Hoti Portugal Hoteis,Ltd.	45.00%	2	254	**256**	165		92	**256**	152	**25**
Total		**64,532**	**10,990**	**75,522**	**37,309**	**19,496**	**18,718**	**75,522**	**32,734**	**979**

(JV) Joint Ventures

10.3 Loans to associates

Long-term balances for credits granted to associates are as follows:

(in thousands of euros)

	31/12/05	31/12/04
Lifestar Hoteles España, S.L.	6.720	
Meliá Merida, S.L.	3.900	
Mogan Promociones, S.A. de C.V.	1.870	1.628
Total	**12.490**	**1.628**

10.4 Other non-current financial assets

At year-end the amounts held on a long-term basis, classified by type, are as follows:

(in thousands of euros)

	31/12/05	31/12/04
PROPERTIES FINANCING	18,354	13,990
TIME-SHARING CLIENTS	1,638	664
REAL ESTATE CLIENTS	6,614	8,285
BANK DEPOSITS		18,099
OTHER DEPOSITS	1,963	1,884
GUARANTEES	10,300	8,307
ADJUSTMENTS FOR IMPAIRMENT	(7,209)	(8,035)
Total	**31,660**	**43,194**

Properties financing includes credits granted to various companies related to the Group through the management of hotel businesses. The most significant amounts are as follows:

- Aresol Cabos, S.A. de C.V's balance of € 6.3 million relates to a loan granted by Operadora Mesol, S.A. de C.V.
- A loan to Promociones Financieras Turísticas, S.A. amounting to 2.4 million euros to finance the company's trading operations.
- The company Grupo Sol Asia has granted a loan of USD 2.5 million to the Hotel Sol Twin Towers (Golden Asset Company Ltd.) bearing interest at the LIBOR rate plus 2 points, which according to the principle of prudence is unrecognised.
- A loan amounting to 1.2 million euros granted to P.T.S.A.I. (PT Suryalaya Anindita International) to finance its trading activities.
- A loan granted to Cubanacan, which amounts to 1 million euros at year-end, to finance the refurbishment of hotels managed in Cuba.
- Moreover, loans have been granted to the companies Hotelera Sancti Petri, S.A. and Hotel Cibeles, S.A., owners of rented or managed hotels, to finance investments in assets for an amount of 2.1 million euros.
- A debt with Mirador de Adra, S.A., amounting to 0.7 million euros, which relates to a deposit arising from legal proceedings with said company.

The balances for bank deposits included in 2004 have been replaced by bank guarantees or are now recorded as short-term.

The long-term guarantees granted by Sol Meliá, S.A. relate to the rental of hotels leased by the Group through accepted promissory notes.

11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include the amount corresponding to 84 apartments in a hotel in Puerto Rico, which are to be sold to property investors on a condo-hotel basis. The sale of these assets will generate profit for the real estate business segment.

12. CURRENT ASSETS

12.1 Inventories

The Group does not have firm purchase or sale commitments and there is no limit on inventories availability. The supplier with the greatest raw material purchase volume has been Carma SXXI, S.A., a related company, with a total value of 20.6 million euros.

The real estate assets caption includes a balance arising from the company Desarrollos Sol, S.A. corresponding to a significant real estate development in Santo Domingo which is not intended for tourist operations and is consequently for sale.

(in thousands of euros)

	31/12/05	31/12/04
Goods	640	1,123
Food	3,606	3,525
Beverage	2,718	2,691
Fuel	583	461
Spare parts	885	629
Cleaning material	620	750
Ancillary materials	2,481	2,417
Advertising and entertainment materials	438	381
Office material	1,458	1,554
Maintenance items	817	831
Other	183	184
Hotel Business	14,427	14,548
Time-sharing Business	11,825	9,336
Real Estate Business	5,796	6,009
Prepayments to suppliers	3,439	3,166
Total	**35,487**	**33,059**

12.2 Trade and other receivables

At December 31, 2005 the total hotel business client portfolio transferred by the Group amounts to 70.1 million euros, of which 51.9 million euros have been collected in advance and the remainder is pending collection and is included in the trade balance.

At year-end the Group maintains credit transfer operations relating to the sale of plots of land for real estate developments in the Palma Real complex in the Dominican Republic, amounting to 9.9 million euros. Moreover, at year-end, the Group also maintains non-recourse credit transfer operations relating to time share sales amounting to 36.8 million euros. Both captions have been deducted from the trade and other receivables balance.

12.3 Receivables from associates

The breakdown the short-term receivables balance is as follows:

(in thousands of euros)

	31/12/05	31/12/04
Alacajan XXI, S.L.		15
Apartotel Bosque, S.A.	340	374
Comunidad de Propietarios Meliá Castilla	2,558	931
Comunidad de Propietarios Meliá Costa del Sol	624	396
Detur Panamá, S.A.	2,036	860
Junta Compensación UE1		13
Helenic Hotel Management	48	42
Inversiones Areito, S.A.		144
Inversiones Guiza, S.A.	19	
Lifestar LLC	1,222	644
Lifestar Hoteles España, S.L.	6,342	
Meliá Merida, S.L.	229	3,401
Meliá Tour, S.L.	776	752
Mogan Promociones, S.A. de C.V.		16
Nexprom, S.A.	947	648
Promociones Playa Blanca S.A. de C.V.	961	587
Punta Cana Reservations, N.V.		24
Punta Elena, S.L.	302	1,291
Sierra Parima, S.A.	23	92
Sol Hoti Portugal	63	73
Total	**16,488**	**10,301**

12.4 Other current assets

The current assets balance includes the following items:

(in thousands of euros)

	31/12/2005	31/12/2004
Payables	61,854	16,883
Bills of exchange receivable	5,652	6,588
Doubtful debts	1,214	1,192
Payable to Public Entities	19,698	13,829
Input VAT - Public Entity	10,850	7,728
Withholding taxes	3,212	2,002
Current accounts	1,160	6,475
Prepayments and accruals	2,514	2,417
Other	1,389	1,630
Total other accounts payable	**107,543**	**58,743**

The increase in “Debtors” in 2005 is due to the balances pending receipt from the insurance company, amounting to 53.1 million euros, relating to compensation for the damage caused by Hurricane Wilma in the Group’s hotels in Cancún.

12.5 Other current financial assets

This caption includes fixed interest securities amounting to 1 million euros, the updated value of the financial hedging instrument for an amount of 4.6 million euros (see Note 17) and short-term guarantee deposits.

13. EQUITY

Note 20 shows movement in 2004 and the reconciliation of Spanish regulations and IFRS.

13.1 Issued capital

At December 31, 2005 and 2004 Sol Meliá, S.A.'s share capital consists of 184,776,777 fully subscribed and paid up shares with a par value of 0.2 euros each.

All shares have the same rights and are listed on the public stock exchange, with the exception of treasury shares.

At the Ordinary and Extraordinary General Meeting held on June 7, 2005, the Company Directors were authorised, for a period of five years following said Meeting, to agree on an increase of up to eighteen million four hundred and seventy seven thousand six hundred and seventy seven euros (€ 18,477,677) in the share capital of the Company without previously consulting the Shareholders at the General Meeting. Consequently, the Directors can exercise this right, on one or various occasions, for the specified amount or less, deciding in each case, not only the degree of suitability or appropriateness, but also the amount and conditions which they consider should apply.

At December 31, 2005 the main shareholders with direct or indirect ownership in SOL MELIA are as follows:

Shareholder	% Participation
Hoteles Mallorquines Consolidados, S.A.	27.92%
Hoteles Mallorquines Asociados S.L.	16.34%
Hoteles Mallorquines Agrupados S.L..	10.82%
Ailemlos, S.A.	6.94%
Majorcan Hotels Luxemburg S.a.r.l.	5.83%
Caja de Ahorros del Mediterráneo	5.01%
Others	27.14%
TOTAL	**100.00%**

13.2 Reserves from the parent company

Revaluation reserves

Revaluation reserve R.D.L. 7/1996 of June 7
This reserve, included (following the mergers Inmotel Inversiones, S.A., Constructora Inmobiliaria Alcano, S.A., Inmobiliaria Bulmes, S.A., Parking Internacional, S.A. and Azafata, S.A.) in the balance sheet, relates to the revaluation of intangible and tangible assets permitted by law, less a tax charge of 3% relating to revaluation.

This reserve may be applied to offset losses, to increase the Company's share capital and, after December 31, 2006 (10 years after the revaluation reserves were initially included on the balance sheet) this reserve will be freely distributable. The balance of the reserve cannot be distributed, directly or indirectly before the abovementioned date, unless the surplus is realised by means of the sale or full depreciation of the revalued items.

The breakdown of the Revaluation reserve is as follows:

(in thousands of euros)

	31/12/05	1/1/06
Revaluation of Intangible Fixed Assets	1,456	1,456
Revaluation of Property, Plant and Equipment	53,327	53,327
Tax rate of 3%	(1,965)	(1,965)
Revaluation of Property Investments	48,185	44,645
Total Revaluation Reserves	**101,003**	**97,463**

The property investments revaluation reserve relates to the recognition of the net fair value adopted on applying IAS 40 "Investment property" at the transition date (see Note 20).

Distributable reserves

These reserves are freely distributable.

Non-distributable reserves

Legal reserves
SOL MELIA has the obligation of transferring 10% of the profits for the year to the legal reserve until this equals at least 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses, should no other reserves be available. The legal reserves balance amounts to 7,391,071.09 euros.

Reserves for treasury shares
This reserve is unavailable and was set up for the acquisition of treasury shares (5,486,841 shares). In accordance with the Spanish legislation, this reserve is granted by the Parent company for 31,426,653 euros.

Reserve Law 19/94 Reinvestment in the Canary Islands

This reserve is unavailable as it was created with the commitment of the parent company to invest in new fixed assets investments in the Canary Islands, within three years, for an amount equivalent to that of the abovementioned Reinvestment in the Canary Islands Reserve 19/94.

13.3 Reserves of companies consolidated by the full consolidation method

Appendix 3 shows the breakdown, by company, of the movements for the year recorded in the reserves corresponding to companies consolidated by the full method. They include revaluation reserves for the corresponding part of the participation in the business premises in the company Inmobiliaria Distrito Comercial and the Meliá Costa del Sol apartments and Meliá Alicante in the company Apartotel, S.A., for an amount of 17.3 million euros, as described in Notes 9 and 20.

13.4 Reserves in associates

Appendix 4 shows the breakdown, by company, of the movements for the year recorded in the reserves corresponding to companies consolidated by the equity method.

13.5 Exchange differences

Foreign currency gains/losses reflected in the balance sheet derived from the consolidated companies classified by currency are as follows:

33.7 million euros of this total relates to companies integrated by the full method and (0.9) to associates.

(in thousands of euros)

	31/12/2005	31/12/2004
VENEZUELAN BOLIVAR	(13,155)	(14,196)
COSTA RICAN COLON	38	56
SINGAPORE DOLLAR	35	(10)
SWISS FRANC	61	32
CROATIAN KUNA	109	17
GB POUND	952	94
MOROCCAN DIRHAM	(12)	7
COLOMBIAN PESO	24	(13)
DOMINICAN PESO	(266)	15,168
MEXICAN PESO	28,185	(15,177)
GUATEMALAN QUETZAL	3	0
BRASILIAN REAL	(784)	(21)
PERUVIAN SOL	18	127
TUNISIAN DINAR	(85)	111
TURKISH LIRE	75	295
AMERICAN DOLLAR	17,582	(28,400)
Total	**32,781**	**(41,911)**

13.6 Treasury shares

The breakdown and movement of the treasury shares is as follows:

(units of euro)

	Shares	Average Price in €	Amount in €
Balance at 31/12/2004	5,447,014	5,75	31,313,254
2005 acquisitions	7,073,061	7,89	55,779,163
2005 disposals	(7,033,234)	7,65	(53,774,760)
Changes in equity			2,374,454
Balance at 31/12/2005	**5,486,841**	**6,51**	**35,692,111**

As of December 31, 2005, the total of treasury shares represents 2.97% of the share capital. In any case, the treasury shares will not surpass the 5% limit established in the Public Limited Companies Law.

The value of Sol Meliá's shares at year-end is of 10.74 €.

14. MINORITY INTEREST

The equity participation relating to minority interest rights, including the corresponding portion in results is recorded under this heading.

During 2005, the Group has acquired a 50% shareholding of Tenerife Sol, S.A. resulting in a decrease of 28.5 million euros in the minority interest balance, as the Group's shareholding in said company has increased to 100%.

The Group has also acquired the participation of 20.17% corresponding to minority interest in Moteles Andaluces, S.A., increasing its shareholding in said company to 95.87%.

In 2005, the Group has integrated by the full method a 30% shareholding of Alcajan XXI, S.L. and subsidiaries, by means of the operation of Hotel Paradisus Palma Real, controlled by the Group. An amount of 9.4 million euros relating to 70% of minority rights has been recognised, as explained in Note 4.

The breakdown, by company, of the minority interest balances and the movements during 2005, explained in Note 4 and recorded in the year are presented in Appendix 5 of these Notes to the Consolidated Financial Statements.

15. CURRENT AND NON-CURRENT LIABILITIES

15.1 Emisión de obligaciones y otros valores negociables

On February 9, 2001, Sol Meliá Europe, B.V. carried out a private placing of debentures among Deutsche Bank investors for a total of 340 million euros, under the following terms:

Amount of the issue	€ 340,000,000
Par value of bond	*€ 1,000.00*
Maturity	*5 years*
Issue price:	99.52%
Issue date:	February 9, 2001
Maturity date:	February 9, 2006
Coupon:	6.25%
Redemption price:	100%
Bond yield upon maturity:	6.455%

As of December 31, 2005, the balance is as follows:

Issue principal	€ 340,000,000		
Accrued interest at 6.25%	€ 18,982,065		
Formalisation expenses	€ (63,941)	**SHORT-TERM TOTAL**	**€ 358,918,124**

On November 14, 2003 Sol Meliá Europe, B.V. carried out a private placing of debentures among Barclays investors for a total of 150 million euros under the following terms:

Amount of the issue	€ 150,000,000
Par value of bond:	€ 10,000.00
Maturity:	5 years
Debt status:	Senior (Exchangeable)
Issue price:	100.00%
Issue date:	November 14, 2003
Maturity date:	November 14, 2008
Coupon:	4.30%
Exchange price:	€ 11.90
Conversion premium:	80%
Conversion ratio:	840.336 shares per Bond
Redemption price:	100%
Bond yield upon maturity:	4.30%
Possibility of cancellation by issuer:	After the fourth year. (Subject to limit of 130% € 15.47)
Credit quality:	BB+ by S&P and BBB by Fitch Ibca.
Maximum of shares to be issued:	12,605,042

The balance as of December 31, 2005 is the following:

Issue principal	€ 150,000,000		
Long-term formalisation expenses	€ (742,626)	**L/T TOTAL**	**€ 149,257,374**
Short-term formalisation expenses	€ (397,082)		
Accrued interest at 4.30%	€ 848,219	**S/T TOTAL**	**€ 451,137**

15.2 Preference shares

Sol Meliá Finance, N.V. undertook a preference shares issue as stated in the Complete Informative Brochure recorded in the Stock Exchange Commission's official register as of April 4, 2002, under the following conditions:

Amount of the issue	€ 106,886,300
Nominal:	€ 100
Dividend (2002 to 2012):	Fixed 7.80% per year payable quarterly (AER 8.03%)
Step-up (2012 onwards):	Variable (Euribor 3m + 5%, minimum 12.30%)
Issue date:	April 1, 2002
Maturity date:	The issuer has a redemption option after 10 years
Credit quality:	BBB by S&P and BBB+ by Fitch Ibca.

As of December 31, 2005 the balance is as follows:

Issue principal	€ 106,886,300		
Formalisation expenses	€ (7,811,930)	**L/T TOTAL**	**€ 99,074,370**

The Group's Preference Shares were issued under such conditions that the possibility that the Group will exercise the redemption right from April 2012 is very high. The differential between the dividend and the abovementioned "step-up" is such that the issue is considered as a Financial Liability.

15.3 Bank debt

The balances held by the Group, classified by nature and maturity, as of December 31, 2005, are the following:

(in thousands of euros)

	Short-term maturities	Long-term maturities	Total mat.
BANK LOANS	26,023	55,806	81,829
MORTGAGE LOANS	32,900	322,082	354,981
CREDIT FACILITIES	7,709	814	8,523
LEASING	22,599	44,249	66,848
INTERESTS	4,110	0	4,110
PROMISSORY NOTES DISCOUNTED	3,504	832	4,336
FACTORING WITH RECOURSE	3,296	5,980	9,276
TOTAL BANK DEBT	**100,141**	**429,763**	**529,903**
FINANCIAL INSTRUMENT (SWAP)		26,840	26,840
TOTAL DEBT	**100,141**	**456,603**	**556,743**

The total amount of contracted credit facilities is 189 million euros. The Group has an amount of 180.4 million euros of undrawn facilities available at year-end.

There are 678 financial leasing contracts pending maturity as of December 31, 2005, of which 382 mature in one year, 294 between 2 and 5 years and two of them in 9 years. The total residual value of the contracts in force amounts to 3.7 million euros.

On November 22, 2001 Sol Meliá, S.A. signed a Swap contract with a bank, according to which a cash flow of 300 million euros with a six-month Euribor interest (receivable by Sol Meliá, S.A.) will be swapped for another cash flow of 300 million euros with a dollar Libor in arrears interest. On January 13, 2003 Sol Meliá, S.A. decided to change the Swap structure, which was transferred to Deutsche Bank, under the following terms: the six-month Euribor interest is swapped for a twelve-month dollar Libor plus 70 points for the first two years and dollar Libor plus 140 points for the remaining period, at a minimum rate of 2.3% during the first two years. For the remaining years, rates applicable to the total payable by Sol Meliá range between a minimum of 3.15% and a maximum of 5.4%. The maximum rate will not be applied if the total is over 8%, whose last maturity date is February 11, 2008.

The net fair value of the instrument has been calculated according to generally accepted financial methods.

The breakdown of bank debt maturities is as follows:

The average interest rate accrued by these loans and the bonds and preference shares issues during 2005 is 5.14%.

(in thousands of euros)

2006	100,141
2007	56,864
2008	44,953
2009	37,982
2010	33,425
2011 and following years	256,538
Total	**529,903**

15.4 Sensitivity analysis

Interest rate risk

The financial risk structure as of December 31, 2005, differentiating between fixed interest rate risk (protected) and variable interest rate risk is the following:

The reference interest rates of the debt contracted by the Group companies are Euribor, Libor/US Dollar and Libor/GBP.

(In thousands of euros)

Total debt - Fixed or protected interest rate	763,811
Total debt – Variable interest	400,633
Total debt	**1,164,444**

Foreign exchange risk

This risk relates basically to debt operations nominated in foreign currency contracted by the Group companies and associates. The Group has neither swaps nor exchange insurance in foreign currency, with the purpose of creating a balance between cash collections and cash payments of its assets and liabilities nominated in foreign currency.

Credit risk

This risk has no significant impact due to the short period of credit collection which is less than 55 days. Furthermore, factors such as adequate portfolio diversification and concentration surveillance, among other management parameters, may mitigate the risk. The management actions guarantee an exhaustive and permanent debt control.

15.5 Capital grants and other deferred income

The details of these balances are as follows:

(in thousands of euros)

	31/12/2005	31/12/2004
Capital grants	4,572	4,894
Deferred Income from Management Contracts	20,069	0
Deferred Income from Insurance (Mexico)	40,385	0
Deferred Income - Time-Sharing sales	1,530	123
Various Deferred Income	153	0
Total	**66,709**	**5,017**

Capital grants relate basically to grants used to finance property, plant and equipment purchases. In 2005, the total amount recorded in the Income Statement for this concept is 322,000 euros.

Deferred income in management contracts relate to the operation between Sol Meliá, S.A. and Lifestar Hoteles España, S.L. described in Note 10.2. Income will be recognised in the Income Statement according to the contract's duration.

Part of the insurance coverage indemnities paid after the passage of Hurricane Wilma in the Cancun area has not yet been reflected in the Group's Income Statement, since they have a certain contingent character until the definitive dossiers for physical damages and lucrum cessans are concluded by the insurance companies.

15.6 Provisions

The balance sheet registers an amount of 28.5 million euros on the long-term liabilities side in concept of "Provisions for risks and expenses". As indicated in Note 6.12, this caption includes the Group's commitments with the staff, provisions for taxes from prior years which have been appealed or are pending court resolution, as well as the provisions recorded to cover the various liabilities and contingencies arising from operations, commitments acquired and guarantees given to third parties, risks for legal claims and lawsuits and possible liabilities deriving from the different possible interpretations of prevailing legal regulations.

The breakdown of the balance, by type, is as follows:

During 2005, an actuarial study has been undertaken to evaluate the past services corresponding to commitments established in supra-enterprise collective agreements. Said services have been estimated in 8.6 million euros.

(in thousands of euros)

	Balance 31/12/05	Balance 31/12/04
Provision for Loyalty Premiums and liabilities with personnel	8,609	8,650
Provision for Taxes and Public Bodies	6,043	5,219
Provision for onerous contracts	6,064	7,018
Provision for liabilities	7,835	7,545
Total	**28,552**	**28,432**

The movement for the year relating to the application of the provision for onerous contracts amounts to 1 million euros according to an established financial plan. As explained in Note 20 on transition to IFRS, said provision covers the difference between the committed disbursements and the expected cash flows of 5 hotels in Germany.

No significant movement occurred in 2004.

15.7 Other non-current liabilities

This caption includes:

	31/12/2005	31/12/2004
Guarantees received	708	900
Non-bank loans	1,915	3,752
Suppliers	2,709	2
Pension externalisation	0	2,725
Bills of exchange payable	6,267	7,445
Payable to Public Entities	3,549	
Financial leases	161,510	161,391
Other liabilities	487	28
Total	**177,145**	**176,242**

15.8 Debts with associates

The short-term debt maintained by the Group companies is detailed below:

(in thousands of euros)

	31/12/05	31/12/04
Apartotel Bosque, S.A.	4	14
Comunidad de Propietarios Meliá Castilla	6	18
Comunidad de Propietarios Meliá Costa del Sol	4	1
Detur Panamá, S.A.	2	
Inversiones Areito, S.A.		131
Lifestar Hoteles España, S.L.	138	
Luxury Lifestyle H&R	19	
Meliá Tour, S.L.	100	100
Nexprom, S.A.		1
Total	**273**	**265**

15.9 Other current liabilities

The main concepts recorded under this caption are the following:

	31/12/2005	31/12/2004
Guarantees received	3,291	3,402
Remunerations pending payment	28,566	21,567
Non-bank loans	6,085	1,446
Payable to Public Entities	12,623	13,631
Social Security	6,353	6,317
Output VAT - Public Entities	18,966	13,450
Prepayments and accruals	2,385	3,325
Suppliers	0	3,733
Bills of Exchange payable	3,479	2,372
Other liabilities	415	311
Total	**82,163**	**69,553**

16. TAX SITUATION

16.1 Taxable basis

In accordance with the legal regulations prevailing in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or the 4-year inspection period, which may be extended due to tax inspection proceedings, has elapsed. In this respect the Group companies are open to tax inspection for the following taxes and years:

CORPORATION TAX	YEARS	1999 to 2004
PAYROLL WITHHOLDINGS	YEARS	2000 to 2005
V.A.T.	YEARS	2000 to 2005
CANARY ISLANDS GENERAL TAX	YEARS	2000 to 2005

At present, Sol Meliá S.A's consolidated tax group is under inspection for Corporation Tax relating to the years 1999 to 2002 and for V.A.T. and Payroll Withholdings relating to the years 2000 to 2002, both inclusive.

The Group registers those tax credits deriving from tax losses pending set-off whose recoverability against the future profits generated by the current business is expected. Nevertheless, potential profits deriving from the disposal of properties are not included in said forecast, in view of the uncertainties regarding the realisation dates, which are based on market conditions, and the diverse tax consequences that might arise from the transactions made.

16.2 Deferred tax assets and liabilities

The breakdown of these balances is as follows:

Non-current deferred tax assets amount to 137.6 million euros. The most significant concepts of this balance are the following:

Credits for capitalised tax losses	27,251
Tax credits capitalised	16,725
Tax value of goodwill from Tryp	42,743
Surplus deriving from disposal of assets	4,960
Interest rate SWAP	6,607
Other provisions	6,396
Financial leasing transactions	6,843
Long-term rentals	2,337
Differences between accounting value and tax value of assets in Mexico	4,251
Other prepaid assets in Mexico	5,845
Differences between accounting value and tax value of assets in Dominican Republic	5,398
Debt formalisation expenses	1,145
Accelerated amortisation – Other assets	1,594

Non-current deferred tax liabilities amount to 223.6 million euros. The most significant concepts included in this balance are as follows:

Hurricane Wilma's effects	5,992
First consolidation differences	48,814
Financial leasing transactions	59,451
Reinvestment deferral in Parent company	7,876
Updating and revaluation of land plots	47,218
Non-operational assets	20,580
Unrealised exchange gains	2,556
Tax credits provisions	3,159
Differences between accounting and tax value of assets in Mexico	18,646
Revaluation of assets located in France	5,808

The deferred tax assets and liabilities are calculated considering the future amendments to the tax charges already approved in France and Mexico. The impact of said amendments on the 2004 and 2005 Income Statements is immaterial.

16.3 Tax losses of the Group

Tax losses to be off-set, detailed by geographical area are shown below:

(in thousands of euros)

	2006	2007-2011	2012-2018	Following years	TOTAL
Spain	0	1,643	70,267	42,524	114,434
Europe	4,932	26,364	1,264	58,814	91,374
America	1,303	25,716	16,316	5,567	48,902
Total	**6,235**	**53,723**	**87,847**	**106,905**	**254,710**

Tax losses for which deferred tax assets have been recognised amount to 28.8 million euros in Spain, 11.6 million euros in the rest of Europe and 44.7 million euros in America. Tax losses which have been offset in the year were capitalised in prior years, causing their subsequent reversion in the 2005 Income Statement.

16.4 Group's tax credits

The tax credits of the Group that may be offset are detailed, by geographical areas, below:

During 2005, tax credits capitalised in Spain and America have amounted to 2.9 and 13.7 million euros, respectively.

(in thousands of euros)

	2006	2007-2011	2012-2018	Following years	TOTAL
Spain	6	12,145	10,723	0	22,874
America	962	2,621	16,144	551	20,278
Total	**968**	**14,766**	**26,867**	**551**	**43,152**

The tax credits accumulated at year-end in America relate to the payments made for the Mexican Asset Tax amounting to 10.6 million euros and 9.7 million euros for new investments in Venezuela.

Tax credits in Spanish companies are explained in the following tables.

The breakdown of tax deductions for export activities pending application in Sol Meliá, S.A. as of December 31, 2005, and deducted in the year is the following (in thousands of euros):

Said tax deductions have not been capitalised since they do not meet the required legal conditions.

(in thousands of euros)

	Reinvestment amount	Deduction amount	Accumulated deductions	Deductions for the year	Pending Deductions	Mat. Date
Shares Sol Melia France, S.A.	49,801	12,450	4,471	3,231	4,748	2010
Shares Sol Melia Deutschland, GMBH	4,244	1,061			1,061	2011
Shares Sol Melia Benelux, S.A.	7,545	1,886			1,886	2011
Fairs & Congresses 2002	921	230			230	2012
Fairs & Congresses 2003	1,155	289			289	2013
Fairs & Congresses 2004	1,224	306			306	2014
Fairs & Congresses 2005	740	259			259	2015
Total	**65,630**	**16,481**	**4,471**	**3,231**	**8,779**	

Tax profits of Sol Meliá, S.A. deriving from assets disposals and which are tax exempt for reinvestment and the amounts to be reinvested, in thousands of euros are the following:

In addition, Sol Meliá, S.A. has deductions for double taxation deriving from domestic and international dividends which are accumulated and transferable to later years between 2009 and 2015 amounting to 2.3 million euros, after an application of 0.9 million euros made during this year. Moreover, the Company has 2.6 million euros of quote deductions pending application for new fixed assets investments in the Canary Islands prescribing in 2010. Said deductions have not been capitalised following accounting prudence principles.

(in thousands of euros)

Year	Profit from sale	Amount to be reinvested	Reinvested amount	Pending reinvestment	Mat. date	Reinvestment deduction	Applied in the year	Pending application	Mat. date
2002	902	1,793	1,793		2005	153	153		2012
2003	17,469	25,242	25,242		2006	2,430	2,430		2013
2004	9,748	10,036	10,036		2007	1,978	1,978		2014
2005	51,275	103,200	70,949	32,251	2008	10,510	1,438	9,072	2015
Total	**79,394**	**140,271**	**108,020**	**32,251**		**15,071**	**5,999**	**9,072**	

The Group has the commitment of undertaking investments in new fixed assets located in the Canary Islands during the forthcoming years and according to Law 19/94 on Investments in the Canary Islands. Said investment commitments, expressed in thousands of euros, are the following:

(in thousands of euros)

	2006	2007	2008	2009	TOTAL
Tenerife Sol, S.A.	5,050	5,024	1,770	4,623	16,467
Casino Tamarindos, S.A.	1,119	0			1,119
Total	**6,169**	**5,024**	**1,770**	**4,623**	**17,586**

The information stated in Article 84 of Royal Decree 4/2004 on Corporation Tax, relating to split-offs and mergers of activity's branches made in prior years, is included in the subsequent to the Financial Statements approved after each transaction. The breakdown is as follows:

Inmotel Inversiones, S.A.:	1993, 1996, 1997 and 1998
Sol Meliá, S.A.:	1999 , 2001 and 2005

16.5 Income Tax expense

The following table reflects the amount recorded as expenses for the year. The balances are detailed by concepts. Current tax and deferred tax are shown separately.

