Sol Meliá
HOTELS & RESORTS

2003 First Half Results

Financial Summary

Total Revenues and EBITDA have decreased by 4.3% and 13.5% respectively. These figures imply a sharp improvement in the second quarter where these items have changed by only - 1.0% and +0.2% respectively versus decreases by 8.0% and 26.1% in Q1 confirming that the worst is over. The significant recovery of the resort areas in Spain and the Caribbean after the Iraqi war are behind such improvement. Apart from the general slowdown in the travel and tourism industry due to the uncertainty created by the war in Q1, the Company has also been negatively affected by the appreciation of the Euro versus the US dollar. Excluding the currency effect, Revenues and EBITDA would have changed by +1% and -3% respectively up to June. At the financial result level, .net debt has decreased in € 17 million in the quarter and interest expenses have decreased by 5.8% versus 1H02. Net Profit before and after minorities has increased by 27.8% and 18.0% respectively.

Operations

Total accumulated RevPar changed by 2.1% which would have been a +1% excluding the currency effect.

In the Americas Division, RevPar decreased by 20.8%, negatively affected by the appreciation of the Euro vs. the US dollar. Excluding this effect, RevPar would have remained flat. The poor performance of the Gran Meliá Caracas (15% of owned rooms in the Division), which has reported a 63% RevPar decrease in H1 is also behind such decrease. Excluding the currency effect and the G.M Caracas, our properties in Mexico and the Dominican Republic have reported a combined 11.5% RevPar increase in USD derived from the sales efforts made in 2002 and the sharp recovery of the Spanish-speaking Caribbean destinations. By country, the Dominican Republic and Mexico increased by 20% and 7% respectively in USD.

In European Resorts, RevPar increased by 10.9% in Q2 vs –2.7% in Q1 derived from a major recovery in the Spanish resorts following the end of the Iraqi war and disaffiliations of .Tunisian leases in the second half 2002. The perception of Spain as a safe-heaven destination and the continued recovery of the Northern European markets are behind such increase. The positive evolution of our resorts worldwide continues after the closure of the first half.

In the European City Division, RevPar has decreased by only 2.7% . The cancellation of Congresses and Conventions, the reduction of business travel and the general slowdown in bookings in the main cities of the Division largely explain the decrease. The supply increase in the Spanish cities, has also been an issue.

Main Variables

(Million Euro)	Jun 03	Jun 02	%
REVPAR (Euros)	42.5	43.4	-2.1%
REVENUE	457.0	477.7	-4.3%
EBITDAR	120.1	135.7	-11.5%
EBITDAR MARGIN	26.3%	28.4%	-2.1%
EBITDA	90.7	104.8	-13.5%
NET PROFIT (Before min.)	10.3	8.1	27.8%
NETPROFIT PARENT CO.	4.5	3.8	18.0%
FUNDS FROM OP.	56.4	71.3	-20.9%

Recent Achievements

Sol Meliá and the Rank Group have recently created a joint venture to develop Hard Rock Hotels in exclusivity. The initiative is supported by financing from Becker Ventures LLC, one of the largest private investors in the USA, with up to 1 billion dollars to finance future projects. The first Hard Rock Hotel to be managed by the joint venture, which will also become Sol Meliá's first hotel in the United States, will be located in Chicago and is scheduled to open next winter.

During the quarter, the Company has opened its second managed hotel on the island of Sardinia: the Meliá Olbia which becomes Sol Melia's fifth hotel in Italy.

Sol Meliá has refinanced 60% of the outstanding convertible bond due September 2004 with mortgages with an average cost of 3.48 % and 15 years length. Following the closure of the First Half, the Company has sold a plot of land in *Zahara de los Atunes* (Cadiz, Spain) by € 8.4 million.

Prospects

Following the closure of the First Half, the Company sees that the resort segment will continue to be strong in both Spain and the Americas. Summer season is evolving satisfactorily in the main Spanish destinations and the positive trend is likely to continue in the Caribbean resorts. On the other hand there are no signs of recovery in the performance of the GM Caracas in light of the political instability. The weakness and lack of visibility of the European cities is still there with few signs of recovery in the coming months. The Company will continue working on the strengthening of its balance sheet and the further reduction of debt level . The internal cleaning-up process carried out in 2002 will start to pay off in the coming quarters.

