2002 Preliminary Year-End Results

Financial Summary

Total Revenues, EBITDAR and EBITDA have changed by –0.6%, 1% and –3% respectively. The resilience of the Spanish resorts together with continuing improvement in the performance of city hotels in Europe have offset the weak performance in Tunisia, Latin America and the Caribbean, reflected in the EBITDAR and EBITDAR margin increase by 1% and 0.3 pps respectively. Group Net profit decreased by 79% mainly due to Exchange rate differences and extraordinary provisions related to the disaffiliation of loss-making hotels that came from the Tryp acquisition, provision of the AOL investment and treasury stock. If we were to exclude these effects, Group Net profit would have decreased by 12%. Funds from operations increased by 7%

Operations

Total accumulated RevPar decreased by 4%. By division, in European Resorts, RevPar decreased by 4% mainly due to a significant fall in hotels in Tunisia (40.0% RevPar decrease). RevPar in Spanish resorts increased by 1%. There was a particularly good performance from hotels in mainland Spain, for which RevPar increased by 4%, offsetting the slowdown in the Spanish Islands where RevPar decreased by 2%. RevPar in the European City Division decreased by 2% (compared with –7% in the first nine months), due to continuing improvements in the quarterly performance. The increase in Q4 is partly explained by the continuing good performance of the Meliá White House (London) and the positive trends in Madrid, where the company has witnessed a 15% RevPar increase in Q4.

In the Americas Division, RevPar has decreased by 15%. The poor performance of the Gran Meliá Caracas due to political instability in Venezuela (15% of owned rooms in the Division), produced a 32% RevPar decrease in 2002, and has negatively offset the continuing positive performance of the Dominican Republic with a 12% RevPar increase. In Mexico, the stagnation in Cancun in 2002 for all hoteliers negatively affected the performance of the Division. Nevertheless, the sales efforts made in 2002 in domestics markets and specially in the US are paying-off in Mexico and the Dominican Republic in 1Q03 and we expect positive development throughout the year.

Main Variables

(Million Euro)	Dec - 02	Dec- 01	%
REVPAR (Euros)	45,4	47,0	-4%
REVPAR LIKE-FOR-LIKE	45,5	46,3	-2%
REVENUE	1010	1016	-0,6%
EBITDAR	301	299	1%
EBITDAR MARGIN	30%	29%	0,3%
EBITDA	233	241	-3%
NET PROFIT (Before min.)	14	65	-79%
NET PROFIT PARENT CO.	4	59	-93%
FUNDS FROM OP.	175	164	7%

Recent Achievements

Sol Meliá has achieved the targets of its "Cost Reduction Programme", with a total reduction in costs of € 31.7 Mn. due to improvements in internal processes and procedures. At the same time, we have slightly increased the quality of services and product according to guest satisfaction questionnaires. Regarding the disaffiliation process in Tunisia, apart from disaffiliation of the 2 leased hotels in Q3, Sol Meliá ended operations with the Sol Golf Residence and Meliá Marco Polo in January 2003 and two additional leased hotels will become management contracts. The Tunisian company "Tryp Mediterranée" will be dissolved. This will therefore reduce the risk in the area. After this process Sol Meliá will have 3 leases in Tunisia, of which we have agreed rent reductions in two hotels of 25% and 10%. This process has represented a total cost of € 6 Mn. in 2002 and net savings of around €4 Mn on an annual basis. With regard to asset management, the Company has recently disposed of two plots of land in Spain and Mexico for €11.4 million with a total capital gain of € 1.2 million

Prospects

The current geopolitical instability makes it difficult to forecast the current year. Uncertainty regarding the conflict in the Gulf and future development of European economies is behind the low visibility and the high increase of last minute bookings. Sol Meliá is facing 2003 with a refurbished product, brand and service consistency as well as a controlled margin and cost structure. We expect a positive contribution from the elimination of some loss-making hotels that came from the Tryp acquisition, the further repositioning of some key hotels and the newest additions under lease contracts, as well as new affiliations going forward. The Spanish-speaking Caribbean is expected to continue to improve along the lines seen in early 03. Our Spanish resorts are expected to demonstrate once again its resilience to adverse market conditions.

Sol Meliá Performance

As of the End of the period	2000 (*)	2001	2002
Net Profit (M. Euros)	113	59	4
EPS	0.63	0.32	0.02
CFPS	1.1	0.9	0.95

Stock Performance Jan 2nd, 03 to Feb 25th, 03

Average Daily Volume (€)	1.13 Mn
Period High, Jan. 17th	€ 4.28
Period Low, Feb. 21st (€)	€ 3.21
Market Capitalisation Feb. 25th (€)	594.9 Mn

SOL MELIA
Gremio Toneleros, 24
07009-Palma de Majorca
Tel: (34-71) 22-45-43 . Fax: (34-71) 22-44-98
E-mail: arancha.sanchez-flor@solmelia.com
carlos.lopez.garcia@solmelia.com
jonas.linares@solmelia.com

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

Dear friend,

In light of the uncertainties and difficult trading conditions in 2002, Sol Meliá has obtained a satisfactory result. Latin American turmoil and the Spanish Islands downturn, together with terrorist attacks in Tunisia and Bali have had a negative impact in 51% of our consolidated EBITDA. The slowdown of the world economy and in our major feeder markets, i.e. Germany and the US, has also damaged the performance of the Company.