(in thousands of euros)

	Expense/(Income)
Current Tax	
Income Tax for the year	4,184
Adjustments for prior years' current income tax	(202)
Other taxes for the year	2,690
Deferred Tax	
First consolidation differences	(690)
Pension commitments	(368)
Exchange differences	28
Financial operating leases	4,884
Tax losses applied	7,810
Tax credits applied	(1,560)
Differences between tax and accounting criteria relating to amortisation	320
Constitution expenses	346
Provision for liabilities	1,883
Inflation adjustments	5,250
Results from mergers	(4,280)
Adjustment of tax and accounting differences	(6,716)
Deductions capitalised	(2,984)
Other	(1,691)
Income Tax expense	**8,904**

Other taxes for the year, amounting to 2.7 million euros, relate to taxes similar to income tax as well as other taxes in developing countries, whose calculations are based on revenue or on the value of the assets and which can become payments on account to the Corporate Tax for the year or forthcoming years.

16.6 Conciliation between the consolidated accounting results and the aggregated tax basis

(in thousands of euros)

	31/12/2005
Consolidated Result before Taxes	100,939
Corporation Tax expenses	(8,904)
Result of companies integrated by the equity method	1,376
Goodwill impairment losses	139
Depreciation consolidation differences attributed to fixed assets	1,118
Deferred tax on consolidation differences attributed to fixed assets	566
Dividends from subsidiaries	65,513
Results for Group transactions provision	6,432
Surpluses deriving from intercompany sale of assets	20,189
Reversal of property investment amortisation	(574)
Effects of Hurricane Wilma on deferred tax	6,484
Capitalisation of intergroup debt Venezuela	7,536
Equity method of companies located in Mexico	1,284
Surpluses written-off through sale of assets	1,219
Accounting policies homogenisation	3,207
Aggregated accounting result	206,524
Tax adjustments to accounting results	
Corporation Tax	485
Dividends from subsidiaries	(61,144)
Treasury shares transactions	12,703
Pension commitments	578
Goodwill amortisation - Merger of Tryp	(15,233)
Adjustments of tax and accounting differences	(340)
Lease holds amortisation	2,312
Attibutions and transparency	2,364
Adjustment for accounting revaluation of properties sold	12,229
Exchange differences	3,925
Inflation adjustment	(12,248)
Non-deductible income and expenses	3,929
Financial lease operations	(10,984)
Provisions	19,659
Deferral for reinvestment	545
Reserve for investment in Canary Islands	(4,225)
Other	(7,500)
Reversal of accounting adjustment centre and IAS centre	(29,495)
Total	**(82,440)**
Previous taxable basis	**124,084**
Tax losses set off	**(26,657)**
Taxable basis (aggregated tax result)	**97,427**

17. CONTINGENT ASSETS AND LIABILITIES

The guarantees committed in favour of third parties and other contingent liabilities are detailed below:

(in thousands of euros)

	31/12/05
Guarantee provided by the Ministry of Science and Technology	3,984
Guarantee deposits in favour of third parties given by the subsidiaries in Leasing and Factoring transactions	4,024
Guarantee deposits in favour of third parties on behalf of Sol Meliá Deutschland, S.A.	1,802
Guarantee deposits in favour of third parties for leasing operations relating to Inmotel Inversiones Italia	14,000
Guarantee deposits of various subsidiaries	3,626
Guarantee deposits for tax settlements	7,050
Deposit in Bankinter pledged in favour of Mirador del Duque, S.L.	1,806
Security deposits for rentals	22,108
Other	7,647
Total	**66,047**

Sol Meliá, S.A. guarantees with the Company's total equity the issue of debentures made by its Dutch subsidiary Sol Meliá Europe, B.V. Said debentures include the following issues:

- February 9, 2001: 340 million euros in bonds maturing on February 9, 2006. Said bonds have been fully redeemed at their maturity date (See Note 19).
- November 14, 2003: 150 million euros in bonds maturing on November 13, 2008.

Sol Meliá, S.A. is the guarantor of Detur Panamá, S.A., owner of Hotel Meliá Panamá Canal, for 58.06% of 9 million dollar loan from Caja de Ahorros de Baleares. As of December 31, 2005 the guaranteed amount is of 6.6 million dollars.

The shares of Desarrollos Inmobiliarios Guanacaste and Desarrollos Hoteleros Guanacaste are guaranteed in favour of a loan given to Desarrollos Hoteleros Guanacaste.

Sol Meliá, S.A. has rental commitments ranging between 1 and 15 years. These include documented commitments amounting to approximately 235 million euros in accordance with the maturity dates of the corresponding rentals.

Sol Meliá, S.A. has bank guarantees in favour of Profitur, S.A., on the annual minimum operating results of its hotel for an amount of 3.1 million euros.

Sol Meliá, S.A. filed an arbitration procedure against Mirador de Almuñecar, S.L. claiming for management fees and an indemnity for the unilateral termination of a management contract for an amount of 1.3 million euros. Mirador de Almuñecar, S.L. has appealed this claim and demands an indemnity of 6.1 million euros. The Group considers that said claim has no legal foundation and will not be considered by the arbitror.

Sol Meliá, S.A. has a corporate guarantee in favour of Isla Bella, S.A. on the annual minimum operating results of a hotel under leasing for 2.1 million euros. The annual increase of said guarantee is endorsed by a second guarantee in favour of Isla Bella, S.A.

Sol Meliá holds a bank guarantee in favour of Hoteles y Edificios, S.A., relating to the payment of two promissory notes amounting to 1.2 million euros.

Sol Meliá, S.A., as the guarantor of Hoteles Nacionales del Este for two loans amounting to USD 10 million and USD 5 million respectively, granted by Banco Santander Central Hispano, began, together with said bank, the process to reclaim the indebted amount. This process initiated against the entities which were the successful bidders in the auction of the former Meliá Juan Dolio properties. The legal action is based on the judgement on the properties' adjudication, the agreements subscribed by Banco de Santander Central Hispano with said bidders (Banco de Reservas and Banco de Progreso) (the bidders) and the Dominican Republic legislation. The two entities subject to the claim are solvent (Banco Nacional de Reservas is the Dominican equivalent to Banco de España). Together with the claim, precautionary measures were requested asking for the seizure of double the total amount owed by each of the banks. Although, initially, the judge in charge of the case consented, following an appeal from the other party the total amount seized was reduced to double the indebted amount. The decision to limit the amount seized has, in turn, been appealed by the Company.

With respect to the municipal partial review of a plot in the Canary Islands, Sol Meliá has commitments for the full payment of the urbanisation expenses, processing and management costs of the project or projects that might be necessary, technicians' fees, (architects, engineers or any other professional taking part in the development and execution of the urbanisation works) as well as all taxes payable to the corresponding town hall.

Corporación Hotelera Metor has several disputes open against its minority shareholder, claiming the cessation of all the agreements and transactions between the two parties. The Company foresees that said lawsuits will be favourably resolved, without causing a significant impact on the Group.

At the Extraordinary General Meeting held on June 8, 2004, a new share price-linked retribution system was approved for top management. The maximum amount assigned to this retribution system is of 3.6 million euros. Moreover, there is also a variable retribution programme linked to the main management economic indicators, to be evaluated at year-end 2006. In order to ensure against the risk entailed by the aforementioned commitments, Sol Meliá, S.A. has signed a non-genuine rate hedging contract with BBVA, through which BBVA will acquire Sol Meliá, S.A.'s shares (up to a maximum of 1,800,000 shares). The company will pay the Euribor plus 70 basic points on the amount of shares acquired by BBVA. As of June 30, 2006, the maturity date of said operation, Sol Meliá, S.A. will have the option of acquiring the shares from BBVA or settling the difference between the average acquisition price, which for the aforementioned shares was of 6.9386, and the average selling price at maturity. At December 31, 2005, expenses relating to the payment of the Euribor plus 70 points are recorded for an amount of 238,000 euros, financial income for shares movement amounting to 4.1 million euros and a provision for personnel expenses corresponding to 2005 amounting to 3.2 million euros. The derivative is considered as a short-term financial asset at net fair value, since the Group will pay this financial asset for the difference. The variations in the item's value are measured in accordance with the price of the subjacent asset. As of December 31, 2005 the value of this financial asset amounts to 4.6 million euros. Its variations result in financial income of 3.2 million euros in 2005. The financial asset is subject to a risk on the subjacent asset price. This risk implies the translation of a sensitivity variation of 644,400 euros into a 5% variation of the subjacent asset.

On December 28, 2005, the Cairo Court of Arbitration dictated an arbitral award as a result of the claim filed by Sheranco for Tourism Projects, owner of the Hotel Meliá Pharaoh, against the management company (Sol Meliá Group). The owner company affirms that the mentioned hotel, managed by Sol Meliá, did not obtain the expected results in 2003. Sol Meliá, however, disagrees with this opinion adducing errors in the exchange rates applied and certain expenses pertaining to the owner and not to the management company. Due to the above, the Company has appealed. Nevertheless, with the aim of covering any potential risk deriving from the initial sentence, the corresponding provisions have been charged in the 2005 Financial Statements of Sol Melia Egypt.

18. OTHER INFORMATION

The remuneration paid to the members of the Board of Directors of Sol Meliá, S.A. in 2005 was as follows:

(in thousands of euros)

	2005
Allowances for meetings attendance	511
Civil liability insurance	55
Remuneration	1,044
Total	**1,610**

None of the directors has received any type of loan or advance and the Company has not assumed any obligations with Board members.

Additional information regarding the Directors in accordance with Law 26/2003 of July 17, 2003:

The members of the Escarrer Jaume family own participations in the share capital and hold positions as directors in the companies Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Asociados, S.L., Majorcan Hotels Luxembourg, S.A.R.L. and Hoteles Mallorquines Agrupados, S.L., all major shareholders in Sol Meliá, S.A., as well as being directors of several subsidiaries and associates of the Group. The positions held in other Group companies are detailed in Appendix 7.

Mr. José María Lafuente has a minority holding in the companies Niamey, S.A. and Sa Coma, C.B. Mr. Juan Vives is a minority shareholder and jointly liable administrator of Finca Los Naranjos, S.A. Mr. Emilio Cuatrecasas is a minority shareholder and Chief Executive of Áreas, S.A. All the aforementioned companies undertake similar or complementary activities to that of Sol Meliá, S.A.

The remaining Directors neither hold positions nor possess shares in companies with similar or complementary activities to that of Sol Meliá, S.A.

In 2005, none of the Directors or their representatives has undertaken any kind of transaction with the Company or Group companies, except those inherent to the ordinary business activity.

Fees corresponding to the audit of the 2005 consolidated annual accounts and subsidiaries have amounted to 1,156,000 euros, of which 531,000 euros have been invoiced by Ernst & Young Spain, 540,000 euros by Ernst & Young at an international level and the remaining 85,000 by other audit firms. In addition, the fees invoiced during the year for other services rendered by the auditors belonging to the same international network have amounted to 159,000 euros.

Environmental risks

No significant item relating to information on environment provided for by Order of the Ministry of Justice dated October 8, 2001, is included in the accompanying Financial Statements.

19. POST BALANCE-SHEET EVENTS

On February 9, 2006, the Company has amortised the bond of 340 million euros (fixed coupon of 6.25%), with a five-year maturity, which is a part of the European Medium Term Notes programme (EMTN). This refinancing was partially guaranteed the year before by means of a syndicated loan of 175 million euros. This loan matures in five years and is remunerated at the Euribor rate plus a differential ranging between 0.6% and 1.0% depending on various financial ratios. The remaining amount has been guaranteed by another bank loan of 25 million euros and matures in five years, which is combined with the available credit facilities. These credit facilities are recovered in the short-term with the funds arising from operations.

The next important maturity will take place at the end of 2008. On said date the exchangeable of 150 million euros will be amortised.

On February 2, 2006 the Group has formalised the acquisition of the remaining 70% holding in Alcajan XXI, S.L. for 10.2 million euros as explained in Note 4.

20. TRANSITION TO IFRS

Changes occurred in the Group's equity and results in 2004 as a result of the transition to IFRS are detailed below:

(in thousands of euros)

	Parent Company	Fully integrated companies	Associates	Conversion differences	Results attributable to Group	Minority shareholders	TOTAL NET EQUITY	Adjustment 2004 res. IFRS
Balance according to former accounting policies (PGC)* 31/12/2003	**637,954**	**357,444**	**4,437**	**(258,652)**	**38,140**	**163,019**	**942,342**	
Distribution 2003 results according to former accounting policies		38,219	(79)		(38,140)		0	
Balance according to PGC* 01/01/2004	637,954	395,663	4,358	(258,652)	0	163,019	942,342	
Conversion differences accumulated at 2003 year-end reclassified to reserves		(254,918)	(3,734)	258,652			0	
Constitution expenses at the transition date	(4,335)	(7,373)	(691)			(106)	(12,505)	(2,512)
Revaluation of Investment properties	48,185	17,303				3,301	68,789	404
Financial Leases							0	(3,109)
Goodwill Impairment		11,133	(673)	(6)		256	10,710	(11,399)
Preference Shares		159				(106,536)	(106,377)	(5)
Exchange gains	3,535	6,380		(509)			9,406	(108)
Valuation of financial instruments (SWAP)	(19,882)						(19,882)	7,522
Clients' portfolios securitisation							0	(2,276)
Tax assets and liabilities	(6,743)	(19,207)				738	(25,212)	(2,335)
Provision for onerous contracts and depreciation at the transition date	(3,244)	(7,877)					(11,121)	781
Adjustment of surpluses for transactions with companies integrated by the equity method							0	(1,792)
Changes in the consolidation perimeter at the transition date		(977)	(522)	(1)			(1,500)	(729)
Treasury shares	(31,313)						(31,313)	(2,443)
Balance according to IFRS 01/01/2004	**624,157**	**140,286**	**(1,262)**	**(516)**		**60,672**	**823,337**	**(18,001)**
Total adjustments to 2004 results by applying IFRS criteria					**(18,001)**		**(18,001)**	
Adjustment of 2004 results in Venezuelan companies for restatement of hyperinflationary economy		(8,763)			1,741		(7,022)	
Results according to PGC* published in 2004					60,131	10,374	70,505	
Movements according to PGC* recorded in 2004	(19,874)	9,019	75	(41,394)		(8,190)	(60,364)	
Balance according to IFRS 31/12/2004	**604,283**	**140,539**	**(1,187)**	**(41,910)**	**43,871**	**62,856**	**808,452**	

*PGC: Spanish General Accounting Plan

The conversion differences as of December 31, 2003 have been reclassified to reserves in companies integrated by the full method and associates, as applicable, in order to facilitate the identification of the impact of the exchange rates evolution on the equity since the date of transition to IFRS.

The constitution expenses recorded in the balance sheet until the transition date are considered as results from prior years. Furthermore, the reversal of the total amount of amortisation recorded in the 2004 Financial Statements according to General Chart of Accounts and the reclassification of the additions for the year to operating expenses also have an effect on the 2004 results.

The Group has recorded the investments held in the communities of property owners of the Meliá Castilla, Meliá Costa del Sol and Meliá Alicante and the premises next to the Gran Meliá Caracas at their net fair value. These investments are considered as investment properties since the cash-flows for rentals and surpluses generated are independent from the other Group's assets. The impact on the 2004 results relates to the amortisation reversal undertaken in accordance with the 2004 Spanish General Accounting Plan.

Rental contracts held by the Group for longer than the greatest part of the useful economic life of the operated assets are classified as financial leases. The updated value of the committed rental cash-flows, calculated as a perpetual lease with an average discount rate of the investment cost, amounts to 162 million euros. Property, plant and equipment and the corresponding non-bank debt are recorded for said amount. To date, building operating lease expenses have been recorded in the Income Statement. In 2005, said expenses are derecognised and substituted by the corresponding financial cost and depreciation charges.

Goodwill existing at the date of transition to IFRS has been revised and any that should have been regularised at the transition date has been identified by impairment losses.

On April 4, 2002, the Group launched an offering of preference shares reflected in the Complete Informative Brochure inscribed in the Official Registry of the Spanish National Stock Market Committee for 106 million euros. It is considered a financial liability due to the economic obligations relating to interest rates inherent to the operation from 2012 onwards. On said date, the issuer has the right to undertake advance redemption. This offering is recorded on the non-current liabilities side of the balance sheet at the net value less formalisation expenses.

The unrealised exchange gains recorded at the transition date have been duly regularised as 2004 results or results from prior years.

The Swap transaction explained in Note 17 of the present Notes has been recorded as a major debt value for an amount of 28.4 million euros. The changes in value based on the interest rate fluctuations are recorded as financial results.

The factoring transaction for credit transfer of the sale of plots, recorded in 2004, was derecognised, since the contract included an essential clause for the risk of insolvency and the transaction was considered to be a sale of credits with recourse.

All deferred tax assets and liabilities relating to the changes made as a result of the application of IAS 12, "Income Taxes" have been recorded, identifying the differences between tax value and accounting value of all assets and liabilities.

The Group has undertaken a study on the expected future cash-flows of certain hotels operated on a rental basis in Germany, considering necessary to book a provision for onerous contracts, since, at the transition date, the committed payments are 7.8 million euros higher than the expected cash-flows. This relates to five hotels whose maturities range between 2009 and 2020 and that are updated at a suitable discount rate.

The surpluses generated from the assets disposal corresponding to a real estate development transaction with an associate in the Dominican Republic, were reversed in proportion to the Group participation.

Mogan Promociones, S.A. de C.V., Punta Elena, S.L. and Bisol Investment, N.V., all companies which are idle or in liquidation, have been integrated in the consolidation perimeter at the transition date.

On applying IAS 1 "Presentation of Financial Statements", treasury shares are deducted from the equity value. Results obtained from the disposal of treasury shares have been reversed and the surpluses directly charged to reserves.

The restatement of the 2004 Financial Statements of the Group companies located in Venezuela has been reversed since the economy of this country is no longer considered to be hyperinflationary.

APPENDIX I. COMPANIES INTEGRATED BY THE FULL METHOD

		COMPANY	COUNTRY	ACTIVITY	DIR. P.	IND. P.	TOTAL	IND. PART. HOLDER
		ALCAJAN XXI, S.L.	Spain	Holding	30.04%		30.04%	
	(F)	APARTOTEL, S. A.	Spain	Management	99.73%		99.73%	
(A)		BEAR, S. A. de C. V.	Mexico	Hotel owner and operator	100.00%		100.00%	
		BISOL INVESTMENT LTD.	Cayman Islands	Idle	100.00%		100.00%	
(A)		BISOL VALLARTA, S. A. de C. V.	Mexico	Hotel owner and operator		99.68%		CALA FORMENTOR S.A. DE C.V.
						0.01%	99.69%	MELIÁ INV. AMERICANAS N.V.
		BOSCARLA, S.L.	Spain	Time sharing company	100.00%		100.00%	
(A)	(F)	CADLO FRANCE, S. A.	France	Management		100.00%	100.00%	SOL MELIA FRANCE, S.A.
(A)	(F)	CADSTAR FRANCE, S. A.	France	Management		100.00%	100.00%	SOL MELIA FRANCE, S.A.
(A)		CALA FORMENTOR, S. A. de C. V.	Mexico	Hotel owner and operator		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	(F)	CALIMAREST, S.A.	Spain	Restaurant Calima	100.00%		100.00%	
(A)		CARIBOTELS DE MEXICO, S. A. de C. V.	Mexico	Hotel owner and operator		50.91%	50.91%	CONT. TUR. COZUMEL, S.A.
(A)		CASINO PARADISUS, S. A.	Dom. Rep.	Casino operator		49.84%	49.84%	INVERSIONES AGARA S.A.
(A)	(F)	CASINO TAMARINDOS, S. A.	Spain	Casino owner and operator	100.00%		100.00%	
		COM.PROP. SOL Y NIEVE (*)	Spain	Hotel owner and operator	88.42%		88.42%	
(A)		COMP. TUNISIENNE GEST. HOTELIÉRE	Tunisia	Management		100.00%		SOL MANINVEST B.V.
(A)		CORP.HOT.HISP.MEX., S. A. de C. V.	Mexico	Hotel owner and operator		9,22%		CALA FORMENTOR S.A. DE C.V.
						90.47%	99.69%	MELIÁ INV. AMERICANAS N.V.
		CORP.HOTELERA METOR, S. A.	Peru	Hotel owner and operator		40.03%		MARINA INTERNAT. HOLDING
						19.90%	59.93%	MELIÁ INV. AMERICANAS N.V.
		CREDIT CONTROL CO.	U.S.A.	Collection management		100.00%	100.00%	CREDIT CONTROL RIESGOS, S.L.
	(F)	CREDIT CONTROL RIESGOS, S.L.	Spain	Collection management	100.00%		100.00%	
		DESARR. TURIST. DEL CARIBE, S. A.	Panama	Marketing company		99.69%	99.69%	DES.TUR.DEL CARIBE N.V
(A)	(F)	DESARR. HOTELERA DEL NORTE, S. A.	Puerto Rico	Hotel owner		49.85%		DES.HOT.SAN JUAN B.V
						49.85%	99.69%	SAN JUAN INVESTMENT B.V
	(F)	DESARR.HOTEL. SAN JUAN, B.V.	The Netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
		DESARR. TURIST. DEL CARIBE, N. V.	Neth. Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A)		DESARROLLOS SOL, S. A.	Dom. Rep.	Holding		60,63%		MELIÁ INV. AMERICANAS N.V.
						20.87%		DOMINICAN INVESTMENT, N. V.
						18.19%	99.69%	DOMINICAN MKTING SERVICES
(A)	(F)	DOCK TELEMARKETING, S. A.	Spain	Sales office	100.00%		100.00%	
		DOMINICAN INVESTMENT, N. V.	Neth. Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
		DOMINICAN MARKETING SERVICES	Neth. Antilles	Marketing company		99.69%	99.69%	DOMINICAN INVESTMENT NV
	(F)	DORPAN, S. L.	Spain	Brand owner	100.00%		100.00%	
	(F)	FARANDOLE, B. V.	The Netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
		GESMESOL, S. A.	Panama	Management	100.00%		100.00%	
	(F)	GEST.HOT.TURISTICA MESOL	Spain	Export company	100.00%		100.00%	
(A)		GOLF COCOTAL, S. A.	Dom. Rep.	Export company		99.69%	99.69%	DESARROLLOS SOL, S.A.
(A)		GRUPO SOL ASIA, Ltd.	Hong Kong	Holding	60.00%		60.00%	
(A)		GRUPO SOL SERVICES	Singapur	Services		60.00%	60.00%	GRUPO SOL ASIA, Ltd.

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APPENDIX 1. COMPANIES INTEGRATED BY THE FULL METHOD (CONTINUED)

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		COMPANY	COUNTRY	ACTIVITY	DIR. P.	IND. P.	TOTAL	IND. PART. HOLDER
		GUPE IMÔBILIARIA, S.A.	Portugal	Management	100.00%		100.00%	
		HOT. MELIÁ INTNAL COLOMBIA, S. A.	Colombia	Idle		100.00%	100.00%	M.I.H. S.A.
		HOTELES SOL INTERNACIONAL	Panama	Holding	100.00%		100.00%	
(A)	(F)	HOTEL ABBAYE DE THELEME, S. A.	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE S.A.
(A)	(F)	HOTEL ALEXANDER, S. A. S.	France	Hotel owner and operator		100.00%	100.00%	SOL MELIA FRANCE
		HOTEL BELLVER, S. A.	Spain	Hotel owner	66.95%		66.95%	
(A)	(F)	HOTEL BLANCHE FONTAINE, S. A.	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE S.A.
		HOTEL CONVENTO de EXTREMADURA, S. A.	Spain	Hotel owner and operator	51.32%		51.32%	
(A)	(F)	HOTEL DE BOULOGNE, S. A. S.	France	Hotel owner and operator		100.00%	100.00%	SOL MELIA FRANCE
(A)	(F)	HOTEL FRANÇOIS, S. A.	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE, S.A.
(A)	(F)	HOTEL MADELEINE PALACE, S. A.	France	Hotel operator		100.00%	100.00%	HOTEL METROPOLITAN S.A.
(A)	(F)	HOTEL METROPOLITAN, S. A.	France	Hotel owner		100.00%	100.00%	CADLO FRANCE S.A.
(A)	(F)	HOTEL ROYAL ALMA, S. A.	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE, S.A.
	(F)	HOTELES MELIÁ, S. L.	Spain	Idle	100.00%		100.00%	
	(F)	HOTELES PARADISUS, S. L.	Spain	Idle	100.00%		100.00%	
	(F)	HOTELES SOL MELIÁ, S. L.	Spain	Holding	100.00%		100.00%	
	(F)	HOTELES SOL, S. L.	Spain	Idle	100.00%		100.00%	
	(F)	HOTELES TRYP, S. L.	Spain	Idle	100.00%		100.00%	
		ILHA BELA GESTAÔ E TURISMO, Ltd.	Portugal	Management	100.00%		100.00%	
		IMPULSE HOTEL DEVELOPEMENT	The Netherlands	Idle	100.00%		100.00%	
		INMOBILIARIA DISTRITO CIAL. , S. A.	Venezuela	Owner of premises		71.78%	71.78%	INV. INMOB. IAR 1997, C. A.
(A)		INMOTEL INVERS. ITALIA, S. R. L.	Italy	Hotel owner and operator	100.00%		100.00%	
		INVERS. TURIST. DEL CARIBE, S. A.	Dom. Rep.	Holding	100.00%		100.00%	
(A)		INVERS. EXP.. TURISTICAS, S. A.	Spain	Hotel owner and operator	54.64%		54.64%	
(A)		INVERS. INMOB. IAR 1997, C. A.	Venezuela	Hotel owner and operator		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A)		INVERSIONES AGARA, S. A.	Dom. Rep.	Hotel owner and operator		99.69%	99.69%	NEALE S.A.
(A)		INVERSIONES AREITO, S.A.	Dom. Rep.	Hotel owner		9.01%		LEOFORD INVESTMENT CO.
						21.03%	30.04%	ALCAJAN XXI, S.L.
		INVERSIONES INVERMONT, S. A.	Venezuela	Idle		100.00%	100.00%	M.I.H. S.A.
		IRTON COMPANY, N. V.	Neth. Antilles	Assets management		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
		LEOFORD INVESTMENT CO.	Panama	Holding		30.04%	30.04%	ALCAJAN XXI, S.L.
(A)		LOMONDO, Ltd.	Great Britain	Hotel owner and operator	29.41%	70.59%	100.00%	HOTELES SOL INTNAL., S.A.
		MELIÁ INTNAL. HOTELES, S. A.	Panama	Management and holding	100.00%		100.00%	
		MARINA INTERNATIONAL HOLDING	Panama	Holding		100.00%	100.00%	M.I.H. S.A.
		MARKSERV, B. V.	The Netherlands	Management and holding	51.00%	49.00%	100.00%	SOL MANINVEST B.V.
		MARKSOL TURIZM, Ltd.	Turkey	Idle	10.00%	90.00%	100.00%	MARKSERV B.V.
		MARKTUR TURIZM, A. S.	Turkey	Idle	100.00%		100.00%	
(A)		MELIÁ BRASIL ADMINISTRAÇAO	Brasil	Hotel operator		20.00%		SOL MANINVEST B.V.
						80.00%	100.00%	MARKSERV B.V.
		MELIÁ INV. AMERICANAS, N. V.	The netherlands	Holding	82.26%	17.43%	99.69%	SOL MELIÁ INVESTMENT N.V.
(A)		MELIÁ MANAGEMENT, S. A.	Dom. Rep.	Management		100.00%	100.00%	INV TURIST DEL CARIBE SA
		MELSOL MANAGEMENT, B. V.	The netherlands	Management	100.00%		100.00%	
		MELSOL PORTUGAL, Ltd.	Portugal	Management	80.00%		80.00%	
		MOTELES ANDALUCES, S. A.	Spain	Hotel owner and operator	95,87%		95,87%	
		NEALE, S. A.	Panama	Marketing company		99,69%	99,69%	RANDLESTOP CORP.N.V
		NEW CONTINENT VENTURES, Inc.	U.S.A.	Holding		100,00%		SOL GROUP, B. V.
		NYESA MELIÁ ZARAGOZA S.L.	Spain	Hotel operator and promotor	50,00%		50,00%	
		OPERADORA COSTARISOL	Costa Rica	Management		100,00%	100,00%	M.I.H. S.A.
(A)		OPERADORA MESOL, S. A. de C. V.	Mexico	Management	75.21%	24.79%	100.00%	MARKSERV B.V.

APPENDIX 1. COMPANIES INTEGRATED BY THE FULL METHOD (CONTINUED)

(A) Audited companies

(F) Companies belonging to a consolidated tax group with their respective parents.