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 Aug 5th , 03

Average Daily Volume (€)	1,969,049
Period High, August 5th	€ 5.88
Period Low, Mar 10th 2003	€ 2.82
Market Capitalisation August 5th (€ 5.88)	€ 1,086.49 Mn

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

Dear friend,

Sol Meliá is happy to verify the improvement at the operating level anticipated in the last quarterly report after reaching the bottom in the month of April, we are pleased to announce growth in the second quarter.

Our efforts to adapt our structure to the difficult trading conditions in the market since late 2001, with the subsequent measures implemented in 2002 to a) cleaning up our balance sheet b) increase disintermediation c) disaffiliation of loss making and brand inconsistent hotelsd) cost reduction has as allowed us to see the positive benefits come through as trading conditions in May and June improved.

Our conservative approach in 2002 during which contingencies where fully provisioned generating extraordinary losses make us feel confident that no further contingencies will appear and any change will be for the best.

Our strategy to diversify our client base and to disintermediate our sales efforts is showing its results through the strong increase in direct sales in our reservation systems: sales through our Internet increased from 3.6% to 15.5% of centralised sales. Disintermediated sales have reached levels comparable to those of our major international competitors.

The above measures together with improved trading conditions have led to the strong recovery in operations in the second quarter.

The recovery of the Spanish resorts in May and June and the improvement of the urban segment in May is largely behind such recovery. Latin America and the Caribbean continue strong although such positive evolution is not fully reflected on the results derived from the appreciation of the Euro versus the US Dollar.

Going forward, the resort areas will continue strong in both Spain and the Caribbean where demand has recovered since the end of the Iraqi war.

The continuous increase of tourist arrivals in Spain is benefiting our resort business where we have been able to attract a greater number of customers while improving the A.D.R.

In the urban segment in Q2 we have experienced a decline in both the congress & convention markets and the group business, even though we saw a slight pick-up of business travel and meetings delayed from the first four moths of the year to the month of May.

The weakness and lack of visibility of the European cities and new supply in certain Spanish cities is still there with few signs of recovery in the coming months. We are beginning to see some timid signs of recovery from the congress & convention markets but will have to wait to see this confirmation and improvements.

Sol Meliá and the Rank Group have recently created an exclusive joint venture to develop Hard Rock Hotels. Financing from Becker Ventures LLC, one of the largest private investors in the USA, with up to 1 billion dollars to finance future projects supports the initiative.

The joint venture with the Rank Group forms part of a development strategy based on alliances with major companies in the leisure and entertainment business recently implemented by Sol Meliá. The Company also has the intention to maximise revenues and sales per square metre through a more efficient use of the space and with alliances that can complement our business. We will actively explore the sale of time share units to improve the return on assets of the existing land and properties.

After the closure of the first half, the Company has sold a plot of land in *Zahara de los Atunes* (Cadiz, Spain) by € 8.4 million. This disposal should be framed in the more active asset management policy that the Company announced last year by which Sol Meliá will dispose some €30 to €40 million on an annual basis. With regard to this, the Company disposed of two plots of land in Spain and Mexico in 4Q02.

In relation to the debt structure, the Company has reduced the debt level by € 17 million in the quarter. During the last months, the Company has raised liquidity through bilateral mortgages with the aim to refinance debt while improving average maturity and funding cost. We have refinanced 60% ie; €130 million of the €224 million outstanding convertible bond due by September 2004. The average length of the recently signed loans is 15 years and the average interest rate is 3.48% according to current interest rates. These mortgage loans have been agreed with no financial covenants.

The total long term maturity has been increased from 4.4 to 5.0 years while the average cost of long-term debt has decreased from 4.81% to 4.67%.

We expect to continue along this line and reduce progressively the amount of debt. We have already partly refinanced the outstanding debt for 2004 and with market conditions as liquid as we have seen them, both in traditional as well as capital markets, we are confident of refinancing the outstanding maturities at satisfactory terms for the Company.