Even in this tough environment, the Company has been able to outperform most of its peers at the operating level. We would like to explain the above mentioned effects and Sol Meliá's resilience to adverse market conditions and proactive measures that have allowed us to practically repeat our operating performance.

The continuing positive performance of our city hotels in Europe and the resilience of our Spanish resorts during the summer season, largely explain the recovery during the second half of 2002. The company has improved its performance on a quarterly basis, specially in the markets mentioned above. EBITDA and EBITDAR has increased during the second half 2002 by 22% and 20% respectively.

Our net profit has been damaged nevertheless by the cost of the disaffiliation process of some hotels incorporated in the Tryp acquisition, disaffiliation in Tunisia, provision of the AOL joint venture and the provision of treasury stock on the Extraordinary losses side and the negative exchange differences derived from the devaluation of Latin American currencies on the financial losses side. Excluding these effects, net profit would have decreased by 12% to € 53.3 Mn.

In 2002, we have been focusing on a) standardisation of product and brand, b) strengthening our distribution channels c) disaffiliation of loss-making and brand-inconsistent hotels and incorporation of better quality hotels, d) the € 30 million Cost Reduction Programme, and e) financial strengthening of our balance sheet.

We have carried out a brand-strengthening strategy after a previous analysis of product and service standards based on internal and external benchmarking together with *Infratest* (leading brand-consultancy firm) "best practice" recommendations. We have identified the perceived positive and expected attributes of each of our four brands (Meliá, Tryp, Sol and Paradisus) and the differentiating features between them.

According to *Actualidad Económica* magazine, "Sol Meliá" is the leading brand in the Hospitality, Travel and Tourism industry in Spain and the 12th best-known Spanish brand in the country.

We have reorganised our sales team, reinforcing the International Sales Offices in feeder markets. We have 24 sales people in a European sales force focused mainly on the UK, France, Italy and Germany . A further 110 people are based in Spain. In the Americas, we now have 55 sales people focused on all major US cities. Total sales force has increased by 19%.

Sol Meliá has agreed international sales contracts with mega Worldwide Travel Agencies consortia, i.e. Carlson Wagonlit, American Express, etc. In 2002, we have also increased the direct sale of our hotels through our own programs i.e. *Escapadas, Puentes y Fines de Semana* (city breaks) and *Tarifa Plana* (Uniform Rate) through the Internet, among others, by 24%.

The Company continues to have excellent relationships with major tour operators. This has enabled us to outperform the Spanish resort market, having marginally reduced occupancy, but improving average rate.

This year mainland Spain has shown a particularly strong performance, which offsets the slowdown in the above mentioned markets. Our considerable diversification in commercialisation and the brand recognition in the Spanish market is behind the increase in sales with the major Spanish tour operators, which have become increasingly important for the Company: Iberojet (+44%), TravelPlan (+42%), El Corte Inglés -Tour Mundial (+35%) etc.

Our strategy for centralised sales organisation has been reinforced. We have further developed our distribution technology in order to have a multi-channel fully integrated distribution system. We have a new reservation engine developed under *Sirius* technology, a new website, a central database based on a Siebel platform and a new strategy for Customer Relationship Management (CRM) centered on Sales Force Automation (SFA), and improvements in contact management, lead tracking, and sales forecasting.

This has enabled us to increase our sales to Individuals and Groups through our Central Reservation System *SolRes* by 15% and 52% respectively.

Disaffiliations in 2002 took place in non-strategic or troubled regions and with brand inconsistent hotels. We have left 7 leased hotels - all of them originally from the Tryp acquisition: 4 in Spain, 2 in Tunisia and 1 in Portugal - and a further 18 hotels under management (11) or franchise (7) contracts from our portfolio. In addition, we managed to reduce the lease commitments on four of our hotels in Germany by 20%, leading to € 2.5 million in savings over the next five years. These disaffiliations have reduced our risk exposure to certain destinations such us Tunisia and improved the quality and brand consistency of our portfolio.

Regarding the disaffiliation process in Tunisia, apart from disaffiliation of the 2 leased hotels in Q3, Sol Meliá also ended operations in the Sol Golf Residence and Meliá Marco Polo in January 2003 and two additional leased hotels, the Sol Phebus and Sol Palm Garden, will become management contracts in 2003. The Tunisian company “Tryp Mediterranée” will be dissolved. This will therefore reduce the risk in the area. After this process Sol Meliá will have 3 leases in Tunisia, of which we have agreed rent reductions in two hotels of 25% and 10%. This process has represented a total cost of € 6 Mn. in 2002 and net savings of around € 4 Mn on an annual basis.

The Croatian company Jadran-Turist Rovinj d.d. unilaterally terminated the management contract with Sol Meliá in January 2003. The Croatian tobacco corporation, which one year ago acquired the company that owns the 4 branded hotels, (970 rooms), 3 camping parks and a further 3 unbranded hotels that represent 5,116 rooms in the Rovinj area, is seeking to enter the hospitality business. These hotels represented an income of € 1.7 million in management fees in 2002. Sol Meliá expects a favourable resolution of the Arbitration Court at the International Chamber of Commerce and the correspondent indemnification as specified in the Service Agreement that could be up to €35 Mn. Sol Meliá still manages 10 hotels and 4,112 rooms in the country.

