Sol Meliá financial report 06

Sol Meliá
HOTELS & RESORTS

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FINANCIAL REPORT
CORPORATE GOVERNANCE REPORT
2006

06

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financial report

ERNST & YOUNG

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AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

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

We have audited the consolidated annual accounts of SOL MELIA, S.A. and Subsidiaries (the Group), which comprise of the consolidated balance sheet at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the aforementioned consolidated annual accounts taken as a whole, based upon work performed in accordance with generally accepted auditing standards in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the consolidated annual accounts, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

In accordance with mercantile law, for comparative purposes, the Parent Company's directors have included for each of the captions included in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and the notes thereto, in addition to the figures of 2006, those of 2005. Our opinion refers only to the consolidated annual accounts for 2006. On April 1, 2006 we issued our audit report on the 2005 consolidated annual accounts, in which we expressed an unqualified opinion.

In our opinion, the accompanying 2006 consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of SOL MELIA, S.A. and Subsidiaries at December 31, 2006 and of the consolidated results of their operations, changes in consolidated equity and consolidated cash flow for the year then ended and contain the required information necessary for their adequate interpretation and comprehension, in conformity with the international financial reporting standards adopted by the European Union, applied on a basis consistent with that of the preceding year.

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ERNST & YOUNG

AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS
(CONTINUED)

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

The accompanying consolidated management report for the year ended December 31, 2006 contains such explanations as the Parent Company's directors consider appropriate concerning the situation of SOL MELIA, S.A. and subsidiaries, the evolution of their business and other matters and is not an integral part of the consolidated annual accounts. We have checked that the accounting information contained in the consolidated management report mentioned above agrees with the consolidated annual accounts for the year ended December 31, 2006. Our work as auditors is limited to verifying of the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of the consolidated companies.

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

April 2, 2007

CONSOLIDATED BALANCE SHEET - ASSETS

(thousands of euros)

	31/12/06	31/12/05
INTANGIBLE FIXED ASSETS (Note 7)		
Software	28,471	42,540
Goodwill	19,675	20,150
Other intangibles	60,328	61,842
PROPERTY, PLANT AND EQUIPMENT (Note 8)		
Land	419,750	450,187
Constructions	1,096,655	1,128,420
Technical plant and machinery	221,269	214,811
Other assets	165,912	154,757
Prepayments and assets in progress	65,321	19,764
INVESTMENT PROPERTIES (Note 9)	**97,355**	**95,232**
OTHER NON-CURRENT ASSETS		
Available-for-sale investments (Note 10.1)	37,171	40,996
Investments in associates and joint ventures (Note 10.2)	36,637	24,034
Loans to associates (Note 10.3)	2,085	12,490
Deferred tax assets (Note 17.2)	106,149	137,600
Other non-current financial assets (Note 10.4)	29,469	31,660
TOTAL NON-CURRENT ASSETS	**2,386,247**	**2,434,483**
NON-CURRENT ASSETS HELD FOR SALE (Note 11)	**9,063**	**9,402**
CURRENT ASSETS		
Inventories (Note 12.1)	30,758	35,487
Trade and other receivables (Note 12.2)	97,290	77,717
Receivables from associates (Note 12.3)	9,859	16,488
Current tax assets (Note 17.2)	6,104	6,434
Current financial assets (Note 12.4)	57,060	101,109
Other current financial assets (Note 12.5)	36,884	34,288
Cash and cash equivalents (Note 12.6)	130,989	130,915
TOTAL CURRENT ASSETS	**368,944**	**402,438**
TOTAL ASSETS	**2,764,254**	**2,846,323**

CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES

(thousands of euros)

	31/12/06	31/12/05
EQUITY		
Issued capital (Note 13.1)	36,955	36,955
Share premium	767,196	770,273
Parent Company's reserves (Note 13.2)	182,957	181,123
Results from prior years	(380,853)	(410,015)
Reserves in companies integrated by the full consolidation method (Note 13.3)	278,045	233,084
Reserves in associates and joint ventures (Note 13.4)	(3,920)	128
Exchange differences (Note 13.5)	(43,121)	32,781
PROFIT AND LOSSES ATTRIBUTABLE TO THE GROUP	**136,232**	**90,095**
Consolidated profit & loss	137,979	92,035
Minority interests' profit & loss	(1,747)	(1,940)
TREASURY SHARES (Note 13.6)	**(38,748)**	**(35,692)**
TOTAL EQUITY	**934,745**	**898,732**
MINORITY SHAREHOLDERS (Note 14)	**32,578**	**45,273**
TOTAL NET EQUITY	**967,322**	**944,005**
NON-CURRENT LIABILITIES		
Issue of debentures and other marketable securities (Note 15.1)	149,445	149,257
Preference shares (Note 15.2)	100,202	99,074
Bank debt (Note 15.3)	593,744	456,603
Capital grants and other deferred income (Note 16.1)	5,873	66,709
Provisions (Note 16.2)	25,895	28,552
Deferred tax liabilities (Note 17.2)	196,453	223,569
Other non-current financial liabilities (Note 16.3)	178,312	177,145
TOTAL NON-CURRENT LIABILITIES	**1,249,922**	**1,200,909**
CURRENT LIABILITIES		
Issue of debentures and other marketable securities (Note 15.1)	448	359,369
Bank debt (Note 15.3)	267,574	100,141
Payables to associates (Note 16.4)	110	273
Trade payables	184,008	159,463
Current tax liabilities (Note 17.2)	8,263	12,416
Current financial liabilities (Note 16.5)	74,888	60,370
Other current liabilities	11,719	9,377
TOTAL CURRENT LIABILITIES	**547,009**	**701,409**
TOTAL EQUITY AND LIABILITIES	**2,764,254**	**2,846,323**

CONSOLIDATED INCOME STATEMENT (Note 1)

(thousands of euros)

	31/12/06	31/12/05
Operating income	**1,256,990**	**1,165,290**
Consumption of goods	(156,106)	(139,317)
Personnel expenses (Note 19)	(376,406)	(354,897)
Other expenses	(335,001)	(321,870)
EBITDAR (*)	**389,477**	**349,206**
Rentals	(63,435)	(61,139)
EBITDA (**)	**326,042**	**288,067**
Amortization/Depreciation charges	(111,718)	(109,168)
Impairment loss for goodwill	(546)	(139)
EBIT (***)	**213,778**	**178,760**
Exchange gains (losses)	1,690	(3,078)
Bank financing net results	(62,719)	(72,972)
Other financial expenses	(10,917)	(11,001)
Other financial income	10,450	10,605
Finance results	**(61,495)**	**(76,446)**
Profit/(Loss) in associates and joint ventures	**2,084**	**(1,375)**
PROFIT BEFORE TAXATION AND MINORITY INTERESTS	**154,367**	**100,939**
Taxes	(16,387)	(8,904)
NET RESULT	**137,979**	**92,035**
(Profit)/Loss minority interests	(1,747)	(1,940)
PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY	**136,232**	**90,095**
BASIC EARNING PER SHARE (Note 2)	0,76	0,50
DILUTED EARNING PER SHARE (Note 2)	0,73	0,49

Explanatory notes:

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euros)

	Parent Company	Full integrated companies	Reserves in associates	Exchange differences	Parent Company's results	Minority interest	Total NET EQUITY
Balance as of 31/12/2005	**542,643**	**233,084**	**128**	**32,781**	**90,095**	**45,273**	**944,004**
Distribution of 2005 results	17,908	73,563	(1,375)		(90,095)		0
Merger, provisions and dividend transactions between the Group and the Parent Company	26,438	(27,116)	41			637	0
Distribution of 2005 dividends	(17,806)					(52)	(17,858)
Revaluation of assets transferred from tangible fixed assets to real estate investments	1,958						1,958
Treasury shares transactions	(3,633)						(3,633)
Acquisition of participations from minority interests		(3,834)	(2,713)			(13,622)	(20,169)
Deferred tax adjustments		2,348					2,348
Evolution of the exchange rates in the year				(75,902)		(1,405)	(77,307)
2006 results					136,232	1,747	137,979
Balance as of 31/12/2006	**567,508**	**278,045**	**(3,920)**	**(43,121)**	**136,232**	**32,578**	**967,322**

See Note 13 and Appendixes 3 to 6

For comparative purposes, the movement of changes in equity during 2005 is shown below:

(thousands of euros)

	Parent Company	Full integrated companies	Reserves in associates	Exchange differences	Parent Company's results	Minority interest	Total NET EQUITY
Balance as of 31/12/2004	**604,283**	**140,539**	**(1,187)**	**(41,910)**	**43,871**	**62,856**	**808,452**
Distribution of 2004 results	(17,541)	60,338	1,074		(43,871)		0
Merger, provisions and dividend transactions between the Group and the Parent	(30,594)	31,889	(500)			(795)	0
Distribution of 2004 dividends	(11,515)						(11,515)
Treasury shares transactions	(1,936)						(1,936)
Changes in consolidation perimeter in 2005			741			(20,227)	(19,486)
Changes in amortization/depreciation policies in the Group companies located in France		318					318
Evolution of the exchange rates in the year	(54)			74,692		1,499	76,137
2005 Results					90,095	1,940	92,035
Balance at 31/12/2005	**542,643**	**233,084**	**128**	**32,781**	**90,095**	**45,273**	**944,005**

See Note 13 and Appendixes 3 to 6

CONSOLIDATED CASH FLOW STATEMENT

The present Consolidated Cash Flow Statement has been prepared using the indirect method and correcting the non-monetary entries in the consolidated profit and loss account and the consolidated balance sheet.

(thousands of euros)

	2006	2005
OPERATING ACTIVITIES		
PROFIT BEFORE TAXES AND MINORITY INTEREST	154,367	100,939
Adjustments for :		
- Profit/(Loss) in associates	(2,084)	1,375
- Financial results	61,495	76,446
- Amortisation/depreciation charges	111,718	109,168
- Impairment	546	139
- Investing activities result	(15,251)	(59,335)
- Effect in results for insurance indemnities and management contract cancellation	(36,862)	0
+ Dividends from associates	1,176	1,078
+ Insurance indemnities collected	34,765	15,673
+ Deferred income	0	20,551
- Changes in receivables and other non current accounts payable	(867)	(4,836)
- Corporation Tax	(15,977)	(9,059)
+/- Changes in receivables and other current accounts payable	31,102	17,915
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	324,128	270,053
FINANCING ACTIVITIES		
- Dividends paid by Sol Meliá S.A.	(17,806)	(11,515)
+ Collection for new bank financing (*)	427,008	111,637
- Payment of bank indebtedness	(493,050)	(183,768)
- Interest paid	(76,334)	(66,689)
- Payment for capital leases	(11,064)	(11,001)
- Payment of preference dividends	(8,337)	(8,337)
+ Other receipts from financial results	8.447	6.143
+/- Variations in treasury shares portfolio (***)	(3,056)	(1,936)
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	(174,192)	(165,466)
INVESTING ACTIVITIES		
- Acquisition of Intangible Fixed Assets	(4,597)	(7,481)
- Acquisition of Tangible Fixed Assets (*)	(186,879)	(162,825)
- Acquisition of Financial Assets (**)	(38,574)	(30,371)
+ Proceeds from the sale of property, plant and equipment	89,273	103,288
+ Proceeds from the sale of financial investments	0	21,383
- Increase of credits to associates	(3,666)	(6,962)
+ Receipt of investment incentives	0	1,347
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	(144,443)	(81,621)
Exchange rate changes in cash and cash equivalents	(5,419)	6,492
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	74	29,458
CASH AND CASH EQUIVALENTS AT JANUARY, 1	130,915	101,457
CASH AND CASH EQUIVALENTS AT DECEMBER, 31	130,989	130,915

(*) During 2005 and 2006 certain assets were acquired by means of financial leases for an amount of 17.6 and 24.6 million euros respectively. These acquisitions are not considered cash movements.
(**) See Notes: 4.1 ; 8 ; 10.3 ; 12.3 ; 12.6 ; 15.3 ; 16.4
(***) See Note 13.6

1 SEGMENT INFORMATION

1.1 Business segments 2006

(thousands of euros)

	HOTEL BUSINESS	REAL ESTATE BUSINESS	STRUCTURE AND MANAGEMENT	ELIMINATIONS	TOTAL 31/12/06
STATEMENT OF INCOME					
Operating Income	982,020	134,145	239,382	(98,557)	1,256,990
Operating Expenses	(659,981)	(69,879)	(236,265)	98,612	(867,513)
EBITDAR	**322,039**	**64,266**	**3,117**	**55**	**389,477**
Rentals	(63,380)			(55)	(63,435)
EBITDA	**258,659**	**64,266**	**3,117**	**0**	**326,042**
Amortization and impairments	(81,630)	(1,405)	(29,229)		(112,264)
EBIT	**177,029**	**62,861**	**(26,112)**		**213,778**
Financial result					(61,495)
Result in associates	2,081		3		2,084
EBT					**154,367**
Taxes					(16,387)
NET RESULT					**137,979**
Minority interests					(1,747)
RESULT ATTRIBUTED TO THE PARENT COMPANY					**136,232**
ASSETS AND LIABILITIES					
Intangibles and property, plant and equipment	1,945,027	15,011	117,342		2,077,381
Investments in associates	36,454		183		36,637
Available-for-sale non current assets		9,063			9,063
Other non-current assets					272,229
Current operating assets	131,695	40,148	23,844		195,687
Other current assets					173,257
TOTAL ASSETS					**2,764,254**
Financial debt					1,111,412
Other non-current liabilities					406,532
Current operating liabilities	105,121	13,092	65,795		184,008
Other current liabilities					94,979
TOTAL LIABILITIES					**1,796,931**

The operating revenue from the real estate business includes capital gains from sales through asset turnover relating to the disposal, for an amount of 21 million euros, of two hotels located in Spain.

The sales of the Vacation Club units included in the real estate segment in 2006 have amounted to 86.7 million euros.

The addition of assets as a result of new business combinations made during the year, amounting to 23.3 million euros, correspond to the hotel business segment (20.4 million euros) and the structure and management segment (2.9 million euros).

1.2 Business segments 2005

For purposes of comparison, the segmentation of the 2005 pro forma statement of income is presented below:

(thousands of euros)

	HOTEL BUSINESS	REAL ESTATE BUSINESS	STRUCTURE AND MANAGEMENT	ELIMINATIONS	TOTAL 31/12/05
STATEMENT OF INCOME					
Operating Income	910,801	136,531	232,618	(114,660)	1,165,290
Operating Expenses	(616,535)	(41,504)	(272,826)	114,781	(816,084)
EBITDAR	**294,266**	**95,027**	**(40,208)**	**121**	**349,206**
Rentals	(61,018)			(121)	(61,139)
EBITDA	**233,248**	**95,027**	**(40,208)**	**0**	**288,067**
Amortization and impairments	(75,821)	(1,084)	(32,402)		(109,307)
EBIT	**157,427**	**93,943**	**(72,610)**		**178,760**
Financial results					(76,446)
Result in associates	(643)		(732)		(1,375)
EBT					**100,939**
Taxes					(8,904)
NET RESULT					**92,035**
Minority interest					(1,940)
RESULT ATTRIBUTED TO THE PARENT COMPANY					**90,095**
ASSETS AND LIABILITIES					
Intangibles and property, plant and equipment	1,917,966	32,859	141,646		2,092,471
Investments in associates	24,409		(375)		24,034
Available-for-sale non-current assets					9,402
Other non-current assets					317,978
Current operating assets	159,792	19,025	24,401		203,218
Other current assets					199,220
TOTAL ASSETS					**2,846,323**
Financial debt					1,164,444
Other non-current liabilities					495,975
Current operating liabilities	85,256	5,565	68,642		159,463
Other current liabilities					82,436
TOTAL LIABILITIES					**1,902,318**

The operating revenue from the real estate business included capital gains from sales through asset turnover relating to the disposal of four hotels based in Spain for an amount of 60 million euros.

The sales of the Vacation Club units included in the real estate segment in 2005 amounted to 52.4 million euros.

The passage of Hurricane Wilma through Cancun's hotel area caused serious damage to the hotels operated by the Group. In the hotel segment, the retirement of assets recorded as expenses and the compensation payouts received from the insurance companies recorded as income, amounted to 25.1 million euros.

The acquisition of assets made in 2005 related basically to the hotel business segment.

1.3 Geographical segments

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

(thousands of euros)

	EUROPE	AMERICA	AFRICA	ASIA	Eliminations	31/12/06
Operating Income	908,010	439,215	6,365	1,957	(98,557)	1,256,990
Assets	1,479,638	597,680	62	1	0	2,077,381

The acquisition of assets made during the year has amounted to 17.2 and 6.1 million euros in Europe and America, respectively.

For comparative purposes, the balances corresponding to the year 2005 are shown below:

(thousands of euros)

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

The main acquisitions of assets corresponding to the year 2005 were made in America.

2 EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity by the weighted average number of ordinary shares outstanding during the year, adjusted by the dilutive effects inherent to potential ordinary shares.

The table below reflects the income and share data used in the earnings per share computations:

(unidades de euro)

	BASIC EARNINGS		DILUTED EARNINGS	
	31/12/06	31/12/05	31/12/06	31/12/05
Result attributed to the Parent Company	**136,232,358**	**90,095,171**	**136,232,358**	**90,095,171**
Correction of results			4,192,500	4,192,500
Adjusted result	**136,232,358**	**90,095,171**	**140,424,858**	**94,287,671**
Number of ordinary shares	184,776,777	184,776,777	184,776,777	184,776,777
Weighted average number of shares	(5,581,029)	(5,340,992)	(5,581,029)	(5,340,992)
Number of potential ordinary shares			12,605,042	12,605,042
Total number of shares	**179,195,748**	**179,435,785**	**191,800,790**	**192,040,827**
EARNINGS PER SHARE	**0.76**	**0.50**	**0.73**	**0.49**

At the General Shareholders' Meeting, the Board of Directors will propose the distribution of a gross dividend, excluding treasury shares, of 0.149 per share (net dividend of 0.122). An amount of 10.5 million euros of said distribution will be charged to income for the year of the Parent Company, Sol Meliá, S.A. and an amount of 16.7 million euros against voluntary reserves.

3 CORPORATE INFORMATION

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

The activities of Sol Meliá, S.A and its subsidiary and associated companies (hereinafter "SOL MELIA" or the "Group") basically consist of tourism in general and, specifically, of the management and operation of owned or rented hotels under management or franchise agreements, as well as in vacation club operations. The Group's activities also consist of the promotion of any type of business related to the tourist and hotel trade or related to leisure, recreation or amusement as well as in the participation in the creation, development and operation of new businesses, establishments or entities within the tourism and hotel trade and in any leisure, recreation or amuse-

ment activity. Certain Group companies also carry out real estate activities, taking advantage of the synergies obtained from hotel developments due to the significant expansion process.
In any case, those activities, reserved under special laws for companies which fulfill certain requirements that are not fulfilled by the Group, are expressly excluded from its corporate purpose; in particular, those activities reserved by the laws for Collective Investment Institutions or money market dealers are excluded.

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

4 CONSOLIDATION SCOPE

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

The breakdown of the participated companies at December 31, 2006, is presented in Appendices 1 and 2, classified in the following categories:

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

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

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

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

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

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

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

4.1 Changes in the consolidation scope

ADDITIONS IN 2006	DISPOSALS IN 2006
Colón Verona, S.A.	Desarrollos Turísticos del Caribe, S.A.
Dominios Compartidos, S.A.	Meliá Tour, S.L.
Guarajuba, S.A.	Mogan Promociones, S.A. de C.V.
Guarajuba Empreendimientos, S.A.	Operadora San Juan, S.E.
Havana Sol Restauración XXI, S.A.	Youth Journey, Ltd.
Hogares Batle, S.A.	
Inversiones Hoteleras La Jaquita, S.A.	
Sol Meliá Italia Srl.	

The company Colón Verona has been formed on December 5, 2006 for undertaking the integral renovation and later operation of a hotel in Seville, for which the Group has made a contribution of 30,000 euros.

On December 2006, the Group has acquired 100% in the capital of Hogares Batle, S.A., for an amount of 2.4 million euros. The said company and its subsidiary Dominios Compartidos, S.A, are the owners of various assets which have been incorporated to the Group's activity. These assets are basically a building adjacent to the present corporate headquarters, and 122 parking places close to various hotels located in Palma de Mallorca and other minor assets, the value of which amounts to 5.9 million euros.

The company Guarajuba, S.A., acquired on December 29, 2006 for 6.1 million euros, and its subsidiary Guarajuba Empreendimientos, S.A. are the owners of 475 hectares of land in Salvador de Bahía, Brazil, the value of which is 6.1 million euros.

On October 19, 2006 the company Havana Sol Restauración XXI, S.A. has been formed, with a contribution of 61,000 euros made by the Group, for operating a restaurant in Madrid.

Inversiones Hoteleras La Jaquita, S.A., formed on February 28, 2006, to which the Group has made a contribution of 16.3 million euros and in which it has a participation of 50% is the owner of a future hotel complex located in the south of Tenerife. At year-end the value of the assets amounts to 50 million euros, with a debt of 18.6 million euros. These assets were acquired from other Group companies. This company is integrated by the equity method. Since the Group does not hold the majority of the voting rights, said company is considered to be an associate.

On May 15, 2006, with a contribution of 20 million euros, the company Sol Meliá Italia Srl. has been constituted. This company links the three hotels operated by Sol Meliá in Italy.

On February 2, 2006, the Group has formalised the acquisition of a participation of 70% corresponding to minority interests in Alcajan XXI, S.L., which is the owner of a hotel in the Dominican Republic, for an amount of 10.2 million euros. For this reason, the consolidation scope includes a 100% participation in this company. The Group exercised effective control of this company since the prior year, as explained in the consolidation scope movement table for the year 2005.

On September 12, 2006 the Group's participation in the company Meliá Mérida, S.L. has been increased from 41.76% to 82.52%. This participation in these consolidated financial statements has been changed from being integrated by the equity method, as in previous years, to being recorded by the full integration method. This acquisition the cost of which amounts to 2 million euros, has implied an increase in the Group's assets of 11.6 million euros and in long-term debt of 6 million euros.

In addition, upon the termination of the strategic alliance held with the Rank Group constituted for the joint development of the Hard Rock hotels, from August 1, 2006, the 100% participation held in Lifestar Hoteles España, S.L., the long-term debt of which is 13 million euros, is integrated by the full consolidation method.

In September 2006, the Group has acquired from the minority interests of Convento de Extremadura, S.A., for an amount of 0.8 million euros, a participation of 26.71%. At year-end, the percentage of participation in said company is 77.63%.

In June 2006, the Group has acquired from the minority interests of Hotel Bellver, S.A. a participation of 33.42%., for an amount of 3.2 million euros. At year-end, the percentage of participation held by the Group in said company is 100%.

Further to the 33% participation held by the Group in Promociones Playa Blanca, S.A. de C.V., which defines its influence on the said company, the Group has acquired in 2006, for an amount of 4.9 million euros, 16.5% of the economic rights. For this reason, a percentage of 49.5% of the economic rights of this company has been integrated by the equity method in the consolidation perimeter.

On December 29, 2006 the Company sold its 50% participation held in the tour operator Melia Tour, S.L., for an amount of 1.7 million euros.

During November 2006, the participation of 33.33% held by the Group in the company Mogan Promociones, S.A. de C.V., owner of land plots in Mexico, has been exchanged for other land plots valued at 2 million euros.

The disposals of Desarrollos Turísticos del Caribe, S.A., Operadora San Juan, S.E. and Youth Journey Ltd., which are dormant, relate to the dissolution of the said companies, undertaken in October and November, 2006.

The impact of the new business combinations carried out during the year on the Income Statement is detailed in Appendix 6. It should be highlighted that effects arising from the acquisition of said companies at the beginning of the period would have been immaterial.

For purposes of comparison, the additions and disposals in 2005 are detailed below:

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

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

Controladora Turística Cozumel, S.A. de C.V. was absorbed in 2005 by Caribotels de México, S.A. de C.V., a company in which the Group owns a 50.91% participation and which is integrated by the full method. The company MIH UK Ltd, which was dormant, was dissolved at year-end.

During 2005, the Group reduced its participation in Inversiones Turísticas Casas Bellas, S.A., and was recorded under the "Available-for-sale Investments" caption at its carrying value.

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

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

During 2005, the Group acquired participations from the minority shareholders of Tenerife Sol, S.A (48.40%) and Moteles Andaluces, S.A (20.17%). At year-end, the participation in these companies was of 98.40% and 98.7%, respectively.

5 PRESENTATION BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Sol Meliá Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and its prevailing interpretations published by the International Accounting Standard Board (IASB) at December 31, 2006.

These consolidated financial statements have been formulated by the Board of Directors of the Parent Company and are pending approval at the Annual Shareholders' meeting. It is expected that they will be approved without changes.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings and derivative financial instruments, which have been measured at fair value.

The accounting policies applied are consistent with those of the previous year, since the modifications to the existing standards and the new interpretations applicable since January 1, 2006 have no effect on the consolidated financial statements nor on the financial position and disclosures.

The Group has not adopted in advance the standards approved by the European Union, whose application is not compulsory during 2006. These standards will be applied once they are compulsory. With the exceptions detailed below, which imply additional disclosures, these standards will have no effect on the Group's financial position.

IFRS 7 – Financial Instruments: Disclosures. Its purpose is to require entities to provide disclosures that allow users to evaluate the importance of the Group's financial instruments and the nature and extent of risks arising from the said instruments.

Modifications to IAS 1 – Presentation of Financial Statements. It requires new disclosures that enable users to evaluate the objectives, policies and procedures for capital management.

5.1 True and fair view

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

5.2 Comparison of information

The 2006 balance sheet, income statement, cash flow and changes in equity statements, follow the same presentation basis used for the 2005 accounts and are therefore comparable between years.

In relation to the consolidation scope, the main changes in 2005 and 2006 with respect to the previous year, are commented upon in Note 4.

5.3 Consolidation methodology

Consolidation methodology is described in the following sections:

Consolidation methods

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

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

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

Calendar and valuation uniformity

All the companies included in the consolidation perimeter close their financial year as of December 31, having used the respective 2005 and 2006 financial statements for consolidation purposes.