Jaime Puig de la Bellacasa

E.V.P. of Communication & Institutionnel Relations

2. Information on Operations

2.1. PROPERTY BUSINESS

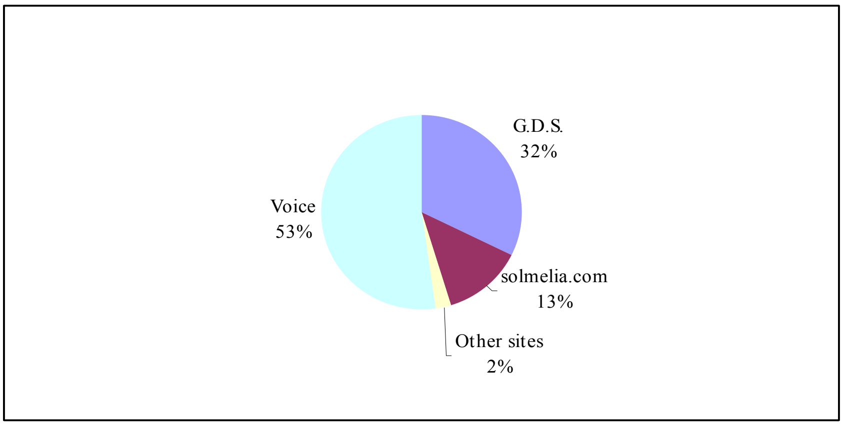
RevPar of the owned and leased hotels has decreased by 2.1%, partly due to the appreciation of Euro vs. US dollar which has a serious impact in the Americas. Excluding this effect, total RevPar increases by 1%. The Company has perceived an important recovery during Q2 where RevPar has remained flat (+2% excluding currency effect) vs –4.6% in Q1.

The European Resort Division, RevPar increases by 5.5% in the semester due to the sharp recovery in the operating performance of Spain after the finalisation of the Iraqi war. The Canary Islands explain such evolution with an 8% RevPar increase in the second quarter. The Balearics and Mainland Spain has also shown a continuous positive evolution in Q2.. Sol Meliá has benefit from a pick-up shown in demand and bookings as can be seen in the 3.1% increase in occupancy together with the 1.9% increase in A.D.R. The Company is also happy to confirm the recovery of the Balearic Islands, the area where the Company was more cautious at the beginning of the year.. As suspected the change of government in the Balearics with a different conception of the role of tourism in the islands and the elimination of the Ecotax is having a positive impact on the local industry in Q3.

During the course of the year, the European City Division has been negatively impacted by the cancellation of Congresses and Conventions, reduction of business travel and general slowdown in bookings to the main capital cities of Europe. Despite perceiving certain improvement in Q2, derived from an improvement in May after the Iraqi war, with a 1.5% RevPar decrease vs. –3.3% in Q1, the Company does not perceive signs of recovery in Q3 and the lack of visibility remains. RevPAR up to June data from the HotelBenchmark Survey by Deloitte & Touche showed RevPAR declined 9.1% in the European markets, far below the 2.7% RevPar decrease reported by Sol Meliá. Fall in Congresses and Convention activities and the general urban instability has been partially offset thanks to the commercialisation of our own offers and programs via solmelia.com which is a differentiating factor of the Company versus our major competitors in this segment. In Spain, only 18% of hotels are sold through the Internet. As previously stated, Sol Meliá continues to strengthen its centralised distribution strategy, with special focus on the Internet, looking for global distribution, disintermediated sales and further cost savings in the reservation process.

Up to June, the evolution of the owned channels of distribution evolves as follows in comparison with the same period last year: CRS (52.5% VS 67.8%), G.D.S.'s (32.1% vs 28.6%), Internet (15.4% vs 3.6%). According to the eTrack survey, the percentage of electronic (Internet + GDS's) / non electronic (CRS) bookings represent 58% / 42% for the 33 major brands worldwide.