During the course of 2002, we have incorporated 22 establishments: 8 lease agreements, 13 management contracts and an additional franchised hotel, all of which are brand new properties representing 5,012 rooms. Taking into account the disaffiliation process and new incorporations of far better quality, rental charges will represent around € 67 Mn. as in 2003.

With regards to our Cost Reduction Programme, the Company has achieved € 31.7 million in savings. 44% of total saving has been generated by the rationalization of personnel functions and working hours at the hotel and corporate level. At the food and beverage cost level, which is behind 24% of the total, savings have been achieved by the more rigorous adaptation of food and beverage services to brand standards and the promotion of products with higher profit margins. The SAP Materials Management program has improved the centralized purchasing of entertainment products, amenities, gardening, decoration, energy, cleaning and office materials This items, amongst other things, explain 32% of total savings , included in the Other Expenses items.

We would also like to highlight that the combined cost reduction measures have not had any negative effect on the results seen in Sol Meliá guest satisfaction questionnaires. In 2002, the scores for both physical and service aspects have shown an improvement in all brands. According to our customers, the quality of our product and service has increased by 8 points on a scale of 15 over the last three 3 years. In 2002, Sol Meliá received 30 awards from different European tour operators, 10 more than in 2001.

We currently enjoy BBB and BBB- credit ratings by Fitch IBCA and Standard and Poor's respectively. The Company feels confident about its financial strength going forward. The cash-flow generation and the quality of our assets, of which, only a 15% are mortgaged back – this means that Sol Meliá has a € 1.6 Bn. of further financing capability – enable us to have a comfortable position.

Sol Meliá is facing 2003 with a refurbished product, better distribution, brand and service consistency, disaffiliation of loss-making leases as well as a controlled margin and cost structure.

Sol Meliá will continue with efforts to achieve a) internal consolidation and brand consistency, b) strengthening of the distribution strategy and c) the rotation of its assets.

In terms of brand consistency, Sol Meliá will reinforce the positive attributes and differentiating features among its brands according to internal and external benchmarking carried out in 2002. The process will continue to generate certain cost reductions as we implement brand standards and margins. According to the *Infratest* survey, friendliness and a caring attitude of our personnel has been valued as one of our best perceived assets.

In 2003 we will continue to aim to improve the quality of our hotels.

Sol Meliá will also strengthen its centralised distribution strategy, with special focus on the Internet, looking for a) global distribution, b) disintermediation, c) cost savings in the reservation process, d) personalized service based on deeper customer information and e) improvement of cross-selling.

In 2003 the Company is better prepared in terms of distribution, including a higher degree of centralised sales, focus on direct sales and improved business with Spanish tour operators and travel agencies, which have shown a significant increase in recent years.

Regarding Internet distribution, the Company has signed agreements with major distributors such as Travelocity, Expedia and Lastminute, among others. Additionally, the solmelia.com website – currently available in English, German and Spanish– will focus on improving direct sales and personalized attention to site visitors, while aiming to become a major sales channel for the company as well as a fundamental tool for improving brand awareness. 12% of centralized sales are aimed to be sold through the Internet in 2003.

With regard to asset management, the Company has recently disposed of two plots of land; in Spain and in Mexico for €11.4 million, with a total capital gain of € 1.2 million. We expect a further € 30 to € 40 Mn. of asset disposals on an annual basis until 2005.

Sol Meliá aims to more actively manage its asset portfolio as soon as uncertainty is reduced, consisting of 85 owned establishments that represent a Total Asset Value of € 2.7 Billion (€2.1 Mn. of book-value) included in a Total Enterprise Value of €3.3 Billion according to the valuation made by American Appraisal in December 2001 which further includes lease, management and franchise contracts.

Regards,

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

2. Information on Operations

2.1. PROPERTY BUSINESS

RevPar in the Property Business – including Sol Meliá's owned and leased hotels – has decreased by 3.6%, partly due to the effect of 7 new incorporations in the city mid-segment under the Tryp brand. Excluding the newest additions, total RevPar would have decreased by 1.8%.

Regarding the European Resort Division, the decrease of 4.3% in RevPar is mainly explained by the poor performance in Tunisia in 2002 (40% RevPar decrease), together with the rest of North of Africa and the Middle East as a tourism destination. On the other hand, Spanish resorts have reported an accumulated 1% RevPar increase which is a merit in light of the difficulties suffered in the Spanish tourism industry in 2002: a 17% fall in the number of German tourists, major price discounts by competitors and the imposition of the Ecotax and controversial tourism policy of the Government of the Balearic Islands. Nevertheless, Spain consolidated its position as the 2nd tourism destination in the world. Sol Meliá is the leading hotel company in Spain in both the leisure and city segments. By region, the Spanish Islands have been most affected by the negative impacts mentioned above, with a 2% RevPar decrease. Mainland Spain, with a 4% RevPar increase, has offset the poorer performance of the Islands. Our strong brand and leadership in Spain has helped us increase the number of Southern European guests behind much of the increase.