Business combinations

The Group has not retroactively applied IFRS 3 to business combinations which occurred before the transition date, taking advantage of the exemption included in IFRS 1 "First-time adoption of International Financial Reporting Standards". Consequently, the goodwill existing under Spanish accounting policies as of December 31, 2003, net of accumulated amortization, was presented as "Goodwill", under the "Intangible assets" heading.

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

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

Purchase of minority interest

The difference between the acquisition cost and the value of minority interests at said date has been recorded as changes in equity.

Elimination of intercompany operations

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

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

5.4 Minority interests and result attributed to minority interests

Minority interests

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

Results attributed to minority interests

Results attributed to minority interests correspond to their participation in the consolidated profit or loss for the year.

5.5 Conversión de los estados financieros de las sociedades extranjeras

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

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

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

6.1 Goodwill

Rather than being amortised, goodwill is subject to annual reviews through studies to verify that the carrying amount has not been impaired. Impairment losses are recognised if the recoverable value determined using the net present value of the future cash flows expected for the cash-generating units related all goodwill is less than the carrying amount.

6.2 Other intangible assets

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

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

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

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

6.3 Property, plant and equipment

Property, plant and equipment is stated at cost, including the additional expenses incurred until the asset is in conditions to be put into use, decreased by accumulated depreciation and any impairment losses.

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

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

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

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

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

6.4 Investment properties

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

Following the initial recognition made for the total amount of the costs related to the asset acquisition transaction, the Group has chosen the application of the fair value model. For this reason all investment properties are recognised at fair value and any variation in value which arises is included in the income statement. All the values have been supported by independent experts' appraisals and updated based on the Group's estimations. The variables used for determining these estimations are indicated in Note 6.9.

6.5 Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When the financial assets are initially recognised, they are recognised at fair value. In the case of investments not at fair value through profit or loss, directly attributable transaction costs are also added. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. At December 31, 2006 and 2005 the Group does not have financial assets classified as financial assets at fair value through profit and loss nor held-to-maturity investments.

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

Loans and receivables

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

Financial assets transfer operations

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

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

Guarantee deposits

Non-current guarantee deposits are carried at amortised cost using the effective interest rate.

Current guarantee deposits are not discounted.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified under the other financial assets captions.

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

Derivative financial instruments

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

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

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

6.6 Non-current assets held for sale

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

They are recorded at the lower of carrying amount and fair value less costs to sell. Losses for impairment of the asset, or gains arising from subsequent revaluations up to the limit of the previously recognised impairment losses are recognised in profit and loss.

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

6.7 Inventory (merchandise, raw materials and other supplies)

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

6.8 Cash and cash equivalents

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

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

6.9 Impairment of tangible and intangible assets

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

For this purpose, the following discount rates and yields according to market are used, applying diverse percentages depending on the geographical area in which the properties are located.

	DISCOUNT RATES	EXIT YIELDS
Spain	9% - 12%	6.15% - 7.5%
Europe	8.75% - 9.5%	6% - 7%
Latin America	11% - 15%	9% - 13%

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

6.10 Impairment of financial assets

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

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

6.11 Treasury shares

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

6.12 Equity instruments

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

6.13 Interest-bearing loans and borrowings

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

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

6.14 Government grants

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

6.15 Provisions

Provisions are recognised when the Group:

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

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

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

Certain Collective Wage Agreements prevailing and applicable to several Group companies establish that permanent staff who have been employed by the Company for a specified length of time and take voluntary retirement will be entitled to a cash premium equivalent to a number of monthly salaries proportional to the number of years of service. In 2006, an evaluation of these commitments was performed in accordance with the actuarial assumptions contained in the Externalisation Regulations, by applying the calculation method known as the "projected unit credit" and the population assumptions corresponding to the ERM/F200p tables. In addition, the payment of said commitments have been externalized according to the particular technical conditions established in the Ministerial Order dated November 2, 2006. The provision for contingencies and expenses and the capitalization of payments in concept of future services cover these acquired commitments.

With regard to commitments related to pensions and obligations established in collective wage agreements, the companies concerned have performed the corresponding externalisation and the commitments with six management members, of which five are non-active.

6.16 Recognition of revenue and expenses

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

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

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

6.17 Leases

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

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

Capitalized lease assets are depreciated over their useful life.

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

6.18 Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid. The tax rates applied are those enacted at the balance sheet date.

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

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

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

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

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available, calculated according to prudence criteria and excluding the potential profits deriving from the disposal of properties, due to the uncertainty in respect of their realization, which depends on the market conditions and the eventual tax consequences of the transactions made.

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

6.19 Foreign currency transactions

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

6.20 Functional currency and hyperinflationary economies

The functional currency of each of the Group companies is the currency which corresponds to the economy of the country in which each company is based. None of the companies included in the consolidation perimeter are considered to be in hyperinflationary economies at 2005 and 2006 closing.

7 INTANGIBLE ASSETS

The breakdown of the cost and accumulated amortisation of intangible assets is as follows:

(thousands of euros)

	BALANCE 31/12/05	2006 AMORTISATION	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/06
GROSS VALUE						
Goodwill	20,150			(527)	52	19,675
Lease holds	73,191				1,448	74,639
Industrial property (I+D+I)	6,964				(14)	6,950
Software	108,440		4,899	(261)	(62)	113,016
TOTAL VALUE	**208,745**		**4,899**	**(788)**	**1,424**	**214,280**
ACCUMULATED AMORTISATION						
Lease holds	(14,620)	(2,104)	(290)		(237)	(17,251)
Industrial Property (I+D+I)	(3,693)	(331)			14	(4,010)
Software	(65,900)	(18,873)	(12)	215	25	(84,545)
TOTAL ACCUMULATED AMORTISATION	**(84,213)**	**(21,308)**	**(302)**	**215**	**(198)**	**(105,806)**
CARRYING VALUE	**124,532**	**(21,308)**	**4,597**	**(573)**	**1,226**	**108,474**

For comparative purposes, the breakdown of these movements in 2005 was the following:

(thousands of euros)

	BALANCE 31/12/05	2006 AMORTISATION	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/05
GROSS VALUE						
Goodwill	19,777		455	(140)	58	20,150
Lease hold	70,836				2,355	73,191
Industrial Property (I+D+I)	6,529		418		17	6,964
Software	105,951		6,926	(4,505)	68	108,440
TOTAL VALUE	**203,093**		**7,799**	**(4,645)**	**2,498**	**208,745**
ACCUMULATED AMORTISATION						
Lease hold	(11,789)	(2,390)			(441)	(14,620)
Industrial Property (I+D+I)	(2,578)	(829)	(270)	2	(18)	(3,693)
Software	(48,089)	(19,826)	(1,044)	2,673	386	(65,900)
TOTAL ACCUMULATED AMORTISATION	**(62,456)**	**(23,045)**	**(1,314)**	**2,675**	**(73)**	**(84,213)**
CARRYING VALUE	**140,637**	**(23,045)**	**6,485**	**(1,970)**	**2,425**	**124,532**

The main additions recorded in 2006 relate to the incorporation of software applications for several areas of the Company which will permit the integration of the Group's management and facilitate growth and globalisation processes within the Group. Among these are the hotel applications Front Office, point-of-sale, SAP, reservations systems and Internet applications.

The amount recorded for leaseholds relates to the long-term leasing contract of a hotel in the United Kingdom, depreciable over a period of 33 years of which 26 are still pending.

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

(thousands of euros)

GOODWILL	31/12/06	31/12/05
Apartotel, S.A.	504	504
Casino Tamarindos, S.A.		527
Cadlo France	1,181	1,181
Cadstar France	1,138	1,138
Ihla Bela de Gestao e Turismo	927	927
Lomondo Ltd.	5,758	5,706
Hotel Alexander, S.A.	8,499	8,499
Operadora Mesol, S.A. De C.V.	465	465
Tenerife Sol, S.A.	318	318
Sol Meliá Croacia	886	886
TOTAL	19,675	20,150

During 2006, the goodwill recognised in Casino Tamarindos, S.A. has been written-off, due to loss of competitiveness.

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

In 2005 no significant movements occurred and goodwill was also subject to impairment testing applying the same calculation assumptions as in 2006.

8 PROPERTY, PLANT AND EQUIPMENT

Movement in the different property, plant and equipment headings and the related accumulated depreciation during 2006 is as follows:

(thousands of euros)

	BALANCE 31/12/05	2006 AMORTISATION	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/06
GROSS VALUE						
Land	**450,187**		**19,479**	**(37,369)**	**(12,547)**	**419,750**
Constructions	**1,460,275**		**53,954**	**(14,672)**	**(48,233)**	**1,451,324**
Technical Plant	320,015		29,770	(9,691)	(2,574)	337,520
Machinery	61,569		4,993	(901)	(1,112)	64,549
Subtotal	**381,584**		**34,763**	**(10,592)**	**(3,686)**	**402,069**
Furniture	268,666		37,827	(5,908)	(9,511)	291,074
Tools	3,463		411	(107)	(7)	3,760
Vehicles	16,063		1,326	(464)	(756)	16,169
Computer equipment	38,093		4,098	(769)	(1,492)	39,930
Other assets	28,669		10,354	(5,537)	(1,080)	32,406
Subtotal	**354,954**		**54,016**	**(12,785)**	**(12,846)**	**383,339**
Works in progress	**19,764**		**106,713**	**(58,130)**	**(3,026)**	**65,321**
TOTAL GROSS VALUE	2,666,765		268,925	(133,548)	(80,339)	2,721,803
ACCUMULATED DEPRECIATION						
Constructions	**(331,854)**	**(38,607)**	**(2,268)**	**6,996**	**11,064**	**(354,669)**
Technical Plant	(138,119)	(19,364)	(232)	7,761	261	(149,693)
Machinery	(28,655)	(2,882)	(218)	476	172	(31,107)
Subtotal	**(166,774)**	**(22,246)**	**(450)**	**8,237**	**433**	**(180,800)**
Furniture	(151,128)	(17,737)	(382)	4,104	4,509	(160,634)
Tools	(2,550)	(292)	(7)	26	3	(2,820)
Vehicles	(10,252)	(2,146)	(8)	243	430	(11,733)
Computer equipment	(31,372)	(3,275)	(491)	660	482	(33,996)
Other assets	(4,896)	(6,107)	(93)	2,558	294	(8,244)
Subtotal	**(200,198)**	**(29,557)**	**(981)**	**7,591**	**5,718**	**(217,427)**
TOTAL ACCUMULATED DEPRECIATION	(698,826)	(90,410)	(3,699)	22,824	17,215	(752,896)
CARRYING VALUE	1,967,945	(90,410)	265,226	(110,724)	(63,130)	1,968,907

Subsequent to the acquisition of a participation of 70% corresponding to minority interests in Alcajan XXI, S.L. (see Note 4), the refurbishment works undertaken in the hotel have been finalized in 2006 and, in addition, the development of time-sharing units has been initiated. Additions for this concept have amounted to 20.1 million euros.

During 2006, the Group has undertaken refurbishment and improvement works in the hotels located in the Cancun area for an amount of 62.4 million euros for the purpose of reopening said hotels which remained closed after the passage of Hurricane Wilma in 2005. In addition, Sol Meliá, S.A. has undertaken major renovations in the hotels operated in Spain.

The Group has acquired land plots in Salvador de Bahía (Brazil), for an amount of 19.8 million euros, of which 13.3 million euros are recorded as prepayment to suppliers pending formalization.

During 2006, the Group sold certain urban land plots and constructions in-progress located in Guia de Isora (South of Tenerife) to Inversiones Hoteleras La Jaquita, S.A., for an amount of 48.5 million euros. This company has been consolidated by the equity method.

Disposals recorded in the year relate mainly to the sale of two hotels in Spain, whose carrying value amounts to 28.6 million euros. The remaining amounts relate to the write-downs of certain property, plant and equipment undertaken during the renovations of the hotels.

The carrying value of plant and equipment held under financial leases amount, at year-end, to 110 million euros.

At year-end, there are 28 owned properties which are mortgaged in guarantee of various loans. The directors of the Group consider that the insurance coverage of the property, plant and equipment is sufficient at December 31, 2006.

The Group maintains a commitment with a bank entity, for an amount of 7.1 million dollars and a five-year period related to the purchase option of an aircraft in favor of the said bank entity. This option can be exercised only in the case that the aircraft is not sold during the said period.

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

The Group operates a total of 75 hotels under leasing, of which 2 are five-star with 272 rooms, 45 are four-star with 7,678 rooms, 19 are three-star with 2,591 rooms, 2 are two-star with 91 rooms and 3 are 3-key establishments with 720 apartments.

In 1993, Hoteles Meliá, S.A. (now Sol Meliá, S.A.) merged several hotel-owning companies, causing the revaluation of the plots occupied by said hotels. At December 31, 2006 the carrying value of said plots relates to 26 hotels for an amount of 154.3 million euros and a tax value of 6.4 million euros. The amount of land and constructions includes capital gains arising from consolidation differences prior to the transition date for a net carrying value of 98.9 million euros. These values are considered equivalent to cost as indicated in IFRS 1 "First-time adoption of International Financial Reporting Standards". The effect of the abovementioned transactions on deferred taxes is reflected as non-current liabilities in the liabilities caption "Deferred tax liabilities".

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

(thousands of euros)

	31/12/06
Update 76/61	55
Update 12/73	2,579
1979 Budget updating	29,936
1980 Budget updating	28,852
1981 Budget updating	4,323
1982 Budget updating	26,480
Update of 1983 Law	1,437
Voluntary updating prior to 1990	3,146
Update of Royal Decree 7/96	58,408
TOTAL REVALUATION RESERVES	**155,216**

Additionally, the balance sheet at December 31, 2006 includes revaluations of land and buildings for a total cost of 174.4 million euros which are recorded according to Law 29/91 and which are considered as acquisition costs at the transition date, as indicated above.

The comparative details of movements in 2005 are as follows:

(thousands of euros)

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

The main additions recorded in 2005 related to the incorporation in the consolidation perimeter of Inversiones Areito, S.A. (see Note 4), owner of the Hotel Paradisus Palma Real, for an amount of 98.7 million euros, as well as major refurbishments undertaken by the hotel operating companies included in the Group.

The effect of Hurricane Wilma on the hotels located in Cancun resulted in the derecognition of assets amounting to 25.1 million euros. At 2005 year-end, the hotels remained closed.

During 2005, four hotels located in Spain were sold for a net carrying amount of 40.2 million euros. Moreover, 84 rooms of a hotel in Puerto Rico, amounting to 9.4 million euros, were also derecognised since they were transferred to non-current assets held for sale. Said rooms were to be sold to property investors on a condo-hotel basis.

The carrying value of plant and equipment held under financial leases amounted, at 2005 year-end, to 114 million euros.

9 INVESTMENT PROPERTIES

This balance includes the net fair value of investments made by the Group to obtain income or capital gains, such as participations in apartments in three apartment owners' associations in Spain, as well as commercial premises in Venezuela and offices in Spain. All the valuations are of independent experts and have been updated by Group estimates.

(thousands of euros)

	31/12/2005	ADDITIONS	CONVERSION DIFFERENCES	31/12/2006
Apartments in Spain	73,028			73,028
Premises in Venezuela	22,204		(2,277)	19,927
Offices in Spain		4,400		4,400
TOTAL	95,232	4,400	(2,277)	97,355

Additions relate to non-operational offices which have been rented during the year.

The profit and loss account includes proceeds from rentals of premises and offices for a total amount of 1.1 million euros.

There has been no material effect on income during the year due to changes in the fair value of the investment properties.

For comparative reasons, the breakdown of the movements in 2005 is shown below:

(thousands of euros)

	31/12/2004	ADDITIONS	CONVERSION DIFFERENCES	31/12/2005
Apartments in Spain	73,028			73,028
Premises in Venezuela	21,065	735	404	22,204
TOTAL	94,093	735	404	95,232

10 OTHER NON-CURRENT ASSETS

10.1 Available-for-sale investments

The Group's share portfolio is listed below, in thousands of euros:

(thousands of euros)

	%	BALANCE 31/12/05	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/06
D.H. Guanacaste	15.0%	16,576				16,576
D.I.Guanacaste	15.0%	793				793
Fundación Empresa y Crecimiento	4.2%	213	20			233
Hotelera Sancti Petri	19.5%	1,172	1,462			2,634
Horotel S.A.	12.4%	301				301
I.H. Los Cabos	15.0%	3,306		(3,306)		(0)
I.H. Playa del Duque	5.0%	2,682				2,682
Inmobiliaria Conchal Pacífico	15.0%	276				276
Inversiones Turísticas Casas Bellas	13.7%	6,519				6,519
Lanzarote 6 S.A.	5.4%	1,696	232			1,928
P.T. Surylaya Internacional	16.5%	9,015				9,015
Port Cambrils Inv.	10.0%	792	142			934
Turismo de Invierno S.A.	19.5%	1,079				1,079
Valle Yamury, S.A.	15.0%	346				346
Plaza Puerta del Mar S.A.	7.1%	426	249			675
Other		520	0	(469)	(5)	47
TOTAL INVESTMENT		45,712	2,105	(3,775)	(5)	44,038
IMPAIRMENT LOSSES		(4,716)	(2,151)			(6,867)
TOTAL CARRYING VALUE		40,996	(46)	(3,775)	(5)	37,171

During 2006, the share capital increases undertaken in Port Cambrils Inversions, S.L. and Lanzarote 6, S.A. have been subscribed and paid up, the account receivable from Hotelera Sancti Petri, S.A. has been capitalised and several contributions in Fundación Empresa y Crecimiento have been made. Furthermore, the participation held in Inversiones Hoteleras Los Cabos, S.A. has been reclassified to short-term, since the Group considers that the disposal of this investment will occur in 2007.

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

(thousands of euros)

	COUNTRY	ACTIVITY	CAPITAL	RESERVE	RESULT	%	BV	CV
Des. Hot. Guanacaste, S.A. (1)	C. Rica	Land owner	47,545	2,743	3,739	15.00%	8,104	16,576
Des. Inmob. Guanacaste, S.A. (1)	C. Rica	Hotel owner and operator	1,028	8,156	0	15.00%	1,378	793
Fundación Empresa y Crecimiento	Spain	Foundation	192	1,119	0	4.19%	55	233
Horotel, S.A.	Spain	Hotel owner and operator	3,780	(631)	0	12.40%	390	301
Hotelera Sancti Petri, S.A.	Spain	Hotel owner and operator	13,510	239	(983)	19.50%	2,489	2,634
Inmob. Conchal Pacífico, S.A. (1)	Mexico	Land owner	2,376	33,946	(1)	15.00%	5,448	276
Inv. Hotelera Playa del Duque, S.A.	Spain	Hotel owner and operator	2,582	64,780	5,559	5.00%	3,646	2,682
Inv. Turísticas Casas Bellas, S.A.	Spain	Land owner	47,464	(737)	0	13.74%	6,420	6,519
Lanzarote 6, S.A.	Spain	Hotel owner and operator	35,771	(7,342)	(2,291)	5.40%	1,411	1,928
P.T.Surylaya Anindita	Indonesia	Hotel owner and operator	7,596	1,304	(11,605)	16.52%	(447)	9,015
Plaza Puerta del Mar, S.A.	Spain	Hotel owner and operator	9,000	920	1,029	7.10%	777	675
Port Cambril Inversions, S.A.	Spain	Hotel owner and operator	5,540	(17)	255	10.00%	578	934
Turismo de Invierno, S.A.	Spain	Hotel owner and operator	677	4,399	1,631	19.47%	1,306	1,079
Valle Yamuri, S.A.	Spain	Holding	4,329	(1,468)	(457)	15.00%	361	346
		TOTAL	181,390	107,411	(3,124)		31,916	43,991

(1) Companies corresponding to a same business line.

Adjustments for impairment losses are not performed in those companies which have an underlying surplus based on a favorable forecast of results and the realisable value of their net assets.

Comparative information regarding movement of available-for-sale investments in 2005 is as follows:

(thousands of euros)

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

In 2005, Sol Meliá, S.A. sold part of its participation in the company Inversiones Turísticas Casas Bellas, S.A. At year-end, the company's participation was of 13.74% and it was therefore included at its carrying value under the caption "Available-for-sale investments".

10.2 Investments in associates

Las inversiones financieras correspondientes a las participaciones existentes en empresas asociadas y negocios conjuntos han sido valoradas de acuerdo al método de participación. Los importes obtenidos son los que a continuación se relacionan:

(thousands of euros)

	BALANCE 31/12/05	2006 RESULTS	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/06
C.P. Meliá Castilla	2,355	1,144	0	(1,152)	0	2,347
C.P.Meliá Costa del Sol	1,539	243	0	(209)	0	1,573
Aparthotel Bosque, S.A.	1,408	186	0	(186)	0	1,408
Meliá Mérida, S.L.	376	0	0	(376)	0	0
Meliatour, S.L.	(340)	(215)	555	0	0	0
Nexprom/Promedro (1)	3,533	420	0	(137)	0	3,816
Punta Elena S.L.	(55)	218	0	0	0	163
Lifestar Hoteles España, S.L. (JV)	(434)	0	434	0	0	0
Hantinsol Resorts, S.A.	20	(0)	0	0	0	20
Luxury Lifestyle H&R (JV)	(68)	(186)	60	(1)	0	(194)
Inversiones Hoteleras la Jaquita, S.A.	0	(62)	16,266	(4,599)	0	11,605
Prom. Playa Blanca, S.A. De C.V.	5,741	1,304	3,478	(1,624)	(1,004)	7,894
Inversiones Guiza, S.A.	(2)	0	0	0	0	(1)
Lifestar, Llc. (JV)	6,658	(423)	0	0	(643)	5,592
Sierra Parima, S.A. (JV)	3,077	(412)	0	0	(369)	2,295
LH Miami Llc (JV)	(0)	0	0	0	0	(0)
Hellenic Hotel Management	(76)	0	0	0	0	(76)
Sol Hoti Portugal Hoteis	226	103	0	(86)	0	244
Mogan Promociones S.A. CV	(118)	0	0	118	0	0
Detur Panamá, S.A.	196	(235)	0	0	(8)	(48)
TOTAL	**24,034**	**2,084**	**20,792**	**(8,251)**	**(2,024)**	**36,637**

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

The additions and disposals relate mainly to the changes in the Group's consolidation perimeter, as explained in Note 4 and the adjustments inherent to the consolidation process between Group companies.

The aggregate amount of assets, liabilities, ordinary income and results for 2006 corresponding to each of the associates and joint ventures integrated in the consolidation perimeter and the results attributable to the Group depending on the percentage of participation held in each, is as follows:

(thousands of euros)

	%	NON-CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	EQUITY	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	TOTAL LIABILITIES	ORDINARY INCOME	NET RESULTS	NET RESULT ATTRIBUTABLE TO THE GROUP
Aparthotel Bosque, S.A.	25.00%	6,441	1,562	**8,003**	4,986	1,437	1,581	**8,003**	5,072	748	**187**
C.P. Meliá Castilla	29.22%	20,681	5,356	**26,037**	8,651	3,520	13,866	**26,037**	44,322	3,914	**1,144**
C.P. Meliá Costa del Sol	19.02%	27,133	4,675	**31,808**	29,532	217	2,060	**31,808**	12,577	1,278	**243**
Detur Panamá, S.A.	49.93%	15,249	1,058	**16,306**	(96)	13,068	3,334	**16,306**	5,266	(472)	**(235)**
Hantisol Resorts, S.A.	33.33%	0	61	**61**	59	0	2	**61**	0	(0)	**(0)**
Hellenic Hotel	40.00%	62	18	**80**	(190)	12	257	**80**	0	0	**0**
Inversiones Guiza, S.A.	49.84%	1	23	**24**	(3)	0	26	**24**	159	0	**0**
Inv. Hoteleras la Jaquita, S.A.	49.76%	51,521	1,726	**53,247**	32,560	18,666	2,021	**53,247**		(125)	**(62)**
LH Miami LLC (JV)	50.00%	0	109	**109**	(0)	0	109	**109**	47	(0)	**(0)**
Lifestar LLC (JV)	50.00%	11,944	2,703	**14,648**	11,183	0	3,464	**14,648**	3,142	(845)	**(423)**
Luxury Lifestyle H&R (JV)	50.00%	31	145	**177**	(367)	0	544	**177**	706	(372)	**(186)**
Nexprom, S.A.	20.00%	20,456	4,053	**24,509**	16,769	2,359	5,381	**24,509**	20,088	2,148	**430**
Promedro, S.A.	20.00%	3,260	(0)	**3,260**	1,513	240	1,507	**3,260**	0	(47)	**(9)**
Prom.Playa Blanca S.A. De C.V.	49.50%	23,110	7,730	**30,840**	15,184	10,887	4,769	**30,840**	31,613	2,634	**1,304**
Punta Elena, S.L.	50.00%	0	949	**949**	326	325	298	**949**	0	436	**218**
Sierra Parima, S.A. (JV)	49.00%	11,060	253	**11,312**	6,424	3,893	995	**11,312**	37	(842)	**(412)**
Sol Hoti Portugal Hoteis, Ltd.	45.00%	5	691	**696**	541	0	155	**696**	655	229	**103**
		190,954	**31,112**	**222,066**	**127,073**	**54,624**	**40,369**	**222,066**	**123,685**	**8,684**	**2,300**

(JV) Joint ventures

In 2005, movement relating to investments in associates was as follows:

(thousands of euros)

	BALANCE 31/12/04	2005 RESULTS	ADDITIONS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/05
Alcajan/Inv. Areito/Leoford/Punta Cana (1)	4,063	261	0	(4,324)	0	
Aparthotel Bosque, S.A.	1,244	189	0	(25)	0	1,408
C.P. Meliá Castilla	2,326	863	0	(833)	0	2,355
C.P.Meliá Costa del Sol	1,540	207	0	(209)	0	1,539
Detur Panamá, S.A.	1,110	(870)	0	0	(44)	196
Hantinsol Resorts, S.A.	0	(1)	20	0	0	20
Lifestar Hoteles España, S.L. (JV)	2	(436)	0	0	0	(434)
Hellenic Hotel Management	(76)	0	0	0	0	(76)
Inversiones Turísticas Casas Bellas, S.L.	9,007		0	(9,007)	0	0
Inversiones Guiza, S.A.	(0)	(1)	0	0	0	(2)
LH Miami Llc (JV)	0	(0)	0	0	0	(0)
Lifestar, Llc. (JV)	5,936	(242)	0	0	964	6,658
Luxury Lifestyle H&R (JV)	0	(10)	0	(58)	0	(68)
Meliá Mérida, S.L.	544	(176)	0	8	0	376
Meliatour, S.L.	275	(615)	0	0	0	(340)
Mogan Promociones S.A. CV	15	(128)	0	0	(6)	(118)
Nexprom/Promedro (1)	3,219	335	0	(21)	0	3,533
Prom. Playa Blanca, S.A. De C.V.	6,075	(324)	0	0	(10)	5,741
Punta Elena S.L.	62	(117)	0	0	0	(55)
Sierra Parima, S.A.	2,992	(373)	1,025	0	(567)	3,077
Sol Hoti Portugal Hoteis	165	61	1	0	0	226
TOTAL	**38,499**	**(1,375)**	**1,046**	**(14,470)**	**337**	**24,034**

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

Moreover, comparative information of the aggregate amounts of assets, liabilities, ordinary income and results for 2005 relating to participations in associates and joint ventures integrated in the consolidation perimeter and the result attributable to the Group depending on the percentage of participation held in each of them, is offered.

