2002 Full Year Results

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutional Relations

2002 Achievements

- Maintenance of EBITDAR in a challenging year
- Outperforming peers in terms of EBITDA evolution from 2001 to 2002
- Successful distribution initiatives
- Homogeneity by brand and product standardisation
- Cost savings of € 31.7 Mn
  - While improving quality of product and services according Guest Quality Questionnaires: improvement of 8 points on a scale of 15
- Renegotiations of lease agreements
- Disaffiliation of loss making/brand inconsistent hotels

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2002: A challenging year

- Business & Tourism spending cutbacks associated with the global economic downturn (WTTC)
- Terrorist attacks made travellers to avoid long haul destinations
  - April 2002: Djerba (Tunisia) 9 people killed
  - October 2002: Bali 200 people killed
- Slowdown in LatAm and Caribbean:
  - Argentina´s crisis expanded to the area
  - Brazil get through a long pre-elections uncertainty
  - Political instability in Venezuela
  - Cuba affected by German economic slowdown
  - Mexico impacted by drop in travel expenditure in USA
- Bewildered tourism policy in the Balearic Islands

Tunisia, Bali, LatAm&Caribbean and Spanish Islands represent 51% of the consolidated EBITDA

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Commercial actions 2002

Reorganisation of our sales team

- Reinforcement of international sales offices in feeder market
- Centralisation of Sales
- Latin America 55 sales people
- Europe 134 “

International sales contracts signed with mega World-wide Travel Agencies consortia

- i.e. Carlson Wagonlit, American Express

Increase of direct sales through self developed programmes

- i.e. *Escapadas*, *Puentes, Fines de Semana, Tarifa Plana (Uniform Rate) through Internet*

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Distribution channels

Decentralisation strategy: decrease the weight of TTOO in favour of direct sales and groups

Increase in sales by distribution channel in 2002

SolRes	15%
Groups	52%
GDS	8.1%
Internet	174.3%
Self developed programmes	24%
TTOO	-7%

Strategy to favour sales to Spanish TTOO under current trading conditions

Iberojet	+44%
Travelplan	+42%
El Corte Inglés	+35%

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Progress in our distribution technology

Development of multi-channel fully integrated distribution system, web enabled

- New reservation engine with Sirius technology
- New website
- Central database based on Siebel
- New strategy of CRM aiming to a Sales Force Automation enabling
  - contact management
  - lead tracking
  - sales forecasting

- **Increase of sales through our website from € 3.6 Mn in 2001 to € 10 Mn in 2002**
- **15% increase of sales through SolRes in 2002**
- **Increase by 300% in the first week of 2003 through Solmelia.com**
- **Sales expected through the Internet in 2003: 12%**

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Brand strengthening strategy

Homogeneity by brand and product standardisation

- Identification of brand attributes
- Identification of areas of improvement: analysis of standards of products and services
- Brand internal and external benchmarking by Infratest Consultants
- Optimal cost structure and yield by brand

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Top Lodging brand and 12th best known Spanish brand in Spain