In relation to the European City Division, the 1.7% RevPar decrease is basically explained by the newest incorporations under the Tryp brand (Alcalá 611 and Atocha in Madrid, Jerez, Barcelona Aeropuerto, Las Matas, Recoletos, and Verona). Excluding this effect, RevPar in the division would have decreased by 0.7%. In Spanish cities, RevPar of comparable hotels decreased by 0.8%. Total Revenues of comparable hotels have increased by 0.4% thanks to Food & Beverage sales, especially in Madrid, Barcelona and Seville, due to the increase of Congress and Convention activity and to our leading position in these cities.

The company has seen a positive development of the city hotel business as 2002 went by. Madrid continued to improve RevPar on a quarterly basis, Q1: -7.8%, Q2: -4.1%, Q3: +3.7%, Q4: +15.3% together with the rest of Spanish cities since last quarter, Q1: +4.5%, Q2: -8.4%, Q3: -3.3%, Q4: +11.1% (Q1 was very positively affected by the transfer of Congresses and Conventions cancelled in 4Q01 after 11-S to 1Q02, specially in Seville). In the specific case of Madrid, the critical mass created after the Tryp consolidation and the incorporation of these hotels to our Central Reservation System and Sales & Marketing programmes is behind the positive increases in RevPar in 2002. Accumulated RevPar in Madrid increased by 0.6%, which compares with a 0.7% decrease in the market. The Company believes that the promotion of Madrid as a leisure destination will continue to have positive impact going forward.

In Europe, excluding Spain, the Company has reported a 24% increase in revenues derived from the finalisation of the process of refurbishments and the maturity of the newest acquisitions.

The Meliá White House (London) reported an accumulated 26% RevPar increase in 2002 due to a change in segmentation by which the hotel is reducing its dependency on the leisure segment in favour of business travellers. This will also have a positive effect going forward.

Regarding the Americas Division, RevPar has decreased by 15.4%, negatively affected by the poor performance of the Gran Meliá Caracas due to the instability in Venezuela, reflected in a 32.4% RevPar decrease in 2002. The Dominican Republic (33% of the owned rooms in the Division) performed very satisfactorily during the year, as reflected

in an accumulated 12.1% RevPar increase, thanks to the quality of the product and the increasing importance of the destination, reflected by the increase in the number of flights from the US (specially New York and Miami) to Punta Cana, where Sol Meliá owns 1,500 rooms. The Spanish–speaking Caribbean has gained market share over both the French and English-speaking Caribbean thanks to better "value for money". Mexico, and specially the area of Cancun and Cozumel, remained stagnant, directly related to the slowdown in the US travel market and Convention activities. Nevertheless, during the first few weeks of 2003, the resort areas of Mexico are recovering satisfactorily according to our expectations and reporting significant increases in comparison with same period of last year.

Table 1: Hotel statistics 02/01 (RevPar & A.D.R. in Euros)

Owned & Leased Hotels Dec-02/01		% Occupancy	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
AMERICAS	**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

Please find below a breakdown of the components of growth in room revenues at the hotel level for owned and leased hotels. The increases in available rooms in the European City Division are explained by our hotels in Italy (Meliá Milano, 288 and Tryp Verona, 203 rooms) and Spain (Tryp Alcalá 611, Tryp Atocha and Tryp Las Matas in Madrid, Tryp Jerez, Tryp Barcelona-Aeropuerto, and Tryp Recoletos and Meliá Trujillo). The decrease in available rooms in the European Resort Division is explained by the loss from the portfolio of the leased Sol Tropical in Majorca and the shorter season of some of our resorts hotels in the Balearic Islands (delayed opening and early closes).

Table 2: Breakdown of total room revenues owned/leased hotels 02/01

% Increase Dec 02/01	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPar	-4,3%	-1,7%	-15,4%	-3,6%
Available Rooms	-2,8%	9,4%	4,9%	3,3%
Room Revenues	-7,0%	7,6%	-11,2%	-0,4%

In the European Resort Division, the split of Room Revenues between Spain and Tunisia is as follows: Spain (-2.5%), Tunisia (-45.4%). In the European City Division the Company has reported positive growth in each quarter (Q1: +7.3%, Q2: +12.9%, Q3: +9.2%, Q4: +17.1%)

The only increase in revenues has taken place in the European City Division due to the addition of new available rooms .

Table 3: Hotel revenues split 02/01 for owned/leased hotels

Dec-02/01	E.RESORT			E.CITY			AMERICA			TOTAL		
(million Euro)	**02**	**%o/01**	**01**	**02**	**%o/01**	**01**	**02**	**%o/01**	**01**	**02**	**%o/01**	**01**
ROOMS	181	-7%	194	295	8%	274	74	-11%	83	550	0%	552
F&B	115	1%	114	103	9%	94	76	-7%	82	294	1%	290
OTHER REVENUES	13	-21%	16	23	4%	23	19	-7%	21	56	-7%	60
TOTAL REVENUES	309	-5%	325	421	8%	391	169	-9%	186	899	0%	902

"Other Revenues" in the European Resort Division is explained by the decrease in foreign currency exchange and a drop in sales of our in-house points of sale explained by decrease in occupancy rates in the Spanish Islands.