Breakdown of bookings by channel of the Sol Melia's brands up to June 2003:



Please find below the breakdown of bookings by channel of the 33 major brands worldwide (source: TravelCLICK):

2002 Central Reservation Office Hotel Bookings	Percent of 2002 Reservations	Percent of 2001 Reservations	Change in Volume of Reservations 2002 Over 2001
Third Party Web Sites	6%	4%	65%
Brand Web Sites	13%	8%	80%
Total for Internet	19%	12%	75%
GDS Travel Agent	39%	42%	-7%
Total for Electronic (GDS plus Internet)	58%	54%	20%
Voice	42%	46%	-9%
Total For CROs	100%	100%	4%

In the Americas Division, RevPar decreased by 20.8% in the semester negatively affected by the appreciation of Euro vs. US dollar and the poor evolution of the G.M. Caracas. Excluding these effects RevPar would have increased by 11.5% thanks to the sharp recovery of our properties in Mexico and Dominican Republic which RevPar has increased by 7% and 20% respectively in USD.

Table 1: Hotel statistics 03/02 (RevPar & A.D.R. in Euros)

OWNED&LEASED HOTELS Jun 03/02			Occupancy	RevPar	A.D.R.
EUROPEAN RESORT		**2.003**	69.7%	29.2	41.9
	% o/ 2002		**3.1%**	**5.1%**	**1.9%**
		2.002	67.6%	27.8	41.1
EUROPEAN CITY		**2.003**	61.7%	53.9	87.4
	% o/ 2002		**0.2%**	**-2.7%**	**-3.0%**
		2.002	61.5%	55.4	90.1
AMERICA (*)		**2.003**	66.7%	41.7	62.5
	% o/ 2002		**5.2%**	**-20.8%**	**-24.7%**
		2.002	63.4%	52.7	83.0
TOTAL		**2.003**	65.5%	42.5	64.9
	% o/ 2002		**1.9%**	**-2.1%**	**-3.9%**
		2.002	64.3%	43.4	67.5

(*) RevPar without currency exchange would have remained flat

Please find below a breakdown of the components of growth in room revenues at the hotel level for owned and leased hotels. The decreases in available rooms in the European Resort Division are largely explained by the process of disaffiliation carried out in 2002 and the first quarter of 2003 regarding the leased hotels in Tunisia. The increase in available rooms in the European City Division is explained by the incorporation under lease agreement of the Tryp Alcalá 611, Tryp Atocha and Tryp Las Matas in Madrid, Tryp Jerez, Tryp Barcelona-Aeropuerto and more recently Tryp León in Spain and the Meliá Boutique Carlton in Lausanne and Tryp De Berne in Switzerland which offset the disaffiliation process occurred in 2002. In the Americas the 16.7% decrease in room revenues, becomes a 0.4% increase when excluding the currency effect.

Table 2: Breakdown of total room revenues owned/leased hotels 03/02

% Increase Jun - 03/02	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
RevPar	5.1%	-2.7%	-20.8%	-2.1%
Available Rooms	-9.9%	1.0%	5.2%	-3.1%
Room Revenues	-5.4%	-1.8%	-16.7%	-5.1%

Find on table 3 the breakdown of revenues of owned and leased hotels. Total revenues decreases by 6% which becomes a 3% decrease on a like for like basis. By division, the Americas is the one most affected by the currency effect.

The 10% increases at the "Other revenues" item in the European City division is explained by the increase in revenues derived from the commercialisation of the Meliá White House apartments

Table 3: Hotel revenues split 03/02 for owned/leased hotels

Jun - 03/02	**E.RESORT**			**E.CITY**			**AMERICA**			**TOTAL**		
(Million Euro)	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**	**03**	**%o/02**	**02**
ROOMS	66	-5%	69	145	-2%	147	34	-17%	41	244	-5%	257
F&B	47	-8%	51	50	-2%	51	39	-8%	42	135	-6%	144
OTHER REVENUES	5	-13%	6	13	10%	12	8	-28%	11	26	-9%	28
TOTAL REVENUES	118	-7%	126	207	-1%	210	80	-14%	93	405	-6%	429

In the Americas, "Room Revenues", "Food& Beverage", "Other Revenues" and "Total Revenues" change by +0.4%, +11%, -10% and +4% respectively when excluding the currency effect. The drop in "other revenues" is largely explained by the slowdown of the G.M. Caracas and the annexe apartments.

2.2. MANAGEMENT BUSINESS

Management fees dropped by 7.0% mainly due to the decrease in number of managed/franchised rooms by 12% in the same period last year derived from the disaffiliation of non-brand consistent hotels together with the drop from the portfolio of the hotels from the Croatian company Jadran-Turist Rovinj d.d. that unilaterally terminated the management contract with Sol Meliá in January 2003.