		COMPANY	COUNTRY	ACTIVITY	DIR. P.	IND. P.	TOTAL	IND. PART. HOLDER
		OPERADORA SAN JUAN, S. E.	Puerto Rico	Management	90.00%	10.00%	100.00%	MARKSERV B.V.
(A)	(F)	PARQUE SAN ANTONIO, S. A.	Spain	Hotel owner and operator	79.59%		79.59%	
	(F)	PLAYA SALINAS, S. A.	Spain	Prop. de terrenos	49.00%			
						47.94%		INDUSTRIAS TURISTICAS
						1.89%	98.83%	HOTELES TURISTICOS. S.A.
		PT SOL MELIÁ INDONESIA	Indonesia	Idle	90.00%	10.00%	100.00%	MARKSERV B.V.
		PUNTA CANA RESERVATIONS, N. V.	Curaçao	Marketing company		30.04%	30.04%	ALCAJAN XXI, S.L.
		RANDLESTOP CORPORATION, N. V.	Neth. Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	(F)	REALTUR, S. A.	Spain	Hotel owner	96.80%		96.80%	
	(F)	SAN JUAN INVESTMENT, B. V.	The netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	(F)	SECURISOL, S. A.	Spain	Seguridad	100.00%		100.00%	
(A)		SEGUNDA FASE CORP.	Puerto Rico	Hotel owner		100.00%	100.00%	SM VACATION CLUB CO.
(A)		SMVC DOMINICANA, S.A.	Dom. Rep.	Gest. Tiempo Comp.		100.00%	100.00%	SM VACATION CLUB CO.
		SMVC ESPAÑA S.L.	Spain	Management	100.00%		100.00%	
(A)		SMVC MÉXICO, S.A de C.V.	Mexico	Gest. Tiempo Comp.		100.00%	100.00%	SM VACATION CLUB CO.
		SMVC NETWORK, S.A.R.L.	Luxemburgo	Time sharing company	100.00%	100.00%		HOTELES SOL MELIÁ, S. L.
		SMVC PANAMÁ S.A.	Panama	Gest. Tiempo Comp.		100.00%	100.00%	SM VACATION CLUB CO.
(A)		SMVC PUERTO RICO CO.	P .Rico	Gest. Tiempo Comp.		100.00%	100.00%	SM VACATION CLUB CO.
		SOL CARIBE TOURS, S. A.	Panama	Receptivo		100.00%	100.00%	GESMESOL, S.A
		SOL GROUP, B. V.	The netherlands	Holding	100.00%		100.00%	
		SOL GROUP CORPORATION	U.S.A.	Services		100.00%	100.00%	SOL GROUP B.V
		SOL HOTELES U.K., Ltd.	Great Britain	Idle	100.00%		100.00%	
		SOL MANINVEST, B. V.	The netherlands	Management and holding	100.00%		100.00%	
(A)		SOL MELIÁ, S.A.	Spain	Prop. y Gestora			100.00%	
(A)		SOL MELIÁ BENELUX, B. V.	Bélgica	Hotel owner and operator	99.99%			
						0.01%	100.00%	MARKSERV B.V.
		SOL MELIÁ CHINA, Ltd.	China	Services		100.00%	100.00%	M.I.H. S.A.
		SOL MELIÁ COMMERCIAL	Cayman Islands	Management		100.00%	100.00%	SOL MELIA FRIBOURG S.A.
		SOL MELIÁ CROACIA	Croacia	Management		100.00%	100.00%	SOL MANINVEST B.V.
(A)		SOL MELIÁ DEUTSCHLAND, gmbh	Alemania	Hotel operator	100.00%		100.00%	
(A)		SOL MELIÁ EUROPE, B. V.	The netherlands	Emisora bonos conv.	100.00%		100.00%	
(A)		SOL MELIÁ FINANCE, Ltd.	Cayman Islands	Servicios financieros	100.00%	100.00%		SOL MELIA INVESMENT, N.V
(A)		SOL MELIÁ FRANCE, S. A. S.	France	Management and holding	100.00%		100.00%	
(A)		SOL MELIÁ FRIBOURG, S.A.	Suiza	Holding	100.00%		100.00%	
		SOL MELIÁ GUATEMALA, S. A.	Guatemala	Management		99.95%		M.I.H. S.A.
						0.05%	100.00%	MARKSERV B.V.
		SOL MELIÁ INVESTMENT, N. V.	The netherlands	Holding		100.00%	100.00%	INV. LATINOÁMERICA 2000 S.L.
		SOL MELIÁ MARRUECOS, S. A.	Marruecos	Management		100.00%	100.00%	MARKSERV B.V.
		SOL MELIÁ PERÚ, S. A.	Peru	Management	100.00%		100.00%	
(A)		SOL MELIÁ SERVICES, S. A.	Suiza	Management	100.00%		100.00%	
(A)		SOL MELIÁ SUISSE, S. A.	Suiza	Hotel operator	100.00%		100.00%	
(A)	(F)	SOL MELIÁ TRAVEL S.A.	Spain	Agencia de Viajes	100.00%		100.00%	
		SOL MELIA VACATION CLUB CO.	U.S.A.	Holding	100.00%	100.00%		HOTELES SOL MELIÁ, S. L.
(A)		TENERIFE SOL, S. A.	Spain	Hotel owner and operator	50.00%	48.40%	98.40%	REALTUR, S.A.
		VACATION CLUB SERVICES CO.	U.S.A.	Gest. Tiempo Comp.		100.00%	100.00%	SM VACATION CLUB CO.
		YOUTH JOURNEY Ltd.	Great Britain	Holding		99.69%	99.69%	DESARROLLOS SOL, S.A.

APPENDIX 2. ASSOCIATES

COMPANY	COUNTRY	ACTIVITY	DIR. P.	P.IND	TOTAL	IND. PART. HOLDER
APARTHOTEL BOSQUE, S. A.	Spain	Hotel owner and operator	25.00%		25.00%	
C. P. COSTA DEL SOL (*)	Spain	Apartament owners' association	0.33%	18.69%	19.02%	APARTOTEL S.A.
COM. PROP. MELIÁ CASTILLA (*)	Spain	Apartament owners' association	29.22%		29.22%	
DETUR PANAMÁ S. A.	Panama	Hotel owner and operator	32.72%	17.21%	49.93%	M.I.H., S.A.
HANTINSOL RESORTS, S.A.	Spain	Idle	33.33%		33.33%	
HELLENIC HOTEL MANAGEMENT	Greece	Idle	40.00%		40.00%	
INVERSIONES GUIZA, S. A.	Dominican Rep.	Water wells owner and operator		49.84%	49.84%	MARMER, S.A.
LH MIAMI LLC. (JV)	United States	Hotel operator		50.00%	50.00%	LIFESTAR, LLC
LIFESTAR HOTELES ESPAÑA, S.L. (JV)	Spain	Hotel management	50.00%		50.00%	
LIFESTAR, LLC (JV)	United States	Hotel management		50.00%	50.00%	NEW CONTINENT VENTURES CO.
LUXURY LIFESTYLE H&R (JV)	Spain	Marketing services	50.00%		50.00%	
MELIÁ MÉRIDA, S. L.	Spain	Hotel owner and operator	41.76%		41.76%	
MELIÁ TOUR, S. L.	Spain	Touroperator	50.00%		50.00%	
MOGAN PROMOCIONES S.A. de C.V.	Mexico	Land owner		33.33%	33.33%	MARKSERV B.V.
NEXPROM, S. A.	Spain	Hotel owner and operator	14.33%	5.67%	20.00%	PROMEDRO
PUNTA ELENA, S.L.	Spain	Idle	50.00%		50.00%	
PROMOCIONES PLAYA BLANCA S.A. de C.V.	Mexico	Hotel owner and operator		33.00%	33.00%	MARKSERV B.V.
PROMEDRO, S. A.	Spain	Holding	20.00%		20.00%	
SIERRA PARIMA, S.A. (JV)	Dominican Rep.	Shopping centre owner	49.00%		49.00%	
SOL HOTTI PORTUGAL HOTEIS, Ltd.	Portugal	Management	45,00%		45,00%	
				21.03%	21.03%	ALCAJAN XXI, S.L.

(JV) Relates to joint ventures.

(*) The participation in these companies is through the ownership of apartments, which represent 19.02% and 29.22% of the total, respectively and which are recorded under the "Investment Properties" caption.

APPENDIX 3. RESERVES IN COMPANIES INTEGRATED BY THE FULL METHOD

(in thousands of euros)

	Balance 31/12/04	Distribution 2004 results	Additions	Transfers	Disposals	Balance 31/12/05
Akuntra XXI S.L.	524		0	(524)	0	
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	8	0	0	38	0	46
Apartotel, S.A.	8,267	1,026	0	(312)	0	8,982
Azafata, S.A.	1,023	884	0	(1,907)	0	0
Bear S.A. De C.V.	(7,738)	(9,317)	0	11,574	0	(5,481)
Bisol Investment, Ltd.	(977)	49	0	0	0	(929)
Bisol Vallarta S.A. De C.V.	10,277	1,724	0	0	0	12,001
C. Tamarindos, S.A.	2,342	962	0	(518)	0	2,785
C.H.H. Mexicana, S.A. De C.V.	9,265	2,681	0	0	0	11,947
C.P. Sol y Nieve	3,421	941	0	0	0	4,362
C.T. Cozumel, S.A. De C.V.	5,055	(1,555)	0	(3,501)	0	
C.Tunissienne de G.H.	(2,769)	(219)	0	0	0	(2,988)
Cala Formentor S.A. De C.V.	9,391	8,815	0	0	0	18,206
Caribotels de México S.A. De C.V.	(3,208)	(488)	0	4,763	0	1,067
Casino Paradisus, S.A.	62	123	0	(245)	0	(59)
Consorcio Europeo S.A.	(2,375)	315	0	2,059	0	0
Corporación Hotelera Metor S.A.	(3,459)	171	0	0	0	(3,288)
Credit Control Corp.	0	77	0	0	0	77
Credit Control Riesgos, S.L.	0	519	0	(161)	(59)	299
D.H. San Juan, B.V.	2,697	1,399	0	(1,075)	0	3,021
D.Mk.Services / Desarrollos Sol (1)	(92,487)	28,665	0	(21,732)	0	(85,554)
D.T.C., S.A.	23,441	196	0	(1,132)	0	22,505
D.T.Caribe N.V.	(5,216)	(13)	0	5	0	(5,225)
Darcuo XXI S.L.	(710)	(623)	0	1,333	0	0
Desarrolladora Hot. Del Norte	(10,044)	(20,159)	0	2,149	(90)	(28,143)
Dock Telemarking, S.A.	1,532	4,209	0	(1,459)	0	4,282
Dominican Investment NV	(870)	34	0	383	0	(453)
Dorpan, S.L.	565	254	0	(116)	0	703
Farandole B.V.	(3,008)	(445)	0	0	0	(3,453)
G.H.T. Mesol, S.A.	46	(49)	0	17	0	14
Gesmesol, S.A.	32,425	8,580	0	0	0	41,005
Golf del Cocotal, S.A.	(8)	36	0	(0)	0	28
Grupo Sol Asia Ltd.	1,761	(518)	0	(1,412)	0	(168)
Grupo Sol Francia (1)	(25,465)	1,223	1,046	(901)	(595)	(24,692)
Grupo Sol Services	350	(16)	0	0	0	334
Gupe Inmobiliaria, S.A.	(1,316)	30	0	(0)	0	(1,286)
H.C. Extremadura, S.A.	(97)	(21)	0	74	0	(44)
H.Meliá Internacional de Colombia, S.A.	(20)	2	0	(2)	(13)	(33)
Hotel Bellver, S.A.	3,229	15	0	0	0	3,244

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APPENDIX 3. RESERVES IN COMPANIES INTEGRATED BY THE FULL METHOD (CONTINUED)

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APPENDIX 3. RESERVES IN COMPANIES INTEGRATED BY THE FULL METHOD (CONTINUED)

(in thousands of euros)

	Balance 31/12/04	Distribution 2004 results	Additions	Transfers	Disposals	Balance 31/12/05
Hoteles Sol Internacional	62,755	(35)	31	0	0	62,752
Hoteles Sol Meliá S.l.	(0)	(7)	0	3	0	(5)
Hoteles Sol S.l.	(1)	(1)	0	0	0	(1)
Hoteles Turísticos, S.A.	380	130	42	(552)	0	
Ihla Bela de Gestao e Turismo, Ltd.	1,583	1,784	0	(48)	0	3,320
Impulse H. Development	(154)	3	0	(18)	0	(169)
Industrias Turísticas, S.A.	108	(59)	49	(98)	0	
Inmob. Distrito Comercial	(3,205)	(222)	0	(442)	0	(3,869)
Inmobiliaria Bulmes S.A.	(10,090)	1,551	0	8,539	0	
Inmotel Inversiones Italia, S.R.L.	(324)	(5,380)	26	5,982	(74)	230
Inversiones Inmobiliarias IAR, C.A.	4,886	(417)	0	2,102	0	6,570
Inversiones Invermont SA	(129)	0	0	0	0	(129)
Inversiones Latinoamerica 2.000, S.L.	(17,674)	(0)	0	17,675	0	
Inversiones Turísticas del Caribe, S.A.	(121)	120	0	(12)	0	(12)
Inversiones y Explotaciones Tur. S.A.	5,071	1,037	0	8	0	6,116
Irton Company, N.V.	8,924	(189)	0	2,148	0	10,883
Lavanderias Compartidas, S.A.	(67)	(228)	0	296	0	0
Lomondo Ltd.	(12,883)	(1,150)	0	141	0	(13,892)
M.I.H. U.K. LTD	(3)	2	3	(2)	0	
Marina International Holding	(2,600)	(1)	0	0	0	(2,601)
Markserv, B.V.	118	(9)	6	(20)	0	95
Marksol Turizm, Ltd.	(465)	(293)	0	(23)	0	(781)
Marktur Turizm	(199)	13	0	0	0	(186)
Meliá Brasil A H e C Ltda	(2,107)	(2,180)	0	0	0	(4,287)
Meliá Brasil Administraçao.	(2,820)	555	0	(114)	0	(2,379)
Meliá Catering, S.A.	(74)	(2)	0	77	0	
Melia International Hotels, S.A	76,252	13,979	0	(6,455)	0	83,776
Melia Inversiones Americanas, N.V.	26,514	2,324	0	55,302	0	84,140
Melia Management Co.	337	298	0	0	0	635
Melsol Management B.V.	(461)	(112)	0	(1)	0	(573)
Melsol Portugal, Ltd.	(4)	1	0	0	0	(3)
Moteles Andaluces, S.A.	62	2,782	8	(443)	0	2,410
Moteles Grandes Rutas Españolas, S.A.	220	50	5	(275)	0	
Neale / Inversiones Agara (1)	20,932	14,934	0	(25,715)	0	10,150
New Continent Ventures, Inc.	0	(184)	0	0	0	(184)
Operadora Costarisol	(595)	274	0	0	0	(321)
Operadora Mesol, S.A. De C.V.	5,042	2,906	0	(1,325)	0	6,623
Operadora San Juan, S.E.	0	650	0	0	0	650
Parking Internacional S.A.	733	229	0	(962)	0	
Parque San Antonio S.A.	3,923	(97)	0	125	0	3,951
Playa Salinas,S.A.	(1,904)	(10)	0	6	0	(1,907)
Randlestop Corporation, N.V.	(1,249)	(172)	0	285	0	(1,137)
Realizaciones Turísticas, S.A.	(527)	1,202	0	(607)	0	69
Rte. Office Park, MBA	970	502	0	0	0	1,472
San Juan Investment, B.V.	2,697	1,399	0	(1,075)	0	3,021
Secade XXI S.L	(68)	(188)	0	256	0	0
Securi Sol , S.A.	62	32	0	(25)	0	69
Silverbay S.L.	4,264	1	0	(4,265)	0	0

(1) These companies belong to the same business line.

(in thousands of euros)

	Balance 31/12/04	Distribution 2004 results	Additions	Transfers	Disposals	Balance 31/12/05
SMVC Dominicana, S.A.	0	(143)	0	0	0	(143)
SMVC Mexico S.A. De CV.	0	426	0	0	0	426
SMVC Network, S.A.R.L.	(7)	(0)	0	0	0	(7)
SMVC Puerto Rico Co.	0	14	0	0	0	14
Sol Caribe Tours, S.A.	(114)	0	0	0	0	(114)
Sol Group B.V.	(78)	7	0	(7)	0	(78)
Sol Group Co.	(1,441)	1,058	0	0	0	(383)
Sol Hotel U.K. Ltd.	(66)	0	0	0	0	(66)
Sol Maninvest, B.V.	28	(347)	0	8,630	0	8,311
Sol Melià,S.A.	806	735	(10)	22	0	1,553
Sol Meliá Benelux, B.V	(650)	(208)	0	281	0	(577)
Sol Meliá China Ltd.	(493)	(20)	0	0	0	(514)
Sol Meliá Croacia	3,468	1,145	0	(3,097)	0	1,516
Sol Meliá Deuchland Gmbh	(13,961)	(1,489)	0	6,500	0	(8,950)
Sol Melia Europe, B.V.	223	419	0	0	0	642
Sol Meliá Finance Ltd.	158	(0)	0	351	0	510
Sol Melia France S.A.S.	2,835	(1,127)	0	1,339	0	3,047
Sol Melia Guatemala, S.A.	89	(62)	0	0	0	27
Sol Meliá Investment NV	(1,142)	(3)	0	(17,675)	0	(18,820)
Sol Meliá Marruecos, S.A.	(728)	(38)	0	0	0	(765)
Sol Meliá Perú S.A.	253	192	0	(3)	0	442
Sol Meliá Services, S.A.	5,580	1,909	0	(7,543)	0	(53)
Sol Meliá Suisse, S.A.	(1,734)	(2,709)	0	0	0	(4,443)
Sol Meliá Travel, S.A.	(685)	(4,050)	0	4,100	0	(635)
Sol Melia Vacation Club Co.	0	(26)	0	0	0	(26)
Tenerife Sol, S.A.	24,934	1,004	0	(22)	0	25,916
Urme Real, S.L.	(983)	118	0	922	(57)	
Vacation Club Services Co.	0	(1,934)	0	0	0	(1,934)
Youth Journey Limited Ltd.	221	136	0	223	0	581
Total	**140,539**	**60,337**	**1,207**	**31,888**	**(889)**	**233,084**

APPENDIX 4. RESERVES IN ASSOCIATES

(in thousands of euros)

	Balance 31/12/04	Distribution 2004 results	Additions	Transfers	Disposals	Balance 31/12/05
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	(53)	92	0	(38)	0	0
C.P. Meliá Castilla	2,436	833	0	(943)	(4)	2,322
C.P. Costa del Sol	1,586	230	0	(276)	(5)	1,535
Detur Panamá, S.A.	(2,063)	(63)	0	396	0	(1,730)
Hellenic H.M.	(76)	0	0	0	0	(76)
Aparthotel Bosque, S.A.	(208)	245	0	(71)	(55)	(88)
I.T. Casas Bellas	(8)	0	0	215	(207)	0
Inversiones Guiza, S.A.	(2)	1	0	0	0	(1)
Lifestar, LCC	0	(951)	0	0	0	(951)
Meliá Mérida, S.L.	25	(312)	0	317	8	38
Meliatour, S.L.	13	(136)	0	(14)	0	(137)
Mogan Promociones, SA de CV	(1)	15	0	0	0	15
Nexprom, S.A.	1,791	27	0	31	(22)	1,827
Promedro, S.A.	(51)	187	0	(144)	0	(8)
Promociones Playa Blanca, S.A. De C.V.	(4,125)	891	0	38	0	(3,196)
Punta Elena, S.L.	(590)	(11)	0	0	0	(601)
Sierra Parima, S.A.	0	0	1,025	0	0	1,025
Sol Hoti Portugal Hoteis, Ltd.	139	25	1	(11)	0	154
Total	**(1,187)**	**1,074**	**1,026**	**(500)**	**(286)**	**128**

(1) These companies belong to the same business line.

APPENDIX 5. MINORITY INTEREST

(in thousands of euros)

	Balance 31/12/04	2005 Results	Additions	Transfers	Disposals	Conversion difference	Balance 31/12/05
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	0	(0)	19,619	0	(10,262)	0	9,357
Apartotel, S.A.	35	0	0	1	(2)	0	34
Bisol Vallarta S.A. De C.V.	41	5	0	0	0	10	56
C.H.H. Mexicana, S.A. De C.V.	29	6	0	0	0	23	58
C.P. Sol y Nieve	571	120	0	0	0	0	691
C.T. Cozumel, S.A. De C.V.	7,522	0	0	(7,522)	0	0	
Cala Formentor S.A. De C.V.	30	19	0	0	0	58	107
Caribotels de México S.A. De C.V.	(3,313)	(512)	0	7,522	0	977	4,674
Casino Paradisus, S.A.	356	(99)	0	(1)	0	7	264
Corporación Hotelera Metor, S.A.	1,250	(667)	0	0	0	125	708
D.H. San Juan, B.V.	13	(3)	0	(3)	0	0	7
D.T.Caribe N.V.	(24)	(0)	0	0	0	14	(10)
Desarrolladora Hot. Del Norte, S.A.	(98)	(37)	0	7	(0)	15	(114)
Desarrollos Turísticos del Caribe, N.V.	68	(0)	0	(4)	0	10	74
Dominican Investment, N.V.	(3)	(0)	0	1	0	(0)	(2)
D.Mk.Services / Desarrollos Sol (1)	(153)	72	0	(68)	0	(27)	(175)
Farandole B.V.	(11)	(1)	0	0	0	0	(12)
Grupo Sol Asia Ltd.	758	270	0	(923)	0	125	231
Grupo Sol Services, S.A.	216	63	0	0	0	30	308
H.C. Extremadura, S.A.	673	14	0	0	0	0	687
Hotel Bellver, S.A.	1,601	38	0	0	0	0	1,639
Hoteles Turísticos, S.A.	355	0	2	(357)	0	0	
Industrias Turísticas, S.A.	163	0	1	(164)	0	0	
Inmob. Distrito Comercial, S.A.	5,371	(83)	0	442	0	104	5,834
Inversiones Guiza, S.A.	1	0	0	0	0	0	1
Inversiones Inmobiliarias IAR, C.A.	(42)	14	0	7	0	14	(7)
Inversiones y Explotaciones Tur. S.A.	15,437	1,199	7	0	0	0	16,643
Irton Company, N.V.	24	(1)	0	7	0	4	34
Melia Inversiones Americanas NV	816	(1)	0	172	0	0	988
Melsol Portugal, Ltd.	16	(2)	0	0	0	0	14
Moteles Andaluces, S.A.	1,256	(1)	0	0	(1,042)	0	212
Moteles Grandes Rutas Españolas, S.A.	203	0	0	(128)	(76)	0	
Neale / Inversiones Agara (1)	110	12	0	(80)	0	7	49
Nyesa Meliá Zaragoza, S.L.	0	(160)	2	0	0	0	(158)
Parque San Antonio S.A.	1,212	63	0	0	0	0	1,275
Playa Salinas,S.A.	(23)	(0)	0	0	0	0	(23)
Randlestop Corporation, N.V.	(6)	(0)	0	1	0	3	(3)
Realizaciones Turísticas, S.A.	649	392	0	711	(16)	0	1.735
San Juan Investment, B.V.	13	(3)	0	(3)	0	0	7
Sol Meliá Finance, N.V.	351	0	0	(351)	0	0	
Tenerife Sol, S.A.	27,324	1,223	0	0	(28,457)	0	90
Urme Real, S.L.	66	0	0	(62)	(4)	0	
Youth Journey Ltd.	1	(0)	0	1	0	0	2
Total	**62,856**	**1,940**	**19,632**	**(795)**	**(39,859)**	**1,500**	**45,273**

APPENDIX 6. CONTRIBUTION BY COMPANY TO CONSOLIDATED RESULTS

(in thousands of euros)

	2005			2004		
	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L
AKUNTRA XXI,S.L.	0	0	0	(0)		(0)
APARTOTEL S.A.	75	0	75	1.029	2	1.027
AZAFATA, S.A.	0	0	0	884		884
BEAR S.A. DE C.V.	1.600	0	1.600	(9.317)		(9.317)
BISOL INVESTMENT	(108)	0	(108)	60	0	60
BISOL VALLARTA S.A. DE C.V.	1.531	5	1.526	1.729	5	1.724
BOSCARLA, S.L.	(0)	0	(0)	0		
C.T. COZUMEL S.A. De C.V.	0	0	0	(1.837)	(282)	(1.555)
CALA FORMENTOR S.A. DE C.V.	6.288	19	6.268	8.843	27	8.815
CALIMAREST, S.A.	(130)	0	(130)	0		
CARIBOTELS S.A. De C.V.	(1.043)	(512)	(531)	(963)	(745)	(219)
CASINO PARADISUS S.A.	(198)	(99)	(99)	248	124	123
CASINO TAMARINDOS S.A.	(521)	0	(521)	962		962
COM. PROP. MELIA SOL Y NIEVE	1.034	120	914	1.064	123	941
COMP.TUN.GESTION HOTEL.	203	0	203	(219)		(219)
CONSORCIO EUROPEO, S.A.	0	0	0	315		315
CORP. HOT. HISPANO-MEXICANA	1.776	6	1.770	2.690	8	2.681
CORPORACIÓN HOTELERA METOR, S.A.	(1.665)	(667)	(998)	285	114	171
CREDIT CONTROL Corp	198	0	198	77		77
CREDIT CONTROL RIESGOS, S.L.	417	0	417	519		519
DOMINICAN MKT. SERVICES / DESARROLLOS SOL (1)	23.353	72	23.280	28.752	94	28.658
DARCUO XXI, S.L.	0	0	0	(623)		(623)
DES. HOT. SAN JUAN B.V.	(860)	(3)	(857)	1.403	4	1.399
DES. TUR. DEL CARIBE N.V	(5)	(0)	(5)	(13)	(0)	(13)
DESARROLLADORA HOTELERA DEL NORTE, S.A.	(11.902)	(37)	(11.866)	(20.221)	(39)	(20.182)
DESARROLLOS TURÍSTICOS DEL CARIBE, N.V.	(3)	(0)	(3)	196	1	196
DOCK TELEMARKETING S.A.	255	0	255	4.209		4.209
DOMINICAN INVESTMENT N.V.	(6)	(0)	(6)	34		34
DORPAN S.L.	110	0	110	254		254
FARANDOLE N.V.	(451)	(1)	(449)	(447)	(1)	(445)
GESMESOL, S.A.	6.539	0	6.539	8.580		8.580
GEST. HOT. TURISTICA MESOL	(2)	0	(2)	(49)		(49)
GOLF DEL COCOTAL, S.A.	(8)	(0)	(8)	36	0	36
GRUPO SOL ASIA Ltd.	676	270	405	(885)	(368)	(518)
GRUPO SOL FRANCIA (1)	1.136	0	1.136	1.223	0	1.223
GRUPO SOL SERVICES	157	63	94	(27)	(11)	(16)
GUPE INMOBILIARIA,S.A.	36	0	36	30		30
H. CONVENTO DE EXTREMADURA S.L.	28	14	14	(40)	(98)	58
H.MELIA INT. de COLOMBIA, S.A.	(81)	0	(81)		0	0
HOTEL BELLVER S.A.	115	38	77	22	7	15
HOTELES MELIÁ, S.L.	(0)	0	(0)	(0)	0	(0)
HOTELES PARADISUS, S.L.	(0)	0	(0)	(0)		(0)
HOTELES SOL INTNAL. S.A.	2	0	2	(35)		(35)
HOTELES SOL MELIÁ, S.L.	109	0	109	(7)		(7)

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APPENDIX 6. CONTRIBUTION BY COMPANY TO CONSOLIDATED RESULTS (CONTINUED)

... continua en la página siguiente.