2.2. MANAGEMENT BUSINESS

Management fees have increased by 0.9%, despite the 8.7% fall reported in our last results release. Sol Meliá has witnessed a 59.7% increase in management fees in the fourth quarter thanks to the positive performance of the European City and Americas Division on a comparable hotel basis and the new incorporations.

In the European Resort Division, total fees have increased by 5.2%. This is explained by the satisfactory performance of our resorts in Croatia (+8%) and our latest incorporations: Gran Meliá Volcán Lanzarote (255 rooms), Meliá Benidorm (526 rooms), Sol Suncrest (457 rooms) and Meliá Poltu Quatu (140 rooms).

Regarding the European City Division, fees have increased by 9.0%. The good performance of mainland Spain and the incorporations of three new management contracts have has a positive impact on the results of the division.

In Latin America and the Caribbean, despite a 9.3% decrease in fees, we are witnessing a slow but constant recovery. This decrease is explained by the negative economic situation and the political instability in local feeder markets, which has damaged the performance of our hotels, especially in Brazil, where fees have decreased by 30.6%, also due to the depreciation of the Real. The slowdown in Brazil explains the drop in incentive fees due to the fact that in some hotels all fees are on an incentive basis, as is the case of the Gran Meliá Sao Paulo. The economic slowdown in the US and the reluctance of US tourists to make long distance journeys has also severely affected this division, especially in Mexico and Cuba. Although 2002 has been a difficult year in Cuba due to decreases in the number of visitors, fees in that division have increased by 2.5%, showing a positive trend that is continuing in 2003. In Cuba, we have step-up Incentive fees in management contracts for which last year we did not collect fees in many hotels. Such effect is behind the increase in this item in 02.

In Asia, the negative trend has continued in the fourth quarter and fees are down by 15.7%. As we anticipated, the terrorist attacks in Bali have had a tremendous impact in the region.

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Mn)		Dec -02	Incr. 02/01	Dec -01
EUROPEAN RESORT	**Basic**	7,5	7,4%	7,0
	Incentive	5,0	1,9%	4,9
		12,5	**5,2%**	**11,9**
EUROPEAN CITY	**Basic**	6,2	4,1%	6,0
	Incentive	2,5	23,3%	2,1
		8,7	**9,0%**	**8,0**
AMERICAS	**Basic**	3,7	3,9%	3,6
	Incentive	2,6	-23,2%	3,4
		6,4	**-9,3%**	**7,0**
ASIA-PACIFIC	**Basic**	1,6	-10,2%	1,8
	Incentive	1,4	-21,0%	1,8
		3,0	**-15,7%**	**3,6**
CUBA	**Basic**	8,7	-3,1%	9,0
	Incentive	1,1	93,6%	0,6
		9,8	**2,5%**	**9,6**
Total Basic		27,7	1,6%	27,3
Total Incentive		12,7	-0,7%	12,8
TOTAL		**40,4**	**0,9%**	**40,1**

2. Income Statement

- **Revenues**

  Total Revenues have marginally decreased by 0.6% thanks to the maintenance of hotel revenues and management fees at the same level as last year, i.e. –0.3% and +0.9% respectively. Other revenues item has decreased by 4.4% which includes Casinos, Time Sharing and technical services related with the management business. Going forward, the Time-Sharing business is an area where the Company wants to be focused in the future.

- **Operating Expenses**

  Total Operating Expenses have increased by 0.3% explained by the new hotels added to the Group portfolio and an increase in rental expenses of some former Tryp hotels derived from the merger between Sol Meliá, S.A. and Tryp S.A. by which, according to the Spanish Building Lease Law, the owners of the hotels are entitled to such increases. Excluding these two effects, Total Operating Expenses would have decreased by 0.4%

  Personnel expenses decreased by 0.4%, decreasing by 2.1% in comparison with December 2001 on a like-for-like basis after the rationalisation of duties and working hours at both the hotel and corporate level.

  As of December, the Company has materialized cost savings estimated at € 31.7 million, of which 51% has been generated in European hotels, 37% in hotels in Latin America & the Caribbean and 12% has been saved at the Corporate level.

- **EBITDA/R**

  Total EBITDAR –EBITDA excluding rentals– has increased by 0.5 while consolidated EBITDA has decreased by 3.4% explained by the increase of the Rental Expenses item due to the newest incorporations. The newest incorporations have not yet increased our EBITDA02; however, they will have a positive impact in 03. The recovery on a quarterly basis is explained by the resilience of the Spanish resorts during the course of 2002, specially the third quarter, and the continuing positive evolution of the European business segment.

- **Net Profit**

  Net interest expense has decreased by €11.1 million due to the decrease in interest rates, positive cover of the fixed rate interest and the efforts made by the Company in reducing debt during the course of the year. Such efforts will continue in 2003.

  Total depreciation and amortizations have increased by €11.4, mainly due to the reduction of the period of amortisation of software licenses from 10 to 6 years.