(thousands of euros)

	%	NON-CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	EQUITY	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	TOTAL LIABILITIES	ORDINARY INCOME	NET RESULTS	NET RESULT ATTRIBUTABLE TO THE GROUP
Aparthotel Bosque, S.A.	25.00%	6,839	1,192	**8,031**	4,903	1,360	1,767	**8,031**	4,334	759	**190**
C.P. Meliá Castilla	29.22%	22,284	5,510	**27,794**	8,061	3,494	16,239	**27,794**	40,446	2,953	**863**
C.P. Meliá Costa del Sol	19.02%	26,352	3,914	**30,265**	27,701	396	2,168	**30,265**	11,466	1,089	**207**
Detur Panamá, S.A.	49.93%	18,277	(435)	**17,841**	729	15,019	2,093	**17,841**	3,768	(1,742)	**(870)**
Hantisol Resorts, S.A.	33.33%	0	61	**61**	59	0	2	**61**	0	(2)	**(1)**
Hellenic Hotel	40.00%	62	18	**80**	(190)	12	257	**80**	0	0	**0**
Inversiones Guiza, S.A.	49.84%	1	36	**37**	(3)	0	40	**37**	1	(2)	**(1)**
LH Miami LLC (JV)	50.00%	0	277	**277**	(0)	0	277	**277**	480	(0)	**(0)**
Lifestar Hot. España, S.L. (JV)	50.00%	24,000	9,953	**33,953**	(868)	27,840	6,981	**33,953**	119	(871)	**(436)**
Lifestar LLC (JV)	50.00%	13,147	2,710	**15,857**	13,315	0	2,542	**15,857**	2,991	(484)	**(242)**
Luxury Lifestyle H&R (JV)	50.00%	10	126	**136**	(114)	0	250	**136**	478	2	**1**
Meliá Merida, S.L.	41.76%	11,960	1,967	**13,926**	847	12,058	1,021	**13,926**	1,961	(422)	**(176)**
Meliá Tour, S.L.	50.00%	214	1,826	**2,039**	(679)	0	2,719	**2,039**	3,145	(1,230)	**(615)**
Mogan Promoc., S.A. DE CV	33.33%	3,377	2,347	**5,724**	(355)	6,018	61	**5,724**	0	(383)	**(128)**
Nexprom, S.A.	20.00%	20,475	4,285	**24,761**	15,138	4,019	5,604	**24,761**	18,728	1,879	**376**
Promedro, S.A.	20.00%	3,548	(0)	**3,547**	1,559	481	1,507	**3,547**	0	(41)	**(8)**
Prom.Playa Blanca S.A. De C.V.	33.00%	31,197	1,509	**32,705**	16,251	15,413	1,042	**32,705**	21,898	(1,048)	**(346)**
Punta Elena, S.L.	50.00%	0	960	**960**	(110)	721	348	**960**	0	(233)	**(117)**
Sierra Parima, S.A. (JV)	49.00%	4,587	1,601	**6,188**	6,090	0	98	**6,188**	0	(762)	**(373)**
Sol Hoti Portugal Hoteis, Ltd.	45.00%	4	587	**591**	503	0	88	**591**	509	168	**75**
		186,332	**38,441**	**224,773**	**92,836**	**86,832**	**45,105**	**224,773**	**110,325**	**(372)**	**(1,600)**

(JV) Joint ventures

10.3 Loans to associates

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

(thousands of euros)

	31/12/06	31/12/05
Lifestar Hoteles España, S.L.		6,720
Meliá Merida, S.L.		3,900
Mogan Promociones, S.A. de C.V.		1,870
Detur Panamá, S.A.	147	
Sierra Parima, S.A.	1,938	
TOTAL	**2,085**	**12,490**

Disposals for the year relate to the movements in the consolidation perimeter explained in Note 4.

10.4 Other non-current financial assets

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

(thousands of euros)

	31/12/06	31/12/05
Properties financing	14,624	18,354
Time-sharing clients	929	1,638
Real estate clients	10,953	6,614
Other deposits	2,217	1,963
Guarantees	9,793	10,300
Adjustments for impairment	(9,047)	(7,209)
TOTAL	29,469	31,660

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

- A loan granted by the company Grupo Sol Asia of 2.5 million USD to the hotel Sol Twin Towers (Golden Asset Company Ltd.) carries interest at the LIBOR rate plus 2 points which, based on the principle of prudence, has not been recorded.

- A loan granted to Hoteles Nacionales del Este of 8.9 millones de euros for the execution of a guarantee before Banco de Santander Central Hispano of the loans granted to this company (see Note 18).

- There is a balance of 0.7 million euros with Mirador de Adra, S.A. relating to a deposit executed as a result of an unfavorable judgment on a management contract.

- The Group has granted loans to the companies Hoteles Cibeles, S.A. owner of a managed hotel, Promociones Financieras Turísticas, S.A., and Resorts Advantage, Ltd, for a total amount of 3 million euros, intended to finance the company's trading operations.

- The loan granted by Operadora Mesol to Aresol Cabos, S.A. for 6.6 million euros has been reclassified to short-term. Another loan of 1.2 million euros granted to P.T.S.A.I. (PT Suryalaya Anindita Internacional) intended to finance the company's trading operations has also been reclassified to short-term.

The amount of real estate clients includes the sale of villas in a complex located in the Dominican Republic. The Group has transferred certain loans relating to balances pending at December 31, 2005, for 10.2 million euros, of which 3.5 million euros are presented as current assets (See Note 12.5).

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

The variation in the adjustments for impairment losses is due to the reclassifications from short-term to long-term.

11 NON-CURRENT ASSETS HELD FOR SALE

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

12 CURRENT ASSETS

12.1 Inventories

(thousands of euros)

	31/12/06	31/12/05
Goods	1,079	640
Food	4,271	3,606
Beverage	3,018	2,718
Fuel	597	583
Spare parts	1,193	885
Cleaning material	681	620
Ancillary materials	2,846	2,481
Advertising and entertainment materials	446	438
Office material	1,413	1,458
Maintenance items	810	817
Other	167	183
Hotel Business	**16,521**	**14,427**
Time-sharing Business	**9,376**	**11,825**
Real Estate Business	**3,106**	**5,796**
Prepayments to suppliers	**1,755**	**3,439**
TOTAL	**30,758**	**35,487**

The Group does not have firm purchase or sale commitments and there are no limitations on inventories availability. The supplier with the greatest raw material purchase volume has been Carma SXXI, S.A., a related company, with a total value of 19.4 million euros.

The real estate assets caption includes a balance arising from Desarrollos Sol, S.A. corresponding to a significant development in Santo Domingo in the real estate sector which is in the process of being sold.

12.2 Trade and other receivables

At December 31, 2006 the total hotel business client portfolio discounted by the Group amounts to 72.3 million euros, of which 49.9 million euros have been collected in advance and the remainder is pending collection and is included in the trade balance. At December 31, 2005, these balances were of 70.1 million euros and 51.9 million euros, respectively.

In addition, at year-end, the Group also maintains non-recourse credit transfer operations relating to time share sales amounting to 73.7 million euros.

Both captions have been deducted from the trade and other receivables balance.

12.3 Receivables from associates

The breakdown the short-term receivables balance is as follows:

(thousands of euros)

	31/12/06	31/12/05
Apartotel Bosque, S.A.	324	340
Comunidad de Propietarios Meliá Castilla	2,561	2,558
Comunidad de Propietarios Meliá Costa del Sol	608	624
Detur Panamá, S.A.	2,482	2,036
Hantinsol Resorts, S.A.	2	
Helenic Hotel Management	43	48
Inversiones Guiza, S.A.		19
Inversiones Hoteleras La Jaquita, S.A.	(66)	
Lifestar LLC	1,711	1,222
Lifestar Hoteles España, S.L.		6,342
Luxury Lifestyle	3	
Meliá Merida, S.L.		229
Meliá Tour, S.L.		776
Nexprom, S.A.	637	947
Promociones Playa Blanca S.A. de C.V.	1,153	961
Punta Elena, S.L.	298	302
Sierra Parima, S.A.	48	23
Sol Hoti Portugal	56	63
TOTAL	9,859	16,488

12.4 Other current assets

The current assets balance includes the following items:

(thousands of euros)

	31/12/06	31/12/05
Receivables	18,269	61,854
Bills of exchange receivable	621	5,652
Doubtful debts	1,139	1,214
Receivables from Public Treasury	12,099	19,698
Input VAT - Public Treasury	15,179	4,416
Withholding taxes	5,790	3,212
Current accounts		1,160
Prepayments and accruals	3,899	2,514
Other	64	1,389
TOTAL OTHER ACCOUNTS RECEIVABLE	57,060	101,109

The decrease in the "Receivables" balance in 2006 is due mainly to the collection of the indemnities which were pending for the damages caused by Hurricane Wilma recorded in 2005.

12.5 Other current financial assets

(thousands of euros)

	31/12/06	31/12/05
Credits to third parties	28,103	7,588
Real estate clients		3,507
Securities portfolio	3,347	5,620
Other deposits	2,331	14,385
Guarantees	3,103	3,188
TOTAL	36,884	34,288

The balance corresponding to P.T.S.A.I. (PT Surylaya Anindita Internacional) and the loan granted by Operadora Mesol to Aresol Cabos, S.A. amounting to 1.2 and 6.6 million euros, respectively, have been transferred to short-term, as explained in Note 10.4. In addition, the participation held in Inversiones Hoteleras Los Cabos, S.A., of 3.3 million euros, has been transferred to short-term.

The Group has granted a loan secured and remunerated at six-month period in favor of Inversiones Hoteleras Toledo, for an amount of 12.2 million euros for the sale of a hotel in Spain.

During the year, the Group has cancelled a deposit of 10.1 million euros in Deutsche Bank for a swap transaction linked to the bonds issuance cancelled on February 9, 2006, as explained in Note 15.1.

In 2005, the balance of the securities portfolio included 4.5 million euros corresponding to the present value of a non-genuine financial hedging instrument contracted with BBVA relating to the remuneration system explained in Note 19 which has been cancelled during the year.

12.6 Cash and cash equivalents

(thousands of euros)

	31/12/06	31/12/05
Cash	109,855	88,268
Other cash equivalents	21,134	42,647
TOTAL	130,989	130,915

The cash equivalents relate to short-term deposits, whose maturities may range from one day to three months depending on the Group's cash requirements.

The companies Meliá Mérida, S.L., Dominios Compartidos, S.A., Hogares Batle, S.A. and Lifestar Hoteles España, S.L., at their integration date as Group subsidiaries (See Note 4.1), have contributed a total cash balance of 6.4 million euros.

13 EQUITY

13.1 Capital suscrito

At December 31, 2006 and 2005 Sol Meliá, S.A.'s share capital consists of 184,776,777 fully subscribed and paid up shares with a par value of 0.2 euros each.

All shares have the same rights and are listed on the stock exchange, with the exception of treasury shares.

At the Ordinary and Extraordinary General Meeting held on June 6, 2006, the Company Directors were authorized, for a period of five years following said Meeting, to agree on an increase of up to eighteen million four hundred and seventy seven thousand six hundred and seventy seven euros (18,477,677) in the share capital of the Company without previously consulting the Shareholders in General Meeting. Consequently, the Directors can exercise this right, on one or various occasions, for the specified amount or less, deciding in each case, not only the timing or appropriateness, but also the amount and conditions which they consider should apply.

At December 31, 2006 the main shareholders with direct or indirect ownership in Sol Meliá, S.A. are as follows:

SHAREHOLDER	% PARTICIPATION
Hoteles Mallorquines Consolidados, S.A.	27.92%
Hoteles Mallorquines Asociados S.L.	16.34%
Hoteles Mallorquines Agrupados S.L..	10.82%
Ailemlos, S.A.	6.51%
Majorcan Hotels Luxemburg S.a.r.l.	5.83%
Caja de Ahorros del Mediterráneo	5.01%
Other	27.57%
TOTAL	100.00%

Subsequent to year-end, the company Ailemlos, S.A. has sold its participation, as indicated in Note 20.

13.2 Reserves of the Parent Company

Revaluation reserve R.D.L. 7/1996 of June 7

This reserve, included in the balance sheet (following the mergers Inmotel Inversiones, S.A., Constructora Inmobiliaria Alcano, S.A., Inmobiliaria Bulmes, S.A., Parking Internacional, S.A. and Azafata, S.A.), relates to the revaluation of intangible assets and property, plant and equipment permitted by law, less a tax charge of 3% relating to revaluation.

This reserve may be applied to offset losses, to increase the Company's share capital or, after December 31, 2006 (10 years after the revaluation reserves were initially included on the balance sheet) transferred to distributable reserves. The balance of this reserve cannot be distributed, directly or indirectly before the abovementioned date, unless the surplus is realized by means of the sale or full depreciation of the revalued items.

The breakdown of the Revaluation reserve is as follows:

(thousands of euros)

	31/12/06	31/12/05
Revaluation of Intangible Fixed Assets	1,456	1,456
Revaluation of Property, Plant and Equipment	53,327	53,327
Tax rate of 3% on revaluation	(1,965)	(1,965)
TOTAL REVALUATION RESERVES	**52,818**	**52,818**

Legal reserves

Sol Meliá, S.A. and those subsidiaries formed according to the Spanish legislation have the obligation of transferring 10% of the profits for the year to the legal reserve until this equals at least 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses, should no other reserves be available. The legal reserves balance of the Parent Company amounts to 7,391,071.09 euros.

Reserves for treasury shares

This reserve is not distributable and was set up for the acquisition of treasury shares (5,884,852 shares). In accordance with Spanish legislation, this reserve is set up by the Parent Company for 34,350,174 euros.

Reserve Law 19/94 Reinvestment in the Canary Islands

This reserve is not distributable as it is created with the commitment of the Parent Company to invest in new fixed assets in the Canary Islands, within three years, an amount equivalent to the balance on the Reinvestment in the Canary Islands Reserve 19/94.

13.3 Reserves of companies consolidated by the full consolidation method

Appendix 3 shows the breakdown, by company, of the movements for the year recorded in the reserves corresponding to companies consolidated by the full method.

13.4 Reserves in associates

Appendix 4 shows the breakdown, by company, of the movements for the year recorded in the reserves corresponding to companies consolidated by the equity method.

13.5 Exchange differences

Foreign currency gains/losses reflected in the balance sheet derived from the consolidated companies classified by currency are as follows:

(thousands of euros)

	31/12/2006	31/12/2005
Venezuelan Bolivar	(19,957)	(13,155)
Costa Rican Colon	42	38
Singapore Dollar	27	35
Swiss Franc	(143)	61
Croatian Kuna	109	109
GB Pound	1,824	952
Moroccan Dirham	29	(12)
Colombian Peso	30	24
Dominican Peso	(7,929)	(266)
Mexican Peso	(6,229)	28,185
Guatemalan Quetzal	5	3
Brasilian Real	(609)	(784)
Indonesian Rupia	(9)	0
Peruvian Sol	(410)	18
Tunisian Dinar	115	(85)
Turkish Lire	172	75
American Dollar	(10,189)	17,582
TOTAL	(43,121)	32,781

An amount of 40.4 million euros of this total relates to companies integrated by the full consolidation method and 2.7 million euros to associates.

13.6 Treasury shares

The breakdown and movement of the treasury shares is as follows:

(unidades de euros)

	SHARES	AVERAGE PRICE IN €	AMOUNT IN €
Balance at 31/12/2005	5,486,841	6.51	35,692,111
2006 Acquisitions	8,406,852	11.74	98,688,570
2006 Disposals	(8,008,841)	11.94	(95,632,764)
Balance at 31/12/2006	5,884,852	6.58	38,747,917

As of December 31, 2006, the treasury shares total represents 3.18% of the share capital. In any case, the treasury shares will not exceed the 5% limit established in the Public Limited Companies Law.

The quotation of Sol Meliá's shares at year-end is of 15.01€.

At year-end, the balance of shares includes those corresponding to the securities loan agreement with Barclays commented in Note 15.1.

For comparative purposes, the movements corresponding to 2005 are shown below:

(unidades de euros)

	SHARES	AVERAGE PRICE IN €	AMOUNT IN €
Saldo a 31/12/2004	**5,447,014**	**5.75**	**31,313,254**
2005 Acquisitions	7,073,061	8.22	58,153,617
2005 Disposals	(7,033,234)	7.65	(53,774,760)
Saldo a 31/12/2005	**5,486,841**	**6.51**	**35,692,111**

14 MINORITY INTERESTS

The equity participation relating to minority interest rights, including the corresponding portion in results is recorded under this heading.

During 2006, the Group has acquired a 70% participation corresponding to minority interests in Alcajan XXI, S.L., and the participation relating to minority interests in Convento de Extremadura, S.A. and Hotel Bellver, S.A., of 26.31% and 33.42%, respectively, as indicated in Note 4.

The breakdown, by company, of the minority interest balances and the movements during 2006, explained in Note 4 and recorded in the year are presented in Appendix 5 of these Notes to the Consolidated Financial Statements.

15 BANK FINANCING

15.1 Issue of debentures and other marketable securities

On February 9, 2006, the Sol Meliá Europe, B.V.'s debentures were cancelled, for a total of 340 million euros, as planned.

On November 14, 2003 Sol Meliá Europe, B.V. carried out a private placing of debentures among Barclays investors for a total of 150 million euros under the following terms:

Amount of the issue	€ 150,000,000
Par value of bond:	€ 10,000.00
Maturity:	5 years
Debt status:	Senior (Exchangeable)
Issue price:	100.00%
Issue date:	November 14, 2003
Maturity date:	November 14, 2008
Coupon:	4.30%
Exchange price:	€ 11.90
Conversion premium:	80%
Conversion ratio:	840.336 shares per Bond
Redemption price:	100%
Bond yield upon maturity:	4.30%
Possibility of cancellation by issuer:	After the fourth year. (Subject to limit of 130% 15.47)
Credit quality:	BB+ by S&P and BBB by Fitch Ibca.
Maximum of shares to be issued:	12,605,042

The balance as of December 31, 2006 is the following:

Issue principal	€ 150,000,000		
Long-term formalisation expenses	€ (555,410)	**L/T TOTAL**	**€ 149,257,374**
Short-term formalisation expenses	€ (397,082)		
Accrued interest at 4.30%	€ 848,219	**S/T TOTAL**	**€ 451,137**

The balance as of December 31, 2005 was the following:

Issue principal	150,000,000		
Long-term formalisation expenses	€ (742,626)	**L/T TOTAL**	**€ 149,257,374**
Short-term formalisation expenses	€ (397,082)		
Accrued interest at 4.30%	€ 848,219	**S/T TOTAL**	**€ 451,137**

Sol Meliá, S.A. has signed a securities loan agreement with Barclays up to a maximum of 5,250,000 shares from the treasury shares maturing on October 20, 2008, of which 3,391,554 have been drawndown by Barclays as of December 31, 2006. This figure represents a percentage of 1.83% of the share capital, which guarantees the acquisition of Sol Meliá, S.A.'s shares to the investors as a part of the issuance of 150 million euros in convertible debentures. This loan is remunerated at 1%.

Furthermore, with the purpose of ensuring investors the successful financial transaction for the acquisition of Sol Meliá, S.A.'s shares, the shareholder Majorcan Hotels Luxembourg S.A.R.L. has put at the disposal of Barclays Bank, in concept of loan, 5,250,000 shares of Sol Meliá, S.A., of which, Barclays has drawndown 443,652 as of December 31, 2006.

15.2 Preference shares

Sol Meliá Finance, N.V. undertook a preference shares issue as stated in the Complete Informative Prospectus recorded in the Stock Exchange Commission's official register as of April 4, 2002, under the following conditions:

Amount of the issue:	€ 106,886,300
Nominal:	€ 100
Dividend (2002 to 2012):	Fixed 7.80% per year payable quarterly (AER 8.03%)
Step-up (2012 onwards):	Variable (Euribor 3m + 5%, minimum 12.30%)
Issue date:	April 1, 2002
Maturity date:	The issuer has a redemption option after 10 years
Credit quality:	BBB by S&P and BBB+ by Fitch Ibca.

As of December 31, 2006 the balance is as follows:

Issue principal	€ 106,886,300		
Net value updated at 31/12/2006	€ 102,184,811		
Formalisation expenses	€ (1,983,014)	**L/T TOTAL**	**€ 100,201,797**

As of December 31, 2006 the balance was as follows:

Issue principal	€ 106,886,300		
Formalisation expenses	€ (7,811,930)	**L/T TOTAL**	**€ 99,074,370**

The Group's Preference Shares were issued under such conditions that the possibility that the Group will exercise the redemption right from April 2012 is very high. The differential between the dividend and the abovementioned "step-up" is such that the issue is considered as a Financial Liability.

15.3 Bank debt

At December 31, 2006 and 2005, the balances held by the Group, classified by nature and maturity, are the following:

(thousands of euros)

	2006			2005		
	SHORT-TERM MATURITIES	LONG-TERM MATURITIES	TOTAL MAT.	SHORT-TERM MATURITIES	LONG-TERM MATURITIES	TOTAL MAT.
Bank loans	62,980	196,221	259,201	26,023	55,806	81,829
Mortgage loans	30,915	298,246	329,162	32,900	322,082	354,981
Credit facilities	138,919	47,303	186,222	7,709	814	8,523
Leasing	21,996	43,686	65,682	22,599	44,249	66,848
Interests	6,321		6,321	4,110	0	4,110
Promissory notes discounted	1,360		1,360	3,504	832	4,336
Factoring with recourse				3,296	5,980	9,276
TOTAL BANK DEBT	**262,492**	**585,456**	**847,948**	**100,141**	**429,763**	**529,903**
Financial Instrument (SWAP)	5,082	8,288	13,370		26,840	26,840
TOTAL DEBT	**267,574**	**593,744**	**861,318**	**100,141**	**456,603**	**556,743**

The total amount of drawndown credit facilities is 186.2 million euros. The Group has an amount of 90.2 million euros of undrawn facilities available at year-end.

Changes in the consolidation perimeter commented in Note 4.1 relating to the companies Meliá Mérida, S.L., Lifestar Hoteles España, S.A. and Dominios Compartidos, S.A., have caused an increase of the bank debt, for a total amount of 23.6 million euros, of which 2.3 million euros mature in 2007.

Increases in the bank debt for the year amount to 427 million euros, as indicated in the Cash-Flow Statement.

There are 410 financial leasing contracts pending maturity as of December 31, 2006, of which 153 mature in one year, 255 between 2 and 5 years and two of them in 8 years. The total residual value of the contracts in force amounts to 3.1 million euros.

On November 22, 2001 Sol Meliá, S.A. signed a Swap contract with a bank, according to which a cash flow of 300 million euros with a six-month Euribor interest (receivable by Sol Meliá, S.A.) will be swapped for another cash flow of 300 million euros with a dollar Libor in arrears interest. On January 13, 2003 Sol Meliá, S.A. decided to change the Swap structure, which was transferred to Deutsche Bank, under the following terms: the six-month Euribor interest is swapped for a twelve-month dollar Libor plus 70 points for the first two years and dollar Libor plus 140 points for the remaining period, at a minimum rate of 2.3% during the first two years. For the remaining years, rates applicable to the total payable by Sol Meliá range between a minimum of 3.15% and a maximum of 5.4%. The maximum rate will not be applied if the total is over 8%, whose last maturity date is February 11, 2008.

The net fair value of the instrument has been calculated according to generally accepted financial methods.

The breakdown of bank debt maturities is as follows:

(thousands of euros)

	2007	2008	2009	2010	2011	2012 ONWARDS	TOTAL
Bank loans	62,980	64,002	65,793	34,006	9,253	23,167	259,201
Mortgage loans	30,915	29,037	25,379	25,078	19,820	198,933	329,162
Credit facilities	138,919	47,303					186,222
Leasings	21,996	13,453	9,552	5,864	3,640	11,177	65,682
Interests	6,321						6,321
Promissory notes discounted	1,360						1,360
TOTAL BANK DEBT	**262,492**	**153,795**	**100,724**	**64,948**	**32,713**	**233,277**	**847,948**
Financial Instrument (SWAP)	5,082	8,288					13,370
TOTAL DEBT	**267,574**	**162,083**	**100,724**	**64,948**	**32,713**	**233,277**	**861,318**

The average interest rate accrued by these loans and the bonds and preference shares issues during 2006 is 4.62%.

15.4 Sensitivity analysis

Interest rate risk

The Group is exposed to the interest-rate fluctuations experienced by the Euribor, USD Libor and GBP Libor. As of December 31, 2006, the Group has no interest rate hedging instruments.