In the **European resort** hotels, the decrease by 13.2% is mainly explained by the disaffiliation, in the first quarter, of 4 branded hotels (970 rooms), 3 camping parks and a further 4 unbranded hotels that represent 6,064 rooms in Croatia. Morocco and Tunisia are still under pressure and fees coming from the region dropped by 20%.

The **European city** hotels total fees decreased by 8.1%. These hotels have been the most affected by the cancellation of Congresses and Conventions, reduction of business travel and general slowdown in bookings. Madrid is being one of the most affected cities by such circumstances and fees coming from these hotels fall by 10%.

In **America**, the ongoing negative economic situation in local feeder markets, is still damaging the performance of our city hotels, specially in Brazil. This slowdown in Brazil explains the drop in fees, specially the incentive 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 **Asia-Pacific** division has been seriously affected in the first half of 2003 by both , SARS disease and the Iraq war. As a consequence, fees in the region dropped by 53,6%. Such a decrease is a consequence of the slowdown in the travel sector, either in business or in leisure travel to any Asian destination. **Cuba** continues with its excellent performance along 2003 and fees coming from the Caribbean country increase in first half by 19.7%. The main reasons for such an improvement are the increase in both Revenues and Gross Operating Profit and the ongoing recovery in two of the main feeder countries: Germany and Canada. With the recovery of the main clientele, the division is improving at the operating level, increasing A.D.R.´s and Occupancy rates by double digits.

Table 4: Management fee of hotels managed for third parties

FEE REVENUES € Mn.		Jun -03	Incr. 03/02	Jun -02
EUROPEAN RESORT	**Basic**	2.7	-15%	3.1
	Incentive	0.9	-9%	1.0
		3.6	**-13%**	**4.2**
EUROPEAN CITY	**Basic**	3.0	2%	2.9
	Incentive	0.9	-30%	1.4
		3.9	**-8%**	**4.3**
AMERICAS	**Basic**	1.9	-11%	2.2
	Incentive	1.3	-22%	1.7
		3.3	**-16%**	**3.9**
ASIA-PACIFIC	**Basic**	0.4	-46%	0.8
	Incentive	0.2	-63%	0.6
		0.7	**-54%**	**1.5**
CUBA	**Basic**	5.2	21%	4.3
	Incentive	0.7	12%	0.7
		6.0	**20%**	**5.0**
Total Basic		13.3	-1%	13.4
Total Incentive		4.2	-22%	5.4
TOTAL		**17.5**	**-7%**	**18.8**

2. Income Statement

- **Revenues**

  Total Revenues have decreased by 4.3% which implies a –1% in Q2 versus a –8% in Q1. Such improvement is derived from an important recovery in our resorts in Europe. As previously stated, this item is negatively impacted by the appreciation of the Euro vs. US dollar. Excluding the currency effect, this item would have increased by 1%. “Other revenues” includes Casinos, Time Sharing and technical services related with the management business.

- **Operating Expenses**

  Operating expenses have decreased by 1.8%. The decrease in “Rental Expenses” by 4.6% is derived from the disaffiliations carried out in Tunisia, Spain and Portugal during the course of 2002 and first half 2003 which represent €3.7 million. This decrease is offset by the new lease contract that represents an additional amount of €2.5 million**.**

- **EBITDA / R**

  EBITDA and EBITDAR has decreased by 13.5% and 11.5% respectively, seriously impacted by the appreciation of Euro. Excluding currency, EBITDA has decreased by 3%. In the second quarter, EBITDA has increased by +0.2%.

- **Net Profit**

  At the financial result level, interest expenses have decreased by 5.8% derived from the decrease in the average cost of long term debt from 4.81% to 4.67%.

  Extraordinary profit of € 5.6 Mn. includes an extraordinary income derived from the liberalisation of a guarantee fund created with former Tryp owners when the acquisition of the company took place to respond to potential contingencies for a period of time after its purchase. The acquisition of Tryp is therefore fully completed and we do not foresee any additional contingencies.