  Group Net Profit has decreased by 78.7% due to the significant increase of the negative exchange rates generated in Latin America (€ -19.8 Mn, in 02 vs €0.6 in 01) and the increase of extraordinary losses up to € 28.4 million. Extraordinary losses are explained by the provision of the 6.17% stake in AOL-Avant, , the provision of owned shares and the provision for disaffiliation of Tryp hotels and in Tunisia. None of these extraordinary losses nor the exchange rate differences have represented a cash-outflow, with the exception of the cost of the resolution of the leased contracts of some Tryp hotels and the hotels in Tunisia. The total cost of disaffiliation was € 10 million. On the other hand, such disaffiliations will represent an annual saving of around € 5.3 going forward.

  Excluding the effects mentioned above, Group net profit would have decreased by 12%.

  The resulting tax rate is 18% derived from a reduction in the general tax rate in Mexico.

"Minorities" increased by 69.3% due to the inclusion under this item of the preferred dividends regarding the € 107 million issue of preferred shares made on April 24th 2002 at a nominal cost of 7.8%. The amount of preferred dividends under this item has been € 4.9 Mn in 2002.

Table 5 : Sol Meliá Consolidated Income Statement

€ Mn	*Dec 2002*	*Dec 2001*	
Hotel Revenues	899,1	902,2	
Management Fees	40,4	40,1	
Other revenues	70,7	74,0	
Total revenues	**1.010,3**	**1.016,3**	**-0,6%**
Raw Materials	(127,6)	(129,6)	
Personnel expenses	(326,6)	(327,8)	
Change in operating provisions	(5,6)	(5,1)	
Rental expenses	(67,5)	(57,7)	
Other operating expenses	(249,9)	(254,8)	
Total operating expenses	**(777,1)**	**(775,0)**	**0,3%**
EBITDA	**233,2**	**241,3**	**-3,4%**
EBITDAR	**300,6**	**299,0**	**0,5%**
Profit/(loss) from equity investments	(4,993)	(2,7)	
Net Interest Expense	(54,8)	(65,9)	
Exchange Rate Differences	(19,8)	0,6	
Total financial profit/(loss)	**(74,6)**	**(65,3)**	**14,3%**
Depreciation and amortisation	(105,4)	(94,0)	
Consolidation Goodwill amortisation	(3,0)	(2,9)	
Profit/(loss) from ordinary activities	**45,2**	**76,6**	**-41,0%**
Extraordinary profit/(loss)	**(28,4)**	**4,1**	
Profit before taxes and minorities	**16,8**	**80,7**	**-79,2%**
Taxes	(3,0)	(16,0)	
Group net profit/(loss)	**14**	**64,7**	**-78,7%**
Minorities (P)/L	(9,7)	(5,7)	
Profit/(loss) of the parent company	**4,1**	**58,9**	**-93,1%**
FUNDS FROM OPERATIONS	**175,4**	**164,5**	**6,7%**

3. Balance Sheet

■ Assets

The “Trade receivable” item has decreased due to the collection of accounts from Tour Operators in the fourth quarter. The settlement of important accounts took place in October and November. The reduction of “Cash on hand and banks” item is related to the construction of the Paradisus Puerto Rico.

■ Liabilities & Shareholder’s Equity

Sol Meliá enjoys a sound debt structure. The proportion of fixed/variable rate borrowings is 65/35, of which 83% is denominated in Euros, 12% in USD and 5% in Sterling. The majority of liabilities are free of significant covenants. Only two loans, with a total amount outstanding of €100 Mn, are tied to the performance of some hotels. In any case, the breach of the covenants would only involve the early maximum redemption of €10 Mn, and will not compromise Sol Meliá liquidity whatsoever. No other covenants are linked with the rest of Sol Melia’s debt.

Total Net Debt amounts to € 1,131 Mn., € 80 Mn. below 2001(6.6% reduction) year-end. Liquidity is ensured thanks to €159 Mn. committed credit lines (€52 Mn. available), €1,500 EMTN Programme (€ 1,135 Mn. available) and €131 Mn. of cash available. Additionally, the fact that only 15% of asset value is used as collateral in our mortgage loans give us an availability of € 1billion of mortgaged backed financing.