The percentage of the debt referenced to variable interest rates on the Group's debt total is of 65%, as detailed in the following table. This percentage has been increased with reference to December 31, 2005 due to the maturity of the fixed or protected interest debt in February 2006. Said fixed debt has been totally refinanced by variable interest debt.

(thousands of euros)

	FIXED INTEREST	VARIABLE INTEREST	TOTAL
Long-term debentures	149,445		149,445
Long-term preference shares	100,202		100,202
Long-term payable to credit entities	135,382	458,362	593,744
Short-term debentures		448	448
Short-term payable to credit entities		267,574	267,574
TOTAL DEBT	385,029	726,384	1,111,413

If there had been an average increase of the market interest rates throughout 2006 of 25 basis points, the effect on the income statement would have been additional interest expense of 1.65 million euros. Similarly, the financial income generated by the non-hedge swap transaction would have been higher by 1.90 million euros. Overall financial results generated in 2006 would have amounted to an additional 0.25 million euros.

The quotation of Sol Meliá, S.A.'s shares at year-end was 15.01 euros. No impact on the Group's equity is expected as a result of the convertible debentures transaction. Nevertheless, in view of the positive trend of the quotation at the date of formulation of these consolidated financial statements, the number of treasury shares has been increased by 913,346.

Liquidity risk

Most of the credit facilities maturing in the short-term, amounting to 138.9 million euros are renegotiated and renewed annually. For this reason, no significant changes are expected in the short-term.

Foreign exchange risk

This risk relates basically to debt operations denominated in foreign currency contracted by Group companies and associates. The Group has neither swaps nor exchange insurance in foreign currency, given that it aims to create a balance between cash collections and cash payments of its assets and liabilities denominated in foreign currency.

The breakdown of the Group's debt, according to the currency in which the various contracts are denominated, is of 96% in euros, 3% in GBP and 1% in USD.

Credit risk

The average credit collection period is still less than 55 days, and no significant events worth mentioning have occurred with regard to the credit portfolio. Furthermore, factors such as adequate portfolio diversification of clients (countries / market segments) and concentration surveillance, among other management parameters, enables the average period to be maintained within the desired parameters. Management actions ensure an exhaustive and permanent debt control.

16 NON-BANK LIABILITIES

16.1 Capital grants and other deferred income

The details of these balances are as follows:

(thousands of euros)

	31/12/2006	31/12/2005
Capital grants	5,873	4,572
Deferred Income from Management Contracts	0	20,069
Deferred Income from Insurance (Mexico)	0	40,385
Deferred Income - Time -Sharing sales		1,530
Various deferred income	0	153
TOTAL	5,873	66,709

Capital grants relate basically to grants used to finance property, plant and equipment purchases. In 2006, the total amount recorded in the Income Statement for this concept is 617,000 euros.

In 2006, the Group has recorded the proceeds deriving from the cancellation of the management contract amounting to 8.9 million euros, upon the termination of the strategic alliance held with the Rank Group constituted for the joint development of the Hard Rock hotels, as explained in Note 4.

In 2006, the total deferred income from insurance coverage indemnities and the withdrawals of assets pending at 2005 year-end amounting to 10 million euros, after the passage of Hurricane Wilma in Cancun, have been recorded in the Income Statement, as soon as the dossiers for physical damages and loss of profits have been definitely closed by the insurance companies. These amounts, together with those recorded in 2005, reflect the total effect of Hurricane Wilma for the Sol Meliá Group.

16.2 Provisions

The balance sheet shows an amount of 25.9 million euros in long-term liabilities in concept of "Provisions for risks and expenses". As indicated in Note 6.15, this caption includes the Group's commitments with staff, provisions for taxes from prior years which have been appealed or are pending court resolution together with urban planning disputes, as well as the provisions recorded to cover the various liabilities and contingencies arising from operations, commitments acquired and guarantees given to third parties, risks for legal claims and lawsuits and possible liabilities deriving from the different possible interpretations of prevailing legal regulations.

The breakdown of the balance, by type, is as follows:

(thousands of euros)

	31/12/06	31/12/05
Provision for Loyalty Premiums and liabilities with staff members	5,309	8,609
Provision for taxes and Public Bodies	7,941	6,043
Provision for onerous contracts	6,590	6,064
Provision for liabilities	6,054	7,835
TOTAL	25,895	28,552

Each year-end, an actuarial study is undertaken to evaluate the past services corresponding to commitments established in supra-enterprise collective agreements. Said services have been estimated in 8 million euros for 2006, of which 0.6 million euros have been charged to results. In addition, commitments, amounting to 2.7 million euros, have been externalised in order to comply with the prevailing legislation, the liabilities having been recorded for their net amount. The evaluation of these commitments was performed in accordance with the actuarial assumptions contained in the Externalisation Regulations, by applying the calculation method known as the "projected unit credit" and the population assumptions corresponding to the ERM/F200p tables, applying a capitalisation rate of 3.71% and salary increases of 2.50% plus the assumption of a foreseeable turnover of between 2.34% and 6.86% of employees with an average retirement age of 64 years.

The movement for the year relating to the application of the provision for onerous contracts amounts to 0.5 million euros according to an established financial plan. Said provision covers the difference between the committed disbursements and the expected cash flows of 5 hotels in Germany and 1 hotel in Tunisia.

In 2006, the Group has recorded a provision for a tax assessment on the Mexican Assets Tax relating to a hotel located in Mexico which amounts to 1.6 million euros.

Provisions for liabilities deriving from legal claims relating to properties, which have been resolved in 2006, have been applied during the year in the amount of 1.3 million euros.

On December 28, 2005, the Cairo Court of Arbitration dictated an arbitral award as a result of the claim filed by Sheranco for Tourism Projects, owner of the Hotel Meliá Pharaoh, against the management company (Sol Meliá Group). The owner company affirms that the mentioned hotel, managed by Sol Meliá, did not obtain the expected results in 2003. Sol Meliá, however, disagrees with this opinion adducing errors in the exchange rates applied and certain expenses pertaining to the owner and not to the management company. Due to the above, the Company has appealed. Nevertheless, with the aim of covering the risk deriving from the initial sentence, a provision of 0.6 million euros has been charged in the Financial Statements of Sol Meliá Egypt.

16.3 Other non-current liabilities

This caption includes:

(thousands of euros)

	31/12/2006	31/12/2005
Guarantees received	781	708
Non-bank loans	5,455	1,915
Suppliers	629	2,709
Pension externalisation	1,062	0
Bills of exchange payable	5,089	6,267
Payable to the Public Treasury	3,542	3,549
Financial leases	161,354	161,510
Other liabilities	400	487
TOTAL	**178,312**	**177,145**

Sol Meliá, S.A. ensures through bank guarantees a license contract for using theme products, for an amount of 1 million euros and a balance in favor of the Spanish Ministry of Science & Technology of 1.9 million euros, for developing the virtual technology project Sol Meliá.com and implementing an E-Procurement system.

The maturities of the financial leases will be made systematically until the year 2074.

16.4 Debts with associates

The balance corresponds to Detur Panamá, S.A., for hotel operations generated during the year.

The balances recorded at December 31, 2005 corresponding to Lifestar Hoteles España, S.L. and Meliá Tour, S.L. have been written-down in 2006 as a result of the changes in the consolidation perimeter explained in Note 4.

16.5 Current liabilities

The main concepts recorded under this caption are the following:

(thousands of euros)

	31/12/2006	31/12/2005
Remunerations pending payment	30,439	28,566
Payable to the Public Treasury	366	207
Payable to Social Security	6,411	6,353
Output VAT	22,671	18,966
Accruals	7,961	2,385
Current accounts	3,551	
Bills of exchange payable	3,101	3,479
Other liabilities	388	415
TOTAL	74,888	60,370

17 TAX SITUATION

The companies integrated in the Group are subject to the tax legislation applicable in the various countries in which they carry out their activities. The tax legislation in force in some of these countries does not coincide with the Spanish legal system. Therefore, the information provided in this note should be interpreted according to the various legislations applicable on income tax regarding the taxable basis, tax rates and deductions applicable.

17.1 Years open to inspection

In accordance with the legal regulations prevailing in Spain, tax returns cannot be considered final until they have been inspected by the tax authorities or the 4-year inspection period, which may be extended due to tax inspection proceedings, has elapsed. In this respect the Group companies are open to tax inspection for the following taxes and years:

INCOME TAX	YEARS	2003 to 2005
PAYROLL WITHHOLDINGS	YEARS	2003 to 2006
V.A.T.	YEARS	2003 to 2006
CANARY ISLANDS GENERAL TAX	YEARS	2001 to 2006

17.2 Deferred tax assets and liabilities

The breakdown of deferred tax assets and liabilities and the movement recorded in each year in the Income Statement are as follows:

(thousands of euros)

	ASSETS / LIABILITIES 31/12/06	ASSETS / LIABILITIES 31/12/05	PROFIT AND LOSS 31/12/06	PROFIT AND LOSS 31/12/05
The balance of the non-current deferred tax assets is as follows:				
Tax credits capitalised	19,064	21,455	2,135	(1,560)
Credits for tax loss carryforwards	14,543	27,251	11,268	7,810
Temporary differences for:				
Tax value of goodwill from Tryp	36,560	42,743	6,094	0
Long-term rentals	3,233	2,337	(895)	1,260
Interest rate SWAP	1,761	6,607	4,573	2,695
Other	30,988	37,207	6,159	(3,250)
TOTAL	**106,149**	**137,600**		
The balance of the non-current deferred tax liabilities is as follows:				
Hurricane Wilma's effect	0	5,992	(5,625)	0
Fair value in business combinations	24,884	29,059	(1,996)	(691)
Financial leases transactions	54,614	59,451	(6,368)	4,883
Updating and revaluation of land plots	49,600	63,332	(15,722)	(969)
Non-operational assets (property)	18,205	20,580	(2,478)	(3,786)
Unrealised exchange gains	1,739	2,556	(844)	28
Differences between accounting value and tax value in England	1,981	3,257	(1,202)	(51)
Other	45,430	39,342	5,539	(4,137)
TOTAL	**196,453**	**223,569**		
TOTAL DEFERRED TAX IMPACT EXPENSE / (INCOME)			**638**	**2,232**

The balance of the variation of the amount of deferred tax liabilities, which has an effect on the Group's equity, generated by business combinations from prior years, amounts to 2.3 million euros, as indicated in the Consolidated Statement of Changes in Equity.

The deferred tax assets and liabilities are calculated considering the future amendments to the tax charges already approved in Mexico, Dominican Republic, France, Italy and Spain. The impact of said amendments on the Income Statement is the following:

(thousands of euros)

	EXPENSE	INCOME
Spain	11,387	20,208
Italy	0	117
France	0	490
Mexico	484	288
Dominican Republic	99	151
TOTAL	**11,970**	**21,254**

17.3 Tax losses of the Group

Tax losses to be off-set, detailed by geographical area, are shown below:

(thousands of euros)

	2007	2008-2012	2013-2019	FOLLOWING YEARS	TOTAL 31/12/06	TOTAL 31/12/05
Spain	0	3	89,769	5,014	94,786	114,434
Rest of Europe	131	24,995	25,013	25,956	76,095	91,374
America	0	18,379	17,303	8,623	44,305	48,902
TOTAL	131	43,377	132,085	39,593	215,186	254,710

Within "Rest of Europe", it is noteworthy the situation of the Netherlands (36.3 million euros) and Germany (17.7 million euros) and within the American area, the situation in Mexico (33.1 million euros).

Tax losses for which deferred tax assets have been recognised amount to 6.8 million euros in Spain, 3.8 million euros in the rest of Europe and 33.1 million euros in America.

Tax losses which have been offset in the year had not been fully capitalised in prior years, causing a tax benefit of 8.4 million euros. This benefit, detailed by geographical area, is of 1.7 million euros for Spain, 6.2 million euros for Italy (business restructuring), and 0.5 million euros for the rest of Europe.

17.4 Group's tax credits

The tax credits of the Group that may be offset are detailed, by geographical areas, below:

(thousands of euros)

	2007	2008-2012	2013-2019	TOTAL 31/12/06	TOTAL 31/12/05
Spain	0	8,377	21,667	30,044	22,874
America	480	3,358	11,235	15,073	20,278
TOTAL	480	11,735	32,902	45,117	43,152

The tax credits accumulated at year-end in America relate to the payments made for the Mexican Asset Tax amounting to 10.6 million euros and 4.4 million euros for new investments in Venezuela.

The deferred tax assets in Spain, Venezuela and Mexico which have been recognised in the year amount to 7.2, 1.1 and 9.1 million euros, respectively.

Tax credits which have been offset in the year were fully capitalised in prior years, causing their subsequent reversion in the 2006 Income Statement.

Tax credits in Spanish companies are explained in the following tables.

The breakdown of tax deductions for export activities pending application in Sol Meliá, S.A. as of December 31, 2006, and deducted in the year is the following (in thousands of euros):

(thousands of euros)

	REINVESTMENT AMOUNT	DEDUCTION AMOUNT	ACCUMULATED DEDUCTIONS	DEDUCTIONS FOR THE YEAR	PENDING DEDUCTIONS	MATURITY DATE
Shares Sol Melia France, S.A.	79,358	19,839	16,812	0	3,027	2010
Shares Sol Melia Benelux, S.A.	7,545	1,886			1,886	2011
Fairs & Congresses 2001 - 2006	5,813	1,453			1,453	2011/16
TOTAL	92,716	23,178	16,812	0	6,366	

Said tax deductions have been partially capitalised for a total amount of 1.5 million euros, following the criteria indicated in Note 6.18.

Taxable profits of Sol Meliá, S.A. deriving from asset disposals and which are tax exempt for reinvestment and the amounts to be reinvested, in thousands of euros are the following:

YEAR	SALE AMOUNT	PROFIT FROM SALE	AMOUNT TO BE REINVESTED	YEAR OF REINV.	REINVESTED AMOUNT	MAT. DATE	REINVESTMENT DEDUCTION	DEDUCTIONS APPLIED	PENDING DEDUCTIONS	MAT. DATE
2003	22,399	16,570	22,399	2003	22,399	2006	3,314	1,185	2,129	2013
2004	10,036	9,749	10,036	2004	27,216	2007	1,979		1,979	2014
2005	103,200	48,490	103,200	2004/05	82,522	2008	9,698		9,698	2015
2006	51,350	32,467	51,350	2006	75,422	2009	6,493		6,493	2016
TOTAL	186,985	107,276	186,985		207,559		21,484	1,185	20,299	

Sol Meliá, S.A. has reinvested the proceeds from the sales in new fixed assets for refurbishment and renovation of the hotels.

With regards to the reinvestment regime, the profits arising from the sale are integrated into the taxable basis depending on the depreciation period. For this purpose, a deferred tax has been created. The amount pending integration to the taxable basis is 22.5 million euros and will be integrated on a straight line basis up to the year 2051.

During 2006, the deductions for double taxation deriving from domestic and international dividends recorded by Sol Meliá, S.A., for an amount of 2.7 million euros, have been applied. At year-end, there are no deductions pending application for this concept.

As of December 31, 2006, the Group has deductions pending application for new fixed assets in the Canary Islands, in accordance with art. 94 of Law 20/91 on Corporation Tax, for an amount of 3.2 million euros, of which 0.4 million euros prescribe in 2010 and 2.8 million euros in 2011.

The Group has the commitment of undertaking investments in new fixed assets located in the Canary Islands during the forthcoming years and according to Law 19/94 on Investments in the Canary Islands. The total amount committed pending application is of 15.2 million euros, and the maximum period of application is year 2010.

The information stipulated in Article 84 of Royal Decree 4/2004 on Corporation Tax, relating to split-offs and mergers of lines of business made in prior years, is included in the first annual accounts approved after each transaction. The breakdown is as follows:

Inmotel Inversiones, S.A.:	1993, 1996, 1997 and 1998
Sol Meliá, S.A.:	1999, 2001 and 2005

17.5 Reconciliation between the consolidated accounting results and the aggregated tax basis

(thousands of euros)

	31/12/2006	31/12/2005
Consolidated Net Result	**137.979**	**92.035**
Dividends from subsidiaries	139,978	65,513
Surpluses deriving from intercompany sales of assets	33,622	20,189
Recognition of 2005 results from subsidiaries	2,704	0
Surpluses eliminated through sale of assets	1,433	1,219
Equity method of companies located in Mexico	846	1,284
Goodwill impairment losses	546	139
Treasury shares transactions	22	0
Capitalisation of the intergroup debt in Venezuela	0	7,536
Accounting policies homogenisation	0	4,317
Conversion differences for intergroup transactions	(452)	0
Dissolution of Group companies	(492)	0
Result of companies integrated by the equity method	(2,084)	1,376
Hurricane Wilma's effects on revaluated assets	(10,425)	6,484
Results of Group transactions provisions	(48,056)	6,432
AGGREGATED ACCOUNTING RESULT	**255,621**	**206,524**
Tax adjustment to accounting result		
Corporation Tax	16,387	485
Provisions	56,707	19,659
Adjustment for accounting revaluation of properties sold	14,216	12,229
Non-deductible income and expenses	12,400	3,929
Exchange differences	2,994	3,925
Treasury shares transactions	1,095	12,703
Attributions and transparency	627	2,364
Deferral for reinvestment	545	545
Leasehold amortisation	0	2,312
Adjustment of accounting and tax differences	(208)	(340)
Pension commitments	(918)	578
Financial leases transactions	(2,840)	(10,984)
Inflation adjustments	(3,923)	(12,248)
Reserve for investments in the Canary Islands	(14,707)	(4,225)
Reversal of IAS adjustments	(14,997)	(29,495)
Goodwill amortisation - Merger of Tryp	(15,233)	(15,233)
Dividends from subsidiaries	(124,824)	(61,144)
Other	(5,686)	(7,500)
TOTAL	**(78,365)**	**(82,440)**
PREVIOUS TAXABLE BASIS	**177,256**	**124,084**
Tax losses set off	**(70,540)**	**(26,657)**
TAXABLE BASIS (AGGREGATED TAX RESULT)	**106,716**	**97,427**

The difference between the theoretical tax rate, which results from applying the tax rate corresponding to the Parent Company to results before taxation, and the income tax expense for the year arises mainly form the disparity of tax systems existing in the various countries in which the Group operates, and the variations in the tax rates explained in Note 17.2.

17.6 Income Tax expense

The following table reflects the amount recorded as expense for the year. The balances are detailed by concepts. Current tax and deferred tax are shown separately.

(thousands of euros)

	31/12/2006 EXPENSE / (INCOME)	31/12/2005 EXPENSE / (INCOME)
Current tax		
Income tax for the year	9,239	4,184
Other taxes for the year	2,767	2,690
Adjustments for prior years' current income tax	3,743	(202)
Deferred tax		
Net variation in credits for tax losses	11,267	7,810
Net variation in tax credits	2,135	(1,560)
Other deferred taxes	(12,764)	(4,018)
INCOME TAX EXPENSE	**16,387**	**8,904**

Other taxes for the year, amounting to 2.8 million euros, relate to taxes similar to income tax as well as other taxes in developing countries, whose calculations are based on revenue or on the value of the assets and which can become payments on account of Corporate Income Tax for the year or forthcoming years.

Most of the adjustments to the income tax of prior years mentioned above relate to modifications in the timing classification of provisions, which have generated a deferred tax asset of 2.8 million euros.

18 CONTINGENT ASSETS AND LIABILITIES

The Group has guarantees committed in favor of third parties and other contingent liabilities, which are not recognised in the balance sheet, for the following concepts and amount:

Sol Meliá, S.A. has a purchase option for acquiring a participation of 5.25% in Inversiones Turísticas Casasbellas, S.A., executable from March 1, 2009 onwards, and with which the Group's participation in said company will reach 18.99%.

Sol Meliá, S.A. maintains rental commitments in Spain, of which 29 range between 1 and 15 years, 7 between 1 and 30 years and 17 over 30 years. The Group has bank guarantees in favor of the owners of various hotels for the payment of operating leases which amount to 22 million euros. It also guarantees, on behalf of Sol Meliá Deutschland, GmbH, the rental of three hotels in Germany for an amount of 3 million euros.

The Group has operating leases commitments for an amount of 52 million euros per year during the next 5 years. Due to the diverse contract conditions and termination clauses, estimations for committed payment for a longer period are not considered.

Sol Meliá, S.A. has bank guarantees in favor of Profitur, S.A., on the annual minimum operating results of its hotel for an amount of 3.1 million euros.

Sol Meliá, S.A. has bank guarantees for tax payments amounting to 11.9 million euros. A provision has been recorded for those risks rated as probable (see Note 16.2).

Sol Meliá, S.A. has a corporate guarantee in favor of Isla Bella, S.A. on the annual minimum operating results of a hotel under leasing for 2.1 million euros. The annual increase of said guarantee is endorsed by a second guarantee in favor of Isla Bella, S.A.

Sol Meliá, S.A. has a bank guarantee in favor of the Ministry of Tourism and Transportation of The Aruba Government for a license for developing a hotel, amounting to 1.5 million euros.

Sol Meliá, S.A. has a bank guarantee, for taking possession of a building, which is at present in the construction phase, intended for parking places and commercial premises located in Barcelona for an amount of 1.5 million euros.

Sol Meliá, S.A. has a bank guarantee in favor of the Town Council of Guía de Isora, for ensuring the compliance with the terms and liabilities deriving from the urbanization of the Partial Plan of "La Jaquita", in Adeje (Tenerife) for an amount of 1.9 million euros.

Sol Meliá, S.A. is the joint and several guarantor, up to the operations startup of a project, together with other companies, of 50% of a syndicated loan contract formalised by Inversiones Hoteleras La Jaquita, S.A. with several banking entities. As of December 31, 2006, the debt guaranteed amounts to 9.3 million euros.

Sol Meliá is the guarantor of a percentage of 50% of the liabilities deriving from the credit facilities of 75,000 euros and 225,000 euros granted by La Caixa to Luxury Lifestar Hoteles, S.L.

Sol Meliá, S.A. is the guarantor of Detur Panamá, S.A., owner of Hotel Meliá Panamá Canal, for 58.06% of a 9 million dollars loan from Caja de Ahorros de Baleares. As of December 31, 2006 the guaranteed amount is 5.2 million dollars.

Sol Meliá, S.A., as the guarantor of Hoteles Nacionales del Este for two loans amounting to USD 10 million and USD 5 million respectively, granted by Banco Santander Central Hispano, began, together with said bank, the process of reclaiming the indebted amount. This process was initiated against the entities which were the successful bidders in the auction of the former Meliá Juan Dolio properties. The legal action is based on the judgement on the properties' adjudication, the agreements subscribed by Banco de Santander Central Hispano with said bidders (Banco de Reservas and Banco de Progreso) (the bidders) and Dominican Republic legislation. The two entities subject to the claim are solvent (Banco Nacional de Reservas is the Dominican equivalent to Banco de España). Together with the claim, precautionary measures were requested asking for the seizure of double the total amount owed by each of the banks. Although, initially, the judge in charge of the case consented, following an appeal from the other party the total amount seized was reduced to double the indebted amount. The decision to limit the amount judicially seized has, in turn, been appealed by the Company. During 2006, the corresponding court procedures have continued, although at present there is an uncertainty with regards to a final resolution date.

Sol Meliá, S.A. maintains with certain top managers an insurance upon retirement contract in virtue of which, from the age of 65 onwards, they are entitled to receive a life annuity. The insurance premium amounts to 570,000 euros in 2006.

Corporación Hotelera Metor has several disputes open against its minority shareholder, claiming the cessation of all the agreements and transactions between the two parties. The Company foresees that said lawsuits will be favorably resolved, without causing a significant impact on the Group.

Consolidated personnel expenses

The average number of employees during 2006 and 2005, distributed by categories, is the following:

	2006	2005
Executives	356	328
Heads of department	1,597	1,334
Technician	9,073	8,501
Auxiliary staff	5,458	5,240
TOTAL	16,484	15,403

The breakdown of the consolidated expense is shown below:

(thousands of euros)

	2006	2005
Wages, salaries and similar	298,862	283,108
Social security expenses	60,656	58,066
Other welfare expenses	16,888	13,723
TOTAL	376,406	354,897

At the Extraordinary General Meeting held on June 8, 2004, a new share price-linked retribution system was approved for top management, referenced to the share quotation based on the weighted average price at the Stock Exchange sessions of May and June 2006. During June 2006 this retribution was paid in cash for 2.9 million euros, through the sale of 1,200,000 treasury shares acquired by means of a non-genuine rate hedging contract signed with BBVA. The acquisition price per share was of 6.94 euros and the selling price was of 12.12 euros. The total difference between the acquisition and selling price has amounted to 6.2 million euros. During 2006, the Group has recorded the expenses relating to the payment of the Euribor plus 70 basis points, for 122,000 euros and financial income resulting from shares positive movement, for 1.7 million euros. Furthermore, on the same date, a variable retribution programme linked to the main management economic indicators to be evaluated at year-end 2006, was approved. Based on the estimated percentage of fulfilment of these indicators, the amount recorded in the 2006 Income Statement is 3.1 million euros.

The remuneration paid to the members of the Board of Directors of Sol Meliá, S.A. in 2006 was as follows:

(thousands of euros)

	2006
Allowances for meetings attendance	528
Life insurance premiums	55
Remunerations	1,524
TOTAL	2,107

None of the directors has received any type of loan or advance and the Company has not assumed any obligations with Board members.

Additional information regarding the Directors in accordance with Law 26/2003 of July 17, 2003:

The members of the Escarrer Jaume family own participations in the share capital and hold positions as directors in the companies Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Asociados, S.L., Majorcan Hotels Luxembourg, S.A.R.L. and Hoteles Mallorquines Agrupados, S.L., all major shareholders in Sol Meliá, S.A., as well as being directors of several subsidiaries and associates of the Group. The positions held in other Group companies are detailed in Appendix 7.

Mr. José María Lafuente has a minority holding in the companies Niamey, S.A., Sa Coma, C.B. and Tenedora Aguamarina, S.A. Mr. Juan Vives is a minority shareholder and jointly liable administrator of Finca Los Naranjos, S.A. Mr. Emilio Cuatrecasas is a minority shareholder and Chief Executive of Áreas, S.A. All the aforementioned companies undertake similar or complementary activities to that of Sol Meliá, S.A.