1	Mercedes	8,702
2	Coca-Cola	8,672
3	BMW	8,573
4	Microsoft	8,484
5	Nestlé	8,479
6	Nike	8,427
7	Danone	8,425
8	Rolex	8,378
9	Nokia	8,369
10	Sony	8,364
11	Audi	8,301
12	Levi's	8,283
13	Chanel	8,260
14	Nescafé	8,207
15	Playstation	8,164
16	Apple	8,140
17	Louis Vuitton	8,082
18	Volvo	8,080
19	**Real Madrid**	8,073
20	Häagen-Dazs	8,036
21	Armani	8,017
22	**El Corte Inglés**	8,003
23	IBM	7,974
24	Samsonite	7,932
25	Volkswagen	7,921
26	Kodak	7,904
27	Burberry's	7,887
28	Loewe	7,800
29	Gillette	7,786
30	**Cola Cao**	7,770
31	Gucci	7,748
32	L'Oréal	7,744
33	**BBVA**	7,743
34	Christian Dior	7,743
35	HP	7,726
36	**Chupa Chups**	7,667
37	**Zara**	7,663
38	Adidas	7,661
39	Barbie	7,610
40	Marlboro	7,602
41	Mc Donald's	7,598
42	Ikea	7,569
43	Johnson&Johnson	7,556
44	**Camper**	7,466
45	Martini	7,457
46	Sony Ericsson	7,441
47	**Telefónica**	7,429
48	Colgate	7,408
49	**SCH**	7,390
50	**Donuts**	7,388
51	**Lladró**	7,378
52	**Sol Meliá**	7,376
53	Nivea	7,308
54	Duracell	7,259
55	Hugo Boss	7,212
56	Heineken	7,181
57	J&B	7,150
58	**Iberia**	7,147
59	Schweppes	7,146
60	Siemens	7,135
61	Philips	7,122
62	**nH Hoteles**	7,117
63	**Pascual**	7,114
64	**La Caixa**	7,100
65	Nesquik	7,068
66	Vodafone	7,053
67	Johnnie Walker	7,049
68	**Bimbo**	7,033
69	Pepsi	7,018
70	Baileys	7,017
71	Beefeater	6,993
72	Bacardi	6,989
73	**FC Barcelona**	6,926
74	Benetton	6,903
75	**CajaMadrid**	6,888
76	Renault	6,869
77	**Codorníu**	6,866
78	Panasonic	6,865
79	Motorola	6,857
80	Fanta	6,823
81	**Carbonell**	6,812
82	Mini	6,798
83	ING Direct	6,760
84	Winston	6,732
85	Font Vella	6,722
86	**Campofrío**	6,711
87	**Adolfo Domínguez**	6,677
88	**Pescanova**	6,636
89	Carlsberg	6,631
90	Paco Rabanne	6,609
91	Frigo	6,598
92	Budweiser	6,572
93	Smirnoff	6,571
94	**Mango**	6,543
95	Pizza Hut	6,540
96	**Pastas Gallo**	6,539
97	**Freixenet**	6,537
98	Ford	6,526
99	**TelePizza**	6,488
100	**Solán de Cabras**	6,433
101	**Puig**	6,412
102	**Gallina Blanca**	6,403
103	Oscar Mayer	6,394
104	Axe	6,362
105	Peugeot	6,344
106	Massimo Dutti	6,328
107	Citroën	6,319
108	Burger King	6,298
109	Opel	6,288
110	**AC Hotels**	6,276
111	Starbucks	6,234
112	Cruzcampo	6,230
113	**Mahou**	6,223
114	Alcatel	6,221
115	Maggi	6,220
116	**Famosa**	6,193
117	**San Miguel**	6,176
118	**Koipe**	6,148
119	Seat	6,143
120	Puma	6,134
121	**Amena**	6,125
122	**Osborne**	6,106
123	Fontaneda	6,060
124	Knorr	6,025
125	**Fortuna**	5,996
126	Wanadoo	5,977
127	Gamecube	5,934
128	Nordic Mist	5,930
129	**Cuétara**	5,885
130	**Banesto**	5,880
131	**Spanair**	5,866
132	X-Box	5,853
133	**Terra**	5,846
134	**Ducados**	5,791
135	**Bollycao**	5,781
136	Camy	5,762
137	Larios	5,746
138	**Lois**	5,721
139	**Barceló**	5,695
140	Trina	5,675
141	**Springfield**	5,642
142	**Patagon**	5,633
143	**Retevision**	5,555
144	**Air Europa**	5,489
145	Fiat	5,423
146	Uni2	5,410
147	Ya.com	5,392
148	DYC	5,250
149	**uno-e**	5,166
150	**Don Simón**	4,809

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Source: Actualidad Económica
Note: Spanish brands in bold

Cost reduction programme summary

Million Euro	*Total*	*%*
A. Direct Costs	7.6	-8.1%
- Mainly Food & Beverage		
B. Personnel	14.1	-4.9%
C. Other expenses	10.0	-4.2%
- Mainly entertainment, maintenance energy, marketing and administration		
TOTAL	31.7	-5.1%

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A

Direct Costs (F&B)

1. Redefinition of product range focused on improving profit margins
2. Advanced menu engineering, Food standardisation by brands
3. Higher consciousness in food cost control
4. Improved efficiency in stock control (SAP MM)

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B

Personnel expenses

Staff optimisation process in hotels thanks to:

- Progresses in technology in F&B and Information Systems
- Outsourcing of services: cost reduction, switch from fixed to variable costs
- Standardisation: eliminating activities with no added value for clients
- Areas of staff rationalisation, taking profit from economies of scale: Mexico, Dominican Rep, some areas in Europe

Staff recruited according to occupancy

- Reduction in timetables from 8 to 6 hours when possible
- Reduction of opening hours of points of sale according to demand

Optimisation HHRR at Headquarters. Reduction of number of managers due to decentralisation of roles favoured by use of new Information systems and training at the hotel level

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C

Other expenses

Energy and water supply

- Selective closure of hotel areas (floors, restaurants, banqueting space, etc.) according to occupancy
- Improvement of automatic and computerised building energy control systems
  - Automatic lights control
  - Temperature control
  - Combustion optimisation in boilers
  - Optimisation of working parameters of chillers
  - Installation of frequency variation equipment in big pumps
- Garden irrigation control
- Downwards renegotiation of energy rates in liberalised markets