The €340 Mn EMTN Public Issue that matures in 2006 is only subject to another covenant. If Sol Meliá’s credit rating falls below investment grade only as a consequence of a permitted reorganisation of the Company (a merger or large acquisition), then the holders of the notes may exercise a Put Option.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	**Dec 02**	**Sep 02**	***% Incr.***
Cash on hand and banks	130,9	153,0	
C/A with equity affiliates	31,2	31,2	
Inventory	28,0	33,6	
Trade receivable	138,2	186,8	
Other receivable	77,2	82,9	
Allowance for doubtful accounts	(37,8)	(25,5)	
S/T securities portfolio	10,4	2,9	
Loans due from affiliates	0,1	6,1	
Other loans	11,8	22,9	
Prepaid expenses	8,3	5,7	
Holding of own shares	11,4	18,9	
TOTAL CURRENT ASSETS	**409,5**	**518,5**	**-21,0%**
Goodwill from co. Fully consolidated	22,3	22,0	
Goodwill from co. equity participated	2,8	2,5	
Intangible assets and rights	420,4	428,0	
Intangible assets provisions and amortisation	(52,4)	(46,6)	
Net intangible fixed assets	**393,1**	**405,9**	
Land and buildings	1.669,9	1.706,7	
Technical installations and machinery	244,0	236,9	
Other fixed assets	347,8	362,4	
Tangible assets provision and depreciation	(598,8)	(612,7)	
Net tangible fixed assets	**1.662,8**	**1.693,3**	**-1,8%**
Equity Affiliates	26,7	26,9	
L/T loans due from affiliates	11,2	19,9	
L/T securities portfolio	57,4	66,9	
Other loans	89,4	73,4	
Provisions	(4,0)	(3,3)	
Financial investments	**180,7**	**183,8**	**-1,7%**
FIXED ASSETS	**2.646,1**	**2.801,6**	**-5,5%**
Deferred expenses	**21,3**	***27,6***	
Start-up expenses	**30,7**	***22,4***	
TOTAL ASSETS	**2.698,1**	**2.851,6**	**-5,4%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	**Dec 02**	**Sep 01**	***% Incr.***
Debenture Bonds Payable	19,8	28,7	
S/T loans	191,0	148,0	
S/T loans due to affiliated companies	0,6	7,0	
Trade accounts payable	125,6	145,6	
Other payable	50,2	87,6	
Prepaid income	4,4	4,0	
Operating provisions	0,0	0,0	
TOTAL CURRENT LIABILITIES	**391,6**	**420,9**	**-7,0%**
Debenture Bonds Payable	570,8	554,6	
L/T loans	480,5	554,4	
L/T loans due to affiliated companies	5,4	0,0	
Other L/T Liabilities	91,4	87,9	
TOTAL L/T LIABILITIES	**1.148,1**	**1.196,9**	**-4,1%**
Share capital	37,0	37,0	
Share premium	489,6	433,7	
Distributable reserves	18,9	18,9	
Reserves in companies fully consolidated	341,3	325,1	
Reserves in companies equity participated	2,3	2,7	
Revaluation reserves	49,3	49,3	
Non-distributable reserves	58,5	65,9	
Profit/(loss) previous year	(1,6)	46,6	
Differences in conversion of co. fully consolidated	(92,3)	(39,8)	
Differences in conversion of co. equity participated	(2,5)	(1,6)	
Consolidated profit/(loss)	13,8	39,6	
Profit/(loss) attributable to external shareholders	(9,7)	(8,2)	
Interim dividend	(6,2)	(4,0)	
TOTAL SHAREHOLDERS' EQUITY	**898,3**	**965,3**	**-6,9%**
First consol. Reserves from co. fully consolidated	19,1	21,9	
First consol. Reserves from co. equity participated	0,0	0,0	
Deferred income	13,9	14,7	
Provisions for risks and expenses	53,6	59,0	
MINORITY INTERESTS	173,5	172,9	
TOTAL S/HS' FUNDS AND LIABILITIES	**2.698,1**	**2.851,6**	**-5,4%**

Table 7. Financial Ratios

	Dec' 02	Dec' 01
GEARING RATIOS		
Net Debt / Total Equity	105,6%	105,4%
Net Debt / Capital	51,4%	51,3%
FIXED CHARGE COVERAGE RATIOS		
EBITDA / Net interest	4,3×	3,7×
EBIT/ Net interest	2,3×	2,2×
LIQUIDITY		
Current Assets / Current Liabilities	1,05×	1,10×
Cash / Current Liabilities	33%	40%

4. Expansion

The table below shows a description of the progress in the Sol Meliá hotel portfolio during 2002:

Table 8. Expansion plan.

Owned & Leased	01/01/02		ADDITION		LOSSES		CHANGES		31/12/02		SIGNED		TOTAL	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**91**	**14.369**	**6**	**806**	**5**	**442**	**0**	**102**	**92**	**14.835**	**10**	**1.387**	**102**	**16.222**
Owned Hotels	37	7.257	0	142	0	9	0	0	37	7.390	0	0	37	7.390
Leased hotels	54	7.112	6	664	5	433	0	102	55	7.445	10	1.387	65	8.832
EUROPEAN RES.	**61**	**17.154**	**2**	**381**	**2**	**595**	**2**	**359**	**63**	**17.299**	**0**	**0**	**63**	**17.299**
Owned Hotels	42	13.016	0	38	0	0	0	0	42	13.054	0	0	42	13.054
Leased hotels	19	4.138	2	343	2	595	2	359	21	4.245	0	0	21	4.245
AMERICA	**12**	**4.570**	**0**	**58**	**0**	**0**	**0**	**0**	**12**	**4.628**	**2**	**735**	**14**	**5.363**
Owned Hotels	12	4.570	0	58	0	0	0	0	12	4.628	1	490	13	5.118
Leased hotels	0	0	0	0	0	0	0	0	0	0	1	245	1	245
TOTAL OWNED	91	24.843	0	238	0	9	0	0	91	25.072	1	490	92	25.562
TOTAL LEASED	73	11.250	8	1.007	7	1.028	2	461	76	11.690	11	1.632	87	13.322
TOTAL	**164**	**36.093**	**8**	**1.245**	**7**	**1.037**	**2**	**461**	**167**	**36.762**	**12**	**2.122**	**179**	**38.884**