(in thousands of euros)

	2005			2004		
	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L
HOTELES SOL, S.L.	(0)	0	(0)	(1)		(1)
HOTELES TRYP, S.L.	(0)	0	(0)	(0)		(0)
HOTELES TURISTICOS S.A.	0	0	0	137	7	130
IHLA BELA DE GESTAO E TURISMO, LTD.	3,078	0	3,078	1,784		1,784
IMPULSE HOT. DEVELOPMENT	84	0	84	3		3
INDUSTRIAS TURISTICAS S.A.	0	0	0	(61)	(1)	(59)
INMOBILIARIA BULMES, S.A.	0	0	0	1,551		1,551
INMOBILIARIA DISTRITO COMERCIAL, S.A.	(295)	(83)	(212)	(309)	0	(309)
INMOTEL INV. ITALIA, S.R.L.	(2,685)	0	(2,685)	(5,380)		(5,380)
INV. EXPLOT. TURISTICAS S.A.	2,644	1,199	1,445	1,897	861	1,037
INV. INMOBILIARIAS I.A.R. 1997	4,654	14	4,640	(419)	(7)	(412)
INV. LATINOAMERICA 2000 S.L.	0	0	0	(0)		(0)
INV.TUR. del CARIBE,S.A.	0	0	0	120		120
INVERSIONES JACUEY	0	0	0			0
IRTON COMPANY, N.V.	(237)	(1)	(236)	(189)	(1)	(189)
LAVANDERIAS COMPARTIDAS S.A.	0	0	0	(228)		(228)
LOMONDO Ltd.	1,052	0	1,052	(1,150)		(1,150)
M.I.H., S.A.	5,409	0	5,409	13,979		13,979
MARINA INT. HOLDING	(1)	0	(1)	(1)		(1)
MARKSERV B.V.	(95)	0	(95)	(9)		(9)
MARKSOL TURIZM, LTD.	66	0	66	(293)		(293)
MARKTUR TURIZM	90	0	90	13		13
MELIA BRASIL ADMINISTRAÇAO	721	0	721	(1,123)		(1,123)
MELIÁ CATERING, S.A.	0	0	0	(2)		(2)
MELIA INV. AMERICANAS N.V.	(206)	(1)	(206)	2,331	7	2,324
MELIA MANAGEMENT, S.A.	129	0	129	298		298
MELSOL MANAGEMENT, B.V.	161	0	161	(112)		(112)
MELSOL PORTUGAL, LTD.	(9)	(2)	(7)	1	0	1
MOT. ANDALUCES S.A.	(25)	(1)	(24)	3,675	893	2,782
MOT. GRANDES RUTAS ESP.,S.A.	0	0	0	62	11	50
NEALE / INVERSIONES AGARA (1)	3,853	12	3,841	14,980	46	14,934
NEW CONTINENT VENTURES, INC.	(306)	0	(306)	(184)		(184)
NYESA MELIA ZARAGOZA, S.L.	(320)	(160)	(160)	0		
OPERADORA COSTARISOL	181	0	181	274		274
OPERADORA MESOL, S.A. DE CV	1,434	0	1,434	2,906		2,906
OPERADORA SAN JUAN BV	(41)	0	(41)	650		650
PAJARO, SARL	495	0	495	(0)		(0)
PARKING INTERNACIONAL, S.A.	0	0	0	229		229
PARQUE SAN ANTONIO S.A.	307	63	245	(122)	(25)	(97)
PLAYA SALINAS S.A.	(0)	(0)	(0)	(10)	(0)	(10)
RANDLESTOP CORP., N.V.	(118)	(0)	(118)	(173)	(1)	(172)
REALTUR S.A.	16,502	392	16,110	1,239	37	1,202
SAN JUAN INVESTMENT B.V.	(860)	(3)	(857)	1,404	4	1,399
SECADE, XXI, S.L.	0	0	0	(188)		(188)
SECURISOL, S.A.	10	0	10	32		32
SEGUNDA FASE CORP.	(7)	0	(7)	0		
SILVERBAY, S.L.	0	0	0	1		1
SOL CARIBE TOURS, S.A.	526	0	526			0
SOL GROUP B.V.	(4)	0	(4)	7		7
SOL GROUP CORP.	199	0	199	1,058		1,058
SOL MANINVEST B.V.	7	0	7	(347)		(347)
SOL MELIA BENELUX, B.V.	(261)	0	(261)	(208)		(208)
SOL MELIA CHINA Ltd.	0	0	0	(20)		(20)
SOL MELIA COMMERCIAL	(8)	0	(8)	0		
SOL MELIA CROACIA	1,031	0	1,031	1,610		1,610

APPENDIX 6. CONTRIBUTION BY COMPANY TO CONSOLIDATED RESULTS (CONTINUED)

(1) These companies belong to the same business line.

(in thousands of euros)

	2005			2004		
	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L	CONSOL. P&L	MINORITY INT. P&L	GROUP P&L
SOL MELIÁ DEUCHLAND GMBH	(1,079)	0	(1,079)	(1,489)		(1,489)
SOL MELIÁ EUROPE N.V.	449	0	449	419		419
SOL MELIÁ FINANCE NV	291	0	291	180	165	15
SOL MELIA FRANCE, S.A.S.	(1,185)	0	(1,185)	(1,127)	0	(1,127)
SOL MELIA FRIBOURG, S.A.	(421)	0	(421)	0		
SOL MELIA GUATEMALA, S.A.	(42)	0	(42)	(62)		(62)
SOL MELIA INVESTMENT, N.V.	(9)	0	(9)	(3)		(3)
SOL MELIÁ MARRUECOS, S.A.	(34)	0	(34)	(38)		(38)
SOL MELIA PERÚ, S.A.	95	0	95	192		192
SOL MELIA S.A.	17,908	0	17,908	(17,541)	0	(17,541)
SOL MELIA SERVICES, S.A.	2,226	0	2,226	1,909		1,909
SOL MELIÁ SUÏSSE, S.A.	(1,271)	0	(1,271)	(2,709)		(2,709)
SOL MELIÁ TRAVEL, S.A.	(1,097)	0	(1,097)	(4,050)		(4,050)
SOL MELIA VACATION CLUB CO.	27	0	27	(26)		(26)
SOL MELIA VACATION CLUB DOMINICANA, S.A.	728	0	728	(143)		(143)
SOL MELIA VACATION CLUB ESPAÑA, S.L.	(159)	0	(159)	0		
SOL MELIA VACATION CLUB MEXICO, S.A. DE CV.	3,093	0	3,093	426		426
SOL MELIA VACATION CLUB PANAMA, S.A.	7	0	7	0		
SOL MELIA VACATION CLUB PUERTO RICO CO.	2,533	0	2,533	14		14
TENERIFE SOL, S.A.	5,200	1,223	3,977	2,008	1,008	1,000
URME REAL S.A.	0	0	0	143	9	135
VACATION CLUB SERVICES CO.	397	0	397	(1,934)		(1,934)
YOUTH JOURNEY Ltd	(49)	(0)	(49)	137	1	136
RESULT IN FULL INTEGRATED COMPANIES	**93,410**	**1,940**	**91,470**	**44,780**	**1,984**	**42,796**

	2005			2004		
	P&L ASSOCIATES		P&L GROUP	P&L ASSOCIATES		P&L GROUP
ALCAJAN/INV. AREITO/LEOFORD/P.CANA RES. (1)	261		261	44		44
APART.BOSQUE	189		189	245		245
C.P. COSTA DEL SOL	207		207	230		230
C.P. MELIA CASTILLA	863		863	833		833
DETUR PANAMÁ, S.A.	(870)		(870)	(63)		(63)
HANTINSOL RESORTS, S.L.	(1)		(1)	0		
INVERSIONES GUIZA, S.A.	(1)		(1)	1		1
LH MIAMI LLC.	(0)		(0)	0		
LIFESTAR HOTELES ESPAÑA, S.L.	(436)		(436)	0		
LIFESTAR, LLC	(242)		(242)	(951)		(951)
LUXURY LIFESTYLE H&R	(10)		(10)	0		
MELIA MERIDA, S.L.	(176)		(176)	(328)		(328)
MELIATOUR, S.L	(615)		(615)	(135)		(135)
MOGAN PROMOCIONES,S.A. DE CV.	(128)		(128)	15		15
NEXPROM, S.A.	343		343	27		27
PROM.PLAYA BLANCA S.A. De C.V.	(324)		(324)	954		954
PROMEDRO, S.A.	(8)		(8)	187		187
PUNTA ELENA, S.A.	(117)		(117)	(11)		(11)
SIERRA PARIMA, S.A.	(373)		(373)	0		
SOL HOTTI PORTUGAL	61		61	25		25
RESULT IN ASSOCIATES	**(1,376)**		**(1,376)**	**1,074**		**1,074**
TOTAL CONSOLIDATED	**92,035**	**1,940**	**90,095**	**45,855**	**1,984**	**43,871**

APPENDIX 7. DIRECTOR'S POSITIONS IN OTHER COMPANIES

This appendix includes the information regarding the members of the Board who hold positions as Board members or directors in other Group, associated or non-related companies that undertake similar activities to those of Sol Meliá, S.A.

Details of the Board members who hold positions in companies with a similar activity is shown below:

SPANISH COMPANIES

(*) Companies merged with SOL MELIA S.A. in virtue of the merger deed dated August 1, 2005 of the Palma de Mallorca notary, Mr. Miguel Mulet Ferragut, with protocol number 3181 and inscribed in the Registry of Companies of Palma, book 1671, folio 176, sheet PM22603, inscription 49.

(**) Companies merged with REALIZACIONES TURÍSTICAS S.A. in virtue of the merger deed dated December 27, 2005 of the Madrid notary Mr. José Antonio Villaverde Beato, with protocol number 1831 and inscribed in the Registry of Companies of Madrid, book 6996, folio 210, section 8, sheet M-113782.

MR. GABRIEL ESCARRER JULIA (NIF 41.160.706 K)

COMPANY	TAX ID.	POSITION
Azafata S.A. (*)	A-46059580	Chairman
Apartotel S.A.	A-28111664	Chairman
Apartotel Bosque, S.A.	A-07029293	Board Member
Casino Tamarindos S.A. (sole shareholder comp.)	A-35039643	Chairman and managing director
Dorpan S.L.	B-80099807	Sole Administrator
Gest.Hot.Turística Mesol S.A. (sole shareholder comp.)	A-7434731	Directly liable administrator
Hotel Bellver S.A.	A-07025604	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Chairman
Hoteles Sol S.L.	B-57033748	Chairman
Hoteles Meliá S.L.	B-57028482	Chairman
Hoteles Paradisus XXI S.L.	B-57095929	Chairman
Hoteles Tryp XXI, S.L.	B-57095937	Chairman
Hoteles Turísticos S.A. (**)	A-46009932	Chairman and managing director
Hotelera Sancti Petri S.A.	A-07853823	Board Member
Industrias Turísticas S.A. (**).	A-28095933	Chairman
Inversiones Latinoamérica 2000 S.L. (*)	B-61557591	Sole Administrator
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Chairman
Melia Tour S.L.	B-07605397	Directly liable administrator
Moteles Andaluces S.A.	A-28097582	Chairman
Moteles Grandes Rutas Españolas S.A. (**)	A-28090017	Chairman
Parque San Antonio S.A.	A-38003885	Chairman and managing director
Realizaciones Turísticas S.A.	A-28128254	Chairman and managing director
Securisol S.A.	A-07739337	Chairman and managing director
Tenerife Sol S.A.	A-07161821	Chairman and managing director
Urmereal S.L. (**)	B-81316002	Chairman
Credit Control de Riesgos S.L. (sole shareholder comp.)	B-57278293	Chairman

MR. SEBASTIÁN ESCARRER JAUME (NIF 43.040.129 E)

COMPANY	TAX ID.	POSITION
Azafata S.A. (*)	A-46059580	Chairman
Casino Tamarindos S.A. (sole shareholder comp.)	A-35039643	Secretary
Hantisol Resorts, S.A.	A-57343287	Managing director
Hotel Bellver S.A.	A-07025604	Board Member
Hotel Convento de Extremadura S.A.	A-10247328	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Secretary
Hoteles Sol S.L.	B-57033748	Secretary
Hoteles Meliá S.L.	B-57028482	Secretary
Hoteles Paradisus XXI S.L.	B-57095929	Secretary
Hoteles Tryp XXI, S.L.	B-57095937	Secretary
Lifestar Hoteles España, S.A. (*)	B-84201235	Chairman
Meliá Catering S.A. (*)	A-57004616	Directly liable administrator
Melia Mérida S.L.	B-06318091	Chairman
Parque San Antonio S.A.	A-38003885	Secretary
Port Cambrils Inversions, S.A.	B-43600311	Board Member
Sol Melia Travel S.L.	A-57009029	Chairman and managing director
Tenerife Sol S.A.	A-07161821	Board Member and Secretary
Credit Control de Riesgos S.L. (sole shareholder comp.)	B-57278293	Secretary
Sol Meliá Vacation Club España S.L.	B-57353377	Chairman and managing director
Hantinsol S.L.	A-57343287	Board Member and managing director
Nyesa Melia Zaragoza S.L.	B-99077844	Chairman
Boscarla S.L.	B-63749725	Chairman
Lifestar Hoteles España S.L.	B-84201235	Chairman

MR. GABRIEL JUAN ESCARRER JAUME (NIF. 43.070.810 K)

COMPANY	TAX ID.	POSITION
Akuntra XXI S.L. (*)	B-62286075	Sole Administrator
Azafata S.A.(*)	A-46059580	Managing director
Apartotel S.A.	A-28111664	Board Member and managing director
Casino Tamarindos S.A. (sole shareholder comp.)	A-35039643	Vice-chairman and managing director
Consorcio Europeo S.A. (*)	A-78889383	Sole Administrator’s Representative
Darcuo XXI, S.L. (soc. unip.)(*)	B-62308804	Sole Administrator
Gest.Hot.Turística Mesol S.A. (sole shareholder comp.)	A-7434731	Directly liable administrator
Hotel Bellver S.A.	A-07025604	Board Member
Hotel Convento de Extremadura S.A.	A-10247328	Vice-Chairman
Hoteles Sol Meliá S.L.	B-57033730	Board Member and managing director
Hoteles Sol S.L.	B-57033748	Board Member and managing director
Hoteles Meliá S.L.	B-57028482	Board Member and managing director
Hoteles Paradisus XXI S.L.	B-57095929	Board Member and managing director
Hoteles Tryp XXI, S.L.	B-57095937	Board Member and managing director
Hoteles Turísticos S.A.(**)	A-46009932	Board Member and managing director
Industrias Turísticas S.A.(**)	A-28095933	Board Member
Inmobiliaria Bulmes S.A. (*)	A-28324846	Sole Administrator
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Board Member and managing director
Inversiones Inmobiliarias Silverbay S.L. (*)	B-81631434	Sole Administrator
Meliá Catering S.A.(*)	A-57004616	Directly liable administrator
Melia Mérida S.L.	B-06318091	Vice-Chairman
Melia Tour S.L.	B-07605397	Board Member
Moteles Andaluces S.A.	A-28097582	Board Member and managing director
Moteles Grandes Rutas Españolas S.A. (**)	A-28090017	Chairman
Parking Internacional S.A. (*)	A-78671708	Sole Administrator
Parque San Antonio S.A.	A-38003885	Vice-secretary and managing director
Playa Salinas S.A.	A-38043154	Sole Administrator
Port Cambrils Inversions, S.L.	A-29840501	Board Member
Promedro S.A.	A-29840501	Chairman
Secade XXI S.L. (*)	B-62312749	Sole Administrator
Securisol S.A.	A-07739337	Board Member and managing director
Sol Melia Travel S.A.	A-57009029	Secretary
Tenerife Sol S.A.	A-07161821	Board Member and managing director
Urmereal S.L. (**)	B-81316002	Chairman
Credit Control de Riesgos S.L. (sole shareholder comp.)	B-57278293	Board Member
Sol Meliá Vacation Club España S.L.	B-57353377	Non-Board member secretary
Boscarla S.L.	B-63749725	Non-Board member secretary
Lifestar Hoteles España S.L.	B-84201235	Board Member

INTERNATIONAL COMPANIES

MR. GABRIEL ESCARRER JULIA (NIF 41.160.706 K)

COMPANY	COUNTRY	POSITION
Bear S.A. de C.V.	Mexico	Vice-Chairman of the Board
Bisol Vallarta S.A. de C.V.	Mexico	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Chairman
Caribotels de Mexico S.A. de CV	Mexico	Director
Corporación Hot. Hispano Mexicana S.A. de CV	Mexico	Chairman
Corporación Hotelera Metor S.A.	Peru	Chairman
Desarrollos Turísticos del Caribe S.A.	Panama	Chairman
Desarrollos Hoteleros Guanacaste, S.A.	Costa Rica	2nd Vice-Chairman
Gesmesol S.A.	Panama	Chairman
Grupo Sol Asia Ltd.	Hong Kong	Directly liable administrator
Hoteles Meliá Internacional de Colombia S.A.	Colombia	Directly liable administrator
Inversiones Turísticas del Caribe S.A.	Panama	Chairman
Lomondo Limited	Great Britain	Directly liable administrator
MIH S.A.	Panama	Chairman
Marina Internacional Holding S.A.	Panama	Chairman
Marktur Turizm Isletmecilik A.S.	Turkey	Administrator
Melsol Management BV	The Netherlands	Directly liable administrator
Operadora Costa Risol S.A.	Costa Rica	Chairman
Operadora Mesol S.A. de CV	Mexico	Chairman
Sol Hotels UK Ltd.	Great Britain	Administrator
Segunda Fase Corporación	Puerto Rico	Chairman
Sol Meliá Vacation Club Dominicana S.A.	Dominican Rep.	Chairman
Sol Melia VC Panamá S.A.	Panama	Director

MR. SEBASTIÁN ESCARRER JAUME (NIF 43.040.129 E)

COMPANY	COUNTRY	POSITION
Bisol Vallarta S.a. de CV	Mexico	Board Member
Cadlo France SAS	France	Board Member
Cadstar France SAS	France	Board Member
Cala Formentor S.A. de CV	Mexico	Board Member
Caribotels de Mexico, S.A. de C.V.	Mexico	Director
Compagnie Tunisienne de Gestion Hoteliere S.A.	Tunisia	Board Member
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Board Member
Corporación Hotelera Metor S.A.	Peru	Vice-Chairman
Desarrollos Sol S.A.	Dominican Rep.	Chairman and Treasurer
Detur Panamá S.A.	Panama	Secretary
Gesmesol S.A.	Panama	Treasurer
Hellenic Hotel Management, SAS	Greece	Chairman
Hotel Alexander SAS	France	Board Member
Hotel François SAS	France	Board Member
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator Chairman
Inversiones Agara S.A.	Dominican Rep.	Chairman and Treasurer
Inversiones Hoteleras Los Cabos, S.A.	Mexico	Member Board of Directors
Inversiones Inmobiliarias IAR, C.A.	Venezuela	Directly liable administrator
Irton Company N.V.	Netherlands Antilles	Administrator
Lomondo Limited	Great Britain	Directly liable administrator
MIH S.A.	Panama	Secretary
Marina Internacional Holding S.A.	Panama	Secretary
Meliá Inversiones Americanas N.V.	The Netherlands	Jointly liable administrator
Melia Management S.A.	Dominican Rep.	Vice-Chairman and secretary
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Directly liable administrator
Neale S.A.	Panama	Treasurer
Operadora Costa Risol S.A.	Costa Rica	Vice-Chairman and Treasurer
Operadora Mesol S.A. de CV	Mexico	Board Member
PT Sol Meliá Indonesia	Indonesia	Commissioner
PT Surialaya Anindita Tnternacional	Indonesia	Vice-Chairman
Sierra Parima S.A.	Dominican Rep.	Chairman
Sol Melia Benelux S.A.	Belgium	Chairman and Managing Director
Sol Melia Commercial	Cayman Islands	Director
Sol Melia China Limited	China	Administrator
Sol Melia Hrvatska	Croatia	Administrator
Sol Melia Deutschland GmbH	Germany	Directly liable administrator
Sol Melia Europe BV	The Netherlands	Directly liable administrator
Sol Melia Finance Limited	Cayman Islands	Authorised board member
Sol Melia Services S.A.	Switzerland	Administrator Chairman
Segunda Fase Corporación	Puerto Rico	Vice-Chairman
Sol Melia Fribourg S.A.	Switzerland	Chairman/Administrator
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Vice-Chairman
Sol Melia VC Panamá S.A.	Panama	Director

MR. GABRIEL JUAN ESCARRER JAUME (NIF. 43.070.810 K)

COMPANY	COUNTRY	POSITION
Bisol Vallarta S.A. de C.V.	Mexico	Board Member
Abbayé de Téleme SAS	France	Chairman of the Board
Cadlo France SAS	France	Chairman of the Board
Cadstar France SAS	France	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Board Member
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Board Member
Corporación Hotelera Metor S.A.	Peru	Director
Desarrollos Hoteleros San Juan B.V.	The Netherlands	Directly liable administrator
Desarrollos Sol S.A.	Dominican Rep.	Vice-Chairman and secretary
Desarrollos Turísticos del Caribe S.A.	Panama	Administrator
Desarrollos Turísticos del Caribe NV	Netherlands Antilles	Administrator
Dominican Investment NV	Netherlands Antilles	Administrator
Dominican Marketing & Services N.V.	Netherlands Antilles	Directly liable administrator
Farandole B.V.	The Netherlands	Directly liable administrator
Gesmesol S.A.	Panama	Board Member
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator
Hotel Alexander SAS	France	Chairman of the Board
Hotel Blanche Fontaine SAS.	France	Chairman of the Board
Hotel Boulogne SAS	France	Chairman of the Board
Hotel François SAS	France	Chairman of the Board
Hotel Metropolitain SAS	France	Chairman of the Board
Hotel Royal Alma SAS	France	Chairman of the Board
Impulse Hotel Development BV	The Netherlands	Directly liable administrator
Inmotel Inversiones Italia S.r.L.	Italy	Sole Administrator
Inversiones Agara S.A.	Dominican Rep.	Vice-Chairman and secretary
Inversiones Hoteleras Los Cabos, S.A.	Mexico	Member of Board of Directors
Inversiones Inmobiliarias IAR 1997 C.A.	Venezuela	Directly liable administrator
Irton Company N.V.	Netherlands Antilles	Administrator
Lomondo Limited	Great Britain	Directly liable administrator
Madeleine Palace SAS	France	Chairman of the Board
MIH S.A.	Panama	Treasurer
Marina Internacional Holding S.A.	Panama	Treasurer
Markserv B.V.	The Netherlands	Directly liable administrator
Meliá Inversiones Americanas N.V.	The Netherlands	Jointly liable administrator
Melia Management S.A.	Dominican Rep.	Vice-Chairman and secretary
Melsol Management BV	The Netherlands	Directly liable administrator
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Directly liable administrator
Neale S.A.	Panama	Chairman
Operadora Mesol S.A. de CV	Mexico	Board Member
PT Sol Meliá Indonesia	Indonesia	Chairman
Punta Cana Reservation NV	Netherlands Antilles	Administrator
San Juan Investment BV	The Netherlands	Administrator
Segunda Fase Corporation	Puerto Rico	Administrator
Sol Melia France SAS	France	Chairman of the Board
Sol Group BV	The Netherlands	Directly liable administrator
Sol Maninvest BV	The Netherlands	Directly liable administrator
Sol Melia Benelux S.A.	Belgium	Board Member
Sol Melia China Limited	China	Administrator
Sol Melia Deutschland GmbH	Germany	Directly liable administrator
Sol Melia Investment NV	The Netherlands	Directly liable administrator
Sol Melia Suisse S.A.	Switzerland	Administrator and Chairman
Segunda Fase Corporación	Puerto Rico	Executive Officer
Inmobiliaria Distrito Comercial CA	Venezuela	Chairman
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Secretary
Sol Meliá VC Panamá S.A.	Panama	Director

The direct or indirect shareholding controlled by members of the Board is the following:

SHAREHOLDER	PARTICIPATION	POSITION
Mr. Gabriel Escarrer Juliá		Chairman
Mr. Sebastián Escarrer Jaume		2nd Vice-Chairman
Mr. Gabriel Escarrer Jaume.	60.91%	Managing Director
Hoteles Mallorquines Consolidados, S.A:	27.92%	Director with representative
Ailemlos, S.L:	6.94%	Director with representative
Caja de Ahorros del Mediterráneo:	5.01%	Director with representative
Mr.Eduardo Punset Casals:	0.001%	Director
Mr. Jose Maria Lafuente López:	0.001%	Secretary

The participation and positions held by other members of the Board in companies not belonging to the Group that undertake similar or complementary activities to that of Sol Meliá, S.A. is as follows:

ADMINISTRATOR	COMPANY	PARTICIPATION	POSITION
Emilio Cuatrecasas Figueras	Areas,S.A.	30%	Executive Chairman
Emilio Cuatrecasas Figueras	Elior , S.C. por acciones	2.17%	Supervisory Board Member
José Mª Lafuente López	Niamey,S.A.	1%	
José Mª Lafuente López	Sa Coma C.B.	1%	-
José Mª Lafuente López	Tenedora Aguamarina S.A.	1%	-
Juan Vives Cerdá	Finca Los Naranjos,S.A.	27.88 %	Directly liable administrator

Sol Meliá

NOTES TO THE 2005 CONSOLIDATED ANNUAL ACCOUNTS

FORMULATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The formulation of the accompanying annual accounts has been approved by the Board of Directors, in its meeting of March 31, 2006, with the assumption that the auditors will verify these accounts and that they will subsequently be approved at the General Shareholders' Meeting. These accounts are comprised of 78 pages, all of which have been signed by the Secretary of the Board. The last page is signed by all the members of the Board.

Signed by: Mr. Gabriel Escarrer Julia
Chairman

Signed by: Mr. Juan Vives Cerdá
Vice-Chairman

Signed by: Mr. Sebastián Escarrer Jaume
2nd Vice-Chairman and managing director

Signed by: Mr. Gabriel Escarrer Jaume
Managing director

Signed by: Mrs. María Antonia Escarrer Jaume
(rep. Hoteles Mallorquines Consolidados, S.A.)
Director

Signed by: Mr. Ariel Mazín Mor
(rep. Ailemlos, S.A.)
Director

Signed by: Mr. Armando Salas Lloret
(rep. Caja de Ahorros del Mediterráneo)
Director

Signed by: Mr. Alfredo Pastor Bodmer
Independent Director

Signed by: Mr. Eduardo Punset Casal
Independent Director

Signed by: Mr. Emilio Cuatrecasas Figueras
Independent Director

Signed by: Mr. José Joaquín Puig de la Bellacasa Urdampilleta
Independent Director

Signed by: Mr. José María Lafuente López
Secretary and Independent Director

MANAGEMENT REPORT

This report analyses trends experienced in 2005 in the business activity and the consolidated results of Sol Meliá, S.A. and its subsidiaries (hereinafter "SOL MELIÁ" or the "Group").

1. TREASURY SHARES

As of December 31, 2005, Sol Meliá has a total of treasury shares amounting to 5,486,841 euros with a par value of 0,2 euros each, which represent 2.97% of the Company's share capital.

2. BUSINESS TREND

2.1 Hotel trend

The income ratio per room available (RevPAR) in the owned and rented hotels has increased by 7.4%. This upward trend in 2005 arises mainly from the consecutive quarterly improvements in the Spanish city hotels and the positive growth of RevPAR in the European Resort Division during the summer season. The RevPAR total growth in both divisions is 4.4% (+2.5% in occupancy rates). The trend of the Americas Division, where the RevPAR has increased by 26.7%, also explains the positive growth of the consolidated RevPAR.

The European Resort Division has experienced a RevPAR increase of 2.9% due to the positive evolution of the resort hotels in Spain. By geographical area, the RevPAR in the Balearic Islands and Southern Spain has increased by 5.0% and 3.7% respectively. The recovery of the domestic market together with the positive performance of the British market and the recovery of German tourism in Majorca are the main causes of this growth. The increase in direct sales, most of which are made through solmelia.com, is also a factor that explains the RevPAR increase.

The RevPAR of the European City Division has increased by 4.8% due to the favourable results obtained in the hotels located in the main European cities, such as London or Milan. In Spain, the occupancy recovery has led to a RevPAR increase of 3.5% in the urban segment, at accumulated level, which can be compared with the increase of 1.1% experienced in the whole of Spain according to the surveys carried out by Deloitte & Touche (D&T).

In Spain, the RevPAR has increased by 5.7%, due to the positive quarterly growth in the cities following a weak first quarter. This positive trend is a result of the recovery of congresses, conventions and business groups.

With regard to the Americas Division, the RevPAR increased by 26.7% mainly due to the evolution of Mexico, where the resort hotels increased their RevPAR by 18.8%, and the contribution of Paradisus Puerto Rico, together with the recovery of the hotels Gran Meliá Caracas and Gran Meliá Mofarrej in Sao Paulo (Brazil).

Table 1: Hotels Statistics 05/04 (RevPAR and A.R.R. in Euros)

OWNED AND LEASED HOTELS Dec. 05/04		OCCUPANCY	RevPAR	A.R.R.
EUROPEAN RESORT	2005	71.3%	39.5	55.3
	% o/ 2004	**0.3%**	**2.9%**	**2.6%**
	2004	71.1%	38.3	53.9
EUROPEAN CITY	2005	66.5%	54.9	82.5
	% o/ 2004	**4.8%**	**4.8%**	**-0.1%**
	2004	63.5%	52.4	82.6
AMERICAS	2005	67.3%	48.40	71.9
	% o/ 2004	**4.9%**	**26.7%**	**20.7%**
	2004	64.2%	38.2	59.5
TOTAL	2005	68.4%	48.14	70.4
	% o/ 2004	**3.0%**	**7.4%**	**4.3%**
	2004	66.4%	44.8	67.5

The breakdown of the growth components in room revenues for hotels owned and leased by the Group is shown in table 2 below:

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

% Increase Dec 05 / Dec 04	EUROPEAN RESORT	EUROPEAN CITY	AMERICA	TOTAL
RevPAR	2.9%	4.8%	26.7%	7.4%
Available rooms	(5.2%)	(3.0%)	(5.6%)	(4.2%)
Revenues per room	(2.3%)	1.5%	19.6%	2.9%

In the European Resort Division the decrease in available rooms is due to the sale of Meliá Torremolinos, the disaffiliation of Sol Brisamar in Fuerteventura (Canary Islands) and the closure of Sol Gorriones due to refurbishment work.

In the European City Division, the refurbishment of the Reina Victoria Hotel in Madrid in order to convert it into a Hard Rock Hotel together with the refurbishment works undertaken in the Meliá Barcelona Hotel have affected the total revenues of this division, including Food & Beverage revenues. The decrease in available rooms basically relates to the sale of Tryp Caballo Blanco (2004), Meliá Las Palmas in the Canary Islands and the disaffiliation of two Meliá Boutique Hotels in Switzerland.

The decrease in available rooms in the America's Division is due to the reduction of the number of days open in those establishments affected by Hurricane Wilma.

2.2 Assets management evolution

The trend of the Assets Management Division, which includes both asset rotation and the Sol Melia Vacation Club, has reached the medium –term sales target of 100 million euros per year within the asset rotation business.