Maintenance

- First steps of maintenance outsourcing
- Optimisation of maintenance expenses
- Beginning of implementation of *SAP PM* (Plant Maintenance)

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C

Other expenses

Entertainment

- Change in the structure at the corporate and hotel level
- Redistribution of activities
  - Reduction of activities according to customer demand

Marketing in Latin-American hotels

- Contracts renegotiation:
  - Advertising
  - Public Relations

Administration and general expenses

- Reduction of travel expense
- Savings in office material

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Focus on quality

Costs reduced, but quality prevails

- Creation of Head of Quality role in every hotel (GSA)
- Training on quality services at hotels
- New quality initiative: *Serviexpress*
- Despite costs reduction, according to questionnaires from customers and mistery guests, quality has been improved

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Disaffiliations

Disaffiliations made according to three main criteria:

- Non-profitable
- Conflictive
- Non-strategic or non-brand consistent

Total disaffiliations will represent net savings of € 3.4 Mn in 2003

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Disaffiliations

Number of hotels by affiliation regime

- 7 leased hotels (2 in Tunisia)
- 17 managements or franchises

Room percentage by geographic area

- 26% rooms in Middle East & Africa
- 43% rooms in Spain & Portugal
- 14% rooms in Americas Division
- 17% rooms in Asia

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Situation in Tunisia after Tryp acquisition in 2000

Initial Situation:

9 leased hotels:

- 6 operated by the Tunisian Company (Tryp Mediterranee)
- 3 operated by the Spanish Company (Tryp S.A.)

8 franchised establishments: 3,836 rooms (previously in Sol Meliá's portfolio)

Forecasted evolution of the 9 leased hotels:

- 2001 – Losses of € 3.7 Mn.
- 2002 – Losses of € 5.0 Mn.
- 2003 – Forecasted Losses of € 5.3 Mn.
- 2004 – Forecasted Losses of € 5.0 Mn.
- 2005, 2006,...

Scenario without

Iraq conflict

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Situation in Tunisia after measures taken

Situation Post-disaffiliation:

9 leased hotels:

- 6 operated by Tryp Mediterranee (1)
  - 3 disaffiliated
  - 2 change from leased to management contract (2)
  - 1 still under Sol Meliá's operation (EBITDA>0)
- 3 operated by Tryp S.A.
  - 1 disaffiliated
  - 2 rental reductions by 25% and 10%

1 leases plus 2 management(2) contracts

8 franchised establishments: 3,836 rooms (previously in Sol Meliá's portfolio)

Effect of measures taken:

- 2002: Cost of disaffiliation € 6 Mn
- 2003: Reduction of risk.
  - Forecasted losses of € 1.7 Mn
  - Savings of around € 4 Mn
- 2004: Forecasted Result: € 0 Mn
  - Savings of € 5.0 Mn

• €1.2 Mn.of disaf. Cost

• € 0.5 Mn Operating losses

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(1) To be dissolved in February 2003

(2) 1 lease still under negotiation to become management contract

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Meliá While House, London (UK)

2002 Results

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2002 Summary of performance

- Revenues:
  - Hotels: +0%
  - Management fees: +1%
  - Others: -4.4%
- Increase in operative expenditure by 0.3% due to increase in rentals. Like-for-like: -0.4%
- EBITDAR: +0.5%. Improvement in EBITDAR margin by 0.3 p.p.s.
- Net Profit drop due to negative exchange differences (€12.3Mn) and extraordinaries losses (€28.4Mn)
- Excluding these effects Group Net Profit drop by 12%

(Million Euro)	Dec-02	Dec-01	% growth
RevPar	45.4	47.0	-3.6%
Revenues	1,010	1,016	-0.6%
EBITDA	233	241	-3.4%
EBITDAR	301	299	0.5%
EBITDAR Margin	*29.8%*	*29.4%*	
Net Profit (benef. minorities)	4	58	-93.1%

"€ 31.7 Mn Cost Reduction Programme" target achieved

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Hotels evolution (O & L)

- Excluding effect of newest additions RevPAR would have decreased by 1.8%
- RevPAR decreased by 4.3% in Europe Resort is mainly due to Tunisia (-40%)
- RevPAR in Spanish resorts is up by 1% (Mainland 5%)
- RevPAR decline in Europe City because of the new acquisitions within the Tryp segment. Excluding this effect, -0.7%.