Management & Franchise		01/01/02		ADDITION		LOSSES		CHANGES		31/12/02		SIGNED		TOTAL	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**M**	22	3.757	5	500	2	145	-2	-130	23	3.982	1	299	24	4.281
	F	21	2.474	0	34	4	536	2	195	19	2.167	0	0	19	2.167
EUROPEAN	**M**	58	20.264	1	275	4	581	-2	-526	53	19.432	7	1.844	60	21.276
RESORT	**F**	15	4.487	1	828	4	897	0	0	12	4.418	0	0	12	4.418
AMERICA	**M**	30	6.280	6	1.764	2	468	0	0	34	7.576	9	1.951	43	9.527
	F	10	1.364	0	0	1	103	0	0	9	1.261	0	0	9	1.261
ASIA-PACIFIC	**M**	10	3.559	0	0	0	20	0	0	10	3.539	0	0	10	3.539
	F	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CUBA	**M**	22	8.276	1	366	0	62	0	0	23	8.580	1	240	24	8.820
SUBTOTAL	**M**	142	42.136	13	2.905	8	1.276	-4	-656	143	43.109	18	4334	161	47.443
	F	46	8.325	1	862	9	1.536	2	195	40	7.846	0	0	40	7.846
TOTAL		**188**	**50.461**	**14**	**3.767**	**17**	**2.812**	**-2**	**-461**	**183**	**50.955**	**18**	**4334**	**201**	**55.289**
TOTAL GROUP		**352**	**86.554**	**22**	**5.012**	**24**	**3.849**	**0**	**0**	**350**	**87.717**	**30**	**6.456**	**380**	**94.173**

M= Management; F= Franchise

Regarding the leased hotels, the newest additions are the Tryp Alcalá, Tryp Las Matas and Tryp Atocha – all of them in Madrid- together with the Tryp Jerez, Tryp Barcelona Aeropuerto and a Meliá Hotel in Switzerland, all them forming part of the European City division. Within the European Resort Division the additions are the Sol Pirámide Salou and the Sol Vielha.

In relation to the management business, there have been 13 new additions. The Meliá Las Claras Boutique Hotel in Salamanca, plus 3 Tryp hotels in Spain have been added to the European City Division. The new incorporation in the Resort Division corresponds to the Meliá Poltu Quatu in Sardinia. The new additions in the Americas division are 6 city hotels in Brazil all under management contract. In the Cuba division, the addition corresponds to the Sol Pelicanos hotel.

One new hotel has been added under a franchise contract: the Sol Costa Daurada near the leisure park "Universal Mediterránea" in Spain.

During the course of the year, Sol Meliá has dropped a total of 24 hotels. 7 of them were under lease contract, of which 5 belonged to the European City division: Tryp San Sebastian Playa, Tryp Atlántico, Tryp Monte Real, Tryp Segria and Tryp Almanzor. The other 2 losses in the European Resort division correspond to the Meliá Mahdia Palace and Meliá El Menzah, in Tunisia. 9 more were franchised hotels: 3 in Portugal, 3 in Spain,1 in Brazil and two in Turkey, and the rest (8 hotels) were under management contract: 3 in Spain, 1 in Brazil, 2 in Morocco, 1 in Lebanon and 1 in the Dominican Republic.. These decisions are framed within the disaffiliation process that the company indicated it would pursue over recent months in order to increase brand consistency.

During the course of 2003 and in forthcoming years, the Company will add to the portfolio 10 leased hotels in the European city division, and the Gran Meliá Mofarej in Brazil to be opened in May 2003. Under property business, the Paradisus Puerto Rico will be opened in late 2003. Under management contract 18 hotels will be added: 1 in the European city division, 7 in the European resort, 9 in Americas and 1 in Cuba, making a total of 30 additions with 6,456 rooms.

With those future additions the total portfolio of the group will rise to 380 hotels and 94,173 rooms.

Table 9. Expansion summary

	HOTELS	ROOMS
01/01/2001	**352**	**86.554**
ADDITIONS	22	5.012
LOSSES	-24	-3.849
31/12/2002	**350**	**87.717**
SIGNED	30	6.456
TOTAL	**380**	**94.173**

Table 10. Signed projects of owned and leased hotels

	2003		2004		2005		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
EUROPEAN CITY								
LEASE								
Spain	3	520	3	377			6	897
Italy			1	140			1	140
Tunisia								
Switzerland	2	164					2	164
Germany	1	186					1	186
Subtotal	**6**	**870**	**4**	**517**			**10**	**1,387**
AMERICA								
PROPERTY								
Puerto Rico	1	490					1	490
LEASE								
Brazil	1	245					1	245
Subtotal	**2**	**735**					**2**	**735**
TOTAL	**8**	**1,605**	**4**	**517**			**12**	**2,122**

Table 11.Impact on EBITDA 2003 of disaffiliations

	Nº Rooms	Impact EBITDA'03
LEASE	1.937	-5,30
4 Spain / 1 Portugal	423	-1,30
Tunisia	1.514	-4,00
MANAGEMENT	8.641	1,80
FRANCHISE	1.395	0,10
TOTAL	**13.910**	**-3,40**

Table 11 shows the impact of the disaffiliations that have taken place in 2002 and 2003 on the 2003's EBITDA. Management and franchise fees of those contracts disaffiliated mainly for brand-consistency reasons are widely offset by the loss-making hotels that came in the Tryp acquisition, including those in Tunisia disaffiliated (4) or changed its contract to management (2).