2.2.1 Asset Rotation

Within the asset management strategic framework, the Group has sold the Hotel Tryp Macarena, the Hotel Meliá Las Palmas, the Hotel Meliá Torremolinos and the Hotel Tryp Alcano. The capital gains generated have amounted to 60 million euros.

As far as acquisitions are concerned, Tenerife Sol, S.A. has become a wholly-owned company, since the Group has acquired the 50% participation from minority interest.

A participation of 70% of ALCAJAN XXI S.L. (owner of Paradisus Palma Real) of G.I. CARTERA, S.A. – a subsidiary of Caja de Ahorros del Mediterráneo (CAM), has been integrated to the consolidation perimeter since the Group has taken the control in said company. The project implies a net investment of 88.3 million euros.

2.2.2 Sol Melia Vacation Club (SMVC)

The total revenues of Sol Melia Vacation Club (SMVC) have amounted to 57.4 million euros (of which 5.1 million euros relate to the reinvoicing of services between Group companies). This amount implies an increase of 118% as of December, including, in addition to the Vacation Club sales, the revenues from the interest arising from the purchase, maintenance quotas, management fees and exchange network fees. This increase is a result of the favourable evolution of the operations undertaken in 2004 in Mexico, the Dominican Republic, Puerto Rico and Panama and the launch of SMVC's activities in the Paradisus Puerto Rico and the Meliá Turquesa. At the end of 2005, Sol Melia Vacation Club began its activity in the Canary Islands.

Table 5: Sol Melia Vacation Club (SMVC)

	NÚMBER OF WEEKS SOLD			EQUIVALENT NUMBER OF CLUB UNITS		
	2005	%o/04	2004	2005	%o/04	2004
Europe	11		0	0		0
Americas	1,997	19%	1,684	38	19%	32
Total	2,008	19%	1,684	38	19%	32

2.2.3 Condo – hotels

No revenues deriving from the sale of condo-hotel units are included within the 2005 assets management. In January, 2006, Sol Meliá has begun the sale of existing units in Paradisus Puerto Rico.

3. POST BALANCE-SHEET EVENTS

On February 9, 2006, the Company has amortised the bond of 340 million euros (fixed coupon of 6.25%), with a five-year maturity, which is a part of the European Medium Term Notes Programme (EMTN). This refinancing was partially guaranteed the year before by means of a syndicated loan of 175 million euros. This loan matures in five years and is remunerated at the Euribor rate plus a differential ranging between 0.6% and 1.0% depending on various financial ratios. The remaining amount has been guaranteed by another bank loan of 25 million euros which matures in five years and is combined with the available credit facilities. These credit facilities are recovered in short-term with the funds arising from operations.

With regards to the maturities timetable, the refinancing improves the maturity of the debt from 6 to 8 years. The next significant maturity will take place at the end of 2008, when the exchangeable shares of 150 million euros will be amortised.

On February 2, 2006, the Group has formalised the acquisition of the remaining 70% participation in Alcajan XXI, S.A. for an amount of 10.2 million euros.

4. FORESEEABLE OUTLOOK

With regard to 2006, the main Travel and Tourism operators and entities are optimistic in relation to the main markets where Sol Meliá has a presence.

The evolution of the European City Division will be based on the continuous recovery of the Spanish city hotels, which has already been experienced throughout 2005. The increase in the offer experienced in the last two years is being progressively absorbed and the incorporation of new hotel rooms in the main cities will be slower from 2006 onwards. Furthermore, the Spanish macroeconomic indicators support the recovery of the business. At corporate level, the Company expects an increase in business groups, congresses and conventions. This should restore the confidence of the operators and increase the RevPAR figures, by means of a higher average price per room, with the corresponding impact on the Division's margins and profits. With regard to operations in other countries, the projections remain positive, particularly in Italy and the United Kingdom.

Forecasts for the European Resort Division are positive. The Group anticipates a positive trend in reservations from Germany, Benelux and, to a minor extent, the United Kingdom, which will have an effect on the summer season in Spain, despite the complex first quarter experienced in the Canary Islands. The evolution of this Division will improve quarter by quarter from a weak first quarter, which has been negatively affected by the comparative effect of the Easter Holidays.

Sol Meliá will continue to benefit from the progressive increase in direct sales to short-haul destinations due to the transformation experienced in the package holiday sector. This trend is reflected in the reservations made throughout the company's own distribution channels, including solmelia.com. The development of the Flintstones theme areas has been a success in differentiating us from our competitors and an additional source of income. With the 8 new hotels incorporated in 2005, the Company has 12 hotels developing the "Flintstones" theme. Furthermore, the reopening of the Meliá Gorriones Hotel in Fuerteventura (Canary Islands), after significant refurbishment work, will be another differentiating factor.

Forecasts for America are positive, since the North Americans are more inclined to go on holiday within a positive macroeconomic indicators framework. In addition, the weakness of the dollar together with the recovery/increase of certain South American feeder markets will benefit some Caribbean destinations where Sol Meliá has a strong presence. In the Caribbean in 2006, there has been a significant increase in charter flights to Punta Cana (the Dominican Republic), Los Cabos and Vallarta (Mexico) and Puerto Rico, among others. The growth of reservations in Sol Meliá confirms this tendency for at least the first half of the year. With regard to the impact of Hurricane Wilma in Cancun, the hotel opening dates have been as expected.

In connection with the Assets Rotation, the redistribution of cash flows generated from the sale of non-strategic hotels or those hotels whose standards or performance were not as expected towards business and/or significant growth areas, creates immediate value and long-term growth for the Company.

With regard to the assets management business, Sol Melia expects sales of assets amounting to 100 million euros, as a part of our recurrent activity. Together with an associate, the Company is finalising a project under the Paradisus trademark in the Canary Islands. In addition, the Assets Management Team is working to maximise the alternative cash flows in our hotels, through both their own initiatives or forming a team with leaders of the sector, while the corresponding trademarks are complemented.

Regarding the condo-hotel business, in January, following a marketing and sales process in the country, Sol Meliá has began to sell existing units in Paradisus Puerto Rico. With the sale of condo-hotel units, the Company also regains a part of the capital invested and, together with the new owner, shares the net profit generated by said units.

Sol Melia Vacation Club has been launched in Europe following the operations in Mexico, the Dominican Republic, Puerto Rico and Panama. The launch process has started in the Canary Islands while the Vacation Club sales will begin in other hotels in Spain. Sales offices will be opened in Madrid, Barcelona and the Canary Islands. In America, the Vacation Club programme will also start in some additional hotels in Mexico and the Dominican Republic. Once again, the Vacation Club business offers Sol Melia not only the most rapidly growing business within our industry, creating in addition synergies with the hotel business, but also the recovery of assets for all the Group, by using existing rooms and the profit generated by the business itself.

In 2006, the Company expects additional debt reductions for the third consecutive year, which allows us to finalise our debt reduction within the forecasted framework of our 3-year strategic plan. This will allow a favourable financial situation in terms of leverage, interest charges coverage and net debt to Ebitda. As regards the Income Statement, the financial result is expected to significantly improve due to the debt reduction and the refinancing of the bond of 340 million euros, with a five-year maturity (fixed coupon of 6.25%), within the European Medium Term Notes Programme (EMTN), referred to in the "Post Balance Sheet Events" paragraph of the present Management Report.

The development of the Brand Equity (value of the brand) and its features will benefit both the hotel and real estate businesses. The Company's capacity for identifying the present and future expectations of consumers and the positioning of its brands in order to identify their needs is a key factor for adding value to any hotel development, Vacation Club or condo-hotel. Therefore, it is important for Sol Meliá to be constantly innovating, striving to stand out and offering the best quality in service. With this aim, the Company has separated the Marketing and Sales Divisions, with the latter being responsible for increasing the value of our brands in the long and medium-term.

Finally, the Company is proud to be celebrating its 50th anniversary in 2006, focussing more than ever on our vocation as hoteliers and looking forward to the next 50 years in the Travel and Tourism Sector with enthusiasm and confidence.

Sol Meliá

MANAGEMENT REPORT

FORMULATION OF THE MANAGEMENT REPORT

The formulation of this management report has been approved by the Board of Directors, in its meeting of March 31, 2006. This management report comprises 7 pages, all of them signed by the Secretary of the Board. This last page is signed by all the members of the Board.

Signed by: Mr. Gabriel Escarrer Julia
Chairman

Signed by: Mr. Juan Vives Cerdá
Vice-Chairman

Signed by: Mr. Sebastián Escarrer Jaume
2nd Vice-Chairman and Managing Director

Signed by: Mr. Gabriel Escarrer Jaume
Managing Director

Signed by: Mrs. María Antonia Escarrer Jaume
(rep. Hoteles Mallorquines Consolidados, S.A.)
Director

Signed by: Mr. Ariel Mazín Mor
(rep. Ailemlos, S.A.)
Director

Signed by: Mr. Armando Salas Lloret
(rep. Caja de Ahorros del Mediterráneo)
Director

Signed by: Mr. Alfredo Pastor Bodmer
Independent Director

Signed by: Mr. Eduardo Punset Casal
Independent Director

Signed by: Mr. Emilio Cuatrecasas Figueras
Independent Director

Signed by: Mr. José Joaquín Puig de la Bellacasa Urdampilleta
Independent Director

Signed by: Mr. José María Lafuente López
Secretary and Independent Director

SM'05

CORPORATE GOVERNANCE REPORT 2005

02

INTRODUCTION

This report is provided by the Board of Directors to Company shareholders in compliance with Law 26/2003 of 17 July, by which a modification was made to Stock Market Law 24/1998 of 28 July and the Revised Text of Company Law, approved by RDLeg.1564/1989 of 22 December, to promote transparency in publicly quoted companies.

This report has been produced in accordance with the aforementioned Law 26/2003, as well as with the contents of Ministerial Order ECO/3722/2003 of 26 December on the annual report on corporate governance and other informational tools used by publicly quoted companies and other entities, and applying the model defined in Circular 1/2004 of 17 March from the Spanish Stock Exchange Commission.

This report on Corporate Governance from SOL MELIÁ S.A. refers to the financial year ending 31 December 2005 and was approved by the Board of Directors on 31 March 2006.

The regulation of Corporate Governance at SOL MELIÁ S.A. is contained within Company Bylaws, in the Regulations of the Board of Directors and in the Internal Code of Good Conduct in matters relating to the stock market, available to shareholders and investors both at Company headquarters and through the Company website (www.solmelia.com) in the section on Corporate Governance.

The General Shareholders Meeting of 8 June 2004 approved the proposals of the Board of Directors to modify Company Bylaws and the Regulations of the General Shareholders Meeting. In compliance with article 115 of the Stock Market Law, the General Shareholders Meeting was also informed of the approval by the Board of Directors of the new Regulations of the Board of Directors in their meeting of 30 March 2004. All proposals mentioned have the objective of reviewing Company regulations and adapting those regulations to the criteria on transparency for publicly quoted companies contained within the report by the Special Committee for the Promotion of Transparency and Security in Financial Markets and Public Companies ("Aldama Report"), in Law 44/2002 of 2 November on reforms in the financial system and in the aforementioned Law 26/2003.

A. COMPANY OWNERSHIP STRUCTURE

A.1. Capital social

The Capital Stock of SOL MELIÁ S.A. is THIRTY-SIX MILLION, NINE HUNDRED AND FIFTY-FIVE THOUSAND, THREE HUNDRED AND FIFTY-FIVE EUROS AND FORTY CENTS (36,955,355.40.-), represented by ONE HUNDRED AND EIGHTY-FOUR MILLION, SEVEN HUNDRED AND SEVENTY-SIX THOUSAND, SEVEN HUNDRED AND SEVENTY-SEVEN (184,776,777) shares, each with a par value of twenty cents (0.2.-€).

The shares are fully subscribed and paid up, of a single class and series and represented through account entries, as governed by Law 24/1988, relating to the Stock Market; Royal Decree 116/1992 of 14th February relating to the representation of shares through account entries and the clearing and settlement of stock exchange trading.

The latest modification in share capital was approved by the Board of Directors on 20 November 2000 by means of the delegation of faculties by the General Shareholders Meeting of 23 October 2000.

A.2. Direct or indirect significant shareholders at close of year 2005, excluding members of the Board of Directors

The significant shareholders in SOL MELIÁ S.A. at 31st December, 2005, are as follows:

ID number	Name	Number of direct shares	Number of indirect shares	% of share capital
A-07332794	HOTELES MALLORQUINES CONSOLIDADOS S.A.	51,580,509		27.915
A-07000343	HOTELES MALLORQUINES AGRUPADOS S.L.	19,985,988		10.816
B-07802531	HOTELES MALLORQUINES ASOCIADOS S.L.	30,188,433		16.338
	MAJORCAN HOTELS LUXEMBOURG S.A.R.L.	10,766,007		5.826
G-03046562	CAJA DE AHORROS DEL MEDITERRÁNEO (*)		9,249,999	5.006
B-82861618	AILEMLOS S.L.	12,825,505	12,825,505	6.941

(*) Through:

Name of direct holder	Number of direct shares	% of share capital
Inversiones Cotizadas del Mediterráneo S.L.	9,249,999	5.006

There have been no significant changes in the Company ownership structure in 2005.

A.3. Shareholdings of members of the Board of Directors

The following table shows the direct or indirect shareholdings of the members of the Company Board of Directors as well as the first and most recent dates of their appointment:

ID number	Name or Company name	Date first appointed	Date last appointed	Number of direct shares	Number of indirect shares	% of share capital
41.160.706 K	Gabriel Escarrer Juliá (*)	7.02.96	8.06.04	--	112,520,937	60.896
43.040.129 E	Sebastián Escarrer Jaume (*)	7.02.96	28.05.01	--	---	---
43.070.810 K	Gabriel Juan Escarrer Jaume (*)	7.04.99	29.04.02	--	---	---
41.222.172 P	Juan Vives Cerdá	7.02.96	8.06.04	--	--	--
A-07332794	Hoteles Mallorquines Consolidados S.A.	23.10.00		51,580,509	--	27.915
B-82861618	Ailemlos S.L.	15.01.01		12,825,505	--	6.941
41.301.057 A	José María Lafuente López	2.07.96	28.05.01	1,380	--	0.0001
41.067.519 F	Alfredo Pastor Bodmer	31.05.96	8.06.04	--	--	--
39.829.380-G	Eduardo Punset Casals	31.05.96	8.06.04	--	1,200	0.0001
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta	14.06.96	28.05.01	--	--	--
37.667.252-Z	Emilio Cuatrecasas Figueras	31.05.96	28.05.01	--	--	--
G03046562	CAJA DE AHORROS DEL MEDITERRÁNEO	30.03.05		--	--	--

(*) See the following point A.4.

A.4. Family, business, contractual or corporate relationships existing between stockholders with a significant interest as far as they are known to the Company, except when of limited relevance or when derived from ordinary Company business

It must be stated that the indirect shareholding indicated in table A.3. are based on the shares directly or indirectly controlled by Gabriel Escarrer Juliá, his wife and children (including Sebastián Escarrer Jaume and Gabriel Juan Escarrer Jaume) in the share capital of the companies HOTELES MALLORQUINES CONSOLIDADOS S.A., HOTELES MALLORQUINES AGRUPADOS S.L., HOTELES MALLORQUINES ASOCIADOS S.L., and MALLORCAN HOTELS LUXEMBOURG S.A.R.L. The share capital of SOL MELIÁ S.A. held by each of these companies is given in section A.2.

A.5. Business, contractual or corporate relationships existing between stockholders with a significant interest and the Company, except when of limited relevance or when derived from ordinary Company business

At 31 December 2005 the Company held credit lines and loan contracts with the CAJA DE AHORROS DEL MEDITERRÁNEO to a value of 53.3 million euros with due dates between 2006 and 2016, representing 6.55% of the total financial risk of the SOL MELIA Group. The detail of these operations is as follows:

Concept	Euro amount	Holder	Contracted	Due date
Loan	1,286,602.20	INVERSIONES Y EXPLOTACIONES TURÍSTICAS, S.A.	15.08.1998	15.05.2009
Loan	10,837,499.99	MELIA INVERSIONES AMERICANAS, N.V.	12.03.2003	12.03.2011
Loan	6,080,291.95	LOMONDO LTD.	20.07.2000	20.01.2016
Loan	3,606,072.63	INVERSIONES Y EXPLOTACIONES TURÍSTICAS, S.A.	12.04.1999	12.04.2011
Loan	16,500,000.00	ALCAJAN XXI S.L.	29.07.2004	29.07.2016
Policy	15,000,000.00	SOL MELIA, S.A.	17.12.2001	11.12.2006

It must also be stated that in 2005 the Company GI CARTERA S.A., which belongs to the CAJA DE AHORROS DEL MEDITERRÁNEO Group, has a 70% share of the Spanish Company ALCAJAN XXI S.L., with the rest of that Company's share capital owned by SOL MELIÁ, S.A. Directly or indirectly, ALCAJAN XXI S.L. is also a shareholder in the Dominican Company INVERSIONES AREITO S.A., the owner of land in the Dominican Republic on which the PARADISUS PALMA REAL hotel project is being built. The project has been financed via a syndicated loan of 50 million euros in which the mentioned Caja has acted as the agent bank, while at the same time a 25-year management contract has been signed for the hotel project. After the close of the financial year, on 2 February 2006, SOL MELIA S.A. has purchased the mentioned share from GI CARTERA S.A. and has thus become the owner of the full share capital of ALCAJAN XXI S.L., with a payment due on 4 April 2006 of 10,192,656 Euros.

There are no other relevant commercial, contractual or shareholding relations between other significant shareholders and the Company.

A.6. Quasi-corporate agreements between shareholders reported to the Company and concerted actions between Company shareholders known to the Company

The Company is unaware of the existence of quasi-corporate agreements or concerted actions amongst its stockholders as they relate to the Company.

A.7. Person or entity which exercises or may exercise control over the Company according to article 4 of Stock Market Law

ID number	Name
41160706K	Gabriel Escarrer Juliá

A.8. Treasury stock

At close of year 2005:

Number of direct shares	Number of indirect shares (*)	% of share capital
5,486,841	--	2.97%

Detail of the significant changes as expressed in Royal Decree 377/1991 made during the year:

Date	Number of direct shares	Number of indirect shares (*)	% of share capital
18.02.04 to 19.04.05	3,143,443	--	1.70%
20.04.05 to 24.07.05	2,770,290	--	1.50%
25.07.05 to 31.10.05	1,945,660	--	1.05%

Results obtained in the year on treasury stock operations (in thousands of euros)	299.7

A.9. Term and conditions of the existing mandate of the General Shareholders Meeting to the Board of Directors to acquire or transfer treasury stock

The Ordinary and Extraordinary General Shareholders Meeting held on 7 June 2005 authorised the Board of Directors, who in turn may delegate and empower the Directors considered appropriate, to acquire and sell shares in the Company through any of the methods allowed by the law, up to the limit allowed by the law and at a price that may not be less than one Euro, nor greater than thirty Euros, and within a period of eighteen months from the date of approval, all subject to the limits and requirements demanded by Company Law and the Internal Regulations on Good Conduct in Stock Markets.

A.10 Legal and bylaw restrictions to the exercise of the right to vote and restrictions on the acquisition or transfer of shareholdings

There are no legal nor bylaw restrictions on the exercise of the right to vote. Every share has a right to vote with no maximum limit with regard to the exercise of this right, although to attend the General Shareholders Meeting shareholders must possess at least 300 shares registered in their name with the Accounts Register and, whenever appropriate, with the Shareholders Register, at least FIVE (5) days before the day on which the General Shareholders Meeting is held and have paid up any passive dividends and maintain ownership of said shares until the General Shareholders Meeting is held.

Shareholders that possess a smaller number of shares than mentioned above may Group their shareholdings in order to attend the General Shareholders Meeting , delegating representation to one shareholder within the Group. If this is not done in this manner, any such shareholder may delegate representation at the General Shareholders Meeting to another shareholder entitled by law to attend and to represent another shareholder, grouping their shareholding with that of the mentioned representative.

Article 17 of Company Bylaws foresee the possibility that the Company may issue shares without voting rights within legal limits, or preference shares that enjoy some form of privilege over ordinary shares. Up to the present, the Company has issued neither shares with no voting rights nor preference shares.

The transfer of Company shares is free and will be made by account transfer.

B. COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

B.1.1 Maximum and minimum number foreseen in Company Bylaws:

Maximum number of Directors	15
Minimum number of Directors	5

B.1.2 Members of the Board of Directors

ID number	Name or Company name	Date first appointed	Date last appointed	Position	Method of election
41.160.706 K	Gabriel Escarrer Juliá	7.02.96	7.04.99	Chairman	At General Meeting
43.040.129 E	Sebastián Escarrer Jaume	7.02.96	28.05.01	2nd Deputy Chairman & Chief Executive Officer	At General Meeting
43.070.810 K	Gabriel Juan Escarrer Jaume	7.04.99	29.04.02	Chief Executive Officer	At General Meeting
41.222.172 P	Juan Vives Cerdá	7.02.96	7.04.99	1st Deputy Chairman	At General Meeting
A-07332794	Hoteles Mallorquines Consolidados S.A., represented by María Antonia Escarrer Jaume	23.10.00			At General Meeting
B-82861618	Ailemlos S.L., represented by Ariel Mazín Mor	15.01.01			At General Meeting
41.301.057 A	José María Lafuente López	2.07.96	28.05.01	Secretary	At General Meeting
41.067.519 F	Alfredo Pastor Bodmer	31.05.96	10.05.99		At General Meeting
39.829.380 G	Eduardo Punset Casals	31.05.96	10.05.99		At General Meeting
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta	14.06.96	28.05.01		At General Meeting
37.667.252 Z	Emilio Cuatrecasas Figueras	31.05.96	28.05.01		At General Meeting
G03046562	CAJA DE AHORROS DEL MEDITERRÁNEO, represented by . Armando Sala Lloret	30.03.05			By Board of Directors and ratified at General Meeting

B.1.3 Members of the Board of Directors by status

EXECUTIVE DIRECTORS

ID number	Name	Position
41.160.706 K	Gabriel Escarrer Juliá	Chairman
43.040.129 E	Sebastián Escarrer Jaume	2nd Deputy Chairman and Chief Executive Officer
43.070.810 K	Gabriel Juan Escarrer Jaume	Chief Executive Officer

OUTSIDE INSTITUTIONAL DIRECTORS

ID number	Name	Representative	Position	Accionista significativo al que representa	ID number of shareholder
41.222.172 P	Juan Vives Cerdá		1st Deputy Chairman	Hoteles Mallorquines Asociados S.L.	B-07802531
A-07332794	Hoteles Mallorquines Consolidados S.A.	María Antonia Escarrer Jaume	Director	Hoteles Mallorquines Consolidados S.A.	A-07332794
B-82861618	Ailemlos S.L.	Ariel Mazín Mor	Director	Ailemlos S.L.	B-82861618
G03046562	Caja de Ahorros del Mediterraneo	Armando Sala Lloret	Director	Inversiones Cotizadas del Mediterráneo S.L.	B-54048020

OUTSIDE INDEPENDENT DIRECTORS

ID number	Name	Position	Committee
41.301.057 A	José María Lafuente López	Secretary	Chairman of the Auditing Committee
41.067.519 F	Alfredo Pastor Bodmer	Director	
39.829.380 G	Eduardo Punset Casals	Director	Auditing and Compliance Committee
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta	Director	Appointments and Remuneration Committee
37.667.252 Z	Emilio Cuatrecasas Figueras	Director	

In 2005 there have been no variations in the status of any of the Directors.

B.1.4 Qualification of Directors in relation to the Regulations of the Board of Directors

Article 7 of the Regulations of the Board of Directors foresee that the Board, with the objective of guaranteeing its independence and objectivity while best defending the interests of the Company, when exercising its duty to propose to the General Shareholders Meeting the coverage of any vacancies, will ensure that the majority of members of the Board of Directors are Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

The Company understands that the recommendation can be understood to have been applied as the Company currently has nine Outside Directors, of which five are Independent Directors.

B.1.5 Authority delegated to the Board of Directors

The circumstances required by Article 38 of Company Bylaws to be designated Chief Executive Officer are as follows:

- To have formed part of the Board of Directors during at least the THREE (3) years prior to the said designation; or,
- To have previously occupied the position of Chairman or Vice Chairman of the Company Board of Directors, or the position of Chief Executive Officer, regardless of the period of time spent as a Director.
- Neither of the previous conditions will be required to be met whenever the designated Director is supported by SEVENTY-FIVE PERCENT (75%) or more of the members of the Board of Directors.

The same Article indicates the all powers may be delegated to the Board, with the exception of:

(a) The presentation of Company accounts and balance sheet to the General Shareholders Meeting .
(b) The powers that the General Shareholders Meeting confers upon the Board of Directors, save when it were explicitly authorised by the Meeting.

Whenever such is not admissible by law with effects before third parties, the previous limitations to the delegation of powers will be of an internal nature.

Currently, the Board of Directors has delegated in the Directors Sebastián Escarrer Jaume and Gabriel Escarrer Jaume all powers in relation to the Law and Company Bylaws.

B.1.6 Members of the Board of Directors that hold directorship or management positions in other SOL MELIÁ Group companies

The following tables indicate the members of the Company Board of Directors that also hold positions in other dependant companies, understanding that such companies are those in which the direct or indirect shareholding of SOL MELIÁ is greater than 50% or in which the Company has a controlling stake:

SPANISH COMPANIES

GABRIEL ESCARRER JULIA (ID 41.160.706 K)

COMPANY NAME	COMPANY ID NUMBER	POSITION
Azafata S.A. (*)	A-46059580	Chairman of the Board of Directors
Apartotel S.A.	A-28111664	Chairman
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Chairman and Chief Executive Officer
Dorpan S.L.	B-80099807	Sole Administrator
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-7434731	Joint Administrator
Hotel Bellver S.A.	A-07025604	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Chairman
Hoteles Sol S.L.	B-57033748	Chairman
Hoteles Meliá S.L.	B-57028482	Chairman
Hoteles Paradisus XXI S.L.	B-57095929	Chairman
Hoteles Tryp XXI, S.L.	B-57095937	Chairman
Hoteles Turísticos S.A. (**)	A-46009932	Chairman and Chief Executive Officer
Industrias Turísticas S.A. (**)	A-28095933	Chairman
Inversiones Latinoamérica 2000 S.L. (*)	B-61557591	Sole Administrator
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Chairman
Moteles Andaluces S.A.	A-28097582	Chairman
Moteles de las Grandes Rutas Españolas S.A. (**)	A-28090017	Chairman
Parque San Antonio S.A.	A-38003885	Chairman and Chief Executive Officer
Realizaciones Turísticas S.A.	A-28128254	Chairman and Chief Executive Officer
Securisol S.A.	A-07739337	Chairman and Chief Executive Officer
Tenerife Sol S.A.	A-07161821	Chairman and Chief Executive Officer
Urmereal S.L. (**)	B-81316002	Chairman
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Chairman

SEBASTIÁN ESCARRER JAUME (ID 43.040.129 E)

COMPANY NAME	COMPANY ID NUMBER	POSITION
Azafata S.A. (*)	A-46059580	Chairman of the Board of Directors
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Secretary
Hotel Bellver S.A.	A-07025604	Spokesperson
Hotel Convento de Extremadura S.A.	A-10247328	Chairman as proxy of SOL MELIA S.A.
Hoteles Sol Meliá S.L.	B-57033730	Secretary
Hoteles Sol S.L.	B-57033748	Secretary

COMPANY NAME	COMPANY ID NUMBER	POSITION
Hoteles Meliá S.L.	B-57028482	Secretary
Hoteles Paradisus XXI S.L.	B-57095929	Secretary
Hoteles Tryp XXI, S.L.	B-57095937	Secretary
Meliá Catering S.A. (*)	A-57004616	Joint Administrator
Parque San Antonio S.A.	A-38003885	Secretary
Sol Melia Travel S.A.	A-57009029	Chairman and Chief Executive Officer
Tenerife Sol S.A.	A-07161821	Spokesperson and Secretary
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Secretary
Sol Meliá Vacation Club España S.L.	B-57353377	Chairman and Chief Executive Officer
Nyesa Melia Zaragoza S.L.	B-99077844	Chairman
Boscarla S.L.	B-63749725	Chairman

GABRIEL JUAN ESCARRER JAUME (ID. 43.070.810 K)

COMPANY NAME	COMPANY ID NUMBER	POSITION
Akuntra XXI S.L. (*)	B-62286075	Sole Administrator
Azafata S.A.(*)	A-46059580	Chief Executive Officer
Apartotel S.A.	A-28111664	Spokesperson and Chief Executive Officer
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Deputy Chairman and Chief Executive Officer
Consorcio Europeo S.A. (*)	A-78889383	Proxy of the Sole Administrator (SOL MELIA S.A.)
Darcuo XXI, S.L. (soc. unip.)(*)	B-62308804	Sole Administrator
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-7434731	Joint Administrator
Hotel Bellver S.A.	A-07025604	Spokesperson as proxy of SOL MELIA S.A.
Hotel Convento de Extremadura S.A.	A-10247328	Deputy Chairman
Hoteles Sol Meliá S.L.	B-57033730	Spokesperson and Chief Executive Officer
Hoteles Sol S.L.	B-57033748	Spokesperson and Chief Executive Officer
Hoteles Meliá S.L.	B-57028482	Spokesperson and Chief Executive Officer
Hoteles Paradisus XXI S.L.	B-57095929	Spokesperson and Chief Executive Officer
Hoteles Tryp XXI, S.L.	B-57095937	Spokesperson and Chief Executive Officer
Hoteles Turísticos S.A.(**)	A-46009932	Spokesperson and Chief Executive Officer
Industrias Turísticas S.A.(**)	A-28095933	Spokesperson
Inmobiliaria Bulmes S.A. (*)	A-28324846	Sole Administrator as proxy of SOL MELIA S.A.
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Spokesperson and Chief Executive Officer
Inversiones Inmobiliarias Silverbay S.L. (*)	B-81631434	Sole Administrator as proxy of SOL MELIA S.A.
Meliá Catering S.A.(*)	A-57004616	Joint Administrator
Moteles Andaluces S.A.	A-28097582	Spokesperson and Chief Executive Officer
Moteles de las Grandes Rutas Españolas S.A. (**)	A-28090017	Chairman
Parking Internacional S.A. (*)	A-78671708	Sole Administrator as proxy of SOL MELIA S.A.
Parque San Antonio S.A.	A-38003885	Deputy Secretary and Chief Executive Officer
Playa Salinas S.A.	A-38043154	Sole Administrator
Realizaciones Turísticas S.A.	A-28128254	Spokesperson and Chief Executive Officer
Secade XXI S.L. (*)	B-62312749	Sole Administrator
Securisol S.A.	A-07739337	Spokesperson and Chief Executive Officer
Sol Melia Travel S.A.	A-57009029	Secretary
Tenerife Sol S.A.	A-07161821	Spokesperson and Chief Executive Officer
Urmereal S.L. (**)	B-81316002	Chairman
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Spokesperson
Sol Meliá Vacation Club España S.L.	B-57353377	Non-executive Secretary
Boscarla S.L.	B-63749725	Non-director Secretary

(*) Companies merged with SOL MELIA S.A by the merger deed of 1 August 2005 from the Notary of Palma de Mallorca, Miguel Mulet Ferragut, numbered 3181 in his protocol and registered in the Commercial Register of Palma in tome 1671, section 176, sheet PM22603, inscription 49ª.