  “Minorities “ item includes € 4.2 Mn of dividends derived from the preferred issue of € 107 Mn. made in April 2002.

Table 5 : Sol Meliá Consolidated Income Statement

€ Mn	*Jun 2003*	*Jun 2002*	
Hotel Revenues	405.0	427.2	
Management Fees	17.5	18.8	
Other revenues	34.6	31.7	
Total revenues	**457.0**	**477.7**	**-4.3%**
Raw Materials	(52.3)	(60.8)	
Personnel expenses	(161.0)	(161.3)	
Change in operating provisions	(1.5)	(2.0)	
Rental expenses	(29.5)	(30.9)	
Other operating expenses	(122.1)	(117.9)	
Total operating expenses	**(366.4)**	**(372.9)**	**-1.8%**
EBITDA	**90.7**	**104.8**	**-13.5%**
EBITDAR	**120.1**	**135.7**	**-11.5%**
Profit/(loss) from equity investments	(1.4)	(2.3)	
Net Interest Expense	(29.3)	(30.8)	
Exchange Rate Differences	0.9	(8.5)	
Total financial profit/(loss)	**(28.4)**	**(39.3)**	**-27.7%**
Depreciation and amortisation	(52.6)	(51.4)	
Consolidation Goodwill amortisation	(1.3)	(1.4)	
Profit/(loss) from ordinary activities	**7.0**	**10.5**	**-33.5%**
Extraordinary profit/(loss)	**5.6**	**0.9**	
Profit before taxes and minorities	**12.6**	**11.4**	**11.0%**
Taxes	(2.3)	(3.3)	
Group net profit/(loss)	**10.3**	**8.1**	**27.8%**
Minorities (P)/L	(5.8)	(4.3)	
Profit/(loss) of the parent company	**4.5**	**3.8**	**18.0%**
FUNDS FROM OPERATIONS	**56.4**	**71.3**	**-20.9%**

3. Balance Sheet

■ Assets

The increase in Treasury Stock is due to the acquisition of Sol Meliá's shares. In 2002, the Company provisioned € 9 Mn of Treasury stock at a closing price of € 3.77 per share.

■ Liabilities & Shareholder's Equity

With regards to the debt structure the Company has reduced the debt level by € 17 million in the quarter. During the last months, the Company has raised liquidity through bilateral mortgages with the aim to refinance debt while improving average maturity and funding cost. Maturity has been increased from 4.4 to 5.0 years while the average cost of debt has decreased from 4.81% to 4.67%.

The ratio of total mortgaged financing to total market value of real estate (valued in EUR 2.7bn by American Appraisal as of Dec 01) is less than 17%.

Table 6: Consolidated Balance Sheet (million Euros)

ASSETS	Jun 03	Mar 03	% Incr.
Cash on hand and banks	128.8	123.1	
C/A with equity affiliates	44.8	34.0	
Inventory	32.5	30.9	
Trade receivable	160.1	162.0	
Other receivable	100.1	99.2	
Allowance for doubtful accounts	(41.2)	(41.3)	
S/T securities portfolio	1.1	2.0	
Loans due from affiliates	0.2	0.1	
Other loans	30.0	14.3	
Prepaid expenses	5.7	8.4	
Holding of own shares	12.5	11.2	
TOTAL CURRENT ASSETS	**474.7**	**444.0**	**7%**
Goodwill from co. Fully consolidated	17.6	18.2	
Goodwill from co. equity participated	2.7	5.7	
Intangible assets and rights	408.4	411.3	
Intangible assets provisions and amortisation	(62.5)	(56.8)	
Net intangible fixed assets	**366.2**	**378.3**	**-3%**
Land and buildings	1,605.1	1,635.4	
Technical installations and machinery	261.5	253.5	
Other fixed assets	381.0	370.1	
Tangible assets provision and depreciation	(616.9)	(610.0)	
Net tangible fixed assets	**1,630.7**	**1,649.1**	**-1%**
Equity Affiliates	19.0	22.3	
L/T loans due from affiliates	10.8	11.0	
L/T securities portfolio	48.0	56.2	
Holding of own shares	2.7	2.0	
Other loans	63.0	63.5	
Provisions	(6.0)	(4.9)	
Financial investments	**137.6**	**150.1**	**-8%**
FIXED ASSETS	**2,609.1**	**2,621.5**	
Deferred expenses	***11.2***	***20.3***	***-45%***
Start-up expenses	***27.3***	***28.4***	***-4%***
TOTAL ASSETS	**2,647.6**	**2,670.2**	**-1%**