The remaining Directors neither hold positions nor possess shares in companies with similar or complementary activities to that of Sol Meliá, S.A.

With regard to the transactions maintained between Sol Meliá, S.A. or its Group companies and the Board of Directors, it is worth mentioning the acquisition of a participation of 100% in Hogares Batle, S.A., for 2.3 million euros. This transaction is commented in Note 4.1.

With the aim of ensuring investors, the successful financial transaction for the acquisition of Sol Meliá, S.A.'s shares, as a part of the exchangeable debentures issuance of 150 million euros undertaken by a Group company, explained in Note 15.1, the shareholder Majorcan Hotels Luxembourg S.A.R.L. put at the disposal of Barclays Bank, in 2003, in concept of loan, 6,826,653 shares of Sol Meliá, S.A. In 2006, this amount had been reduced to 5,250,000 shares, of which, 443,652 have been drawndown by Barclays Bank as of December 31, 2006.

None of the Directors or their representatives has undertaken any other kind of transaction with the Company or Group companies, except those inherent to the ordinary business activity.

Fees corresponding to the audit of the 2006 consolidated annual accounts and subsidiaries have amounted to 1,047,000 euros, of which 466,000 euros have been invoiced by Ernst & Young Spain, 485,000 euros by Ernst & Young at an international level and the remaining 96,000 by other audit firms. In addition, the fees invoiced during the year for other services rendered by the auditors belonging to the same international network have amounted to 282,000 euros.

Environmental risks

No significant item relating to information on environment provided for by Order of the Ministry of Justice dated October 8, 2001, is included in the accompanying Financial Statements.

20 POST BALANCE-SHEET EVENTS

On January 16, 2007, the company Ailemlos, S.L. has sold 12,034,560 shares of Sol Meliá, S.A. corresponding to 6.5% of the share capital for an amount of 182.9 million euros.

On January 19, 2007, Sol Meliá S.A. has signed a loan contract with Caja de Ahorros del Mediterráneo for an amount of 60 million euros maturing on January 16, 2014.

On February 27, 2007, the rating agency Moody's has assigned Sol Meliá a Baa3 rating with a stable outlook. This rating takes into consideration the strong position of the Group in the market and the continuous reduction of the Group debt, which means a significant improvement of the financial ratios and the strength provided by the value of the Group's assets.

APPENDIX 1. COMPANIES INTEGRATED BY THE FULL METHOD

	COMPANY	ADDRESS	COUNTRY	ACTIVITY	DIR. STK	IND. STK	TOTAL	IND. STAKE HOLDER
	ALCAJAN XXI, S.L.	Avda. Oscar Esplá, 37 (Alicante)	Spain	Holding	100.00%		100.00%	
(F)	APARTOTEL, S. A.	Orense 81 (Madrid)	Spain	Management	99.73%		99.73%	
(A)	BEAR, S. A. de C. V.	Paseo de la Reforma,1 (México D. F.)	Mexico	Hotel owner and operator	100.00%		100.00%	
	BISOL INVESTMENT LTD.	1, Le Couter Court Mulcaster Street	Cayman Islands	Idle	100.00%		100.00%	
(A)	BISOL VALLARTA, S. A. de C. V.	Paseo de la Marina Sur (Puerto Vallarta)	Mexico	Hotel owner and operator		99.68%		CALA FORMENTOR S.A. DE C.V.
						0.01%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A) (F)	CADLO FRANCE, S. A.	12, Rue du Mont Thabor (Paris)	France	Management		100.00%	100.00%	SOL MELIA FRANCE, S.A.
(A) (F)	CADSTAR FRANCE, S. A.	12, Rue du Mont Thabor (Paris)	France	Management		100.00%	100.00%	SOL MELIA FRANCE, S.A.
(A)	CALA FORMENTOR, S. A. de C. V.	Boulevard Kukulkan (Cancún)	México	Hotel owner and operator		92.40%		MELIÁ INV. AMERICANAS N.V.
						7.29%	99.69%	FARANDOLE, B.V.
(F)	CALIMAREST, S.A.	José Meliá s/n (Málaga)	Spain	Restaurant Calima	100.00%		100.00%	
(A)	CARIBOTELS DE MEXICO, S. A. de C. V.	Playa Santa Pilar, Aptdo 9 (Cozumel)	Mexico	Hotel owner and operator		23.91%		OPERADORA MESOL S.A. DE C.V.
						27.00%	50.91%	MELIÁ INV. AMERICANAS N.V.
(A)	CASINO PARADISUS, S. A.	Playas de Bavaro (Higuey)	Dominican Rep.	Casino operator		49.84%	49.84%	INVERSIONES AGARA S.A.
(A) (F)	CASINO TAMARINDOS, S. A.	Retama, 3 (Las Palmas)	Spain	Casino owner and operator	100.00%		100.00%	
	COLÓN VERONA S.A.	Canalejas, 1 (Sevilla)	Spain	Hotel management	50.00%		50.00%	
	COM.PROP. SOL Y NIEVE (*)	Plaza del Prado Llano (Sierra Nevada)	Spain	Hotel owner and operator	88.42%		88.42%	
(A)	COMP. TUNISIENNE GEST. HOTELIÉRE	Cite Mahrajene-Imm Chiaaar, 1 (Tunis)	Tunisia	Management		100.00%	100.00%	SOL MANINVEST B.V.
(A)	CORP.HOT.HISP.MEX., S. A. de C. V.	Boulevard Kukulkan (Cancún)	Mexico	Hotel owner and operator		9.22%		CALA FORMENTOR S.A. DE C.V.
						90.47%	99.69%	MELIÁ INV. AMERICANAS N.V.
	CORP.HOTELERA METOR, S. A.	Faustino Sánchez Carrión s/n (Lima)	Peru	Hotel owner and operator		59.81%	59.81%	MELIÁ INV. AMERICANAS N.V.
	CREDIT CONTROL CO.	Brickell Avenue, 800 (Miami)	USA	Collection management		100.00%	100.00%	CREDIT CONTROL RIESGOS, S.L.
(F)	CREDIT CONTROL RIESGOS, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Collection management	100.00%		100.00%	
(A) (F)	DESARR. HOTELERA DEL NORTE, S. A.	PMB 223, PO Box 43006, (Rio Grande)	Puerto Rico	Hotel owner		49.85%		DES.HOT.SAN JUAN B.V
						49.85%	99.69%	SAN JUAN INVESTMENT B.V
(F)	DESARR.HOTEL. SAN JUAN, B.V.	Strawinskylaan, 307 (Amsterdam)	The Netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	DESARR. TURIST. DEL CARIBE, N. V.	The Ruyterkade, 62 (Curaçao)	Netherland Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A)	DESARROLLOS SOL, S. A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Holding		61.79%		MELIÁ INV. AMERICANAS N.V.
						20.25%		DOMINICAN INVESTMENT, N. V.
						17.65%	99.69%	DOMINICAN MKTING SERVICES
(A) (F)	DOCK TELEMARKETING, S. A.	Orense 81 (Madrid)	Spain	Sales office	100.00%		100.00%	
	DOMINICAN INVESTMENT, N. V.	The Ruyterkade, 62 (Curaçao)	Netherland Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	DOMINICAN MARKETING SERVICES	The Ruyterkade, 62 (Curaçao)	Netherland Antilles	Marketing co.		65.73%		DOMINICAN INVESTMENT NV
						33.96%	99.69%	IRTON COMPANY, N.V.
	DOMINIOS COMPARTIDOS S.A.	Calle Nuredduna, 10 3A	Spain	Owner		98.79%	98.79%	HOGARES BATLE, S.A.
(F)	DORPAN, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Brand owner	100.00%		100.00%	
(F)	FARANDOLE, B. V.	World Trade Center 17b (Amsterdam)	The Netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	GESMESOL, S. A.	Elvira Méndez, 10 (Panamá)	Panama	Management	100.00%		100.00%	
(F)	GEST.HOT.TURISTICA MESOL	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Export co.	100.00%		100.00%	
(A)	GOLF COCOTAL, S. A.	Playas de Bávaro (Higüey)	Dominican Rep.	Operator		99.69%	99.69%	DESARROLLOS SOL, S.A.
(A)	GRUPO SOL ASIA, Ltd.	1109/10 Admiralty Tower (Hong Kong)	Hong Kong	Holding	60.00%		60.00%	
(A)	GRUPO SOL SERVICES	80, Raffles Pplace,(Kuala Lumpur)	Singapore	Services		60.00%	60.00%	GRUPO SOL ASIA, Ltd.
	GUARAJUBA, S.A.	Elvira Méndez, 10 (Panamá)	Panama	Holding	100.00%		100.00%	
	GUARAJUBA EMPREENDIMIENTOS, S.A.	Avda. do Farol, Parte, Praia do forte (Bahia)	Brazil	Owner		100.00%	100.00%	GUARAJUBA, S.A.
	GUPE IMÔBILIARIA, S.A.	Estrada da Luz, 90 (Lisboa)	Portugal	Management	100.00%		100.00%	
(F)	HAVANA SOL RESTAURACIÓN XXI, S.A.	Mauricio Legendre, 16 (Madrid)	Spain	Operator	98.39%			
						1.61%	100.00%	SOL MELIÁ TRAVEL S.A.
	HOGARES BATLE, S.A.	Gremio Toneleros, 24 (Palma de Mca.)	Spain	Holding		48.28%		PLAYA SALINAS, S.A.
						48.05%		REALTUR, S.A.
						2.46%	98.79%	MELIÁ MÉRIDA S.L.
	HOT. MELIÁ INTNAL COLOMBIA, S. A.	Calle, 68 (Bogotá)	Colombia	Idle		100.00%	100.00%	M.I.H. S.A.
	HOTELES SOL INTERNACIONAL	Edificio Banco do Brasil (Panamá)	Panama	Holding	100.00%		100.00%	
(A) (F)	HOTEL ABBAYE DE THELEME, S. A.	9, Rue Ville de Saxe (Paris)	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE S.A.
(A) (F)	HOTEL ALEXANDER, S. A. S.	12, Rue du Mont Thabor (Paris)	France	Hotel owner and operator		100.00%	100.00%	SOL MELIA FRANCE
	HOTEL BELLVER, S. A.	Av Ingeniero Gabriel Roca (Palma de Mca.)	Spain	Hotel owner	100.00%		100.00%	
(A) (F)	HOTEL BLANCHE FONTAINE, S. A.	34, Rue Fontaine (Paris)	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE S.A.
	HOTEL CONVENTO EXTREMADURA, S. A.	Plaza de San Juan 11-13 (Cáceres)	Spain	Hotel owner and operator	77.63%		77.63%	
(A) (F)	HOTEL DE BOULOGNE, S. A. S.	12, Rue du Mont Thabor (Paris)	France	Hotel owner and operator		100.00%	100.00%	SOL MELIA FRANCE
(A) (F)	HOTEL FRANÇOIS, S. A.	3, Boulevard MontMartre (Paris)	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE, S.A.
(A) (F)	HOTEL MADELEINE PALACE, S. A.	8, Rue Cambon (Paris)	France	Hotel operator		100.00%	100.00%	HOTEL METROPOLITAN S.A.
(A) (F)	HOTEL METROPOLITAN, S. A.	8, Rue Cambon (Paris)	France	Hotel owner		100.00%	100.00%	CADLO FRANCE S.A.
(A) (F)	HOTEL ROYAL ALMA, S. A.	35, Rue Jan de Goujon (Paris)	France	Hotel operator		100.00%	100.00%	CADSTAR FRANCE, S.A.
(F)	HOTELES MELIÁ, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Idle	100.00%		100.00%	
(F)	HOTELES PARADISUS, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Idle	100.00%		100.00%	
(F)	HOTELES SOL MELIÁ, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Holding	100.00%		100.00%	
(F)	HOTELES SOL, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Idle	100.00%		100.00%	
(F)	HOTELES TRYP, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Idle	100.00%		100.00%	
	ILHA BELA GESTAÔ E TURISMO, Ltd.	31 de Janeiro, 81 (Funchal - Madeira)	Portugal	Management	100.00%		100.00%	
	IMPULSE HOTEL DEVELOPEMENT	Strawinskylaan, 2001 (Amsterdam)	The Netherlands	Idle	100.00%		100.00%	
(A)	INMOBILIARIA DISTRITO CIAL. , S. A.	Avda. venezuela con Casanova (Caracas)	Venezuela	Owner of premises		71.78%	71.78%	INV. INMOB. IAR 1997, C. A.
(A)	INMOTEL INVERS. ITALIA, S. R. L.	Via Pietro Mascagni, 14 (Milán)	Italy	Hotel owner and operator	100.00%		100.00%	

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	SOCIEDAD	DOMICILIO	PAÍS	ACTIVIDAD	P.DIR	P.IND	TOTAL	TENEDORA PART.IND.
	INVERS. TURIST. DEL CARIBE, S. A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Holding	100.00%		100.00%	
(A)	INVERS. EXP.. TURISTICAS, S. A.	Orense 81 (Madrid)	Spain	Hotel owner and operator	54.64%		54.64%	
(A)	INVERS. INMOB. IAR 1997, C. A.	Avenida Casanova (Caracas)	Venezuela	Hotel owner and operator		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A)	INVERSIONES AGARA, S. A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Hotel owner and operator		99.69%	99.69%	NEALE S.A.
(A)	INVERSIONES AREITO, S.A.	Avda. Lope de Vega, 4 (Sto. Domingo)	Dominican Rep.	Hotel owner		30.00%		LEOFORD INVESTMENT CO.
						70.00%	100.00%	ALCAJAN XXI, S.L.
	INVERSIONES INVERMONT, S. A.	Av. Venezuela, Edif. T. América (Caracas)	Venezuela	Idle		100.00%	100.00%	M.I.H. S.A.
	IRTON COMPANY, N. V.	The Ruyterkade, 62 (Curaçao)	Netherland Antilles	Assets management		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
	LEOFORD INVESTMENT CO.	Elvira Méndez, 10 (Panamá)	Panama	Holding		100.00%	100.00%	ALCAJAN XXI, S.L.
	LIFESTAR HOTELES ESPAÑA, S.L.	Mauricio Legendre, 16 (Madrid)	Spain	Management	100.00%		100.00%	
(A)	LOMONDO, Ltd.	Albany Street-Regents Park (Londres)	Great Britain	Hotel owner and operator	61.20%	38.80%	100.00%	HOTELES SOL INTNAL., S.A.
	MELIÁ INTNAL. HOTELES, S. A.	Edificio Fiducidario (Panamá)	Panama	Management and Holding	100.00%		100.00%	
	MARINA INTERNATIONAL HOLDING	Elvira Méndez, 10 (Panamá)	Panama	Holding		100.00%	100.00%	M.I.H. S.A.
	MARKSERV, B. V.	Parklaan, 81 (Amsterdam)	The Netherlands	Management and Holding	51.00%	49.00%	100.00%	SOL MANINVEST B.V.
	MARKSOL TURIZM, Ltd.	Calakli Manavgat (Antalya)	Turkey	Idle	10.00%	90.00%	100.00%	MARKSERV B.V.
	MARKTUR TURIZM, A. S.	Daire, 3 Gençlik Mahallesi (Antalya)	Turkey	Idle	100.00%		100.00%	
(A)	MELIÁ BRASIL ADMINISTRAÇAO	Avenida Cidade Jardim, 1030 (Sao Paulo)	Brazil	Hotel operator		20.00%		SOL MANINVEST B.V.
						80.00%	100.00%	MARKSERV B.V.
	MELIÁ INV. AMERICANAS, N. V.	Strawinskylaan, 2001 (Amsterdam)	The Netherlands	Holding	82.26%	17.43%	99.69%	SOL MELIÁ INVESTMENT N.V.
(A)	MELIÁ MANAGEMENT, S. A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Management		100.00%	100.00%	INV TURIST DEL CARIBE SA
	MELIÁ MÉRIDA S.L.	Moreno de Vargas, 2 (Mérida)	Spain	Hotel owner and operator	82.52%		82.52%	
	MELSOL MANAGEMENT, B. V.	Strawinskylaan, 307 (Amsterdam)	The Netherlands	Management	100.00%		100.00%	
	MELSOL PORTUGAL, Ltd.	Avenida do Brasil, 43-8 (Lisboa)	Portugal	Management	80.00%		80.00%	
(F)	MOTELES ANDALUCES, S. A.	Orense, 81 (Madrid)	Spain	Hotel owner and operator	99.34%		99.34%	
	NEALE, S. A.	Edificio Arango Orillac (Panamá)	Panama	Trade co.		99.69%	99.69%	RANDLESTOP CORP.N.V
	NEW CONTINENT VENTURES, Inc.	800 Brickell Avenue Suite 1000 (Miami)	USA	Holding		100.00%	100.00%	SOL GROUP, B. V.
(A)	NYESA MELIÁ ZARAGOZA S.L.	Avenida César Augusto, 13 (Zaragoza)	Spain	Hotel owner and operator	50.00%		50.00%	
	OPERADORA COSTARISOL	Avenida Central, 8 (San José)	Costa Rica	Management		100.00%	100.00%	M.I.H. S.A.
(A)	OPERADORA MESOL, S. A. de C. V.	Bosque de Duraznos 69-b, (México D.F.)	Mexico	Management	75.21%	24.79%	100.00%	MARKSERV B.V.
(A) (F)	PARQUE SAN ANTONIO, S. A.	Rey, 1 (Puerto de la Cruz)	Spain	Hotel owner and operator	79.59%		79.59%	
(F)	PLAYA SALINAS, S. A.	Avenida Marítima, 1 (Santiago del Teide)	Spain	Land owner	49.00%			
						50.52%	99.52%	REALTUR, S.A.
	PT SOL MELIÁ INDONESIA	Jalan H. R. Jasuna Said KAV X-0 (Jakarta)	Indonesia	Idle	90.00%	10.00%	100.00%	MARKSERV B.V.
	PUNTA CANA RESERVATIONS, N. V.	The Ruyterkade, 62 (Curaçao)	Curaçao	Trade co.		100.00%	100.00%	ALCAJAN XXI, S.L.
	RANDLESTOP CORPORATION, N. V.	The Ruyterkade, 62 (Curaçao)	Netherland Antilles	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(A) (F)	REALTUR, S. A.	Orense, 81 (Madrid)	Spain	Hotel owner	98.77%			
						0.08%		HOGARES BATLE S.A.
						0.21%	99,06%	DOMINIOS COMPARTIDOS S.A.
(F)	SAN JUAN INVESTMENT, B. V.	Strawinskylaan, 307 (Amsterdam)	The Netherlands	Holding		99.69%	99.69%	MELIÁ INV. AMERICANAS N.V.
(F)	SECURISOL, S. A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Security	100.00%		100.00%	
(A)	SEGUNDA FASE CORP.	Carretera 3, Intersecc. 955 (Rio Grande)	Puerto Rico	Hotel owner		100.00%	100.00%	SM VACATION CLUB CO.
(A)	SMVC DOMINICANA, S.A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Time-sharing management		100.00%	100.00%	SM VACATION CLUB CO.
(F)	SMVC ESPAÑA S.L.	Mauricio Legendre,16 (Madrid)	Spain	Management		100.00%	100.00%	HOTELES SOL MELIÁ, S. L.
(A)	SMVC MÉXICO, S.A de C.V.	Boluevard Kukulkan (Cancún)	Mexico	Time-sharing management		100.00%	100.00%	SM VACATION CLUB CO.
	SMVC NETWORK ESPAÑA, S.L.	Provenza 112 (Barcelona)	Spain	Time-sharing marketing co.	100.00%		100.00%	
	SMVC NETWORK, S.A.R.L.	9, Rue Schiller	Luxembourg	Time-sharing marketing co.		100.00%	100.00%	HOTELES SOL MELIÁ, S. L.
(A)	SMVC PANAMÁ S.A.	Antigua escuela las Américas, Lago Gatún	Panama	Time-sharing management		100.00%	100.00%	SM VACATION CLUB CO.
(A)	SMVC PUERTO RICO CO.	PMB 223, PO Box 43006, (Rio Grande)	P. Rico	Time-sharing management		100.00%	100.00%	SM VACATION CLUB CO.
	SOL CARIBE TOURS, S. A.	Vía Grecia - Edif. Alamanda 6B (Panamá)	Panama	Incoming services		100.00%	100.00%	GESMESOL, S.A
	SOL GROUP, B. V.	Parklaan, 81 (Amsterdam)	The Netherlands	Holding	100.00%		100.00%	
	SOL GROUP CORPORATION	2100, Coral Way, suite 402 (Miami)	USA	Services		100.00%	100.00%	SOL GROUP B.V
	SOL HOTELES U.K., Ltd.	Cent House-Upper Woburn Place (Londres)	Great Britain	Idle	100.00%		100.00%	
	SOL MANINVEST, B. V.	Parklaan, 81 (Amsterdam)	The Netherlands	Management and Holding	100.00%		100.00%	
(A)	SOL MELIÁ, S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Owner and Management			100.00%	
(A)	SOL MELIÁ BENELUX, B. V.	4, Rue Blanche (Bruselas)	Belgium	Hotel owner and operator	99.99%			
						0.01%	100.00%	MARKSERV B.V.
	SOL MELIÁ CHINA, Ltd.	1318 Two Pacific Place, 88 (Hong Kong)	China	Services		100.00%	100.00%	M.I.H. S.A.
	SOL MELIÁ COMMERCIAL	Regatta Office Park West Bay Road	Cayman Islands	Management		100.00%	100.00%	SOL MELIA FRIBOURG S.A.
	SOL MELIÁ CROACIA	Vladimira Nazora, 6 (Rovijn)	Croatia	Management		100.00%	100.00%	SOL MANINVEST B.V.
(A)	SOL MELIÁ DEUTSCHLAND, gmbh	Josef Haumann Strasse, 1 (Bochum)	Germany	Hotel operator	100.00%		100.00%	
(A)	SOL MELIÁ EUROPE, B. V.	Strawinskylaan, 307 (Amsterdam)	The Netherlands	Convertible bonds issuer	100.00%		100.00%	
(A)	SOL MELIÁ FINANCE, Ltd.	Ugland House South Church (Gran Caymán)	Cayman Islands	Financial services		100.00%	100.00%	SOL MELIA INVESTMENT, N.V
(A)	SOL MELIÁ FRANCE, S. A. S.	12, Rue du Mont Thabor (Paris)	France	Management and Holding	100.00%		100.00%	
(A)	SOL MELIÁ FRIBOURG, S.A.	Chemin des primeveres, 45 (Fribourg)	Switzerland	Holding	100.00%		100.00%	
	SOL MELIÁ GUATEMALA, S. A.	Primera Avenida, 8-24 (Guatemala)	Guatemala	Management		99.95%		M.I.H. S.A.
						0.05%	100.00%	MARKSERV B.V.
	SOL MELIÁ INVESTMENT, N. V.	Strawinskylaan, 2001 (Amsterdam)	The Netherlands	Holding	100.00%		100.00%	
	SOL MELIÁ ITALIA S.R.L.	Via Masaccio 19 (Milán)	Italy	Operator		100.00%	100.00%	INMOTEL INV. ITALIA S.R.L.
	SOL MELIÁ MARRUECOS, S. A.	Rue Idriss Al-Abkar, 4 - 1º Etage	Morocco	Management		100.00%	100.00%	MARKSERV B.V.
	SOL MELIÁ PERÚ, S. A.	Av. Salaberri, 2599 (San Isidro - Lima)	Peru	Management		100.00%	100.00%	M.I.H. S.A.
(A)	SOL MELIÁ SERVICES, S. A.	Rue de Chantemerle (Friburgo)	Switzerland	Management		100.00%	100.00%	SOL MANINVEST B.V.
(A)	SOL MELIÁ SUISSE, S. A.	Rue de Messe, 8-10 (Ginebra)	Switzerland	Hotel operator	100.00%		100.00%	
(F)	SOL MELIÁ TRAVEL S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Travel agency	100.00%		100.00%	
	SOL MELIA VACATION CLUB CO.	Bickell Avenue, 800 (Miami)	USA	Holding		100.00%	100.00%	HOTELES SOL MELIÁ, S. L.
(A) (F)	TENERIFE SOL, S. A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Hotel owner and operator	50.00%	49.53%	99.53%	REALTUR, S.A.
	VACATION CLUB SERVICES CO.	Bickell Avenue, 800 (Miami)	USA	Time-sharing management		100.00%	100.00%	SM VACATION CLUB CO.

(A) Audited companies
(F) Companies which form part of a consolidated tax group together with their repsective parent companies

APPENDIX 2. ASSOCIATES

COMPANY	ADDRESS	COUNTRY	ACTIVITY	DIR. STAKE	IND. STAKE	TOTAL	IND. STAKE HOLDER
APARTHOTEL BOSQUE, S. A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Hotel owner and operator	25.00%		25.00%	
C. P. COSTA DEL SOL (*)	Paseo Marítimo 11 (Torremolinos)	Spain	Apartament owners' association	0.33%	18.69%	19.02%	APARTOTEL S.A.
COM. PROP. MELIÁ CASTILLA (*)	Capitán Haya, 43 (Madrid)	Spain	Apartament owners' association	29.22%		29.22%	
DETUR PANAMÁ S. A.	Antigua Escuela Las Américas (Colón)	Panama	Hotel owner and operator	32.72%	17.21%	49.93%	M.I.H., S.A.
HANTINSOL RESORTS, S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Idle	33.33%		33.33%	
HELLENIC HOTEL MANAGEMENT	Panepistimiou, 40 (Atenas)	Greece	Idle	40.00%		40.00%	
INVERSIONES GUIZA, S. A.	Avda. Lope de Vega, 4 (Sto. Domingo)	Dominican Rep.	Water wells owner and operator		49.84%	49.84%	DESARROLLOS SOL, S.A.
INVERSIONES HOTELERAS LA JAQUITA, S.A.	Carretera Arenas 1 (Pto. De La Cruz)	Spain	Hotel owner and operator		49.76%	49.76%	TENERIFE SOL, S.A.
LH MIAMI LLC. (JV)	Brickell Avenue, 800 (Miami)	USA	Hotel operator		50.00%	50.00%	LIFESTAR, LLC
LIFESTAR, LLC (JV)	Brickell Avenue, 800 (Miami)	USA	Hotel management		50.00%	50.00%	NEW CONTINENT VENTURES CO.
LUXURY LIFESTYLE H&R (JV)	Rambla Cataluña, 89 (Barcelona)	Spain	Marketing co.	50.00%		50.00%	
NEXPROM, S. A.	Avda. del Lido s/n (Torremolinos)	Spain	Hotel owner and operator	14.33%	5.67%	20.00%	PROMEDRO
PUNTA ELENA, S.L.	San José, 33 (Tenerife)	Spain	Idle	50.00%		50.00%	
PROMOCIONES PLAYA BLANCA S.A. de C.V.	Plaza de San Ángel, 15(Cancún)	Mexico	Hotel owner and operator		33.00%	33.00%	MARKSERV B.V.
PROMEDRO, S. A.	Avda. del Lido s/n (Torremolinos)	Spain	Holding	20.00%		20.00%	
SIERRA PARIMA, S.A. (JV)	Avda. John F. Kennedy, 10 (Sto. Domingo)	Dominican Rep.	Shopping centre owner	49.00%		49.00%	
SOL HOTTI PORTUGAL HOTEIS, Ltd.	Avda. da Republica, 85 1º Esq. (Lisboa)	Portugal	Management	45.00%		45.00%	

(JV) Relates to joint ventures.