(**) Companies merged with REALIZACIONES TURÍSTICAS S.A. by the merger deed of 27 December 2005 from the Notary of Madrid, José Antonio Villaverde Beato, numbered 1831 in his protocol and registered in the Commercial Register of Madrid in tome 6996, book 210, section 8, sheet M-113782.

INTERNATIONAL COMPANIES

GABRIEL ESCARRER JULIA (ID 41.160.706 K)

COMPANY NAME	COUNTRY	POSITION
Bear S.A. de C.V.	Mexico	Deputy Chairman of the Board of Directors
Bisol Vallarta S.A. de C.V.	Mexico	Chairman of the Board of Directors
Cala Formentor S.A. de CV	Mexico	Chairman
Controladora Turística Cozumel S.A. de CV	Mexico	Spokesperson
Caribohotels de Mexico S.A. de CV	Mexico	Director
Corporación Hotelera Metor S.A.	Peru	Chairman
Desarrollos Turísticos del Caribe S.A.	Panama	Chairman
Gesmesol S.A.	Panama	Chairman
Grupo Sol Asia Ltd.	Hong Kong	Joint Administrator
Hoteles Meliá Internacional de Colombia S.A.	Colombia	Joint Administrator
Inversiones Turísticas del Caribe S.A..	Panama	Chairman
Lomondo Limited	Great Britain	Joint Administrator
MIH S.A.	Panama	Chairman
Marina Internacional Holding S.A.	Panama	Chairman
Marktur Turizm Isletmecilik A.S.	Turkey	Administrator
Melsol Management BV	Holland	Joint Administrator
Operadora Costa Risol S.A.	Costa Rica	Chairman
Operadora Mesol S.A. de CV	Mexico	Chairman
Sol Hotels UK Ltd.	Great Britain	Administrator
Segunda Fase Corporación	Puerto Rico	Chairman
Sol Meliá Vacation Club Dominicana S.A.	Dominican Rep.	Chairman
Sol Melia VC Panama S.A.	Panama	Director

SEBASTIÁN ESCARRER JAUME (ID 43.040.129 E)

COMPANY NAME	COUNTRY	POSITION
Bisol Vallarta S.A. de CV	Mexico	Spokesperson
Cadlo France SAS	France	Spokesperson
Cadstar France SAS	France	Spokesperson
Cala Formentor S.A. de CV	Mexico	Spokesperson
Compagnie Tunisienne de Gestion Hoteliere S.A.	Tunisia	Spokesperson
Caribohotels de Mexico S.A. de CV	Mexico	Director
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Spokesperson
Corporación Hotelera Metor S.A.	Peru	Deputy Chairman
Desarrollos Sol S.A.	Dominican Rep.	Chairman and Treasurer
Gesmesol S.A.	Panama	Treasurer
Hotel Alexander SAS	France	Spokesperson
Hotel François SAS	France	Spokesperson
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator Chairman
Cala Formentor S.A. de CV	Mexico	Chairman
Inversiones Agara S.A.	Dominican Rep.	Chairman and treasurer
Inversiones Inmobiliarias IAR, C.A.	Venezuela	Joint Administrator
Irton Company N.V.	Dutch Antillas	Administrator
Lomondo Limited	Great Britain	Joint Administrator
MIH S.A.	Panama	Secretary
Marina Internacional Holding S.A.	Panama	Secretary
Meliá Inversiones Americanas N.V.	Holland	Joint Administrator

COMPANY NAME	COUNTRY	POSITION
Melia Management S.A.	Dominican Rep.	Deputy Chairman and Secretary
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Joint Administrator
Neale S.A.	Panama	Treasurer
Operadora Costa Risol S.A.	Costa Rica	Deputy Chairman and Treasurer
Operadora Mesol S.A. de CV	Mexico	Spokesperson
PT Sol Meliá Indonesia	Indonesia	Commissar
Sol Melia Benelux S.A.	Belgium	Chairman and Chief Executive Officer
Sol Melia Commercial	Cayman Islands	Director
Sol Melia China Limited	China	Administrator
Sol Melia Hrvatska	Croatia	Administrator
Sol Melia Deutschland GmbH	Germany	Joint Administrator
Sol Melia Europe BV	Holland	Joint Administrator
Sol Melia Finance Limited	Cayman Islands	Authorised Director
Sol Melia Services S.A.	Switzerland	Administrator Chairman
Segunda Fase Corporación	Puerto Rico	Deputy Chairman
Sol Melia Fribourg S.A.	Switzerland	Chairman/Administrator
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Deputy Chairman
Sol Melia VC Panama S.A.	Panama	Director

GABRIEL JUAN ESCARRER JAUME (ID. 43.070.810 K)

COMPANY NAME	COUNTRY	POSITION
Bisol Vallarta S.A. de C.V.	Mexico	Spokesperson
Abbayé de Téleme SAS	France	Chairman of the Board
Cadlo France SAS	France	Chairman of the Board
Cadstar France SAS	France	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Spokesperson
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Spokesperson
Corporación Hotelera Metor S.A.	Peru	Director
Desarrollos Hoteleros San Juan B.V.	Holland	Joint Administrator
Desarrollos Sol S.A.	Dominican Rep.	Deputy Chairman and Secretary
Desarrollos Turísticos del Caribe S.A.	Panama	Administrator
Desarrollos Turísticos del Caribe NV	Dutch Antillas	Administrator
Dominican Investment NV	Dutch Antillas	Administrator
Dominican Marketing & Services N.V.	Dutch Antillas	Joint Administrator
Farandole B.V.	Holland	Joint Administrator
Gesmesol S.A.	Panama	Spokesperson
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator
Hotel Alexander SAS	France	Chairman of the Board
Hotel Blanche Fontaine SAS.	France	Chairman of the Board
Hotel Boulogne SAS	France	Chairman of the Board
Hotel François SAS	France	Chairman of the Board
Hotel Metropolitain SAS	France	Chairman of the Board
Hotel Royal Alma SAS	France	Chairman of the Board
Impulse Hotel Development BV	Holland	Joint Administrator
Inmotel Inversiones Italia S.r.L.	Italia	Sole Administrator
Inversiones Agara S.A.	Dominican Rep.	Deputy Chairman and Secretary
Inversiones Inmobiliarias IAR 1997 C.A.	Venezuela	Joint Administrator
Irton Company N.V.	Dutch Antillas	Administrator
Lomondo Limited	Great Britain	Joint Administrator
Hotel Madeleine Palace SAS	France	Chairman of the Board
MIH S.A.	Panama	Treasurer

COMPANY NAME	COUNTRY	POSITION
Marina Internacional Holding S.A.	Panama	Treasurer
Markserv B.V.	Holland	Joint Administrator
Meliá Inversiones Americanas N.V.	Holland	Joint Administrator
Melia Management S.A.	Dominican Rep.	Deputy Chairman and Secretary
Melsol Management BV	Holland	Joint Administrator
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Joint Administrator
Neale S.A.	Panama	Chairman
Operadora Mesol S.A. de CV	Mexico	Spokesperson
PT Sol Meliá Indonesia	Indonesia	Chairman
Punta Cana Reservation NV	Dutch Antillas	Administrator
San Juan Investment BV	Holland	Administrator
Segunda Fase Corporation	Puerto Rico	Administrator
Sol Melia France SAS	France	Chairman of the Board
Sol Group BV	Holland	Joint Administrator
Sol Maninvest BV	Holland	Joint Administrator
Sol Melia Benelux S.A.	Belgium	Spokesperson
Sol Melia China Limited	China	Administrator
Sol Melia Deutschland GmbH	Germany	Joint Administrator
Sol Melia Investment NV	Holland	Joint Administrator
Sol Melia Suisse S.A.	Switzerland	Administrator Chairman
Segunda Fase Corporación	Puerto Rico	Executive Officer
Inmobiliaria Distrito Comercial CA	Venezuela	Chairman
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Secretary
Sol Meliá VC Panama S.A.	Panama	Director

B.1.7 Members of the Board of Directors that are members of the Board of Directors of other companies quoted on official Spanish stock exchanges

ID number	Name	Company	Position
37.667.252-Z	Emilio Cuatrecasas Figueras	RECOLETOS GRUPO DE COMUNICACIÓN S.A.	Director (*)

(*) Left the Company in October 2005

B.1.8 Aggregate compensation of the Board of Directors for 2005

The following is the aggregate amounts pertaining to the remuneration of Company Directors:

A) In SOL MELIA S.A.

Concept	Amount (thousand euros)
Salaries	843(*)
Expense allowance	511
Statutory amounts	-
Share options	-
Others	-
Total	**1,354**

(*) Corresponds to the amount received by Directors as Company executives.

Other benefits	Amount (thousand euros)
Advances	-
Loans	-
Investment funds and pension plan contributions	-
Investment funds and pension plan liabilities	-
Life insurance premiums	55
Guarantees taken out by the Company for Directors	-

B) For membership of the Boards and/or senior management of other Group companies

Concept	Amount (thousand euros)
Base salaries	200.5
Bonus salaries	-
Expense allowance	-
Statutory amounts	-
Share options and/or other financial instruments	-
Others	-
Total	**200.5**

Other benefits	Amount (thousand euros)
Advances	-
Loans	-
Investment funds and pension plan contributions	-
Investment funds and pension plan liabilities	-
Life insurance premiums	-
Guarantees taken out by the Company for Directors	-

C) Total remuneration by type of Director

Type of Director	Total Group (thousands of euros)
Executives	1.169,7
Outside Institutional	144,2
Outside Independent	222,4
Other outside (*)	18
Total	**1.554,3**

(*) Oscar Ruiz del Río ceased to be a Director on 30 March 2005

D) With respect to the results attributable to the parent Company :

Total remuneration of Directors (in thousand euros)	1.554,3
Total remuneration of Directors/result attributable to the parent Company (in %)	1,7%

B.1.9 Total remuneration of senior Company executives

ID number	Name	Position
42945637Z	Servera Andreu, Onofre	EVP FINANCE
41393330T	Canaves Picornell, Gabriel	EVP CUBAN DIVISION
30041663Y	Palomino Del Moral, Ángel	EVP HOTEL DEVELOPMENT
03411896F	Encinas García, Andrés	EVP EUROPEAN DIVISION
43138373X	Del Olmo Piñero, Luis	EVP SALES & MARKETING
X1108278T	Hoddinott, Mark Maurice	EVP ADMINISTRATION
00812326N	Puig De La Bellacasa Aznar, Jaime	EVP COMMUNICATION AND INSTITUTIONAL RELATIONS
8TRE83229	Gerandeau Andre	EVP NORTH & CENTRAL AMERICA
AN31151	Oliveira , Rui Manuel	EVP SOUTH AMERICA

Total remuneration senior management	(in thousands of euros)
	2.014

It must also be stated that with the aim of increasing the share price, making the success of the Company the responsibility of Company executives, and allowing them to share the benefits and risks of shareholders, as foreseen in article 130 and in the fourth amendment to Company Law, and in article 37.2 of Company Bylaws, the Ordinary and Extraordinary Shareholders Meeting held on 8 June 2004 approved a bonus system consisting of a monetary remuneration linked to the share price of SOL MELIÁ, S.A. for a maximum of sixty-five (65) Company executives, including amongst them the three Company Executive Directors, and supposing a maximum payout of 160,000 euros depending on the executive's degree of responsibility in the Company if the weighted average price of SOL MELIÁ, S.A. shares in any of the stock market sessions in May and June of 2006 is equal to or greater than 10 euros. If the price were equal to or greater than 9.25 euros but below 10 euros, executives would receive two thirds (2/3) of the said amount. If the price were equal to or greater than 8.50 euros but below 9.25 euros, executives would receive one third (1/3) of the said amount. The maximum total amount that would be paid out by this bonus system is 3,650,000 euros.

B.1.10 Extraordinary remuneration clauses in cases of dismissal or change of control for senior executives, including the executive Directors, of the Company or Group

There are no extraordinary remuneration clauses in cases of dismissal or change of control for senior executives of the Company or Group.

B.1.11 Process to set the remuneration of Board members and relevant Company Bylaws.

Article 37 of the Company Bylaws establish the following remuneration system:

a) Remuneration of Directors consists of an annual fixed amount, global for each of them, which will be determined or ratified by the General Shareholders Meeting , without prejudice to the payment of the fees or remuneration that they may receive from the Company for professional services provided or derived from their own work, as is the case.

   The Board of Directors may temporarily decide on its own remuneration, without prejudice to the subsequent required ratification by the General Shareholders Meeting , either explicitly or implicitly via the general approval of Company Accounts.

The Board of Directors may also unilaterally set in each fiscal year the specific amount to be received by each of the Directors, adjusting the amount to be received by each of them with regards to the position they hold on the Board, as well as to their effective dedication to the Company.

Remuneration becomes payable at the end of each month, meaning that the remuneration of each Director will be proportional to the time that they have held their position during the year to which the remuneration applies.

b) In addition, and regardless of the remuneration considered in the previous section, remuneration systems based on the share price of related to the provision of stock or stock options are foreseen. The application of such systems must be approved by the General Shareholders Meeting which will also decide the share price to be taken as a reference, the number of shares to be given to each Director, the price at which stock options may be exercised, the duration of such remuneration systems and any other conditions considered appropriate.

After compliance with legal requirements, similar remuneration systems may also be established for Company personnel (executive or otherwise).

The functions of the Appointments and Remuneration Committee of the Board of Directors include the review of remuneration and the formulation of the proposals it considers appropriate to the Board of Directors.

B.1.12 Members of the Board that are also members of the Board of Directors or executives of companies with significant shareholdings in Sol Meliá and/or in Group companies

The following are Company Directors that also hold positions in companies that are significant shareholders of Sol Meliá:

ID number	Company	SOL MELIÁ Directors holding positions in companies with significant shareholdings
A-07332794	Hoteles Mallorquines Consolidados S.A.	D. Gabriel Escarrer Juliá (Chairman and Chief Executive Officer)
		D. Gabriel Escarrer Jaume (spokesperson)
		D. Sebastián Escarrer Jaume (Secretary)
		Dña. María Antonia Escarrer Jaume (Spokesperson)
A-07000343	Hoteles Mallorquines Agrupados S.L.	D. Gabriel Escarrer Juliá (Chairman)
		D. Gabriel Escarrer Jaume (Secretary)
		D. Sebastián Escarrer Jaume (Spokesperson and Chief Executive Officer)
		Dña. María Antonia Escarrer Jaume (Spokesperson)
A-07802531	Hoteles Mallorquines Asociados S.L.	D. Gabriel Escarrer Juliá (Chairman)
		D. Gabriel Escarrer Jaume (Secretary and Chief Executive Officer)
		D. Sebastián Escarrer Jaume (Spokesperson and Chief Executive Officer)
		Dña. María Antonia Escarrer Jaume (Spokesperson)
	Majorcan Hotels Luxembourg S.A.R.L.	D. Gabriel Escarrer Jaume (Joint Administrator)

B.1.13 Modifications made during the year to Board regulations

No modifications in Board regulations were made in 2005. The current regulations were approved by the Board of Directors on 30 March, 2004 which, as required by article 115 of Stock Market Law, were presented to shareholders at the General Shareholders Meeting on 8 June 2004. The full text of the Regulations may be found on the Company website.

B.1.14 Appointment, re-election and dismissal procedures for Directors. List the competent bodies,

procedures to be followed and criteria to be applied in each of the procedures

As mentioned in section B.1.4., article 7 of the Regulations of the Board of Directors foresee that the Board, with the objective of guaranteeing its independence and objectivity while best defending the interests of the Company, when exercising its duty to propose to the General Shareholders Meeting the coverage of any vacancies, will ensure that the majority of members of the Board of Directors are Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

The same article also regulates the requirements for each type of Director as follows:

1) Executive Directors: Executive Directors are understood to include the Chief Executive Officers and any other Directors that, under whatever title, perform executive or managerial functions within the Company or in any of the associated companies.

   Executive Directors also include those that assume managerial responsibilities or have decision-making power in relation to certain aspects of the business of the Company or Group due to their delegation or empowerment by the General Shareholders Meeting or Board of Directors.

   Executive Directors do not include those that receive special permission from the General Shareholders Meeting or Board of Directors, by authorisation, delegation or empowerment, to perform specific tasks.

2) Outside Independent Directors: Outside Independent Directors are those designated due to their prestige and professional qualifications and their availability to contribute their experience and knowledge to the Corporate Governance of the Company. They must meet conditions that ensure their impartiality and objectivity, including at least the following:

   (a) To not have nor have had in the recent past any direct and significant labour, trade or contractual relationship with the Company, its Directors, the Outside Institutional Directors or companies of the Group, whose shareholding interest they represent, credit institutions with a significant participation in Company finance, or other organisations that receive significant subventions from the Company;
   (b) To not be a Director of another Company whose shares trade on an official secondary market that has Outside Institutional Directors in the Company;
   (c) To not have any close family relationship with Executive Directors, Outside Institutional Directors or other members of the Company Board of Directors.

   The Outside Independent Directors must inform the Board of Directors of any of the above-mentioned circumstances should they arise so that said circumstances may be evaluated after receiving the pertinent report from the Appointments and Remuneration Committee. Any such circumstance must also be included in the Annual Report on Corporate Governance.

3) Outside Institutional Directors: Outside Institutional Directors are those proposed by individual shareholders or groups of shareholders due to their stable participation in Company ownership which, regardless of whether it confers a right or not to a place on the Board of Directors, has been considered sufficiently significant by the Board of Directors, also bearing in mind the proportion of Company capital floated on the market, to propose their appointment to the General Shareholders Meeting.

   On accepting appointment, all Directors must confirm that that they comply with the requirements of the law, Company Bylaws and these Regulations.

   As stated in article 15 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must define and review the criteria to be applied for the composition of the Board of Directors and selection of candidates which must then be proposed to the Board.

B.1.15 Circumstances in which Directors must resign

Lack of compliance with any of the duties and obligations of the Board established in Chapter 8 of the Regulations of the Board of Directors are sufficient cause for the resignation of all Board members.

B.1.16 Measures to limit the risk of concentration of power in one person

The Chairman of the Board of Directors has not been delegated all of the powers of the Board, although his powers as a representative of the Company are vast. It must also be mentioned that the Board has named an Executive Vice Chairman and two Chief Executive Officers with different functions within the Company.

B.1.17 Majorities required for approval of resolutions by the Board. Means of approving such resolutions. Minimum required quorum.

Approval of resolutions: resolutions are passed by an absolute majority of the Directors attending or represented at the meeting. If the vote is tied, the Chairman will have a casting vote. Board meetings will normally take place at Company headquarters, but may be held at any other location as decided by the Chairman and indicated in the invitation to attend.

Means of approving resolutions: Directors may also participate in meetings from locations other than that of the meeting itself provided they do so using audiovisual telephonic or other means that sufficiently and appropriately guarantee (both in the opinion of the Director in question and in the opinion of the Chairman of the Board) the confidentiality of the business and reciprocal communication in real time and, as a consequence, the unity of the event. In such circumstances, Directors will be considered to have attended the meeting.

Directors will do all within their means to attend meetings and, whenever they cannot attend in person, will aim to be represented at the meeting. Representation or delegation of votes within the Board of Directors must be made in writing and specifically for each meeting by means of a letter to the Chairman including any necessary instructions and may only be conferred to another Director. In particular, Outside Independent Directors may only delegate to other Outside Independent Directors.

The Chairman must organise the debate to favour the participation of all of the Directors in the deliberations of the Board.

Minimum required quorum: a sufficient quorum of the Board of Directors is achieved when the meeting is attended by a majority of the Directors or their representatives, including at least one Outside Independent Director.

B.1.18 Specific requirements, different from those related to directors, for appointment as Chairman or Deputy Chairman

Article 33.2. of Company Bylaws establishes that for a Director to become Chairman or Vice Chairman of the Board of Directors at least one of the following circumstances must occur:

a) To have been a member of the Board of Directors for at least THREE (3) years prior to the appointment; or,

b) to have previously been Chairman of the Board of Directors, whatever the period during which they may have been a Director.

Neither of the previous circumstances will be necessary for a Director to become Chairman or Vice Chairman whenever such a designation receives the support of at least SEVENTY-FIVE PERCENT (75%) of the members of the Board of Directors.

The re-election as Director of those occupying the positions of Chairman and Vice Chairman will imply automatic continuity in the mentioned positions.

B.1.19 Chairman's casting vote

If a vote by the Board of Directors does not achieve an overall majority, the Chairman will wield a casting vote.

B.1.20 Age limit for Directors

Company Bylaws do not include any such age limits.

B.1.21 Limits on the term of office for Independent Directors

Company Bylaws do not include any such limits on the term of office.

B.1.22 Processes for proxy voting for the Board of Directors

The representation or delegation of votes within the Board of Directors may be conferred by means of a letter to the Chairman and may only be conferred to another Director. In particular, Independent Directors may only delegate to another Independent Director.

Representation must be conferred in writing and specifically for each meeting.

B.1.23 Number of meetings of the Board of Directors in 2005

During 2005, there were five (5) meetings on the following dates:

- 8 February 2005
- 30 March 2005
- 7 June 2005
- 13 September 2005
- 29 November 2005

The Chairman of the Board of Directors has attended all of them. All of the other Directors have also attended all of the meetings of the Board of Directors, either personally, or on the odd occasion represented by another Director.

The Auditing and Compliance Committee held five meetings and the Appointments and Remuneration Committee held three meetings.

B.1.24 Certification of the individual and consolidated annual accounts

The annual accounts for 2004 have been certified by the following people:

Sebastián Escarrer Jaume, Vice Chairman and Chief Executive Officer
Mark Hoddinott, Executive Vice President Administration.

B.1.25 Mechanisms defined by the Board to avoid individual and consolidated accounts being presented to the General Shareholders Meeting with exceptions noted in the auditors' report

The Auditing and Compliance Committee is responsible for relations with external auditors in charge of the performance of the financial audit and to hold all of the communications foreseen in audit legislation and technical standards. In compliance with this duty, the Committee has held several meetings over the year with auditors in order to analyse any possible exceptions that may arise.

B.1.26 Measures adopted to ensure that information provided to markets is transmitted evenly and symmetrically

In compliance with applicable legislation, the Company informs the Spanish Stock Exchange Commission with regard to any significant events related to its business using the corresponding communication of relevant facts and other communications.

The Company also regularly provides full financial and Company information for investors and shareholders through informational brochures. This information is also available through the Company website.

Article 37 of the Regulations of the Board of Directors specifically state that the responsibilities of the Board of Directors include that of establishing the mechanisms required to ensure that the Company complies with its obligations to provide information to the markets.

In particular, the Board of Directors must provide regular information on the regulations of corporate governance and also ensure that the half-yearly, quarterly and any other financial information required by the law or considered prudent to be presented to the markets is prepared with the same principles, criteria, professionalism and rigour as the annual accounts, and is as reliable as those accounts.

Article 3 of the Internal Regulations on Good Conduct in matters related to the stock market approved by the Board of Directors on 7 September 2004 defines the policies and procedures adopted by the Company in relation to the handling of the relevant information and its communication to the Comisión Nacional del Mercado de Valores ("CNMV" – Spanish Stock Exchange Commission) and the markets:

- Distribution of the information: the relevant information must be distributed immediately to the markets via communication to the CNMV before being distributed via any other means and as soon as the pertinent facts are known, decision has been made or agreement or contract has been signed with third parties. Whenever the Company believes that information should not be made public due to an adverse impact this might have on its legitimate interests, the Company will immediately inform the CNMV, and will request exemption from distribution as foreseen in article 91 of Stock Market Law.

  After the relevant information has been sent to the CNMV, the Company must immediately make the same information available through the Company website in line with legally defined procedures.

- Contents of the information: the contents of the communication must be truthful, clear, complete and, when required by the nature of the information, quantified to a degree that it may not generate confusion or deceit. If false, inexact or incomplete information is presented which may have a noticeable impact on shares, it must be clarified or refuted.

- Attitude of discretion: during the period of preparing, planning or researching a transaction or other activity that may be considered relevant information, an attitude of secrecy and discretion will be adopted regarding that transaction or activity (except in the normal course of the work or other activities of the persons subject to these Regulations that may be aware of the transaction or activity) to ensure that no distortion or false expectations are created in the markets.

- Timing of the communication: the relevant information must be communicated whenever possible at a time when the market is closed so as to avoid any distortion in trading.

- If there is any doubt about whether certain information should be considered relevant information it may be communicated to the CNMV and then the Company may work together with the CNMV to avoid the distribution of irrelevant, false, inexact or incomplete information that may have a noticeable effect on the value of any share issued by the Company or the Group.

The contents of said Regulations are published on the Company website.

B.1.27 Director status of the Secretary of the Board of Directors

The Secretary of the Board of Directors, José María Lafuente López, is also a member of the Board of Directors.

B.1.28 Mechanisms established by the Company to ensure the independence of auditors, financial analysts, investment banks and rating agencies

One of the functions of the Auditing and Compliance Committee is to maintain relations with external auditors so as to receive information from the auditors with regard to matters which may endanger their independence and any other matters related to the performance of the accounts audit as well as any other communications included in legislation on the accounts audit or technical audit requirements.

B1.29 Other jobs the external auditors perform for the Company and/or Group other than the audit and the amount received for those jobs and the amount expressed as a percentage of the total amount billed to the Company and/or Group

	Company	Group	Total
Amount for jobs other than the audit (thousand euros)	29	130	159
Amount for jobs other than the audit / Total amount billed (%)	6,74%	17,88%	13,76%

B.1.30 Number of consecutive years that the current auditors have audited annual accounts for the Company and/or Group and percentage that that number of years represents over the total number of years that the accounts have been audited

	Company	Group
Number of consecutive years (since)	1996	1996
Number of years audited by current auditors / Number of years audited (%)	100%	100%

Fees for the audit of consolidated annual accounts and those of subsidiaries in 2005 reached 1,156,000 euros, detailed as follows:

Ernst & Young Spain	531
Ernst& Young International	540
Other auditors	85
Total in thousands of Euros	**1,156**

B.1.31 Relevant shareholdings of members of the Board of Directors in companies that have the same, similar or complementary business activity to that of the Company or the Group and which have been communicated to the Company

The following is a list of the shareholdings and positions held by members of the Board of Directors in companies that have the same, similar or complementary business activity and which do not form part of the Group:

Administrator	Company	% share	Position / Function
Emilio Cuatrecasas Figueras	Areas,S.A.	30%	Executive Chairman
Emilio Cuatrecasas Figueras	Elior Sociedad comanditaria por acciones	2.17%	Spokesperson Monitoring Board
José Mª Lafuente López	Niamey,S.A.	1%	-
José Mª Lafuente López	Sa Coma C.B.	1%	-
José Mª Lafuente López	Tenedora Aguamarina S.A.	1%	-
Juan Vives Cerdá	Finca Los Naranjos,S.A.	27.88 %	Joint Administrator

The Appointments and Remuneration Committee is aware of the shareholdings and positions mentioned and, after their analysis, does not consider that the activity of the said companies will affect their position as Company Directors, nor give rise to a conflict of interest.

B.1.32 Procedures by which Directors may receive external assistance

Article 23 Regulations of the Board of Directors allows that Directors have the right to request the professional assistance of legal, accounts or financial advisors or other experts at Company expense to assist them in the exercise of their functions.

The request must be with regard to specific problems of a certain degree of importance or complexity that arise in the performance of their duties.