Table 6 : Consolidated Balance Sheet (continued)

LIABILITIES AND S/H'S EQUITY	Jun 03	Mar 03	% Incr.
Debenture Bonds Payable	9.9	3.9	
S/T loans	136.4	160.4	
S/T loans due to affiliated companies	4.8	3.1	
Trade accounts payable	143.8	132.2	
Other payable	78.0	64.5	
Prepaid income	2.8	3.8	
Operating provisions	0.0	0.0	
TOTAL CURRENT LIABILITIES	**375.6**	**367.8**	**2%**
Debenture Bonds Payable	558.2	556.6	
L/T loans	557.4	551.9	
L/T loans due to affiliated companies	7.5	1.0	
Other L/T Liabilities	79.0	79.3	
TOTAL L/T LIABILITIES	**1,202.0**	**1,188.8**	**1%**
Share capital	37.0	37.0	
Share premium	792.6	794.6	
Distributable reserves	18.9	18.9	
Reserves in companies fully consolidated	345.9	357.5	
Reserves in companies equity participated	1.7	6.6	
Revaluation reserves	49.3	49.3	
Non-distributable reserves	60.4	58.5	
Profit/(loss) previous year	(321.2)	(318.6)	
Differences in conversion of co. fully consolidated	(165.9)	(139.7)	
Differences in conversion of co. equity participated	(8.4)	(8.9)	
Consolidated profit/(loss)	10.3	2.7	
Profit/(loss) attributable to external shareholders	(5.8)	(2.6)	
Interim dividend	(0.2)	0.0	
TOTAL SHAREHOLDERS' EQUITY	**814.6**	**855.2**	**-5%**
First consol. Reserves from co. fully consolidated	17.7	19.1	
First consol. Reserves from co. equity participated	0.0	0.0	
Deferred income	14.1	13.5	
Provisions for risks and expenses	54.4	56.9	
Minority interests	169.1	168.8	
TOTAL S/HS' FUNDS AND LIABILITIES	**2,647.6**	**2,670.2**	**-1%**

Table 7. Financial Ratios

	Jun' 03	Mar' 03
GEARING RATIOS		
Net Debt / Total Equity	115.2%	112.3%
Net Debt / Capital	53.5%	52.9%
LIQUIDITY		
Current Assets / Current Liabilities	1.26 x	1.23×
Cash / Current Liabilities	34%	33%

4. Expansion

The table below shows a description of the progress in the Sol Meliá hotel portfolio during 2003:

Table 8. Expansion plan.

Owned & Leased	01/01/03		ADDITION		LOSSES		CHANGES		30/06/03		SIGNED		TOTAL	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**92**	**14,835**	**2**	**216**	**0**	**12**	**0**	**0**	**94**	**15,039**	**8**	**1,174**	**102**	**16,213**
Owned Hotels	37	7,390	0	0	0	0	-1	-61	36	7,329	0	0	36	7,329
Leased hotels	55	7,445	2	216	0	12	1	61	58	7,710	8	1,174	66	8,884
EUROPEAN RES.	**63**	**17,299**	**0**	**0**	**4**	**911**	**0**	**0**	**59**	**16,388**	**0**	**0**	**59**	**16,388**
Owned Hotels	42	13,054	0	0	0	0	0	0	42	13,054	0	0	42	13,054
Leased hotels	21	4,245	0	0	4	911	0	0	17	3,334	0	0	17	3,334
AMERICA	**12**	**4,628**	**1**	**245**	**0**	**0**	**0**	**0**	**13**	**4,873**	**1**	**490**	**14**	**5,363**
Owned Hotels	12	4,628	0	0	0	0	0	0	12	4,628	1	490	13	5,118
Leased hotels	0	0	1	245	0	0	0	0	1	245	0	0	1	245
TOTAL OWNED	91	25,072	0	0	0	0	-1	-61	90	25,011	1	490	91	25,501
TOTAL LEASED	76	11,690	3	461	4	923	1	61	76	11,289	8	1,174	84	12,463
TOTAL	**167**	**36,762**	**3**	**461**	**4**	**923**	**0**	**0**	**166**	**36,300**	**9**	**1,664**	**175**	**37,964**