(*) The participation in these companies is through the ownership of apartments, which represent 19.02% and 29.22% of the total, respectively and which are recorded under the "Investment Properties" caption.

APPENDIX 3. RESERVES IN COMPANIES INTEGRATED BY THE FULL CONSOLIDATION METHOD

Movements recorded in the caption of Reserves in companies consolidated by the full consolidation method during the year are:

(thousands of euros)

	BALANCE 31/12/05	DISTRIBUTION 2005 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/06
Alcajan/ Leoford/ I.Areito/ Punta Cana (1)	46	(0)	1,135	(1,669)	0	(488)
Apartotel, S.A.	8,982	75	0	204	0	9,261
Bear S.A. De C.V.	(5,481)	1,600	0	(527)	0	(4,408)
Bisol Investment	(929)	(108)	0	0	0	(1,037)
Bisol Vallarta S.A. De C.V.	12,001	1,526	0	0	0	13,527
C. Tamarindos, S.A.	2,785	(521)	0	(1,557)	(237)	471
C.H.H. Mexicana, S.A. De C.V.	11,947	1,770	0	0	0	13,717
C.P. Sol y Nieve	4,362	914	0	0	0	5,276
C.Tunissienne de G.H.	(2,988)	203	0	0	0	(2,785)
Cala Formentor S.A. De C.V.	18,206	6,268	0	0	0	24,474
Calimarest, S.A.	0	(130)	0	0	0	(130)
Caribotels de México S.A. De C.V.	1,068	(531)	0	0	0	537
Casino Paradisus, S.A.	(59)	(99)	0	0	0	(157)
Corporación Hotelera Metor S.A.	(3,288)	(998)	0	7	(329)	(4,608)
Credit Control Corp.	77	198	0	0	0	275
Credit Control Riesgos, S.L.	299	417	0	0	0	716
D.H. San Juan	3,021	(857)	0	0	0	2,164
D.T.C.	22,505	(3)	0	(22,502)	0	0
D.T.Caribe N.V.	(5,225)	(5)	0	22,501	0	17.271
Desarrolladora Hot. Del Norte	(28,143)	(11,866)	0	602	0	(39,407)
Desarrollos Sol / D. Mk. Services (1)	(85,554)	23,280	15	(13,907)	0	(76,165)
Dock Telemarking, S.A.	4,282	255	0	0	0	4,537
Dominican Investment NV	(453)	(6)	0	262	0	(197)
Dorpan, S.L.	703	110	0	0	0	813
Farandole B.V.	(3,453)	(449)	0	0	0	(3,903)
G.H.T. Mesol, S.A.	14	(2)	0	0	0	12
Gesmesol, S.A.	41,005	6,539	0	0	0	47,544
Golf del Cocotal, S.A.	28	(8)	0	0	0	20
Grupo Sol Asia Ltd.	(168)	405	0	0	0	237
Grupo Sol Francia (1)	(21,645)	(49)	0	(2,493)	(8)	(24,195)
Grupo Sol Services	334	94	0	0	0	428
Gupe Inmobiliaria, S.A.	(1,286)	36	0	0	0	(1,250)
H.C. Extremadura, S.A.	(44)	14	0	0	(405)	(435)
H.Meliá Internacional de Colombia	(33)	(81)	0	0	0	(115)
Hotel Bellver, S.A.	3,244	77	0	0	(1,526)	1,795
Hoteles Meliá S.L.	(0)	(0)	0	0	0	(1)
Hoteles Paradisus. S.L.	(0)	(0)	0	0	0	(0)
Hoteles Sol Internacional	62,752	2	0	0	(24)	62,729
Hoteles Sol Meliá S.I.	(5)	109	0	(0)	0	104
Hoteles Sol S.I.	(1)	(0)	0	0	0	(1)
Hoteles Tryp, S.L.	(0)	(0)	0	0	0	(0)
Ihla Bela de Gestao e Turismo	3,320	3,078	0	0	0	6,397
Impulse H. Development	(169)	84	0	(0)	0	(85)
Inmob. Distrito Comercial	(3,869)	(212)	0	0	0	(4,081)
Inmotel Inversiones Italia, S.R.L.	(5,464)	(4,394)	0	3,352	0	(6,506)
Inversiones Inmobiliarias IAR	6,570	4,640	0	(13,022)	0	(1,813)
Inversiones Invermont SA	(129)	0	0	0	0	(129)
Inversiones Turísticas del Caribe, S.A.	(12)	0	0	0	0	(12)
Inversiones y Explotaciones Tur. S.A.	6,116	1,445	0	0	(6)	7,555
Irton Company, N.V.	10,883	(236)	0	115	0	10,761
Leasing I.I.Italia	5,693	1,709	0	0	0	7,402
Lifestar Hoteles España S.L.	0	0	0	(436)	(436)	(871)
Lomondo Ltd.	(13,892)	1,052	0	1,500	0	(11,340)

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(thousands of euros)

	BALANCE 31/12/05	DISTRIBUTION 2005 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/06
Marina International Holding	(2,601)	(1)	0	(434)	0	(3,036)
Markserv, B.V.	95	(95)	0	68	(5)	64
Marksol Turizm, Ltd.	(781)	66	0	0	0	(716)
Marktur Turizm, Ltd.	(186)	90	0	0	0	(95)
Meliá Brasil A H e C Ltda	(4,287)	(599)	0	0	0	(4,886)
Meliá Brasil Administraçao.	(2,379)	1,346	0	1,447	0	413
Meliá International Hotels, S.A	83,776	5,409	0	434	0	89,619
Meliá Inversiones Americanas, N.V.	84,140	(206)	0	41,749	0	125,684
Meliá Management Co.	635	129	0	0	0	764
Meliá Mérida, S.L.	0	0	(36)	(139)	(1,703)	(1,877)
Melsol Management B.V.	(573)	161	0	0	0	(413)
Melsol Portugal, Ltd.	(3)	(7)	0	0	0	(11)
Moteles Andaluces, S.A.	2,410	(24)	0	(80)	(12)	2,294
Neale / I. Agara (1)	10,150	3,841	0	(14,838)	0	(847)
New Continent Ventures, Inc.	(184)	(306)	0	0	0	(490)
Nyesa Meliá Zaragoza S.L.	0	(160)	0	(20,044)	(72)	(20,276)
Operadora Costarisol	(321)	181	0	0	0	(140)
Operadora Mesol, S.A. De C.V.	6,623	1,434	0	0	0	8,057
Operadora San Juan, S.E.	650	(41)	0	(604)	(6)	(0)
Parque San Antonio S.A.	3,951	245	0	(126)	0	4,070
Playa Salinas,S.A.	(1,907)	(0)	2,348	(13)	0	427
Randlestop Corporation, N.V.	(1,137)	(118)	0	170	0	(1,084)
Realizaciones Turísticas, S.A.	69	16,110	0	(8,841)	(106)	7,232
Rte. Office Park, MBA	1,472	(26)	0	(1,447)	0	0
San Juan Investment, B.V.	3,021	(857)	0	0	0	2,164
Securi Sol , S.A.	69	10	0	0	0	79
Segunda Fase Corp.	0	(7)	0	0	0	(7)
SM Comercial	(0)	(8)	0	0	0	(8)
SMVC Dominicana, S.A.	(143)	728	0	0	0	585
SMVC España, S.L.	0	(159)	0	0	0	(159)
SMVC Mexico, S.A. De C.V.	426	3,093	0	0	0	3,519
SMVC Network, S.A.R.L.	(7)	495	0	0	0	489
SMVC Panama	(0)	7	0	0	0	7
SMVC Puerto Rico, Co.	14	2,533	0	0	0	2,547
Sol Caribe Tours, S.A.	(114)	526	0	0	0	412
Sol Group B.V.	(78)	(4)	0	0	0	(82)
Sol Group Co.	(383)	199	0	0	0	(184)
Sol Hotel U.K. Ltd.	(66)	0	0	0	0	(66)
Sol Maninvest, B.V.	8,311	7	0	(182)	0	8,136
Sol Meliá Benelux, B.V.	(577)	(261)	0	(272)	0	(1,111)
Sol Meliá China Ltd.	(514)	0	0	0	0	(514)
Sol Meliá Croacia	1,516	1,031	0	0	0	2,547
Sol Meliá Deuchland Gmbh	(8,949)	(1,079)	0	0	0	(10,028)
Sol Meliá Europe, B.V.	642	449	2	(5)	0	1,088
Sol Meliá Finance Ltd.	510	291	0	(663)	(103)	35
Sol Meliá Fribourg S.A.	0	(421)	0	400	0	(21)
Sol Meliá Guatemala, S.A.	27	(42)	0	0	0	(16)
Sol Meliá Investment NV	(18,820)	(9)	0	0	0	(18,829)
Sol Meliá Italia S.r.l.	0	0	0	(65)	0	(65)
Sol Meliá Marruecos, S.A.	(765)	(34)	0	0	0	(800)
Sol Meliá Perú S.A.	442	95	0	0	0	537
Sol Meliá Services	(53)	2,226	0	(2,818)	0	(645)
Sol Meliá Suisse, S.A.	(4,443)	(1,271)	0	5,752	0	37
Sol Meliá Travel	(635)	(1,097)	0	1,500	0	(232)
Sol Meliá Vacation Club, Co.	(26)	27	0	0	0	1
Sol Meliá, S.A.	1,553				(14)	1,539
Tenerife Sol, S.A.	25,916	3,977	43	33	0	29,968
Vacation Club Services, Co.	(1,934)	397	0	0	0	(1,536)
Youth Journey Limited	581	(49)	0	(532)	0	0
TOTAL	**233,084**	**73,563**	**3,506**	**(27,116)**	**(4,991)**	**278,045**

(1) Companies corresponding to a same business line.

For comparative purposes, the information relating to the year 2005 is provided:

(thousands of euros)

	BALANCE 31/12/04	DISTRIBUTION 2004 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/05
Akuntra XXI S.L.	524		0	(524)	0	
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	8	0	0	38	0	46
Apartotel, S.A.	8,267	1,026	0	(312)	0	8,982
Azafata, S.A.	1,023	884	0	(1,907)	0	0
Bear S.A. De C.V.	(7,738)	(9,317)	0	11,574	0	(5,481)
Bisol Investment, Ltd.	(977)	49	0	0	0	(929)
Bisol Vallarta S.A. De C.V.	10,277	1,724	0	0	0	12,001
C. Tamarindos, S.A.	2,342	962	0	(518)	0	2,785
C.H.H. Mexicana, S.A. De C.V.	9,265	2,681	0	0	0	11,947
C.P. Sol y Nieve	3,421	941	0	0	0	4,362
C.T. Cozumel, S.A. De C.V.	5,055	(1,555)	0	(3,501)	0	
C.Tunissienne de G.H.	(2,769)	(219)	0	0	0	(2,988)
Cala Formentor S.A. De C.V.	9,391	8,815	0	0	0	18,206
Caribotels de México S.A. De C.V.	(3,208)	(488)	0	4,763	0	1,067
Casino Paradisus, S.A.	62	123	0	(245)	0	(59)
Consorcio Europeo S.A.	(2,375)	315	0	2,059	0	0
Corporación Hotelera Metor S.A.	(3,459)	171	0	0	0	(3,288)
Credit Control Corp.	0	77	0	0	0	77
Credit Control Riesgos, S.L.	0	519	0	(161)	(59)	299
D.H. San Juan, B.V.	2,697	1,399	0	(1,075)	0	3,021
D.Mk.Services / Desarrollos Sol (1)	(92,487)	28,665	0	(21,732)	0	(85,554)
D.T.C., S.A.	23,441	196	0	(1,132)	0	22,505
D.T.Caribe N.V.	(5,216)	(13)	0	5	0	(5,225)
Darcuo XXI S.L.	(710)	(623)	0	1,333	0	0
Desarrolladora Hot. Del Norte	(10,044)	(20,159)	0	2,149	(90)	(28,143)
Dock Telemarking, S.A.	1,532	4,209	0	(1,459)	0	4,282
Dominican Investment NV	(870)	34	0	383	0	(453)
Dorpan, S.L.	565	254	0	(116)	0	703
Farandole B.V.	(3,008)	(445)	0	0	0	(3,453)
G.H.T. Mesol, S.A.	46	(49)	0	17	0	14
Gesmesol, S.A.	32,425	8,580	0	0	0	41,005
Golf del Cocotal, S.A.	(8)	36	0	(0)	0	28
Grupo Sol Asia Ltd.	1,761	(518)	0	(1,412)	0	(168)
Grupo Sol Francia (1)	(25,465)	1,223	1,046	(901)	(595)	(24,692)
Grupo Sol Services	350	(16)	0	0	0	334
Gupe Inmobiliaria, S.A.	(1,316)	30	0	(0)	0	(1,286)
H.C. Extremadura, S.A.	(97)	(21)	0	74	0	(44)
H.Meliá Internacional de Colombia, S.A.	(20)	2	0	(2)	(13)	(33)
Hotel Bellver, S.A.	3,229	15	0	0	0	3,244
Hoteles Sol Internacional	62,755	(35)	31	0	0	62,752
Hoteles Sol Meliá S.l.	(0)	(7)	0	3	0	(5)
Hoteles Sol S.l.	(1)	(1)	0	0	0	(1)
Hoteles Turísticos, S.A.	380	130	42	(552)	0	
Ihla Bela de Gestao e Turismo, Ltd.	1,583	1,784	0	(48)	0	3,320
Impulse H. Development	(154)	3	0	(18)	0	(169)
Industrias Turísticas, S.A.	108	(59)	49	(98)	0	
Inmob. Distrito Comercial	(3,205)	(222)	0	(442)	0	(3,869)
Inmobiliaria Bulmes S.A.	(10,090)	1,551	0	8,539	0	
Inmotel Inversiones Italia, S,R.L.	(324)	(5,380)	26	5,982	(74)	230
Inversiones Inmobiliarias IAR, C.A.	4,886	(417)	0	2,102	0	6,570
Inversiones Invermont SA	(129)	0	0	0	0	(129)
Inversiones Latinoamerica 2.000, S.L.	(17,674)	(0)	0	17,675	0	
Inversiones Turísticas del Caribe, S.A.	(121)	120	0	(12)	0	(12)
Inversiones y Explotaciones Tur. S.A.	5,071	1,037	0	8	0	6,116
Irton Company, N.V.	8,924	(189)	0	2,148	0	10,883
Lavanderias Compartidas, S.A.	(67)	(228)	0	296	0	0
Lomondo Ltd.	(12,883)	(1,150)	0	141	0	(13,892)
M.I.H. U.K. LTD	(3)	2	3	(2)	0	

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(thousands of euros)

	BALANCE 31/12/04	DISTRIBUTION 2004 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/05
Marina International Holding	(2,600)	(1)	0	0	0	(2,601)
Markserv, B.V.	118	(9)	6	(20)	0	95
Marksol Turizm, Ltd.	(465)	(293)	0	(23)	0	(781)
Marktur Turizm	(199)	13	0	0	0	(186)
Meliá Brasil A H e C Ltda	(2,107)	(2,180)	0	0	0	(4,287)
Meliá Brasil Administraçao.	(2,820)	555	0	(114)	0	(2,379)
Meliá Catering, S.A.	(74)	(2)	0	77	0	
Meliá International Hotels, S.A	76,252	13,979	0	(6,455)	0	83,776
Meliá Inversiones Americanas, N.V.	26,514	2,324	0	55,302	0	84,140
Meliá Management Co.	337	298	0	0	0	635
Melsol Management B.V.	(461)	(112)	0	(1)	0	(573)
Melsol Portugal, Ltd.	(4)	1	0	0	0	(3)
Moteles Andaluces, S.A.	62	2,782	8	(443)	0	2,410
Moteles Grandes Rutas Españolas, S.A.	220	50	5	(275)	0	
Neale / Inversiones Agara (1)	20,932	14,934	0	(25,715)	0	10,150
New Continent Ventures, Inc.	0	(184)	0	0	0	(184)
Operadora Costarisol	(595)	274	0	0	0	(321)
Operadora Mesol, S.A. De C.V.	5,042	2,906	0	(1,325)	0	6,623
Operadora San Juan, S.E.	0	650	0	0	0	650
Parking Internacional S.A.	733	229	0	(962)	0	
Parque San Antonio S.A.	3,923	(97)	0	125	0	3,951
Playa Salinas,S.A.	(1,904)	(10)	0	6	0	(1,907)
Randlestop Corporation, N.V.	(1,249)	(172)	0	285	0	(1,137)
Realizaciones Turísticas, S.A.	(527)	1,202	0	(607)	0	69
Rte. Office Park, MBA	970	502	0	0	0	1,472
San Juan Investment, B.V.	2,697	1,399	0	(1,075)	0	3,021
Secade XXI S.L	(68)	(188)	0	256	0	0
Securi Sol , S.A.	62	32	0	(25)	0	69
Silverbay S.L.	4,264	1	0	(4,265)	0	0
SMVC Dominicana, S.A.	0	(143)	0	0	0	(143)
SMVC Mexico S.A. De CV.	0	426	0	0	0	426
SMVC Network, S.A.R.L.	(7)	(0)	0	0	0	(7)
SMVC Puerto Rico Co.	0	14	0	0	0	14
Sol Caribe Tours, S.A.	(114)	0	0	0	0	(114)
Sol Group B.V.	(78)	7	0	(7)	0	(78)
Sol Group Co.	(1,441)	1,058	0	0	0	(383)
Sol Hotel U.K. Ltd.	(66)	0	0	0	0	(66)
Sol Maninvest, B.V.	28	(347)	0	8,630	0	8,311
Sol Melià,S.A.	806	735	(10)	22	0	1,553
Sol Meliá Benelux, B.V	(650)	(208)	0	281	0	(577)
Sol Meliá China Ltd.	(493)	(20)	0	0	0	(514)
Sol Meliá Croacia	3,468	1,145	0	(3,097)	0	1,516
Sol Meliá Deuchland Gmbh	(13,961)	(1,489)	0	6,500	0	(8,950)
Sol Meliá Europe, B.V.	223	419	0	0	0	642
Sol Meliá Finance Ltd.	158	(0)	0	351	0	510
Sol Meliá France S.A.S.	2,835	(1,127)	0	1,339	0	3,047
Sol Meliá Guatemala, S.A.	89	(62)	0	0	0	27
Sol Meliá Investment NV	(1,142)	(3)	0	(17,675)	0	(18,820)
Sol Meliá Marruecos, S.A.	(728)	(38)	0	0	0	(765)
Sol Meliá Perú S.A.	253	192	0	(3)	0	442
Sol Meliá Services, S.A.	5,580	1,909	0	(7,543)	0	(53)
Sol Meliá Suisse, S.A.	(1,734)	(2,709)	0	0	0	(4,443)
Sol Meliá Travel, S.A.	(685)	(4,050)	0	4,100	0	(635)
Sol Meliá Vacation Club Co.	0	(26)	0	0	0	(26)
Tenerife Sol, S.A.	24,934	1,004	0	(22)	0	25,916
Urme Real, S.L.	(983)	118	0	922	(57)	
Vacation Club Services Co.	0	(1,934)	0	0	0	(1,934)
Youth Journey Limited Ltd.	221	136	0	223	0	581
Total	**140,539**	**60,337**	**1,207**	**31,888**	**(889)**	**233,084**

(1) Companies corresponding to a same business line.

APPENDIX 4. RESERVES IN ASSOCIATES AND JOINT VENTURES

Movements recorded in this caption during the year are the following:

(thousands of euros)

	BALANCE 31/12/05	DISTRIBUTION 2005 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/06
Alcajan / Leoford / I. Areito / P.Cana Res. (1)	0	261	0	(261)	0	
Aparthotel Bosque, S.A.	(88)	189	0	(45)	(125)	(69)
C.P. Meliá Castilla	2,322	863	0	(829)	(313)	2,043
C.P. Meliá Costa del Sol	1,535	207	0	(204)	(5)	1,533
Detur Panamá, S.A.	(1,730)	(870)	0	0	0	(2,600)
Hellenic Hotel Management	(76)	0	0	0	0	(76)
Inversiones Guiza, S.A.	(1)	(1)	0	0	0	(2)
Lifestar Hoteles España, S.L.	0	(436)	0	436	0	0
Lifestar, Llc.	(951)	(242)	0	0	0	(1,193)
Luxury Lifestyle H&R	0	(10)	0	(59)	(1)	(70)
Meliá Mérida,S.L.	38	(176)	0	139	0	0
Meliatour, S.L.	(137)	(615)	0	752	0	0
Mogan Promociones, SA de CV	15	(128)	0	113	0	0
Nexprom, S.A.	1,827	343	0	0	(136)	2,034
Promedro, S.A.	(8)	(8)	0	0	0	(16)
Promociones Playa Blanca, S.A de C.V	(3,196)	(324)	0	0	(2,119)	(5,639)
Punta Elena, S.L.	(601)	(117)	0	0	0	(718)
Sierra Parima, S.A.	1,025	(373)	0	0	0	652
Sol Hoti Portugal Hoteis, Ltd.	154	61	0	0	(14)	201
TOTAL	**128**	**(1,375)**	**0**	**41**	**(2,713)**	**(3,920)**

(1) These companies belong to the same business line.

For comparative purposes the information relating to year 2005 is provided below:

(thousands of euros)

	BALANCE 31/12/04	DISTRIBUTION 2004 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	BALANCE 31/12/05
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	(53)	92	0	(38)	0	0
C.P. Meliá Castilla	2,436	833	0	(943)	(4)	2,322
C.P. Costa del Sol	1,586	230	0	(276)	(5)	1,535
Detur Panamá, S.A.	(2,063)	(63)	0	396	0	(1,730)
Hellenic H.M.	(76)	0	0	0	0	(76)
Aparthotel Bosque, S.A.	(208)	245	0	(71)	(55)	(88)
I.T. Casas Bellas	(8)	0	0	215	(207)	0
Inversiones Guiza, S.A.	(2)	1	0	0	0	(1)
Lifestar, LCC	0	(951)	0	0	0	(951)
Meliá Mérida, S.L.	25	(312)	0	317	8	38
Meliatour, S.L.	13	(136)	0	(14)	0	(137)
Mogan Promociones, SA de CV	(1)	15	0	0	0	15
Nexprom, S.A.	1,791	27	0	31	(22)	1,827
Promedro, S.A.	(51)	187	0	(144)	0	(8)
Promociones Playa Blanca, S.A. De C.V.	(4,125)	891	0	38	0	(3,196)
Punta Elena, S.L.	(590)	(11)	0	0	0	(601)
Sierra Parima, S.A.	0	0	1,025	0	0	1,025
Sol Hoti Portugal Hoteis, Ltd.	139	25	1	(11)	0	154
TOTAL	**(1,187)**	**1,074**	**1,026**	**(500)**	**(286)**	**128**

(1) These companies belong to the same business line.