The request must be made to the Company Chairman and may be refused by the Board of Directors if it is considered that any of the following circumstances apply:

(a) it is not required for the performance of the duties assigned to Outside Directors;
(b) its cost is not reasonable in relation to the importance of the problem and the assets and revenues of the Company; or
(c) the help requested from outside experts may be provided satisfactorily by experts employed by the Company.

B.1.33 Procedures by which Directors receive the information required to prepare meetings of the Board and others sufficiently in advance

As stated in Article 22 of the Regulations of the Board of Directors, in the performance of their duties Directors must have full access to information on any aspect of the Company, to review all of the Company's books and files, and any other registers of Company activities and to inspect all facilities. This right to access to information is extended to both domestic and international Company subsidiaries.

In order not to interrupt normal Company business, the exercise the rights to access such information will be channelled through the Chairman or Secretary of the Board of Directors whom will either provide the information directly to the Director, provide access to the most appropriate person in the organisation to provide such information or organise any measures required so that the Director may examine or inspect whatever they may require.

B.2 Board of Directors Committees

B.2.1 Administrative bodies and their functions

The Company currently operates two commissions, whose members in 2005 were as follows:

Name of commission	Number of members
Auditing and Compliance	3
Appointments and Remuneration	3

Functions of the Auditing and Compliance Committee

The responsibilities of the Auditing and Compliance Committee, none of which may be delegated, and without prejudice to any others that the Board of Directors may specifically assign to the Committee, are as follows:

(a) To report to the Annual General Shareholders Meeting with regard to matters raised by shareholders in the meeting that are within the competence of the Committee.

(b) To propose to the Board of Directors for submission to the General Shareholders Meeting the appointment of external auditors. The Auditing and Compliance Committee must inform the Board of Directors with regard to the conditions under which the external auditor will be employed, the scope of its activities and, whenever appropriate, whether the appointment is revoked or not renewed.

(c) To supervise the services of the internal audit.

(d) To be aware of the financial information process and Company internal control systems and to review the designation or situation of the people responsible for said matters.

(e) To maintain a relationship with external auditors so as to receive information on those matters that may endanger their independence and any other matters related to the performance of the Audit of Accounts, as well as any other communications foreseen in legislation on the Audit of Accounts and technical aspects of the Audit.

(f) To review Company accounts and oversee compliance with legal requirements and the appropriate application of generally accepted accounting principles, receiving the direct cooperation of the both internal and external auditors.

(g) To ensure that the financial information provided to the markets is produced in line with the same principles, criteria and professional practises used to produce the Annual Accounts.

(h) To examine compliance with the Internal Regulations on Good Conduct in Stock Markets, the Regulations of the Board of Directors and, in general, with the Company Corporate Governance Regulations, and to formulate appropriate proposals for their improvement.

Functions of the Appointments and Remuneration Committee

The responsibilities of the Appointments and Remuneration Committee, none of which may be delegated, and without prejudice to any others that the Board of Directors may specifically assign to the Committee, are as follows:

(a) To define and review the criteria to be applied with regard to the composition of the Board of Directors and the selection of candidates.

(b) To submit to the Board any proposals on the appointment of Directors so that the Board may directly designate such Directors (Co-opt) or adopt the proposals for their submission to the Annual General Shareholders Meeting for approval.

(c) To propose members of Committees to the Board.

(d) To regularly review remuneration policies, assessing their appropriateness and return.

(e) To ensure transparency in remuneration.

(f) To report on any transactions that imply or may imply conflict of interest and, in general, on the matters contained in chapter VIII of the Regulations pertaining to the duties of Directors.

The Committee must consider the suggestions made by the Chairman, the members of the Board, Company executives or shareholders.

B.2.2 Details of the members of the Committees of the Board of Directors

Auditing and Compliance Committee

ID number	Name	Position
41.301.057[a]	José María Lafuente López	Independent Director and Secretary of the Board of Directors. Chairman of the Committee
39.829.380G	Eduardo Punset Casals	Independent Director
43.040.129E	Sebastián Escarrer Jaume	Executive Director
X1108278T	Mark Hoddinott	Secretary, non-member of the Committee

Appointments and Remuneration Committee

ID number	Name	Position
A-07332794	Hoteles Mallorquines Consolidados S.A.	Outside Institutional Director. Chairman of the Committee.
1.950.856L	José Joaquín Puig de la Bellacasa Urdampilleta	Independent Director
43.070.810K	Gabriel Escarrer Jaume	Executive Director
	Miguel Angel Aller and Antonio Ruiz	Secretary and Vice Secretary, non-members of the Committee

B.2.3 Rules on Committee organisation and operations and responsibilities attributed to each of them

Auditing and Compliance Committee

Number of members and structure: article 39 bis of Company Bylaws state that the Auditing and Compliance Committee will be formed by at least THREE (3) and at most FIVE (5) members, with a majority of non-executive Directors, including at least one Outside Independent Director, all named by the Board of Directors and all of which have the capacity, dedication and experience required to perform the required functions.

Chairman and Secretary: the Chairman of the Committee must be one of the Outside Directors. The Chairman must be replaced every four years, and may be re-elected after a period of one year after being replaced. Both the Chairman and the rest of the members of the Committee will be automatically replaced if they resign or are dismissed from their positions as members of the Company Board of Directors and are not reinstated.

A Committee Secretary may be appointed, a position which may be held by the Secretary of the Board of Directors, a Director that may or may not be a member of the Committee itself, or even one of the Company executives.

Meetings: the Auditing and Compliance Committee will meet at least once per quarter, and as many times as is deemed appropriate with regard to the needs of the Company, as proposed by the Chairman of the Committee or on request from the majority of its members or from the Board of Directors.

Functions: the functions of the Auditing and Compliance Committee are described in section B.2.1.

Quorum and approval of resolutions: the Committee meeting will be considered valid on attendance, directly or via representatives, of at least half of its members, and will adopt resolutions approved by a majority of participants. Company Bylaws on the constitution and approval of resolutions will be applied to the Auditing and Compliance Committee with regard to any matters not covered in this article. The Committee must report on all such resolutions and decisions to the Board of Directors. If there is no majority, the Chairman will wield a casting vote.

Appointments and Remuneration Committee

Number of members and structure: the Appointments and Remuneration Committee will be formed by at least THREE (3) and at most FIVE (5) members, with a majority of Outside Directors, including at least one Outside Independent Director, all named by the Board of Directors and all of which have the capacity, dedication and experience required to perform the required functions.

Chairman and Secretary: the Chairman of the Committee must be one of the Outside Directors. The Chairman must be replaced every four years, and may be re-elected after a period of one year after being replaced. Both the Chairman and the rest of the members of the Committee will be automatically replaced if they resign or are dismissed from their positions as members of the Company Board of Directors and are not reinstated.

A Committee Secretary may be appointed, a position which may be held by the Secretary of the Board of Directors, a Director that may or may not be a member of the Committee itself, or even one of the Company executives.

Meetings: the Appointments and Remuneration Committee will meet whenever the Board or its Chairman requests a report or the approval of proposals and, in any case, whenever it may be appropriately according to the needs of the Company.

Functions: the functions of the Appointments and Remuneration Committee are described in section B.2.1.

Quorum and approval of resolutions: the Committee meeting will be considered valid on attendance, directly or via representatives, of at least half of its members, and will adopt resolutions approved by a majority of participants. The Committee must report on all resolutions and decisions to the Board of Directors. If there is no majority, the Chairman will wield a casting vote.

As foreseen in Article 16 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee will meet whenever the Board or its Chairman requests a report or the approval of proposals and, in any case, whenever it may be suitable so as to appropriately perform its duties.

B.2.4 Advisory and consultancy powers and, where applicable, proxies assigned to each Committee

Auditing and Compliance Committee

The responsibilities of the Auditing and Compliance Committee, none of which may be delegated, regulated by article 39 bis of Company Bylaws and without prejudice to any others that the Board of Directors may specifically assign to the Committee, according to law and Company Bylaws are described in section B.2.1.

Appointments and Remuneration Committee

The responsibilities of the Appointments and Remuneration Committee as regulated by article 16 of the Regulations of the Board of Directors are described in section B.2.1.

B.2.5 Regulations of Board Committees, location where they may be reviewed, and changes made to them during the year. Annual reports on Committee activities

Board Committees are regulated by Company Bylaws and the Regulations of the Board of Directors which may be viewed on the Company website.

B.2.6 and B.2.7 Executive Committee

The Company does not have an Executive Committee.

B.2.8 Structure of the Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises two Outside Directors, one of them Independent and an executive as described in section B.2.2.

C. ASSOCIATED OPERATIONS

C.1 Detail of operations that involve a transfer of resources or obligations between the Company and/or the Group and major shareholders:

Tax ID of significant shareholder	Name of significant shareholder	Tax ID of Company or Group Company	Name of Company or Group Company	Nature of relation	Type of operation	Amount (thousands of euros)
A-07332794	Hoteles Mallorquines Consolidados S.A.	A07905573	CARMA SIGLO XXI, S.A.	SUPPLIES TO HOTELS	PURCHASE OF FOODS(*)	20,625
A-07000343	Hoteles Mallorquines Agrupados S.L.					
A-07802531	Hoteles Mallorquines Asociados S.L.					
G-03046562	CAJA DE AHORROS DEL MEDITERRANEO	A-53075891	GI CARTERA S.A.	TRADING	PURCHASE OF SHARES IN ALCAJAN XXI S.L. (**)	10,192

(*) 70% of the amount billed by Carma Siglo XXI S.A. to SOL MELIÁ S.A., pertains to the provision of supply distribution services to hotels. Carma centralises the purchasing of products from different suppliers, supervised and controlled by he SOL MELIA purchasing department, meaning that its main activity is distribution.

(**) See information in the previous section A2.5.

C.2 Detail of operations that involve a transfer of resources or obligations between the Company and/or the Group and its Directors

Tax ID of Director	Name of Director	Tax ID of Company or Group Company	Name of Company or Group Company	Nature relation	Type of operation	Amount (thousands of €)
41.222.172P	Juan Vives Cerdá	A07232861	FINCA LOS NARANJOS, S.L.	GESTION HOTELERA (*)	FEES AND HOTEL SERVICES	36
37.667.252-Z	Emilio Cuatrecasas Figueras	B59942110	CUATRECASAS ABOGADOS, SRL	LEGAL AND FISCAL SERVICES	SERVICE FEES	724
41.160.706 K	Gabriel Escarrer Juliá	B57279366	ARQUITECTURA HOTELERA, SL (**)	ARCHITECTURAL SERVICES	HOTEL PROJECTS	469

(*) Refers to the management fees for the Meliá Cala d'Or (Mallorca), Sol Cala d'Or (Mallorca) and Meliá Girona hotels, all owned by the Company FINCA LOS NARANJOS S.A.

(**) This Company is controlled by Alvaro Sans, who is a family relation of Gabriel Escarrer Juliá

C.3 Relevant operations made by the Company with other Group companies that are not eliminated in the process of drawing up consolidated financial statements and whose object and conditions set them apart from the normal trading of the Company

The object and conditions of all operations made with other Group companies form part of the Company's normal trading.

C.4 Possible conflicts of interest affecting Company Directors pursuant to article 127 of Company Law

The Company is currently unaware that any of the Directors of the Company are affected by possible conflicts of interest.

Article 28 of the Regulations of the Board of Directors states that members of the Board of Directors must communicate to the Company any direct or indirect potential conflict of interest with the Company in compliance with the applicable legislation. Directors must also abstain from attending or intervening in deliberations that may affect matters in which they may be personally involved or which may affect persons related to them.

Any member of the Board of Directors that requests and obtains public representation may not exercise a right to vote in those decisions affected by the conflict of interest, in compliance with the applicable legislation.

Members of the Board of Directors must also communicate any participation they may have in the share capital of companies with the same or similar or complimentary business activity, as well as the positions or responsibilities they may perform for such companies, or any other direct or indirect employment in regard to said activity. This information is included in section B.1.31. of this report.

Members of the Board of Directors may not carry out, neither directly nor indirectly, commercial transactions with the Company, except when the Board of Directors, after a report from the Appointments and Remuneration Commission, authorises such a transaction. Neither may they, for their own benefit or for the benefit of persons related to them, make investments or other similar operations related to Company assets of which they have received information thanks to the performance of their functions, without prejudice to other provisions of the law, Company Bylaws and Company regulations.

Members of the Board of Directors may not use the name of the Company nor the mention of their status as Company directors to influence the commission of operations on their own behalf or on behalf of persons related to them.

C.5 Mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group, and its Directors, Managers and/or significant shareholders.

As seen in the previous section, Directors must inform the Company whenever a situation of direct or indirect conflict of interest may arise with the interests of the Company. As foreseen in article 15.2. of the Regulations of the Board of Directors, the Appointments and Remuneration Committee, must report such situations to the Board and propose the measures which should be taken to avoid such situations.

D. RISK CONTROL SYSTEMS

D.1 General description of risk policy in the Company and/or its Group, listing and evaluating the risks covered by the system, along with an explanation of how far these systems match the profile of each type of risk.

SOL MELIÁ is fundamentally involved in businesses related to tourism and hotels or with other leisure-related businesses, as well as participating in the creation, development and operation of new businesses, establishments or entities in the tourism and hotel business and leisure-related businesses.

The control of risks to the Company and the Group in the development of its activities is a basic function of the Board of Directors and the Company Management Committee. The Auditing and Compliance Committee is, amongst other responsibilities, responsible for supervising internal audits, awareness of both the process of the production of financial information and internal control systems, and the review of the designation and replacement of its members. Section 2.26 of this report provides greater detail on the responsibilities of the Commission.

In order to establish appropriate control systems, the Company prepares and regularly reviews rules which aim to regulate the basic aspects of the system, as well as the implementation of the said control systems. Company executives participate actively in the preparation of the proposals of the said rules through specific internal committees. The day-to-day verification of the implementation of said rules, as well as of the level of compliance and of the processes that they require, is a responsibility of the Internal Auditing section of the Administration Department.

Within corporate offices, the Internal Auditing team has a specific section named "Corporate Control" which supervises compliance as well as control of the application of funds, travel and representation expenses, the implementation of basic controls on corporate operations, etc., all without prejudice to the fact that different departments possess specific responsibilities with regard to specific risks for the Company: Insurance, Personnel Management, Quality and Human Resources.

D.1.1 Types of risk

Sol Meliá has identified the risks associated to its business and has established an internal control system for each of them. The main types of risk identified and managed by Sol Meliá are summarised as follows:

Material Risk: The risk of damage to goods owned or under the control of the Company.

Civil liability: Responsibility that may be derived from personal or material damage, as well as direct damages caused to third parties in accordance with existing legislation in each country due to events related to Company activity.

Loss of profits: Losses as a consequence of an interruption and/or disturbance in activity or as a result of material damage, extraordinary or catastrophic risks or attributable to suppliers.

Financial risk: Risks caused by variations in exchange rates or generated by credit-related risks which may affect the liquidity of a business unit.

Political risk: The probability that an act or omission of a governing body, economic crisis or war or social disturbances (terrorism) may damage the success of a project in a developing country.

D.1.2 Risk management depending on the contractual relationship of the Company with the asset (hotel) or activity carried out by the asset.

The perception of the existence of the previously described risks together with the different ways which Sol Meliá manages the assets at its disposal make it necessary to apply different approaches in the evaluation of associated risks, depending on each particular case. These approaches are fundamentally based on the type of contractual agreement that supports the activity performed by Sol Meliá and the means by which Sol Meliá uses the asset (hotel) in which the said activity is carried out.

In summary, these different approaches may be classified as follows:

Owned hotels and service centres: Sol Meliá manages all of the risks that may affect the building, content and activity.

Leased hotels: The owner of the hotel manages risks related to the building and Sol Meliá as the leasee of the property manages those related to the contents (generally) and Civil Liability.

Managed hotels: Sol Meliá manages risks related to Civil Liability derived from the activity.

Franchised hotels: Risk management is the responsibility of the franchisee.

D.1.3 3. Operational risks

Group companies are covered by insurance against possible risks. Such policies also include certain franchises. The management of insurance is centralised at a Group level by the Insurance section within the Finance Department.

Related to hotel and service centre operations: Insured risks are those related to Civil Liability, Loyalty Risks, Comprehensive policies, Loss of Profits and other additional risks.

Related to accidents at work: Covers all of the aspects related to work and the people that perform that work, following the relevant guidelines given in the Manual on the Prevention of Accidents in the Workplace.

Related to construction: For the performance of major construction work, contracting by the hotel owner is verified. For repair work, maintenance and installations carried out in the insured building, verification is made of the coverage of existing policies.

All works or construction must be in possession of the appropriate insurance required by law. Whenever other firms are contracted to carry out renovation, reform or construction, a check is made to ensure that the said firm is in compliance with all of the legal requirements for the performance of their function.

Other activities such as Transport, Vehicles and Installations which by their nature may represent a potential risk. Checks are made to ensure that they are covered by appropriate policies and risk management procedures.

D.2 Control systems established to assess, mitigate and reduce the main risks of the Company and its Group

The Company has an Internal Auditing Department responsible for examining and evaluating Group activities as a service to the organisation. The objective of the internal audit is to assist the organisation in the performance of its duties. The department provides analysis, valuations, recommendations, advice and information on the activities reviewed, both to members of Company management and to the Board of Directors. The Internal Auditing Department provides regular reports on its activity to the Auditing and Compliance Committee and the Control Committee. The objectives of the audit include the promotion of effective control at a reasonable cost.

The internal audit includes the examination and evaluation of the appropriateness of internal organisation and control systems and the quality of performance of the assigned tasks.

The responsibilities of internal auditors include:

- To review the reliability and integrity of financial and operational information and the means used to identify, evaluate, classify and communicate that information.
- To review the systems used to ensure that they are in line with policies, plans, procedures, laws and regulations that might have a significant effect on operations and reports, determining whether the organisation is applying them.
- To review asset safety measures and, where appropriate, verify their existence.
- To evaluate the economy and efficiency with which resources are employed.
- To review operations or programmes to verify that they are in line with set objectives and goals, and whether operations or programmes are carried out as planned.

The Internal Auditing Department is an integral part of the organisation and operates subject to the policies established by senior management and the Board of Directors.

Internal auditors are independent of the activities which they audit and free to perform their work objectively. Their independence allows them to issue impartial judgements. Objectivity is a basic principle of their activity and under no circumstances must they subordinate their auditing judgement to that of others.

D.3 Risks that have affected the Company and/or its Group, circumstances surrounding them and functioning of control systems

In 2005 there has been no relevant risk other than that derived from normal Company operations.

D.4 Committees or other governing bodies in charge of establishing and supervising control systems and their duties

The Company operates an internal Control Committee for all of the SOL MELIÁ Group.

The Control Committee comprises the following members: Executive Vice Chairman, a Chief Executive Officer, the Chief Financial Officer, the Executive Vice President Administration and a Legal Director.

The Control Committee meets once a month, although any of its members may request the urgent meeting of the Committee whenever it is considered appropriate to do so.

The Control Committee is authorised to investigate any matter within its sphere of activity. It is authorised to request information from any employee and such employees are obliged to cooperate with any Committee request.

The Control Committee is subject to the supervision of the Board of Directors, and particularly to its Auditing and Compliance Committee, to which they must report. The Committee must develop and promote control so as to improve the quality of Corporate Governance and risk control management within the Group, seeking to integrate control within the processes of planning, budgeting management, accounting, presentation of accounts and audits performed within the Group.

The Committee also has the following objectives:

1. To improve the quality of the information on Group finances.
2. To create a climate of discipline and control which reduces the chance of fraud.
3. To allow employees to contribute an independent criteria to control and develop a positive role.
4. To assist the organisation by providing a forum to air matters of concern.
5. To strengthen the position of both internal and external auditors and provide them with an additional channel for communication.
6. To establish a framework within which auditors may demonstrate their independence whenever there may be a dispute with Company management.
7. To improve confidence in the credibility and objectivity of financial reports and internal decision-making processes.

The functions and responsibilities of the Control Committee are:

1. To supervise risk management and control within the Group, reviewing processes with inherent risk and control of governance, researching and proposing best practises. The identification of risks must be accompanied by an evaluation of their impact upon strategic and financial objectives.
2. In particular, to evaluate:
   a. The acquisition and disposal of relevant Group assets.
   b. To constantly review investments, important projects, levels of authority, treasury policies and risk management policies.
3. To authorise any corrective measures which may be required.
4. To monitor the application of the Integrated Control Plan to be implemented within the Group, supervising and promoting the implementation of best practises and registering them appropriately.
5. To develop the guidelines, procedures and materials relevant to risk management and control. To define performance rules, rather than descriptive models: to define how things should work.
6. To occasionally establish teams and tasks to carry out specific research or activities. Such teams will only exist for the time required to perform their job and report to the Committee.
7 To prepare a report on Company risk management every year. The annual report must evaluate the level of security that exists and whether controls meet the objectives defined, helping to identify flaws and improvements required in controls.
8. To publish guidelines and materials for all of the organisation. Ethical codes and other guidelines must receive appropriate internal and external publicity.
9. To propose the appointment of the external auditor.
10. To review the Group financial reports in order to:
    a. Propose changes in accounting policies and practises.
    b. Identify areas of potential contingencies.
    c. To comply with accounting standards.
    d. To comply with the requirements defined by stock market authorities and other legal requirements to which the Group may be subject.
11. To review the reports of external auditors. At least once a year they must debate any questions or systems pending resolution and the procedures to be applied.
12. To review the degree of compliance in the Group with internal control systems.
13. To ensure coordination between external and internal auditors.
14. To ensure that the necessary resources are in place for internal audits.
15. To evaluate the relevant information of which they are made aware and coordinate the response of Company management.
16. To prepare the annual Committee budget and submit it to the Board of Directors for approval.

E. GENERAL SHAREHOLDERS MEETING

E.1 Quorum for general shareholders meetings contained in Bylaws. Differences with respect to the requirements of Company Law

Article 24 of the Bylaws establishes that General Shareholders Meetings, Ordinary or Extraordinary, are valid when in their first or second meeting there is a percentage of the share capital either present or represented which satisfies existing legislation on minimum levels in each case and for each matter included in the Order of the Day.

Nevertheless, in order that the General Shareholders Meeting may validly approve a change in the object of the Company, a request for the withdrawal from negotiation of Company shares, or the transformation or liquidation of the Company, the first meeting must be attended by FIFTY FIVE PERCENT (55%) of capital stock with voting rights. In a second meeting, a quorum of FORTY PERCENT (40%) of the capital stock with voting rights would be sufficient.

Any type of merger or split, either total or partial, of the Company requires the quorum indicated in the previous paragraph, unless the mentioned merger or split is carried out with companies in which SOL MELIÁ, S.A. is a majority shareholder either directly or indirectly. In the latter case normal quorum conditions will apply.

E.2 Requirements for the approval of resolutions

Article 28 of the Company Bylaws establishes that motions at the Annual General Shareholders Meeting must be approved by a majority of the share capital present or represented at the meeting, except in cases where the law or Company Bylaws require a greater majority.

The same Article 28 requires a greater majority for the Annual General Shareholders Meeting to validly approve a change in the object of the Company, a request for the withdrawal from trading of Company shares, or the transformation or liquidation of the Company, requiring a vote in favour by SIXTY PERCENT (60%) of the share capital present or represented at the meeting, both in a first or second meeting. Nevertheless, whenever in a second meeting there are shareholders that represent less than FIFTY PERCENT (50%) of the capital stock with voting rights, the motions mentioned in this section may only be approved with a vote in favour by TWO THIRDS (2/3) of the share capital present or represented at the meeting.

Any type of merger or split, either total or partial, of the Company requires the quorum indicated in the previous paragraph, unless the mentioned merger or split is carried out with companies in which SOL MELIÁ, S.A. is a majority shareholder either directly or indirectly. In the latter case normal quorum conditions as described in section 28.1 will apply.

Motions to modify Articles 3, 7, 8, 24.6, 24.7, 28, 31, 32, 33, 35, and 38 of Company Bylaws require a vote in favour by at least SEVENTY-FIVE PERCENT (75%) of the share capital present or represented at the meeting, both at a first or second calling.

E.5 Simultaneous occupation of positions as Chairman of the General Shareholders Meeting and Chairman of the Board of Directors. Detail of measures taken to guarantee independence and correct operation of the General Shareholders Meeting

As foreseen in article 14.7 of the Regulations of the General Shareholders Meeting , the exercise of al of the powers required to ensure the correct organisation and development of the General Shareholders Meeting is the responsibility of the Chairman of the General Shareholders Meeting , and in particular the following duties:

(a) (a) to declare whether the General Shareholders Meeting is validly constituted and to determine the number of shareholders that attend, either personally or via representatives, as well as defining the participation in share capital and number of votes which they possess;
(b) to resolve any doubts, explanations or claims related to the list of attendees, proxies or representatives;
(c) to resolve any doubts raised with respect to the matters included on the Agenda as well as to examine, accept or reject new proposals in relation to the Agenda;
(d) to lead the debate, scheduling, ordering, limiting and ending debates whenever the matter is considered to have been discussed sufficiently;
(e) to delegate leadership of the debate to the member of the Board of Directors consider appropriate, or to the Secretary, whom shall perform this function on behalf of the Chairman. This function may be revoked by the Chairman at any time;
(f) to announce the result of votes taken;
(g) to close the General Shareholders Meeting ; and,
(h) in general, to resolve any doubts or incidents that may arise;

All of the members of the Board of Director must attend the General Shareholders Meeting and must assist the Chairman in the application of the Regulations of the General Shareholders Meeting during the meeting itself and in the interpretation of its spirit and objectives.

The General Shareholders Meeting is always attended by a Notary responsible for writing the Minutes of the meeting as required by Company Law and to assist the members of the Board of Directors in performing their duties. Article 20.3 of the Regulations of the General Shareholders Meeting states that the Board of Directors may require the presence of a Notary to take the Minutes of the meeting and will obliged to request such presence whenever requested by shareholders that represent at least ONE PER CENT (1%) of the Company share capital at least FIVE (5) days before the General Shareholders Meeting is held. In both cases the Notary's Minutes will be considered the Minutes of the General Shareholders Meeting as defined by law and in the Regulations of the Commercial Register.

E.6 Changes introduced during the year in the regulations of the General Shareholders Meeting

No changes were made in 2005. In line with article 113 of Stock Market Law, the Ordinary and Extraordinary Annual General Shareholders Meeting held on 8 June 2004 approved the most recent changes to the Regulations of the General Shareholders Meeting , the full text of which may be found on the Company website. The same General Shareholders Meeting approved changes to articles 22, 24, 25, 27, 28, and 30 of Company Bylaws relating to the celebration of the General Shareholders Meeting to make them consistent with the approval of the new Regulations of the General Shareholders Meeting .

E.7 Attendance at the most recent Ordinary and Extraordinary General Shareholders Meeting

From the list of attendees at the Ordinary and Extraordinary Annual General Shareholders Meeting held on 7 June 2005 it may be seen that 1,139 shareholders attended the event, of which 15 attended personally and 1,124 by proxy, together representing ownership of 143,682,142 Company shares, 77.76% of share capital wholly made up of shares with voting rights.

E.8 Agreements adopted in the Ordinary and Extraordinary General Shareholders Meeting

In summary, the Ordinary and Extraordinary General Shareholders Meeting held on 7 June 2005 approved the following:

1. Approval of the Annual Accounts (Balance Sheet, Profit and Loss Account, Annual Report) both of Sol Meliá S.A. and of the Consolidated Group for the fiscal year ending 31 December, 2004, verified by the Company auditor, ERNST & YOUNG, S.L.

2. Approval of the distribution of a dividend of 0.054 euros per share to be charged to free Company reserves. This dividend will be made effective on 5 July 2005 through the payment body designated by the Company Board of Directors in line with the regulations of "Iberclear" (Company that manages registration, compensation, and liquidation of stocks on the Spanish stock market).

   Receipt of the above-mentioned amount may be claimed by those persons legitimised to do so at said date by the Account Registers of Iberclear.

3. In the light of the Management Reports presented by the Board of Directors, the management of the Company by the Board of Directors for 2004 was approved without reserve of any type.

4. Approval of the merger balance of SOL MELIA S.A., closed on 31 December 2004, as well as the Merger Project prepared and supported by all of the Directors of SOL MELIA S.A., as the absorbing Company, and of AZAFATA, S.A., Sociedad Unipersonal, LAVANDERÍAS COMPARTIDAS S.A., Sociedad Unipersonal, MELIA CATERING S.A., Sociedad Unipersonal, INVERSIONES INMOBILIARIAS SILVERBAY, S.L., Sociedad Unipersonal, SECADE XXI, S.L., Sociedad Unipersonal, AKUNTRA S.L., Sociedad Unipersonal, DARCUO XXI S.L., Sociedad Unipersonal, INVERSIONES LATINOAMÉRICA 2000 S.L., Sociedad Unipersonal, INMOBILIARIA BULMES S.A., CONSORCIO EUROPEO S.A., PARKING INTERNACIONAL S.A., as the absorbed companies as of 30 March 2005.