Management & Franchise		01/01/03		ADDITION		LOSSES		CHANGES		30/06/03		SIGNED		TOTAL	
		H	R	H	R	H	R	H	R	H	R	H	R	H	R
EUROPEAN CITY	**M**	23	3,982	0	0	2	239	0	0	21	3,743	1	299	22	4,042
	F	19	2,167	0	0	1	78	-1	-102	17	1,987	0	0	17	1,987
EUROPEAN	**M**	53	19,432	2	471	12	6,259	-1	-150	42	13,494	4	960	46	14,454
RESORT	**F**	12	4,418	0	0	1	45	2	252	13	4,625	0	0	13	4,625
AMERICA	**M**	34	7,576	4	903	0	2	0	0	38	8,477	5	1108	43	9,585
	F	9	1,261	0	0	0	0	0	0	9	1,261	0	0	9	1,261
ASIA-PACIFIC	**M**	10	3,539	0	0	1	700	0	0	9	2,839	0	0	9	2,839
	F	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CUBA	**M**	23	8,580	0	0	0	464	0	0	23	8,116	2	600	25	8,716
SUBTOTAL	**M**	143	43,109	6	1,374	15	7,664	-1	-150	133	36,669	12	2,967	145	39,636
	F	40	7,846	0	0	2	123	1	150	39	7,873	0	0	39	7,873
TOTAL		**183**	**50,955**	**6**	**1,374**	**17**	**7,787**	**0**	**0**	**172**	**44,542**	**12**	**2,967**	**184**	**47,509**
TOTAL GROUP		**350**	**87,717**	**9**	**1,835**	**21**	**8,710**	**0**	**0**	**338**	**80,842**	**21**	**4,631**	**359**	**85,473**

M= Management; F= Franchise

During the second quarter of the year Sol Meliá has added 7 new hotels to its portfolio. Two of them are lease contracts in the European City Division: the Tryp Leon in Spain (127 rooms) and the Tryp de Berne in Geneva (88 rooms). The leased hotel in the Americas Division corresponds to the Gran Meliá Mofarrej, a luxury hotel with 245 rooms in Sao Paulo, Brazil. Four management agreements have been opened during the course of the second quarter: two in the European Resort Division (Sol Sharm in Egypt and the Meliá Olbia in Italy) and two in the Americas Division (Tryp Jesuino Arruda and Tryp Paulista, both in Brazil).

Regarding the losses, there has been a total of 5 in the second quarter. Two leased hotels with 414 rooms in Tunisia have been dropped out the portfolio. The managed and franchised hotels disaffiliated in the European City division corresponds to the Tryp Lisboa (84 rooms) and the Castellon Centre hotel (78 rooms). The remaining disaffiliation is a franchise agreement in Spain in the European Resort Division.

As stated, the cleaning-up of Tunisia is a fact. Current portfolio in the country represent 3 leased hotels plus 8 franchise contracts. After the acquisition of Tryp hotels the risk of Sol Meliá in the country involved 9 leased hotels of which the 3 most profitable remain in our portfolio. Additionally we agreed in 2002 rent reductions in two of these hotels of 25% and 10%.

Table 9. Signed projects of owned and leased hotels

	2003		**2004**		**2005**		**TOTAL**	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
EUROPEAN CITY								
PROPERTY								
LEASE								
Spain	2	393	3	380			5	773
Switzerland	1	75					1	75
Germany	1	186			1	140	2	326
Subtotal	**4**	**654**	**3**	**380**	**1**	**140**	**8**	**1,174**
EUROPEAN RESORT								
PROPERTY								
LEASE								
Subtotal	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
AMERICA								
PROPERTY								
Puerto Rico	1	490					1	490
Subtotal	**1**	**490**	**0**	**0**	**0**	**0**	**1**	**490**
TOTAL	**5**	**1,144**	**3**	**380**	**1**	**140**	**9**	**1,664**