APPENDIX 5. MINORITY INTERESTS

Movements recorded in this caption during 2006 are the following:

(thousands of euros)

	BALANCE 31/12/05	2006 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/06
Alcajan/ Leoford/ I.Areito/ P. Cana Res. (1)	9,357	0	0	1,930	(11,287)	0	(0)
Apartotel, S.A.	34	1	0	0	(4)	0	31
Bisol Vallarta S.A. De C.V.	56	8	0	0	0	(7)	57
C.H.H. Mexicana, S.A. De C.V.	58	9	0	0	0	(17)	50
C.P. Costa del Sol	1	0	0	0	0	0	1
C.P. Sol y Nieve	691	161	0	0	(48)	0	805
Cala Formentor S.A. De C.V.	107	34	0	0	0	(45)	95
Caribotels de México S.A. De C.V.	4,674	(423)	0	0	0	(583)	3,668
Casino Paradisus, S.A.	264	(149)	0	0	(134)	(2)	(21)
Colon Verona, S.A.	0	0	30	0	0	0	30
Corporación Hotelera Metor, S.A.	708	114	0	(7)	0	(31)	783
D.H. San Juan	7	(6)	0	0	0	0	1
D.T.Caribe N.V.	(10)	(0)	0	70	0	(14)	46
Desarrolladora Hot. Del Norte, S.A.	(114)	(29)	0	2	(5)	(12)	(159)
Desarrollos Turísticos del Caribe, N.V.	74	0	0	(70)	0	(4)	(0)
Dominican Investment NV	(2)	(0)	0	1	0	1	(0)
Dominican Mk. Services/ Desarrollos Sol (1)	(175)	78	0	(43)	0	(34)	(175)
Farandole B.V.	(12)	(2)	0	0	0	0	(14)
Golf del Cocotal, S.A.	0	0	0	0	0	(0)	0
Grupo Sol Asia Ltd.	231	91	0	0	0	(27)	294
Grupo Sol Services	308	22	0	0	0	(5)	325
H.C. Extremadura, S.A.	687	31	0	0	(371)	0	346
Hogares Batle, S.A.	0	(0)	0	0	0	0	(0)
Hotel Bellver, S.A.	1,639	0	0	0	(1,639)	0	0
Inmob. Distrito Comercial	5,834	60	0	0	0	(602)	5,292
Inv. Hot. La Jaquita, S.A.	0	0	0	0	(76)	0	(76)
Inversiones Inmobiliarias IAR	(6)	5	0	(40)	(3)	(19)	(64)
Inversiones y Explotaciones Tur. S.A.	16,643	1,657	0	0	4	0	18,304
Irton Company, N.V.	34	(0)	0	0	0	(3)	31
Meliá Inversiones Americanas NV	988	5	0	130	0	0	1,123
Meliá Mérida,S.L.	0	(62)	474	0	(331)	0	80
Melsol Portugal, Ltd.	14	(2)	0	0	0	0	12
Moteles Andaluces, S.A.	212	1	0	0	(178)	0	34
Neale, S.A. / Inv. Agara (1)	49	29	0	(46)	0	3	35
Nyesa Meliá Zaragoza, S.A.	(158)	120	0	0	(72)	0	(111)
Parque San Antonio S.A.	1,275	(61)	0	0	0	0	1,214
Playa Salinas,S.A.	(23)	10	11	13	0	0	12
Randlestop, N.V.	(3)	(1)	0	1	0	(1)	(4)
Realizaciones Turísticas, S.A.	1,734	21	2	(1,270)	(1)	0	487
San Juan Investment, B.V.	7	(6)	0	0	0	0	1
Tenerife Sol, S.A.	90	29	0	(33)	(43)	0	41
Youth Journey Ltd.	2	0	0	0	0	(2)	0
TOTAL	**45,273**	**1,747**	**517**	**637**	**(14,191)**	**(1,405)**	**32,578**

(1) These companies belong to a same business line.

For comparative purposes the information relating to the year 2005 is provided below:

(thousands of euros)

	BALANCE 31/12/04	2005 RESULTS	ADDITIONS	TRANSFERS	DISPOSALS	CONVERSION DIFFERENCES	BALANCE 31/12/05
Alcajan/Leoford/I. Areito/P.Cana Res. (1)	0	(0)	19,619	0	(10,262)	0	9,357
Apartotel, S.A.	35	0	0	1	(2)	0	34
Bisol Vallarta S.A. De C.V.	41	5	0	0	0	10	56
C.H.H. Mexicana, S.A. De C.V.	29	6	0	0	0	23	58
C.P. Sol y Nieve	571	120	0	0	0	0	691
C.T. Cozumel, S.A. De C.V.	7,522	0	0	(7,522)	0	0	
Cala Formentor S.A. De C.V.	30	19	0	0	0	58	107
Caribotels de México S.A. De C.V.	(3,313)	(512)	0	7,522	0	977	4,674
Casino Paradisus, S.A.	356	(99)	0	(1)	0	7	264
Corporación Hotelera Metor, S.A.	1,250	(667)	0	0	0	125	708
D.H. San Juan, B.V.	13	(3)	0	(3)	0	0	7
D.T.Caribe N.V.	(24)	(0)	0	0	0	14	(10)
Desarrolladora Hot. Del Norte, S.A.	(98)	(37)	0	7	(0)	15	(114)
Desarrollos Turísticos del Caribe, N.V.	68	(0)	0	(4)	0	10	74
Dominican Investment, N.V.	(3)	(0)	0	1	0	(0)	(2)
D.Mk.Services / Desarrollos Sol (1)	(153)	72	0	(68)	0	(27)	(175)
Farandole B.V.	(11)	(1)	0	0	0	0	(12)
Grupo Sol Asia Ltd.	758	270	0	(923)	0	125	231
Grupo Sol Services, S.A.	216	63	0	0	0	30	308
H.C. Extremadura, S.A.	673	14	0	0	0	0	687
Hotel Bellver, S.A.	1,601	38	0	0	0	0	1,639
Hoteles Turísticos, S.A.	355	0	2	(357)	0	0	
Industrias Turísticas, S.A.	163	0	1	(164)	0	0	
Inmob. Distrito Comercial, S.A.	5,371	(83)	0	442	0	104	5,834
Inversiones Guiza, S.A.	1	0	0	0	0	0	1
Inversiones Inmobiliarias IAR, C.A.	(42)	14	0	7	0	14	(7)
Inversiones y Explotaciones Tur. S.A.	15,437	1,199	7	0	0	0	16,643
Irton Company, N.V.	24	(1)	0	7	0	4	34
Meliá Inversiones Americanas NV	816	(1)	0	172	0	0	988
Melsol Portugal, Ltd.	16	(2)	0	0	0	0	14
Moteles Andaluces, S.A.	1,256	(1)	0	0	(1,042)	0	212
Moteles Grandes Rutas Españolas, S.A.	203	0	0	(128)	(76)	0	
Neale / Inversiones Agara (1)	110	12	0	(80)	0	7	49
Nyesa Meliá Zaragoza, S.L.	0	(160)	2	0	0	0	(158)
Parque San Antonio S.A.	1,212	63	0	0	0	0	1,275
Playa Salinas,S.A.	(23)	(0)	0	0	0	0	(23)
Randlestop Corporation, N.V.	(6)	(0)	0	1	0	3	(3)
Realizaciones Turísticas, S.A.	649	392	0	711	(16)	0	1,735
San Juan Investment, B.V.	13	(3)	0	(3)	0	0	7
Sol Meliá Finance, N.V.	351	0	0	(351)	0	0	
Tenerife Sol, S.A.	27,324	1,223	0	0	(28,457)	0	90
Urme Real, S.L.	66	0	0	(62)	(4)	0	
Youth Journey Ltd.	1	(0)	0	1	0	0	2
TOTAL	62,856	1,940	19,632	(795)	(39,859)	1,500	45,273

(1) These companies belong to a same business line.

APPENDIX 6. CONTRIBUTION BY COMPANY TO CONSOLIDATED RESULTS

(thousands of euros)

	2006			2005		
	CONSOLIDATED P&L	MINORITY INT. P& L	GROUP P& L	CONSOLIDATED P&L	MINORITY INT. P& L	GROUP P& L P& L
ALCAJAN/INV. AREITO/LEOFORD/P.CANA RES. (1)	(3,546)	0	(3,546)			
APARTOTEL S.A.	380	1	379	75	0	75
BEAR S.A. DE C.V.	2,680	0	2,680	1,600	0	1,600
BISOL INVESTMENT	79	0	79	(108)	0	(108)
BISOL VALLARTA S.A. DE C.V.	2,501	8	2,493	1,531	5	1,526
BOSCARLA, S.L.	(8)	0	(8)	(0)	0	(0)
CALA FORMENTOR S.A. DE C.V.	10,811	34	10,778	6,288	19	6,268
CALIMAREST, S.A.	(217)	0	(217)	(130)	0	(130)
CARIBOTELS S.A. De C.V.	(861)	(423)	(438)	(1,043)	(512)	(531)
CASINO PARADISUS S.A.	(298)	(149)	(148)	(198)	(99)	(99)
CASINO TAMARINDOS S.A.	(950)	0	(950)	(521)	0	(521)
COM. PROP. MELIÁ SOL Y NIEVE	1,394	161	1,233	1,034	120	914
COMP.TUN.GESTION HOTEL.	(216)	0	(216)	203	0	203
CORP. HOT. HISPANO-MEXICANA	2,958	9	2,949	1,776	6	1,770
CORPORACIÓN HOTELERA METOR, S.A.	283	114	169	(1,665)	(667)	(998)
CREDIT CONTROL Corp	(43)	0	(43)	198	0	198
CREDIT CONTROL RIESGOS, S.L.	557	0	557	417	0	417
DOMINICAN MKT. SERVICES / DESARROLLOS SOL (1)	25,116	78	25,038	23,353	72	23,280
DES. HOT. SAN JUAN B.V.	(1,786)	(6)	(1,781)	(860)	(3)	(857)
DES. TUR. DEL CARIBE N.V	(7)	(0)	(7)	(5)	(0)	(5)
DESARROLLADORA HOTELERA DEL NORTE, S.A.	(9,337)	(29)	(9,308)	(11,902)	(37)	(11,866)
DESARROLLOS TURÍSTICOS DEL CARIBE, N.V.	0	0	0	(3)	(0)	(3)
DOCK TELEMARKETING S.A.	5,753	0	5,753	255	0	255
DOMINICAN INVESTMENT N.V.	(7)	(0)	(7)	(6)	(0)	(6)
DORPAN S.L.	84	0	84	110	0	110
FARANDOLE N.V.	(651)	(2)	(649)	(451)	(1)	(449)
GESMESOL, S.A.	4,646	0	4,646	6,539	0	6,539
GEST. HOT. TURISTICA MESOL	(1)	0	(1)	(2)	0	(2)
GOLF DEL COCOTAL, S.A.	14	0	14	(8)	(0)	(8)
GRUPO SOL ASIA Ltd.	228	91	137	676	270	405
GRUPO SOL FRANCIA (1)	432	0	432	(49)	0	(49)
GRUPO SOL SERVICES	55	22	33	157	63	94
GUPE INMOBILIARIA,S.A.	186	0	186	36	0	36
H. CONVENTO DE EXTREMADURA S.L.	137	31	106	28	14	14
H.MELIÁ INT. de COLOMBIA, S.A.	(2)	0	(2)	(81)	0	(81)
HAVANA SOL RESTAURACIÓN	(0)	0	(0)			
HOGARES BATLE, S.A.	(20)	(0)	(19)			
HOTEL BELLVER S.A.	356	0	356	115	38	77
HOTELES MELIÁ, S.L.	(0)	0	(0)	(0)	0	(0)
HOTELES PARADISUS, S.L.	(0)	0	(0)	(0)	0	(0)
HOTELES SOL INTNAL. S.A.	(1)	0	(1)	2	0	2
HOTELES SOL MELIÁ, S.L.	204	0	204	109	0	109
HOTELES SOL, S.L.	(0)	0	(0)	(0)	0	(0)
HOTELES TRYP, S.L.	(0)	0	(0)	(0)	0	(0)
IHLA BELA DE GESTAO E TURISMO, LTD.	2,957	0	2,957	3,078	0	3,078
IMPULSE HOT. DEVELOPMENT	86	0	86	84	0	84
INMOBILIARIA DISTRITO COMERCIAL, S.A.	212	60	153	(295)	(83)	(212)
INMOTEL INV. ITALIA, S.R.L.	(737)	0	(737)	(2,685)	0	(2,685)
INV. EXPLOT. TURISTICAS S.A.	3,652	1,657	1,995	2,644	1,199	1,445
INV. INMOBILIARIAS I.A.R. 1997	1,701	5	1,696	4,654	14	4,640
IRTON COMPANY, N.V.	(56)	(0)	(56)	(237)	(1)	(236)
LIFESTAR HOTELES ESPAÑA, S.L.	(261)	0	(261)			

...continues on next page.

(thousands of euros)

	2006			2005		
	CONSOLIDATED P&L	MINORITY INT. P& L	GROUP P& L	CONSOLIDATED P&L	MINORITY INT. P& L	GROUP P& L
LOMONDO Ltd.	4,035	0	4,035	1,052	0	1,052
M.I.H., S.A.	20,316	0	20,316	5,409	0	5,409
MARINA INT. HOLDING	(1)	0	(1)	(1)	0	(1)
MARKSERV B.V.	(1,008)	0	(1,008)	(95)	0	(95)
MARKSOL TURIZM, LTD.	278	0	278	66	0	66
MARKTUR TURIZM	(127)	0	(127)	90	0	90
MELIÁ BRASIL ADMINISTRAÇAO	157	0	157	721	0	721
MELIÁ INV. AMERICANAS N.V.	1,680	5	1,674	(206)	(1)	(206)
MELIÁ MANAGEMENT, S.A.	95	0	95	129	0	129
MELIÁ MERIDA, S.L.	(353)	(62)	(292)			
MELSOL MANAGEMENT, B.V.	(35)	0	(35)	161	0	161
MELSOL PORTUGAL, LTD.	(9)	(2)	(7)	(9)	(2)	(7)
MOT. ANDALUCES S.A.	79	1	79	(25)	(1)	(24)
NEALE / INVERSIONES AGARA (1)	9,500	29	9,470	3,853	12	3,841
NEW CONTINENT VENTURES, INC.	(370)	0	(370)	(306)	0	(306)
NYESA MELIÁ ZARAGOZA, S.L.	239	120	120	(320)	(160)	(160)
OPERADORA COSTARISOL	106	0	106	181	0	181
OPERADORA MESOL, S.A. DE CV	1,545	0	1,545	1,434	0	1,434
OPERADORA SAN JUAN BV	0	0	0	(41)	0	(41)
PARQUE SAN ANTONIO S.A.	(297)	(61)	(237)	307	63	245
PLAYA SALINAS S.A.	2,042	10	2,033	(0)	(0)	(0)
RANDLESTOP CORP., N.V.	(237)	(1)	(237)	(118)	(0)	(118)
REALTUR S.A.	2,299	21	2,278	16,502	392	16,110
SAN JUAN INVESTMENT B.V.	(1,786)	(6)	(1,781)	(860)	(3)	(857)
SECURISOL, S.A.	27	0	27	10	0	10
SEGUNDA FASE CORP.	86	0	86	(7)	0	(7)
SOL CARIBE TOURS, S.A.	481	0	481	526	0	526
SOL GROUP B.V.	(34)	0	(34)	(4)	0	(4)
SOL GROUP CORP.	151	0	151	199	0	199
SOL MANINVEST B.V.	8	0	8	7	0	7
SOL MELIÁ BENELUX, B.V.	(132)	0	(132)	(261)	0	(261)
SOL MELIÁ COMMERCIAL	9,132	0	9,132	(8)	0	(8)
SOL MELIÁ CROACIA	1,459	0	1,459	1,031	0	1,031
SOL MELIÁ DEUTCHLAND GMBH	1,929	0	1,929	(1,079)	0	(1,079)
SOL MELIÁ EUROPE N.V.	122	0	122	449	0	449
SOL MELIÁ FINANCE NV	18	0	18	291	0	291
SOL MELIÁ FRIBOURG, S.A.	(38)	0	(38)	(421)	0	(421)
SOL MELIÁ GUATEMALA, S.A.	(7)	0	(7)	(42)	0	(42)
SOL MELIÁ INVESTMENT, N.V.	(7)	0	(7)	(9)	0	(9)
SOL MELIÁ ITALIA, S.R.L.	(68)	0	(68)			
SOL MELIÁ MARRUECOS, S.A.	(22)	0	(22)	(34)	0	(34)
SOL MELIÁ PERÚ, S.A.	175	0	175	95	0	95
SOL MELIÁ S.A.	22,022	0	22,022	17,908	0	17,908
SOL MELIÁ SERVICES, S.A.	1,800	0	1,800	2,226	0	2,226
SOL MELIÁ SUÏSSE, S.A.	(451)	0	(451)	(1,271)	0	(1,271)
SOL MELIÁ TRAVEL, S.A.	(111)	0	(111)	(1,097)	0	(1,097)
SOL MELIÁ VACATION CLUB CO.	0	0	0	27	0	27
SOL MELIÁ VACATION CLUB DOMINICANA, S.A.	(2,496)	0	(2,496)	728	0	728
SOL MELIÁ VACATION CLUB ESPAÑA, S.L.	(1,750)	0	(1,750)	(159)	0	(159)
SOL MELIÁ VACATION CLUB MEXICO, S.A. DE CV.	1,174	0	1,174	3,093	0	3,093
SOL MELIÁ VACATION CLUB PANAMA, S.A.	498	0	498	7	0	7
SOL MELIÁ VACATION CLUB PUERTO RICO CO.	8,202	0	8,202	2,533	0	2,533
SOL MELIÁ VACATION NETWORK, S.L.	822	0	822	495	0	495
TENERIFE SOL, S.A.	6,279	29	6,250	5,200	1,223	3,977
VACATION CLUB SERVICES CO.	19	0	19	397	0	397
YOUTH JOURNEY Ltd	0	0	0	(49)	(0)	(49)
RESULT IN FULL INTEGRATED COMPANIES	**135,895**	**1,747**	**134,148**	**93,410**	**1,940**	**91,470**

...continues on next page.

(thousands of euros)

	2006			2005		
	P&L ASSOCIATES		P&L GROUP	P&L ASSOCIATES		P&L GROUP
ALCAJAN/INV. AREITO/LEOFORD/P.CANA RES. (1)				261	0	261
APART.BOSQUE	186	0	186	189		189
C.P. COSTA DEL SOL	243	0	243	207		207
C.P. MELIÁ CASTILLA	1,144	0	1,144	863		863
DETUR PANAMÁ, S.A.	(235)	0	(235)	(870)		(870)
HANTINSOL RESORTS, S.L.	(0)	0	(0)	(1)		(1)
INVERSIONES HOTELERAS LA JAQUITA, S.A.	(62)	0	(62)			
INVERSIONES GUIZA, S.A.	0	0	0	(1)		(1)
LH MIAMI LLC.	0	0	0	(0)		(0)
LIFESTAR HOTELES ESPAÑA, S.L.	0	0	0	(436)		(436)
LIFESTAR, LLC	(423)	0	(423)	(242)		(242)
LUXURY LIFESTYLE H&R	(186)	0	(186)	(10)		(10)
MELIÁ MERIDA, S.L.	0	0	0	(176)		(176)
MELIÁTOUR, S.L	(215)	0	(215)	(615)		(615)
MOGAN PROMOCIONES,S.A. DE CV.	0	0	0	(128)		(128)
NEXPROM, S.A.	430	0	430	343		343
PROM.PLAYA BLANCA S.A. De C.V.	1.304	0	1,304	(324)		(324)
PROMEDRO, S.A.	(9)	0	(9)	(8)		(8)
PUNTA ELENA, S.A.	218	0	218	(117)		(117)
SIERRA PARIMA, S.A.	(412)	0	(412)	(373)		(373)
SOL HOTTI PORTUGAL	103	0	103	61		61
RESULT IN ASSOCIATES	**2,084**	**0**	**2,084**	**(1,376)**		**(1,376)**
CONSOLIDATED TOTAL	**137,979**	**1,747**	**136,232**	**92,035**	**1,940**	**90,095**

(1) These companies belong to a same business line.

APPENDIX 7. DIRECTOR'S POSITIONS IN OTHER COMPANIES

This appendix includes the information regarding the members of the Board who hold positions as Board members or directors in other Group, associated or non-related companies that undertake similar activities to those of Sol Meliá, S.A.

Details of the Board members who hold positions in companies with a similar activity are shown below:

SPANISH COMPANIES

COMPANY	TAX ID.	POSITION
MR. GABRIEL ESCARRER JULIA (NIF 41.160.706 K)		
Apartotel S.A.	A-28111664	Chairman
Apartotel Bosque, S.A.	A-07029293	Board Member
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Chairman and managing director
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Chairman
Dorpan S.L.	B-80099807	Sole Administrator
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-07434731	Directly liable administrator
Hogares Batle, S.A.	A-07039621	Chairman and managing director
Hotel Bellver S.A.	A-07025604	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Chairman
Hoteles Sol S.L.	B-57033748	Chairman
Hoteles Meliá S.L.	B-57028482	Chairman
Hoteles Paradisus XXI S.L.	B-57095929	Chairman
Hoteles Tryp XXI, S.L.	B-57095937	Chairman
Hotelera Sancti Petri S.A.	A-07853823	Board Member
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Chairman
Moteles Andaluces S.A.	A-28097582	Chairman
Parque San Antonio S.A.	A-38003885	Chairman and managing director
Realizaciones Turísticas S.A.	A-28128254	Chairman and managing director
Securisol S.A.	A-07739337	Chairman and managing director
Tenerife Sol S.A.	A-07161821	Chairman and managing director
MR. SEBASTIÁN ESCARRER JAUME (NIF 43.040.129 E)		
Calimarest, S.A.	B-92669605	Chairman
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Secretary
Colón Verona, S.A.	A-91609792	Chairman
Credit Control Riesgos, S.L. (soc. unip.)	B-57278293	Secretary
Hantisol Resorts, S.A.	A-57343287	Managing director
Hogares Batle, S.A.	A-07039621	Secretary
Hotel Bellver S.A.	A-07025604	Board member
Hotel Convento de Extremadura S.A.	A-10247328	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Secretary
Hoteles Sol S.L.	B-57033748	Secretary
Hoteles Meliá S.L.	B-57028482	Secretary
Hoteles Paradisus XXI S.L.	B-57095929	Secretary
Hoteles Tryp XXI, S.L.	B-57095937	Secretary
Inversiones Hoteleras La Jaquita, S.A.	A-38856571	Chairman
Lifestar Hoteles España S.L.	B-84201235	Chairman
Meliá Mérida S.L.	B-06318091	Chairman
Nyesa Melia Zaragoza S.L.	B-99077844	Chairman
Parque San Antonio S.A.	A-38003885	Secretary
Port Cambrils Inversions, S.A.	B-43600311	Board member
Sol Melia Travel S.L.	A-57009029	Chairman and managing director
Tenerife Sol S.A.	A-07161821	Board member and Secretary
Sol Meliá Vacation Club España S.L.	B-57353377	Chairman and managing director
Sol Meliá Vacation Club Network, S.L.	B-63749725	Chairman

SPANISH COMPANIES		
COMPANY	TAX ID.	POSITION

MR. GABRIEL JUAN ESCARRER JAUME (NIF. 43.070.810 K)

Apartotel S.A.	A-28111664	Board member and Managing director
Calimarest, S.A.	B-92669605	Secretary
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Vice-chairman and Managing director
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Board member
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-7434731	Directly liable administrator
Hogares Batle, S.A.	A-07039621	Board member
Hotel Bellver S.A.	A-07025604	Board member
Hotel Convento de Extremadura S.A.	A-10247328	Vice-chairman
Hoteles Sol Meliá S.L.	B-57033730	Board member and Managing director
Hoteles Sol S.L.	B-57033748	Board member and Managing director
Hoteles Meliá S.L.	B-57028482	Board member and Managing director
Hoteles Paradisus XXI S.L.	B-57095929	Board member and Managing director
Hoteles Tryp XXI, S.L.	B-57095937	Board member and Managing director
Inversiones y Explotaciones Turísticas S.A.	A-28103182	Board member and Managing director
Lifestar Hoteles España S.L.	B-84201235	Board member
Melia Mérida S.L.	B-06318091	Vice-chairman
Moteles Andaluces S.A.	A-28097582	Board member and Managing director
Parque San Antonio S.A.	A-38003885	ViceSecretary and Managing director
Playa Salinas S.A.	A-38043154	Sole Administrator
Port Cambrils Inversions, S.L.	A-29840501	Board member
Promedro S.A.	A-29840501	Chairman
Realizaciones Turísticas, S.A.	A-28128254	Board member and Managing director
Securisol S.A.	A-07739337	Board member and Managing director
Sol Melia Travel S.A.	A-57009029	Secretary
Tenerife Sol S.A.	A-07161821	Board member and Managing director
Sol Meliá Vacation Club España, S.L.	B-57353377	Non-Board member secretary
Sol Meliá Vacation Club Network, S.L.	B-63749725	Non-Board member secretary

INTERNATIONAL COMPANIES		
COMPANY	TAX ID.	POSITION

MR. GABRIEL ESCARRER JULIA (NIF 41.160.706 K)

Bear S.A. de C.V.	Mexico	Vice-Chairman of the Board
Bisol Vallarta S.A. de C.V.	Mexico	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Chairman
Caribotels de Mexico S.A. de CV	Mexico	Director
Corporación Hot. Hispano Mexicana S.A. de CV	Mexico	Chairman
Corporación Hotelera Metor S.A.	Peru	Chairman
Desarrollos Hoteleros Guanacaste, S.A.	Costa Rica	2nd Vice-chairman
Gesmesol S.A.	Panama	Chairman
Grupo Sol Asia Ltd.	Hong Kong	Directly liable administrator
Hoteles Meliá Internacional de Colombia S.A.	Colombia	Directly liable administrator
Inversiones Turísticas del Caribe S.A..	Panama	Chairman
Lomondo Limited	Great Britain	Directly liable administrator
MIH S.A.	Panama	Chairman
Marina Internacional Holding S.A.	Panama	Chairman
Marktur Turizm Isletmecilik A.S.	Turkey	Administrator
Melsol Management BV	Netherlands	Directly liable administrator
Operadora Costa Risol S.A.	Costa Rica	Chairman
Operadora Mesol S.A. de CV	Mexico	Chairman
Sol Hotels UK Ltd.	Great Britain	Administrator
Segunda Fase Corporación	Puerto Rico	Chairman
Sol Meliá Vacation Club Dominicana S.A.	Dominican Republic	Chairman
Sol Melia VC Panamá S.A.	Panama	Director

INTERNATIONAL COMPANIES		
COMPANY	TAX ID.	POSITION

MR SEBASTIÁN ESCARRER JAUME (NIF 43.040.129 E)