5. Approval of the merger by absorption by the Company of AZAFATA, S.A., Sociedad Unipersonal, LAVANDERÍAS COMPARTIDAS S.A., Sociedad Unipersonal, MELIA CATERING S.A., Sociedad Unipersonal, INVERSIONES INMOBILIARIAS SILVERBAY, S.L., Sociedad Unipersonal, SECADE XXI, S.L., Sociedad Unipersonal, AKUNTRA S.L., Sociedad Unipersonal, DARCUO XXI S.L., Sociedad Unipersonal, INVERSIONES LATINOAMÉRICA 2000 S.L., Sociedad Unipersonal, INMOBILIARIA BULMES S.A., CONSORCIO EUROPEO S.A., PARKING INTERNACIONAL S.A., with their dissolution without liquidation and the transfer in full of all of their assets to SOL MELIÁ, S.A.

6. Approval of the appointment of CAJA DE AHORROS DEL MEDITERRÁNEO as an Outside Director to the Company Board of Directors.

   Said appointment was made through cooption in the session of the Board of Directors held on 30 March 2005, given the vacancy created by the resignation of Oscar Ruiz del Río, in accordance with article 138 of Company Law and article 32.3. of Company Bylaws, and upon proposal by the Appointments and Remunerations Committee of the Board of Directors.

7. ERNST & YOUNG S.L. was confirmed for an additional year as external auditor to inspect and review the annual accounts and management reports of SOL MELIÁ, S.A. and its consolidated Group companies for financial year 2005.

8. In virtue of the capacity conferred by article 153.1.b) of Company Law, the Board of Directors is authorised to agree a capital increase, without prior approval from the General Shareholders Meeting , up to a maximum amount of EIGHTEEN MILLION, FOUR HUNDRED AND SEVENTY-SEVEN THOUSAND, SIX HUNDRED AND SEVENTY-SEVEN EUROS (18,477,677 euros), and a right to exercise this power, up to the indicated amount, in one or several steps, deciding in each case its suitability or convenience as well as the amount and conditions considered most appropriate. Whatever capital increase may be approved, it must be made within a period of five years from the date of approval. The agreement also contains the conditions in which such capital increases may be carried out.

9. Authorisation of the Board of Directors, as stated in Article 319 of the Regulations of the Company Register and in accordance with general regulations on the issue of securities, and applying by analogy the conditions

stated in 153.1 b) and 159.2 of Company Law, the ability to issues fixed, convertible and/or exchangeable securities, in line with the conditions contained within the agreement.

10. Authorisation of the Board of Directors and any Directors empowered or delegated by them to acquire shares in the Company through any of the methods allowed by the law, up to the limit allowed by the law and at a price that may not be less than one Euro, nor greater than thirty Euros, and within a period of eighteen months from the date of approval. All subject to the limits and requirements demanded by Company Law and the Internal Regulations on Good Conduct in Stock Markets.

11. As far as the law allows, in the name of and as representative of the Company, and in relation to the preceding points, any and all of the members of the Board of Directors were authorised to make said points public and carry out all of the actions required to make them effective.

E.9 Number of shares required to attend the General Shareholders Meeting and possible Bylaw restrictions

To attend the General Shareholders Meeting shareholders must possess at least 300 shares registered in their name with the Accounts Register and, whenever appropriate, with the Shareholders Register, at least FIVE (5) days before the day on which the General Shareholders Meeting is held and have paid up any passive dividends and maintain ownership of said shares until the General Shareholders Meeting is held.

There are no legal nor by-law restrictions on the exercise of the right to vote.

E.10 Policies applied by the Company in reference to proxy voting at the General Shareholders Meeting

Shareholders may exercise their right to vote without any need to attend the General Shareholders Meeting by sending the attendance card received from their bank to SOL MELIÁ at least one (1) day before the Meeting is held by any of the following means:

- By regular mail:
  To the Department of Investor Relations
  Calle Gremio Toneleros 24, Polígono Son Castelló
  07009 Palma de Mallorca (Balearic Islands)
- By Fax:
  To the Department of Investor Relations
  Fax: + 34 971224498
- By e-mail:
  Including a scanned image of the vote delegation attendance card.
  Address: atención.accionista@solmelia.com

E.11 Possible knowledge of the policies of institutional investors regarding taking part in Company decisions

The Company has no knowledge of any policies applied by institutional investors.

E.12 Address and route to corporate governance information on Company website

The Company website is found at www.solmelia.com. Users must then click on the "Information for Shareholders" section which contains full documentation on Company corporate governance.

F. DEGREE OF COMPLIANCE WITH GOOD GOVERNANCE RECOMMENDATIONS

The following section presents a review of the degree of compliance with the good governance recommendations used by the Company in previous years and based on the recommendations in the Report on Corporate Governance in publicly quoted companies produced by the Commission presided by Manuel Olivencia Ruiz, designated by the Ministerial Order of 24 March 1997. Given that some of the said recommendations have been reviewed by the Commission presided by Enrique Aldama y Miñón, reference is also made to the same.

1. *"That the Board of Directors should explicitly assume as its core mission the general function of supervision; exercise without delegation the responsibilities this implies; and establish a formal record of the items reserved for their knowledge".*

Article 34 of the Company Bylaws states that the Board of Directors is responsible for the representation, direction and administration of the Company with respect to all of the activities undertaken within the objectives of the Company as limited by the Company Bylaws, as well as those activities required by Law and the Company Bylaws, and without prejudice to those activities specifically reserved for them at the General Shareholders' Meeting. The mentioned Article details the legal acts or business activities which are within the competence of the Board of Directors.

Article 5 of the Regulations for the Board of Directors clearly defines the general supervision function of the Board of Directors, specifying as matters within their competence:

a) The approval of general Company strategy.
b) The appointment, compensation and, if appropriate, dismissal of senior Company managers.
c) The approval of policies on treasury stock.
d) The control of senior management performance and evaluation.
e) The identification of risk factors, especially those that are generated by operations involving financial derivatives, and the implementation and monitoring of appropriate internal control and information systems.
f) The definition of policies on the communication of information to shareholders, markets and the public.
g) The policies that require the availability of substantial Company assets and major transactions.

Article 6 of the Regulations for the Board of Directors establishes the maximization of the value of the Company as the priority criteria for the Board, indicating the guidelines to be followed by the Board to define and review Company business and financial strategies. The same Article also establishes the responsibility of the Board to adopt appropriate measures to ensure that Company management pursues the creation of value for shareholders and provides appropriate incentives to achieve this end, under the effective supervision of the Board, as well as that no person or small Group of people acquire a level of decision-making authority that is not subject to appropriate control, and that no shareholder receives preferential treatment above any other.

2. *"That the Board of Directors includes a reasonable number of independent Directors that are persons of professional prestige unrelated to the Company management team nor significant shareholders".*

Article 7 of the Regulations of the Board of Directors states that in order to guarantee its independence and the objectivity of the criteria it applies to best defend the interests of the Company, said Board should ensure that the majority of its members are Outside Directors and that amongst these Outside Directors there must be a significant number of Independent Outside Directors taking into account the Company shareholding structure and the shareholdings represented on the Board.
This recommendation is followed in that, of the twelve Directors, nine of them are Outside Directors, of which five

are Independent Outside Directors, designated bearing in mind their significant professional qualifications and prestige and their lack of relations with the management team nor controlling shareholders.

3. *"That Outside Directors (representatives of majority shareholders and independents) should represent a large majority of the members of the Board of Directors with respect to Company executives, and that the proportion between representatives of majority shareholders and independents should be established bearing in mind the relation that exists between majority and minority shareholders".*

The Aldama Report has reviewed this recommendation and established that the criteria should be that there must be a large majority of Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

As indicated in section 2 above, the Company currently has nine Outside Directors out of a total of 12 members, thus forming a large majority. Of the nine, five are Independent Outside Directors, and we thus understand that the recommendation can be understood to have been applied.

4. *"That the Board of Directors adjusts its size in order to be more efficient and participative. In principal, the appropriate size may oscillate between five and fifteen members".*

According to the Company Bylaws, Article 31.2, "The Board of Directors should consist of a minimum of five and a maximum of fifteen members chosen by the General Shareholders' Meeting".

As has already been mentioned, at 31 December 2005, the Board of Directors comprised 12 members in compliance with the Good Governance Code.

5. *"That, should the Board opt to combine the roles of Chairman and Chief Executive in one person, the Board should adopt all necessary cautionary measures to reduce the risks of concentration of power in one person".*

Sol Meliá S.A. has also adopted this recommendation given that the Chairman of the Board of Directors has not been delegated all of the powers of the Board of Directors, although he has significant powers of representation, and, at the same time, a number of additional measures are in place to ensure compliance: appointment of two Vice Chairmen, two Chief Executive Officers, and creation of two delegate commissions (Audit and Compliance Committee and Appointments and Remuneration Committee), as described in a later section of this report.

6. *"That the figure of Secretary of the Board be given greater relevance, reinforcing their independence and stability and highlighting their function to ensure the formal and material legality of the actions of the Board".*

Article 33 of the Company Bylaws, as well as the Regulations of the Board of Directors, in its Article 12, highlight the figure of the Secretary of the of the Board of Directors naming amongst his functions those of supporting the Chairman in his labours and providing directors with the advice and information they require as well as conserving all documentation and maintaining minutes on the development of the sessions and agreements reached. Directors are also formally committed to appointing a person that is capable of performing the role appropriately as Secretary.

The current Secretary of the Board of Directors is an Independent Outside Director, thus complying with the recommendation.

7. *"That the Executive Committee, wherever such exists, should reflect the same balance as the Board between different types of Directors and that the relations between both bodies is based on principals of transparency, in such a way that the Board is fully aware of the matters dealt with and decisions made by the Committee".*

Article 13 of the Regulations of the Board of Directors foresees the possibility of the constitution of such a commission, although it has not been deemed necessary to date given that a full meeting of the Board has always been called whenever it has been required.

8. *"That the Board of Directors creates within its ranks delegate control commissions, made up exclusively of Outside Directors, to monitor accounts information and control (Audits); selection of Directors and senior management (Appointments); remuneration policies and reviews (Remuneration); and the evaluation of governance (Compliance)".*

On 23 February, 1999, the Board of Directors agreed to create Delegate Committees for Auditing and Compliance and for Appointments and Remuneration whose composition, functions and organisation have been fully explained in sections B.2.1. of this report.

With regard to the Auditing and Compliance Committee, on 31 March, 2003, the Board of Directors of Sol Meliá S.A. approved a proposal to modify Company Bylaws, incorporating a new Article 39 bis. which was approved at the Annual General Shareholders' Meeting on 6 May, 2003. The new Article regulates the Auditing Committee of the Board of Directors in Company Bylaws as required by Law 44/2002.

9. *"That all necessary measures are taken to ensure that Directors are provided sufficiently in advance with the information they require, specifically prepared to assist in the duties of the Board without prejudice, except in exceptional circumstances, to the importance or reserved nature of the information".*

The Regulations of the Board of Directors in its Article 17 foresees that Board meetings are convened by letter, fax, telegram or e-mail sent to the most recent address of each Director as registered in Company records in a way which ensures its receipt by the Director sufficiently in advance and authorised by the signature of the Chairman or the Secretary or Vice Secretary on behalf of the Chairman. The Regulations also foresee the possibility that extraordinary sessions of the Board are convened by telephone with no regard for the required advance warning and other requirements whenever the Chairman may feel that circumstances make this appropriate.

The communication must include the agenda for the session along with a summary of the information required.

Under normal circumstances the information will be provided to Directors ten days in advance.

10. *"That, to ensure the appropriate performance of the duties of the Board, meetings should be held with the frequency required to allow achievement of objectives; that the Chairman should encourage the intervention and independence of mind of all Directors; that special care should be taken with the taking of minutes and that an assessment of the quality and efficiency of the work of the Board should be carried out at least once per year".*

The Board of Directors, as stated in Article 17 of the Regulations of the Board of Directors must meet at least five times per year and whenever the interests of the Company require, whenever decided by the Chairman or by his substitute, or on request of at least one third of the members of the Board, in which case the Chairman should convene a Meeting of the Board within a period of ten days from such a request.

During 2005, a total of five (5) meetings of the Board were held.

11. *"That the intervention of the Board of Directors in the selection and re-election of its members is carried out using formal and transparent procedures after presentation of a detailed proposal by the Appointments Committee".*

Article 15.2. of the Regulations of the Board of Directors states that the Appointments and Remuneration Committee should define and revise the criteria to be applied to the composition of the Board of Directors and the selection of candidates.

The Committee must thus propose the appointment of Directors so that the Board may directly approve them or submit such a decision to the General Shareholders' Meeting.

12. *"That companies include in their regulations an obligation that Directors resign in circumstances which might have a negative effect on the functioning of the Board or the credit or reputation of the Company".*

Chapter VIII of the Regulations of the Board of Directors establishes the general duties and obligations of Directors, as described in Recommendation 16 later in this section, and for which lack of compliance is sufficient reason for dismissal.

13. *"That a maximum age is set for the position of Director, that may be between sixty five and seventy for Executive Directors and the Chairman, and more flexible for other members of the Board".*

Neither the Regulations of the Board nor the Company Bylaws include maximum limits on the age of Directors. Nevertheless, the Aldama Report has reviewed this recommendation and does not establish any age limit.

14. *"That there is formal recognition of the right of all Directors to gather and obtain the information and advice required to perform their supervisory duties, and that appropriate means are established to allow this right to be exercised, including the use of external experts in special circumstances".*

As stated in Article 22 of the Regulations of the Board of Directors, in the performance of their duties must have full access to information on any aspect of the Company, to review all of the Company's books and files, and any other registers of Company activities and to inspect all facilities. This right to access to information is extended to both domestic and international Company subsidiaries.

Article 23 of the same Regulations also allows that Directors have the right to request the professional assistance of legal, accounts or financial advisors or other experts at Company expense to assist them in the exercise of their functions. The request must be with regard to specific problems of a certain degree of importance or complexity that arise in the performance of their duties. The request must be made to the Company Chairman and may be refused by the Board of Directors if it is considered that any of the following circumstances apply:

(a) it is not required for the performance of the duties assigned to Outside Directors;
(b) its cost is not reasonable in relation to the importance of the problem and the assets and revenues of the Company; or
(c) the help requested from outside experts may be provided satisfactorily by experts employed by the Company.

15. *"That the remuneration policy applied to Directors, the proposal, evaluation and revision of which should be carried out by the Remuneration Committee, should reflect moderation and Company performance with detailed and personalized information".*

Article 24 of the Regulations of the Board of Directors refers to this matter and provides that Directors have a right to pertain the remuneration set by the General Shareholders Meeting or Board of Directors as foreseen in Company Bylaws and after having received a report from the Appointments and Remuneration Committee. In all cases, Outside Directors will receive expenses payments for attendance at each meeting of the Board of Directors.

The Board of Directors will ensure that the remuneration of Directors is related to their effective dedication, is moderate in comparison to market trends, and, at least in as far as it concerns Executive Directors, is partially related to Company and Group performance. The Board will also ensure that the amount received by Independent Outside Directors provides incentives to encourage dedication but does not hinder their independence.

The remuneration of the Board of Directors will be transparent, the total amount being reported in the Annual Report on Corporate Governance.

The amounts received should be compatible with and independent of salaries, other remuneration, compensation, pension, share options or any other form of payments established in general for all Executive Directors or in particular for any one of them, whatever the nature of their relationship with the Company, whether it be through employment – general or senior management –, commercial or on a service basis, relationships that will be compatible with their condition as members of the Board of Directors.

16. *"That the internal regulations of the Company detail the obligations derived from the general duties of diligence and loyalty expected of Directors, including, specifically, matters relating to conflicts of interest, confidentiality requirements, the exploitation of business opportunities and the use of Company assets".*

Chapter VIII of the Regulations of the Board of Directors indicates the obligations of directors. The most relevant obligations are:

1. *Duty of diligence*: while performing their functions, directors must work with the diligence of an organised businessperson and a loyal representative, and in accordance with any other legally required standard of diligence, and in particular to:
   (a) Remain diligently informed about Company performance.
   (b) Appropriately prepare Board meetings and those of other delegate committees of which they form part.
   (c) Attend the meeting of the bodies of which they form part and to actively take part in decision-making to ensure that their criteria makes an effective contribution to such decision-making. If directors are justifiably unable to attend a meeting to which they have been called, they must provide instructions to the director who is to represent them. Independent Outside Directors may only be represented by Independent Outside Directors.
   (d) Carry out any specific task delegated by the Board of Directors and reasonably within the bounds of their commitment to the Board.
   (e) Investigate any irregularities in Company management that they may discover and monitor any risk situations.
   (f) Encourage the appropriate persons to call extraordinary Board meetings or include within the Agenda of Board Meetings the measures that they consider appropriate.

2. *Duty of confidentiality and loyalty*: while performing their functions diligently, directors must maintain confidentiality regarding the deliberations of the Board and the delegate Committees of which they may form part and, in general, must abstain from revealing information to which they have had access due to their position in accordance with existing law and Company Bylaws.
   The aforementioned confidentiality must be maintained even after such persons cease to be directors in accordance with existing law and Company Bylaws.
   If the member of the Board of Directors is an institution, the duty of confidentiality will fall upon the representative of that institution without prejudice to the duties of information that the representative must provide to the institution.

3. *Duty not to compete*: members of the Board of Directors may not occupy management positions in companies whose mission or nature is partially analogous with that of the Company, with the exception of other companies controlled by the Group. Before accepting any management position with another Company, the Director must consult the Appointments and Remuneration Committee.

4. *Conflicts of interest*: members of the Board of Directors must communicate to the Company any direct or indirect potential conflict of interest with the Company in compliance with the applicable legislation. Directors must also abstain from attending or intervening in deliberations that may affect matters in which they may be personally involved or which may affect persons related to them. The conflict of interest situations in which members of the Board of Directors may be involved should be reported in the Annual Report on Corporate Governance.
   Any member of the Board of Directors that requests and obtains public representation may not exercise a right to vote in those decisions affected by the conflict of interest, in compliance with the applicable legislation.
   Members of the Board of Directors must also communicate any participation they may have in the share capital of companies with the same or similar or complimentary business activity, as well as the positions or responsibilities they may perform for such companies, or any other direct or indirect employment in regard to said activity.
   This information will be included in the Annual Report and in the Annual Report on Corporate Governance.
   Members of the Board of Directors may not carry out, neither directly nor indirectly, commercial transactions with the Company, except when the Board of Directors, after a report from the Appointments and Remuneration Commission, authorises such a transaction. Neither may they, for their own benefit or for the benefit of persons

related to them, make investments or other similar operations related to Company assets of which they have received information thanks to the performance of their functions, without prejudice to other provisions of the law, Company Bylaws and Company regulations.
Members of the Board of Directors may not use the name of the Company nor the mention of their status as Company directors to influence the commission of operations on their own behalf or on behalf of persons related to them.

5. *Use of assets*: directors may not make use of company assets nor their position to obtain private advantage other than when there is an appropriate corresponding advantage for the company. Exceptionally, if the law and company by-laws allow, the Board may, after receiving the appropriate report from the Appointments and Remuneration Committee, relieve directors of the obligation to provide a corresponding advantage. In such cases, any increase in the assets of directors will be considered indirect remuneration.

6. *Regulations on behaviour*: directors must observe all regulations on behaviour established in stock market legislation and, particularly, those contained in the Internal Regulations on Good Conduct.

7. *Business opportunities*: Directors may not use a company business opportunity for their private benefit or benefit of associates, unless the opportunity is first offered to the company and then rejected by the company with no influence exercised by the Director, and that its use is then authorised by the Board after a Report by the Appointments and Remuneration Committee.
A business opportunity is understood to include any opportunity to make an investment or carry out a commercial transaction that may arise within the realms of the performance of their duties by Directors, or through the use of company facilities or information, or under circumstances in which it may be reasonable to assume that an offer from a third party was in fact made in the first instance to the company.

8. *Indirect operations*: Directors infringe their duties of loyalty to the company if, in their knowledge, they allow or do not reveal transactions or operations by people related to them that in some way do not comply with the conditions and controls defined in previous articles.

9. *Information required from Directors*: as well as all of the other obligations contained within the Regulations, Directors must inform the company about the shares in the company which they hold personally or through companies in which they have a significant shareholding. They must also provide information on any shareholdings directly or indirectly held by close family members as foreseen in the Internal Regulations on Good Conduct. They must also inform the company about all of the positions held and activities carried out in other companies whenever relevant.

10. *Related operations*: the Board of Directors must be aware of and authorise any transaction made by the company with its principal shareholders and directors and executives.
Under no circumstances must the transaction be authorised unless a report has been received from the Appointments and Remuneration Committee evaluating the operation from the point of view of equality in the treatment of shareholders and of market conditions.
The Board of Directors must also ensure compliance with legal and information requirements and transparency in the communication of such operations.

17. "That the Board of Directors should promote the adoption of appropriate measures to extend the duties of loyalty to major shareholders, establishing, specifically, cautionary procedures relating to any transactions carried out between such shareholders and the company".

This recommendation is in place and regulated in Articles 34 of the Regulations of the Board concerning hypothetical relevant transactions that may occur between major shareholders. Specifically, the Board of Directors will not authorise any transactions that are not the subject of a report by the Appointments and Remuneration Committee, evaluating the transaction from the point of view of the equality of treatment of shareholders and market conditions.

The Board of Directors must also summarise in its annual public communications any transactions carried out by the company with Directors and major shareholders. This information is given in section D of this report.

18. "That measures are taken to make mechanisms for delegating votes more transparent and to reinforce communications between the company and its shareholders, particularly with institutional investors".

As established in Article 25.1. of the Company Bylaws, the Board of Directors may demand that in the convening of the General Shareholders Meeting the company is in possession of the delegation of representation by shareholders at least one day before the day on which the General Shareholders Meeting is to be held, specifically indicating the name of the corresponding representative.

This representation must be assigned in writing for each General Shareholders Meeting within the terms established by Company Law.

In 2005, the Sol Meliá Investor Relations Department has carried out a number of activities focused on communication with company shareholders and potential investors. Specifically, a number of road shows were held in major European cities (Madrid, Paris, London, Amsterdam, and Frankfurt).

The road shows are used to inform the market on company performance and provide a vision of how events may affect results. Information is also provided on advances in distribution, research, development and innovation, the financial situation and the development of new hotels and new business units.

In 2005, visits were made to more than one hundred institutional investors in Europe during the following road shows organised by a wide range of financial institutions.

- On 25 January 2005, the Investor Relations team through the BBVA visited the managers of a new Spanish "Mid & Small Caps" fund. In the same city a visit was paid to the managers of an important European institutional investor.

- On 8 and 9 March 2005, Sol Meliá met with a dozen institutional investors from Germany, the United Kingdom and France at a roadshow in Madrid organised by Kepler Equities.

- On 14 March 2005, at the "Iberian Mid Cap Conference" organised by Deutsche Bank in Madrid, Sol Meliá made a company presentation including financial results for 2004 and corporate strategy to 30 institutional investors from Europe and the United States. The Company also held three individual meetings with European fund managers.

- On 20 April 2005, Sol Meliá met with eight institutional investors at a roadshow in Madrid organised by Banesto Bolsa S.A.

- On 12 April 2005, the Investor Relations team met with 15 important French institutional investors at a roadshow in Paris organised by Banco de Santander.

- On 18 May 2005, Sol Meliá met with twelve institutional investors at a roadshow in Madrid organised by BBVA.

- On 30 June 2005, the Company met with two institutional investors at a roadshow in London organised by Cazenove.

- On 6 and 7 July 2005, Sol Meliá took part together with 79 publicly-listed companies in the first forum organised by "Bolsas y Mercados Españoles" (Spanish Bourses and Markets) by "Empresas de Mediana Capitalización" (MEDCAP), an initiative set up by the "Mid & Small Caps Project", attended by analysts and investors from Spain and all over Europe to debate the future of the sector.

- On 27 and 28 September 2005, the Company met with nine institutional investors at a roadshow in Paris organised by Kepler Equities.

- On 28 and 29 September 2005, Sol Meliá met with ten institutional investors at a roadshow in London organised by BBVA.

- On 19 October 2005, the Company met with four institutional investors at a roadshow in Amsterdam organised by BBVA.
- On 24 October 2005, Sol Meliá met with four institutional investors at a roadshow in Frankfurt organised by Ibersecurities AVB.

- On 14 and 15 December the Investor Relations team visited the analysis and sales departments of seven banks that actively cover Sol Meliá stock from Madrid at a roadshow organised by the Company.

The Investor Relations team was rated by Thomson Extel one of the best in Spain and its Director, Carlos López, was ranked fifth in the category of "Best Professionals in Spain in Investor Relations" according to the "Thomson Extel Pan – European Survey 2005". This survey, a point of reference in European stock markets for more than thirty years, aggregates the votes by agents in financial markets on the best fund managers, analysts and investor relations teams.

In addition, according to a survey this year by the Institutional Investor Research Group (subsidiary of Euromoney), Sol Meliá, was rated one of the ten best companies in investor relations from amongst 50 companies in the Leisure and Hotels business. The survey was carried out amongst 40 sell-side analysts and based on 14 communication criteria.

The "Real IR" magazine (published in London, distributed in Europe and specialising in investor relations issues) in its October 2005 edition featured the Director of the Investor Relations team on the front cover and also an in-depth interview about Sol Meliá's experience in communication with financial markets. The report was part of a series of analysis of investor relations departments in companies such as Benetton, Vivendi, Siemens or Deutsche Bank.

The Investors' Club provides shareholders with a direct line of communication with company management to ensure they are kept up to date with all company developments, and also provides an opportunity to make suggestions.

This direct communications channel between shareholders and the company is provided through the website (www.solmelia.com), in which both current and historical financial information is available, through e-mail (club.accionista@solmelia.com) and through a direct phone line (+34 971 22 45 54).

Every shareholder member of the Club is also given a card which provides access to a series of benefits in company hotels such as discounts, free newspapers, second person stays free, priority reservations, guaranteed room, etc., depending on the shareholder type: Gold Shareholder, with more than 1,000 shares and holders of the MaS Gold card, and shareholders with less than 1,000 shares with the MaS Blue card.

Shareholders with the cards can earn points during their hotel stays that they may later exchange for free hotel stays. At the end of 2005, there were 160 MaS Gold Shareholders and 2,704 MaS Blue Shareholders. Every month they receive a points account statement, every three months an exclusive newsletter with special offers and benefits, and twice a year a newsletter with news on company performance.

The Sol Meliá website at www.solmelia.com has a special new section for financial information with an attractive design which provides full and accessible information on finances and corporate governance. The section is in full compliance with the directives on transparency in financial information issued by the Spanish Stock Exchange Commission.

The section contains updated information on quarterly results, issues of securities, financial news, share price, and information from the General Shareholders Meeting , Board of Directors meeting, as well as information on the Investors Club in a new section specially designed for members.

19. *"That the Board of Directors, over and above the requirements of existing legislation, should assume responsibility for providing the markets with rapid, precise and reliable information, particularly regarding the shareholder structure, substantial modifications to the rules of governance, particularly relevant deals or operations and company shareholdings".*

The company has followed recommendations as indicated in Chapter IX of the Regulations of the Board of Directors. The company has provided information considered to be of sufficient detail and through the appropriate channels (Statements to the Spanish Stock Exchange Commission, regular published information, communications regarding majority shareholders, other communications, etc.), on matters regarding the share price and any other matter considered relevant, as well as regular information on the company rules of governance.

20. *"That all of the regular financial information as well as the annual information offered to the markets is generated using the same professional principles and practices as the annual accounts and that, before being published, are verified by the Audit Committee".*

Amongst their duties, the Board of Directors, along with the Audit and Compliance Committee are entrusted with the duty of providing financial information to the markets following the same professional principles, criteria and practices as those employed in the production of the annual accounts.

Financial analysts have also been kept informed through conference calls on quarterly results after their presentation and registration with the Spanish Stock Exchange Commission.

21. *"That the Board of Directors and the Audit Committee supervise situations that may present a risk to the independence of the company's external auditors and, specifically, that they verify the amounts paid to external auditors as a percentage of the total revenues of the auditing firm, and that they make public information on fees paid for services other than audits".*

The Board of Directors and Audit and Compliance Committee have made an analysis of the possible risks regarding the independence of external auditors.

That total amount paid for the audit of annual consolidated accounts and subsidiaries in 2005 are detailed in section B1.29 of this report.

22. *"That the Board of Directors should avoid presenting accounts to the General Shareholders' Meeting that contain exceptions and reservations in the auditors' report, and that, whenever this is not possible, both the Board of Directors and the auditors must clearly explain to shareholders and to the market the content and scope of the discrepancies".*

This recommendation is included in article 39 of the Regulations of the Board of Directors, establishing that the Board of Directors and, in particular, the Auditing and Compliance Committee, ensure that Auditors have access to all of the documentation and information that may be relevant for the performance of their duties, as well as that the Annual Accounts are drawn up in such a way that exceptions and reservations are not required.

D. Gabriel Escarrer Juliá _______________

D. Juan Vives Cerdá _______________

D. Sebastián Escarrer Jaume _______________

D. Gabriel Escarrer Jaume _______________

D. José Mª Lafuente López _______________

D. Eduardo Punset Casal _______________

D. Alfredo Pastor Bodmer _______________

D. Emilio Cuatrecasas Figueras _______________

D. José Joaquín Puig de la Bellacasa Urdampilleta _______________

CAJA DE AHORROS DEL MEDITERRÁNEO
D. Armando Sala Lloret _______________

HOTELES MALLORQUINES CONSOLIDADOS S.A.
María Antonia Escarrer Jaume _______________

AILEMLOS S.L.
Ariel Mazín Mor _______________