		% Occ	RevPAR	A.D.R.
EUROPEAN RESORT	2002	71.3%	35.1	49.3
	%o/ 2001	**-6.5%**	**-4.3%**	**2.4%**
	2001	76.3%	36.7	48.1
EUROPEAN CITY	2002	**63.4%**	**55.2**	**87.1**
	%o/ 2001	**-1.0%**	**-1.7%**	**-0.7%**
	2001	64.1%	56.2	87.7
AMERICA	2002	61.9%	45.3	73.2
	%o/ 2001	**-2.5%**	**-15.4%**	**-13.2%**
	2001	63.5%	53.6	84.4
TOTAL	2002	66.5%	45.4	68.2
	%o/ 2001	**-4.2%**	**-3.6%**	**0.7%**
	2001	69.5%	47.0	67.7

- In Spain City clear recovery in RevPAR from quarter to quarter:
  Spain: -3.3% in Q3, +11.1% inQ4
  Madrid: +3.7% in Q3, +15.3% in Q4.
- Meliá White House: 26% RevPAR increase due to new segmentation that has boosted occupancy levels.
- Reasonable evolution of Latin America and Caribbean, affected by the 32.4% fall in RevPAR level in Caracas.
- Good performance in Dominican Republic (RevPAR: +12.1%).

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Recovery in the 2nd semester

	1Sem02	2Sem02
RevPAR	-7.3%	0%
EBITDA	-23.1%	+22.2%

- Resilience of Spanish resort
- Positive evolution of city hotels

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Spanish resilience

Resort Segment resilience:

	Occupancy	RevPar (1)	A.D.R.
■ Islands	- 6.0%	- 1.7 %	+ 4.6%
■ Mainland	- 4.4%	+ 3.6%	+ 8.4%
■ SPAIN	- 5.4%	+ 0.6%	+ 6.3%

City Segment recovery by quarters (RevPar):

	1Q02.	2Q02	3Q02	4Q02
■ Madrid	- 7.8 %	-4.1%	+3.7%	+15.3
■ Rest of Spain	+ 4.5% (2)	-8.4%	-3.3%	-1.4%

(1) Revenues per available room

(2) 1q02 was positively affected by the delay of Congress and Conventions from 4q01 due to 11-S

- GDP in Spain is expected to grow by 3% in 2003 versus 1,3% in Eurozone*
- RevPARs in Spain are expected to grow slightly in 2003, while flat or decreasing RevPARs in most markets*

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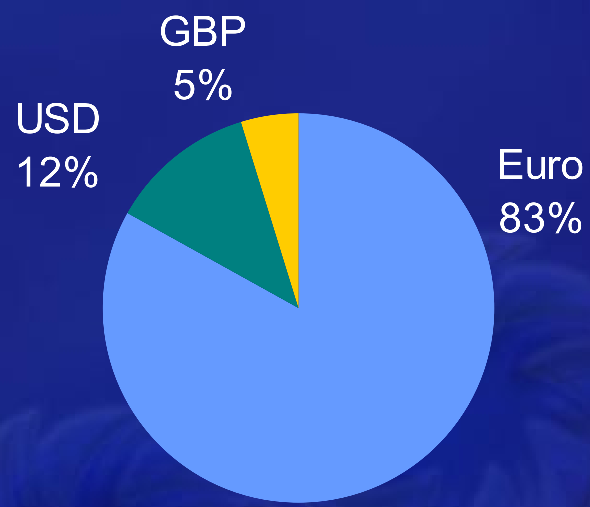
Spain represents the 62% of consolidated EBITDA

** Source: Bear Stearns*

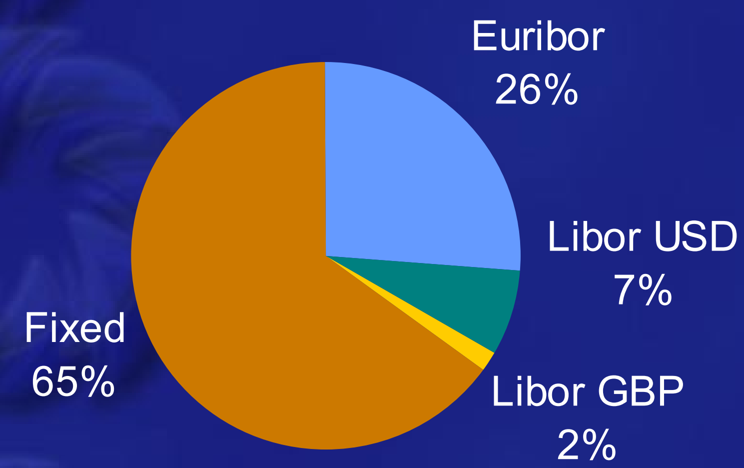
Solid and diversified debt structure

Debt by currency (YE 2002)



