Rating Action: Sol Melia S.A.

Moody's downgrades Sol Melia to Ba2, ratings remain under review for further downgrade

No rated debt affected

London, 03 June 2009 -- Moody's Investors Service has today downgraded Sol Melia's corporate family rating and probability of default rating to Ba2 from Ba1. The ratings remain under review for further downgrade.

Today's downgrade reflects Sol Melia's sharp deterioration in its operating performance in Q1 2009 and its weakened credit metrics which Moody's believes will be further pressured over the intermediate term. Furthermore, Moody's cautions that the company's headroom under its financial covenants is likely to be limited over the upcoming testing periods.

Moody's notes the company's Debt to EBITDA ratio (as per the rating agency's preliminary calculations) stood well above 6 times at December 2008. Furthermore, given the softness of both the business and leisure travel markets and the -14% RevPAR declines recorded in Q1 2009, the company is unlikely to be able to sustain its operating cash flow generation to support its credit metrics. Moody's recognises though that Sol Melia has undertaken cost-saving measures to support margins and is reducing capex to below EUR100 million. However, we caution that it may take longer than expected for these cost saving benefits to flow through and that they may not be sufficient to compensate for the deterioration in revenues and cash flow generation.

We also caution that -- although Sol Melia was compliant with its financial covenants at the end of FY2008 -- the headroom under its interest cover and leverage covenants was limited and that, as a result of the softness in operating performance that the company is experiencing, there may be a risk of a covenant breach.

Moody's rating review will focus on assessing (i) the trading outlook and initial bookings for the important summer season, (ii) the further corrective actions that could be taken to sustain sufficient EBITDA generation, and (iii) the evolution of headroom under financial covenants.

More positively, Moody's notes that the rating continues to reflect Sol Melia's good market position and brand in Spain, and the asset coverage provided by its owned property assets.

The last rating action was implemented on 3 March 2009, when Moody's placed Sol Melia's ratings on review for possible downgrade.

The principal methodology used in rating Sol Melia was Moody's Rating Methodology for the Global Lodging Industry, published in December 2007 and available on www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory on Moody's website.

Headquartered in Palma, Mallorca, Sol Melia is the 15th-largest hotel operator in the world in terms of number of rooms and is represented across the luxury, upscale and mid-scale segments of the hotel market. Sol Melia operates both city hotels and resorts, and has been developing its timeshare business through its Sol Melia Vacation Club brand. Sol Melia generated revenues of EUR1.3 billion at FYE2008.

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