- Total net debt (4Q02): €1,131 Mn
  - Decrease of €79.8 Mn
- Total fin. Debt (4Q02): €1,262 Mn

Debt by interest rate (YE 2002)

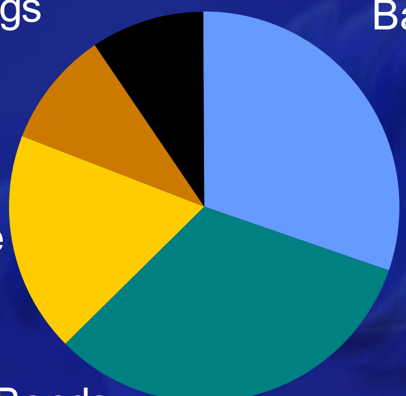


- Average interest rate: 4.6%
- Mortgages / Total debt: 30%
- Mortgages / Market Value of assets: 15%

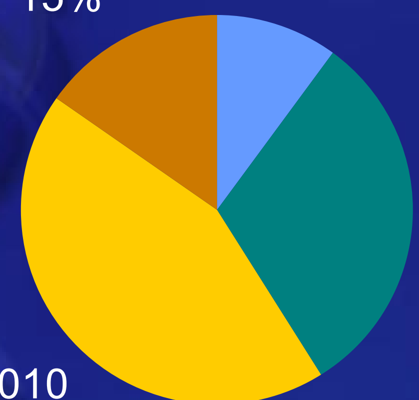
The company will continue to strengthen and diversify its Balance Sheet aiming to improve its Credit Ratings

Solid and diversified debt structure

Debt by nature
(YE 2002)



Debt by maturity date
(YE 2002)



- **Average Maturity: 4.6 years**
- **Average Length: 8.0 years**

No major debt covenants

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Liquidity

Sol Meliá's liquidity is supported by:

- €138 Mn of Cash Available
- €159 Mn Committed Credit Lines
  - €52 Mn Available
- 85% of market value of assets uncommitted
  - Potential capital raising: €1,600 Mn (market value of assets less net debt)

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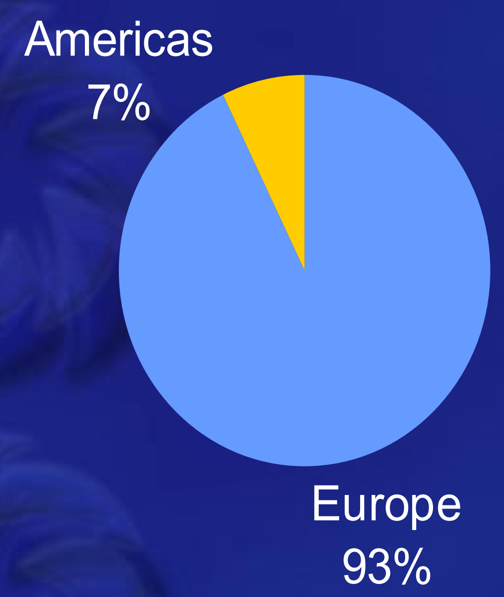
Significant real estate portfolio

- 91 owned hotels plus 1 additional project
- 76 leased hotels plus 11 more under project
- 75% of current Portfolio updated in the last 5 years
- American Appraisal valuation 2002:
  - Owned portfolio € 2.7 Bn
  - Total company valuation €3.3 Bn equivalent to €11.8per share. Discount to market price of 266%

Owned & Leased hotels
(YE 2002)



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2003 Outlook

Europe RevPAR Cycle 2002/03

Positive Outlook in those cities where we are present:
Madrid, Barcelona, Paris, London, Milan

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Source: Jones Lang Lasalle Hotels

Sol Meliá’s strategy for 2003

- Departure frame:
  - Refurbished hotels
  - Hotels in reposition process
  - Strengthened brand and service consistency
  - Controlled margins and costs structure
  - Clean portfolio
  - Improved distribution

1. Reinforcement of consolidation and brand consistency: prices, costs and services standardisation by brand
2. Maintain quality of product and services
3. Strengthen of the Company´s distribution strategy through the internet aiming:

- Global distribution
- Disintermediation
- Cost savings in bookings
- Better “value for money” to final customer
- Better knowledge of and service for the final costumer
- Cross selling improvement

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Sol Meliá's strategy

4. Incorporation of 30 hotels in the next two years and repositioning

5. Rotation of assets

- € 30-40 Mn of annual assets disposals from 2003
- Focused on asset management measures (I.e. profitability per square metre) and time share business

6. Continuation of Balance Sheet strengthening

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