Bisol Vallarta S.a. de CV	Mexico	Board Member
Cadlo France SAS	France	Board Member
Cadstar France SAS	France	Board Member
Cala Formentor S.A. de CV	Mexico	Board Member
Caribotels de Mexico, S.A. de C.V.	Mexico	Director
Compagnie Tunisienne de Gestion Hoteliere S.A.	Tunisia	Board Member
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Board Member
Corporación Hotelera Metor S.A.	Peru	Vice-Chairman
Desarrollos Sol S.A.	Dominican Rep.	Chairman and Treasurer
Detur Panamá S.A.	Panama	Secretary
Gesmesol S.A.	Panama	Treasurer
Guarajuba, S.A.	Panama	Chairman / Director
Guarajuba Empreendimientos, S.A.	Brazil	Chairman / Director
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator Chairman
Hellenic Hotel Management, SAS	Greece	Chairman
Hotel Alexander SAS	France	Board Member
Hotel François SAS	France	Board Member
Inversiones Agara S.A.	Dominican Rep.	Chairman and Treasurer
Inversiones Hoteleras Los Cabos, S.A.	Mexico	Member Board of Directors
Inversiones Inmobiliarias IAR, C.A.	Venezuela	Directly liable administrator
Irton Company N.V.	Netherlands Antilles	Administrator
Lomondo Limited	Great Britain	Directly liable administrator
MIH S.A.	Panama	Secretary
Marina Internacional Holding S.A.	Panama	Secretary
Meliá Inversiones Americanas N.V.	The Netherlands	Jointly liable administrator
Melia Management S.A.	Dominican Rep.	Vice-Chairman and secretary
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Directly liable administrator
Neale S.A.	Panama	Treasurer
Operadora Costa Risol S.A.	Costa Rica	Vice-Chairman and Treasurer
Operadora Mesol S.A. de CV	Mexico	Board Member
PT Sol Meliá Indonesia	Indonesia	Commissioner
PT Surialaya Anindita Tnternacional	Indonesia	Vice-Chairman
Sierra Parima S.A.	Dominican Rep.	Chairman
Sol Melia Benelux S.A.	Belgium	Chairman and Managing Director
Sol Melia Commercial	Cayman Islands	Director
Sol Melia China Limited	China	Administrator
Sol Melia Hrvatska	Croatia	Administrator
Sol Melia Deutschland GmbH	Germany	Directly liable administrator
Sol Melia Europe BV	The Netherlands	Directly liable administrator
Sol Melia Finance Limited	Cayman Islands	Authorised board member
Sol Melia Services, S.A.	Switzerland	Administrator Chairman
Segunda Fase Corporación	Puerto Rico	Vice-Chairman
Sol Melia Fribourg S.A.	Switzerland	Chairman/Administrator
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Vice-Chairman
Sol Melia VC Panamá S.A.	Panama	Director

INTERNATIONAL COMPANIES		
COMPANY	TAX ID.	POSITION

MR. GABRIEL JUAN ESCARRER JAUME (NIF. 43.070.810 K)

Bisol Vallarta S.A. de C.V.	Mexico	Board Member
Abbayé de Téleme SAS	France	Chairman of the Board
Cadlo France SAS	France	Chairman of the Board
Cadstar France SAS	France	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Board Member
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Board Member
Corporación Hotelera Metor S.A.	Peru	Director
Desarrollos Hoteleros San Juan B.V.	The Netherlands	Directly liable administrator
Desarrollos Sol S.A.	Dominican Rep.	Vice-Chairman and secretary
Desarrollos Turísticos del Caribe NV	Netherlands Antilles	Administrator
Dominican Investment NV	Netherlands Antilles	Administrator
Dominican Marketing & Services N.V.	Netherlands Antilles	Directly liable administrator
Farandole B.V.	The Netherlands	Directly liable administrator
Gesmesol S.A.	Panama	Board Member
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator
Hotel Alexander SAS	France	Chairman of the Board
Hotel Blanche Fontaine SAS.	France	Chairman of the Board
Hotel Boulogne SAS	France	Chairman of the Board
Hotel François SAS	France	Chairman of the Board
Hotel Metropolitain SAS	France	Chairman of the Board
Hotel Royal Alma SAS	France	Chairman of the Board
Impulse Hotel Development BV	The Netherlands	Directly liable administrator
Impulse Hotel Development BV	The Netherlands	Directly liable administrator
Inmotel Inversiones Italia S.r.L.	Italy	Sole Administrator
Inversiones Agara S.A.	Dominican Rep.	Vice-Chairman and secretary
Inversiones Hoteleras Los Cabos, S.A.	Mexico	Member of Board of Directors
Inversiones Inmobiliarias IAR 1997 C.A.	Venezuela	Directly liable administrator
Irton Company N.V.	Netherlands Antilles	Administrator
Lomondo Limited	Great Britain	Directly liable administrator
Madeleine Palace SAS	France	Chairman of the Board
MIH S.A.	Panama	Treasurer
Marina Internacional Holding S.A.	Panama	Treasurer
Markserv B.V.	The Netherlands	Directly liable administrator
Meliá Inversiones Americanas N.V.	The Netherlands	Jointly liable administrator
Melia Management S.A.	Dominican Rep.	Vice-Chairman and secretary
Melsol Management BV	The Netherlands	Directly liable administrator
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Directly liable administrator
Neale S.A.	Panama	Chairman
Operadora Mesol S.A. de CV	Mexico	Board Member
PT Sol Meliá Indonesia	Indonesia	Chairman
Punta Cana Reservation NV	Netherlands Antilles	Administrator
San Juan Investment BV	The Netherlands	Administrator
Segunda Fase Corporation	Puerto Rico	Administrator
Sol Melia France SAS	France	Chairman of the Board
Sol Group BV	The Netherlands	Directly liable administrator
Sol Maninvest BV	The Netherlands	Directly liable administrator
Sol Melia Benelux S.A.	Belgium	Board Member
Sol Melia China Limited	China	Administrator
Sol Melia Deutschland GmbH	Germany	Directly liable administrator
Sol Melia Investment NV	The Netherlands	Directly liable administrator
Sol Melia Suisse S.A.	Switzerland	Administrator and Chairman
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Secretary
Sol Meliá VC Panamá S.A.	Panama	Director

The direct or indirect shareholding controlled by members of the Board is the following:

SHAREHOLDER	PARTICIPATION	POSITION
Mr. Gabriel Escarrer Juliá		Chairman
Mr. Sebastián Escarrer Jaume	60.91% (*)	2nd Vice-Chairman
Mr. Gabriel Escarrer Jaume.		Managing Director
Hoteles Mallorquines Consolidados, S.A.:	27.92% (**)	Director with representative
Ailemlos, S.L.:	6.51%	Director with representative
Caja de Ahorros del Mediterráneo:	5.01%	Director with representative
Mr. Eduardo Punset Casals:	0.001%	Director
Mr. Jose Maria Lafuente Lopez:	0.001%	Secretary

(*) It should be noted that the calculation of this percentage is based on the participation, both direct and indirect, controlled by Mr. Gabriel Escarrer Juliá, his wife and children (including Mr. Sebastián Escarrer Jaume and Mr. Gabriel Juan Escarrer Jaume) in the share capital of Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Agrupados, S.L., Hoteles Mallorquines Asociados, S.L. and Majorcan Hotels Luxembourg, S.A.R.L.

(**)This percentage is also included in the participation of 60.91 mentioned above.

The participation and positions held by other members of the Board in companies not belonging to the Group that undertake similar or complementary activities to that of Sol Meliá, S.A. is as follows:

ADMINISTRATOR	COMPANY	PARTICIPATION	POSITION
Emilio Cuatrecasas Figueras	Areas,S.A.	30%	Executive Chairman
Emilio Cuatrecasas Figueras	Elior , S.C. por acciones	2.17%	Supervisory Board Member
José Mª Lafuente López	Niamey,S.A.	1%	
José Mª Lafuente López	Sa Coma C.B.	1%	-
José Mª Lafuente López	Tenedora Aguamarina S.A.	1%	-
Juan Vives Cerdá	Finca Los Naranjos,S.A.	27.88 %	Directly liable administrator

NOTES TO THE 2005 CONSOLIDATED ANNUAL ACCOUNTS

FORMULATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The formulation of the accompanying financial statements has been approved by the Board of Directors, in its meeting of March 27, 2007, with the assumption that the auditors will verify these accounts and that they will subsequently be approved at the General Shareholders' Meeting. These accounts are comprised of 81 pages, all of which have been signed by the Secretary of the Board. The last page is signed by all the members of the Board.

Signed by: Mr. Gabriel Escarrer Juliá
Chairman

Signed by: Mr. Juan Vives Cerdá
Vice- chairman

Signed by: Mr. Sebastián Escarrer Jaume
2nd Vice-chairman and managing director

Fdo. D. Gabriel Escarrer Jaume
Managing director

Signed by Hoteles Mallorquines Consolidados, S.A.
(Rep. by Mrs. María Antonia Escarrer Jaume)
Director

Signed by Caja de Ahorros del Mediterráneo
(Rep. by Mr. Armando Sala Lloret)
Director

Signed by: Mr. Eduardo Punset Casal
Independent director

Signed by: Mr. Alfredo Pastor Bodmer
Independent director

Signed by: Mr. Emilio Cuatrecasas Figueras
Independent director

Signed by: Mr. José María Lafuente López
Secretary and independent director

This report analyses trends experienced in 2006 in the business activity and the consolidated results of Sol Meliá, S.A. and its subsidiaries (hereinafter "SOL MELIÁ" or the "Group").

1 TREASURY SHARES

As of December 31, 2006, Sol Meliá has a total of 5,884,852 treasury shares with a par value of 0.2 euros each, which represent 3.18% of the Company's share capital.

2 BUSINESS TREND

2.1 Hotel Trend

The income ratio per room available (RevPAR) in the owned and rented hotels has increased by 7.5% during 2006, due to the upward trend experienced by the three business divisions throughout the year, the evolution of the summer season, the positive trend of the Spanish city hotels and the strength of the Caribbean area hotels.

With regard to the European Resort Division, RevPAR has increased by 4.5% during the year, due mainly to the positive conditions of the Spanish and British feeder markets, together with the increase in direct sales, especially through solmelia.com. Said facts explain the positive results obtained in the resort hotels in Spain.

The RevPAR of the European City Division has increased by 9.5% due to the favourable behaviour of the Spanish hotels and the positive trend of the main European cities. The process of recovery experienced by the Spanish market, especially in Madrid and Barcelona, together with the positive macroeconomic conditions, has made possible the celebration of congresses, incentives and conventions, and the progressive absorption of the additional hotel room supply. With regard to the business trend in the rest of Europe, London, Germany, Milan and Paris have experienced the greater increases during the year. The growth in Germany is mainly due to the positive effect caused by the 2006 Football World Cup, while London, Paris and Milan have been favoured by the market evolution and the efforts intended to strengthen the business segment during the week and leisure for the weekends.

With regard to the Americas Division, the RevPAR increased by 8.3% mainly due to the positive evolution of the resort hotels in the Dominican Republic, and to a lesser extent, of those located in Puerto Rico, explained by the good economic position of United States, which has allowed a significant increase of North American visitors. Hotels in Punta Cana (Dominican Republic) and the hotel Gran Meliá Cancún have been benefited by the importance of the groups and incentive travels. The growth of the division is also due to the good results obtained by the hotels Paradisus Palma Real, Gran Meliá Caracas and Gran Meliá Mofarrej.

Hotels Statistics 06/05 (RevPAR and A.R.R. in Euros)

OWNED AND LEASED HOTELS DEC. 06/05		OCCUPANCY	REVPAR	A.R.R.
European Resort	2006	71.7%	41,2	57,5
	% 06/05	**0.6%**	**4.5%**	**3.8%**
	2005	71.3%	39,5	55,3
European City	2006	68.4%	60,1	87,9
	% 06/05	**2.8%**	**9.5%**	**6.5%**
	2005	66.5%	54,9	82,5
Americas	2006	67.5%	52,4	77,7
	% 06/05	**0.2%**	**8.3%**	**8.1%**
	2005	67.3%	48,4	71,9
Total	2006	69.5%	51,8	74,5
	% 06/05	**1.6%**	**7.5%**	**5.8%**
	2005	68.4%	48,1	70,4

The breakdown of the growth components in room revenues for hotels owned and leased by the Group is shown in table 2 below:

Breakdown of total revenues per owned/leased room 06/05

% INCREASE DEC.06/DEC.05	EUROPEAN RESORT	EUROPEAN CITY	AMERICAS	TOTAL
Revpar	4.5%	9.5%	8.3%	7.5%
Available rooms	0.9%	(2.7%)	(0.6%)	(1.1%)
Revenues per room	5.2%	6.6%	7.6%	6.4%

In the European Resort Division the increase in available rooms is due to the reopening of a refurbished hotel which is compensated with the sale of two hotels.

In the European City Division, the sale of two hotels undertaken in 2005 and 2006, together with the disaffiliation of a hotel in February, 2006 explain the decrease in available rooms.

The decrease in available rooms in the America's Division is explained by the closure of the resort hotels in the Cancun area, due to Hurricane Wilma. Nevertheless, at present, all the hotels affected by the passage of the hurricane are open. On December 15, 2006, the hotel Meliá Turquesa finalised the refurbishment works after the hurricane and was reopened under the new brand "ME by Meliá", being the third hotel which joins this brand.

2.2 Assets management evolution

The trend of the Assets Management Division includes both asset rotation and the Sol Melia Vacation Club.

2.2.1 Asset Rotation

Sol Meliá has formalised sales of assets amounting to 75.5 million euros, which correspond to the disposal of two hotels and a project under development.

The assets of Meliá Mérida, S.A., owner of a hotel with the same name, have been integrated into the consolidated balance sheet, for an amount of 12.6 million euros, since the company's integration is made by the full consolidation method.

During 2006, a tourist land plot has been acquired in Brazil.

2.2.2 Sol Melia Vacation Club (SMVC)

The total revenues of Sol Melia Vacation Club (SMVC) have amounted to 86.7 million euros. This amount includes, in addition to the Vacation Club sales, the revenues from the interest arising from the purchase, maintenance quotas, management fees and exchange network fees.

The number of weeks sold and the average price have increased by 70.4% and 17.2%, respectively, despite the fact that some of the hotels located in Cancun were closed due to the refurbishments works undertaken after Hurricane Wilma. The positive trend of the operations launched in the Dominican Republic and Puerto Rico, together with the launching of the SMVC in Spain, has compensated this effect.

Sol Meliá Vacation Club (SMVC)

	NUMBER OF WEEKS SOLD			EQUIVALENT NUMBER OF CLUB UNITS			AVERAGE PRICE			VACATION CLUB SALES (in thousands of €)		
	2006	% 06/05	2005	2006	% 06/05	2005	2006	% 06/05	2005	2006	% 06/05	2005
Europe	409	3618.2%	11	8,0	3900.0%	0,2	19,335	3.7%	18,651	7,908	3757.6%	205
America	3,012	50,8%	1,997	57,9	51.6%	38,2	15,418	14.0%	13,522	46,438	72.0%	27,004
TOTAL	3,421	70.4%	2,008	65,9	71.6%	38,4	15,886	17.2%	13,550	54,346	99.7%	27,209

3 POST BALANCE-SHEET EVENTS

On January 16, 2007, the company Ailemlos, S.L. sold 12,034,560 shares of Sol Meliá, S.A. corresponding to 6.5% of the share capital.

On January 19, 2007, Sol Meliá S.A. has signed a loan contract with Caja de Ahorros del Mediterráneo for an amount of 60 million euros maturing on January 16, 2014.

On February 27, 2007, the rating agency Moody's assigned Sol Meliá a Baa3 rating with a stable outlook. This rating takes into consideration the strong position of the Group in the market and the continuous reduction of the Group debt, which means a significant improvement of the financial ratios and the strength provided by the value of the Group's assets.

4 FORESEEABLE OUTLOOK

With regard to 2007, Sol Meliá is optimistic with reference to the growth of the city hotels and the evolution of the resort hotels in Spain and in the Caribbean, as well the outlook for growth of the Sol Meliá Vacation Club.

In 2007, the evolution of the European City Division will be linked to the good Spanish macroeconomic conditions which will encourage the positive trend of groups and business, congresses & conventions tourism. The increase in the offer experienced in the last two years is being progressively absorbed and the incorporation of new hotel rooms in the main cities will be slower from 2006 onwards. Furthermore, the Spanish macroeconomic indicators support the recovery of the business. At corporate level, the Company expects an increase in business groups, congresses and conventions. This should restore the confidence of the operators and increase the RevPAR figures, by means of a higher average price per room, with the corresponding effect on the Division's margins and profits. With regard to operations in other countries, the projections remain positive, particularly in Italy and the United Kingdom.

The growth of RevPAR during 2007 will be explained by the increase in prices negotiated during the last quarter of the year with the Company's main "Key Accounts". With regards to the hotel supply, the deceleration of the new hotel supply will allow continuing the expansion cycle. The evolution in the main European cities is depicted by the good expectations for the European hotel industry, and the efforts made by the Company for increasing its sales towards the business segment during the work week the projections of which seem to be very positive.

The Group forecasts for the European Resort Division are highly positive, due to the recognition of Spain as a tourist destination at a world level, as reflected in the statistics elaborated by the World Tourism Organization. The evolution of the sales through direct channels, especially solmelia.com, together with the recovery of the German market and the positive results of the negotiations with the main Pan-European tour-operators, will give support to the growth of the Division and the results for the summer season, which the Company expects will exceed those reached in 2006. Challenges for 2007 are the snow hotels, due to the mild weather experienced during the winter and the Canary Islands, which is a destination in process of change as a result of its disadvantage in respect of other tourist destinations denominated in US dollars, such as Punta Cana in the Dominican Republic, within a strong currency environment, as the Euro.

Forecasts for America are based on the great growth experienced by the Dominican Republic, for which it is anticipated that results will be higher than in 2006, due mainly to the clients' diversification. On the other hand, Cancun is not totally recovered after the devastating effects of Hurricane Wilma. Nevertheless, the Group's forecasts for 2007 are based on the positive trend of the two hotels located in this area, Gran Meliá Cancun and ME Cancun. The latter has been recently inaugurated with the aim of covering the luxury market niche.

With regards to the Sol Melia Vacation Club, the Group expects significant increases in the future. The Company has increase the number of weeks sold and it is expected that the business activity will be increased with new complexes in the Caribbean and the Canary Islands taking advantage of the upwards trend of the leisure segment in the real estate market.

Sol Meliá's forecasts for assets rotation is based on the sale of non-strategic hotels, whenever the optimum sale prices are obtained.

During 2007, a positive financial trend is expected, due to the increase of the operational funds and the sales of assets made in 2006, which will be used for financing the regular capex, the Company's organic growth, the renewal of the brand Meliá and the startup of a vacation complex in Brazil, which will have a great strategic importance for Sol Meliá.

In connection with the brand management, Sol Meliá has begun to work on the renewal of the brand image of certain hotels and on the sale of hotels whose standards are not adapted to those required by the Company.

The Group is preparing the 2007-2009 Strategic Plan, based on three pillars of creating value. The first one, the Brand Equity (value of the brand) developing the attributes to be constantly innovating, striving to stand out and offering the best quality in service. With this aim, the Company will continue the refurbishment and renovation works in 30 hotels in the following three years, adding new energy to its brands, which will be reflected in the decoration, restaurants and bars adjacent to the hotels, fitness centres and in the entire hotel complex. The second pillar is the Client Knowledge, where the Company's capacity for identifying the present and future expectations of consumers and the positioning of its brands in order to identify their needs is a key factor for adding value to any hotel development, Vacation Club or condo-hotel. Finally, the Assets Management, through the transformation of square meters of land for developing Vacation Clubs, Condo Hotels, Time-Sharing, land development and assets rotation. The achievement of these objectives will lead to the optimization of the benefits of the Group's existing hotels and future projects.

Sol Meliá

MANAGEMENT REPORT

FORMULATION OF THE MANAGEMENT REPORT

The formulation of this management report has been approved by the Board of Directors, in its meeting of March 27, 2007. This management report comprises 6 pages, all of them signed by the Secretary of the Board. This last page is signed by all the members of the Board.

Signed by: Mr. Gabriel Escarrer Juliá
Chairman

Signed by: Mr. Juan Vives Cerdá
Vice- chairman

Signed by: Mr. Sebastián Escarrer Jaume
2nd Vice-chairman and managing director

Signed by: Mr. Gabriel Escarrer Jaume
Managing director

Signed by Hoteles Mallorquines Consolidados, S.A.
(Rep. by Mrs. María Antonia Escarrer Jaume)
Director

Signed by Caja de Ahorros del Mediterráneo
(Rep. by Mr. Armando Sala Lloret)
Director

Signed by: Mr. Eduardo Punset Casal
Independent director

Signed by: Mr. Alfredo Pastor Bodmer
Independent director

Signed by: Mr. Emilio Cuatrecasas Figueras
Independent director

Signed by: Mr. José María Lafuente López
Secretary and independent director

06

corporate governance report

ANNUAL REPORT ON CORPORATE GOVERNANCE FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006 FOR THE CORPORATION SOL MELIA S.A.

Palma de Mallorca, 27 March 2007

INTRODUCTION

This report is provided by the Board of Directors to Company shareholders in compliance with Law 26/2003 of 17 July, by which a modification was made to Stock Market Law 24/1998 of 28 July and the Revised Text of Company Law, approved by RDLeg.1564/1989 of 22 December, to promote transparency in publicly quoted companies.

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

This report on Corporate Governance from SOL MELIÁ S.A. refers to the financial year ending 31 December 2006 and was approved by the Board of Directors on 27 March 2006.

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

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

A COMPANY OWNERSHIP STRUCTURE

A.1 Capital stock

The Capital Stock of SOL MELIÁ S.A. is THIRTY-SIX MILLION, NINE HUNDRED AND FIFTY-FIVE THOUSAND, THREE HUNDRED AND FIFTY-FIVE EUROS AND FORTY CENTS (36,955,355.40.-), represented by ONE HUNDRED AND EIGHTY-FOUR MILLION, SEVEN HUNDRED AND SEVENTY-SIX THOUSAND, SEVEN HUNDRED AND SEVENTY-SEVEN (184,776,777) shares, each with a par value of twenty cents (0.2.-).

The shares are fully subscribed and paid up, of a single class and series and represented through account entries, as governed by Law 24/1988, relating to the Stock Market; Royal Decree 116/1992 of 14th February relating to the representation of shares through account entries and the clearing and settlement of stock exchange trading.

The latest modification in share capital was approved by the Board of Directors on 20 November 2000 by means of the delegation of faculties by the General Shareholders Meeting of 23 October 2000.

A.2 Direct or indirect significant shareholders at close of year 2006, excluding members of the Board of Directors

The significant shareholders in SOL MELIÁ S.A. at 31st December, 2006, are as follows:

ID number	Name	Number of direct shares	Number of indirect shares	% of share capital
A-07332794	HOTELES MALLORQUINES CONSOLIDADOS S.A.	51,580,509		27.915
A-07000343	HOTELES MALLORQUINES AGRUPADOS S.L.	19,985,988		10.816
B-07802531	HOTELES MALLORQUINES ASOCIADOS S.L.	30,188,433		16.338
	MAJORCAN HOTELS LUXEMBOURG S.A.R.L.	10,766,007		5.826
G-03046562	CAJA DE AHORROS DEL MEDITERRÁNEO (*)		9,249,999	5.006
B-82861618	AILEMLOS S.L.(**)	12,825,505	12,825,505	6.941

(*) Through:

Name of direct holder	Number of direct shares	% of share capital
Inversiones Cotizadas del Mediterráneo S.L.	9,249,999	5.006

(**) On 16 January 2007, ING BANK NV LONDON BRANCH reported to the Spanish Stock Exchange Commission the sale by Ailemlos S.L. of 6.5 % of the total capital stock of Sol Meliá S.A.

On 16 February 2007, Fidelity International Limited reported to the Spanish Stock Exchange Commission the acquisition of a significant stake of 1,956,594 shares in the company, 1.06% of its total capital stock.

A.3 Shareholdings of members of the Board of Directors

The following table shows the direct or indirect shareholdings of the members of the Company Board of Directors as well as the first and most recent dates of their appointment:

ID NUMBER	NAME OR COMPANY	DATE FIRST APPOINTED	DATE LAST APPOINTED	NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES	% OF SHARE CAPITAL
41.160.706 K	Gabriel Escarrer Juliá (*)	07.02.96	8.06.04	--	112,520,937	60.896
43.040.129 E	Sebastián Escarrer Jaume (*)	07.02.96	28.05.01	--	---	---
43.070.810 K	Gabriel Juan Escarrer Jaume (*)	07.04.99	29.04.02	--	---	---
41.222.172 P	Juan Vives Cerdá	07.02.96	8.06.04	--	--	--
A-07332794	Hoteles Mallorquines Consolidados S.A.	23.10.00		51,580,509	--	27.915
B-82861618	Ailemlos S.L. (**)	15.01.01		12,825,505	--	6.941
41.301.057 A	José María Lafuente López	02.07.96	28.05.01	1,380	--	0.0001
41.067.519 F	Alfredo Pastor Bodmer	31.05.96	8.06.04	--	--	--
39.829.380-G	Eduardo Punset Casals	31.05.96	8.06.04	--	1,200	0.0001
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta (***)	14.06.96	28.05.01	--	--	--
37.667.252-Z	Emilio Cuatrecasas Figueras	31.05.96	28.05.01	--	--	--
G03046562	CAJA DE AHORROS DEL MEDITERRÁNEO	30.03.05		9,249,999	--	5.006

(*) See the following point A.4.
(**) On 21 November 2006, it was agreed to accept the resignation of the position on the company Board of Directors of Ailemlos S.L., represented by Ariel Mazín Mor.
On 16 January 2007, ING BANK NV LONDON BRANCH reported to the Spanish Stock Exchange Commission the sale by Ailemlos S.L. of 6.5 % of the total capital stock of Sol Meliá S.A.
(***) On 27 March 2007, the Board of Directors agreed to accept the resignation of the Director José Joaquín Puig de la Bellacasa Urdampilleta.

A.4 Family, business, contractual or corporate relationships existing between stockholders with a significant interest as far as they are known to the Company, except when of limited relevance or when derived from ordinary Company business.

It must be stated that the indirect shareholding indicated in table A.3. are based on the shares directly or indirectly controlled by Gabriel Escarrer Juliá, his wife and children (including Sebastián Escarrer Jaume and Gabriel Juan Escarrer Jaume) in the share capital of the companies HOTELES MALLORQUINES CONSOLIDADOS S.A., HOTELES MALLORQUINES AGRUPADOS S.L., HOTELES MALLORQUINES ASOCIADOS S.L., and MALLORCAN HOTELS LUXEMBOURG S.A.R.L. The share capital of SOL MELIÁ S.A. held by each of these companies is given in section A.2.

A.5 Business, contractual or corporate relationships existing between stockholders with a significant interest and the Company, except when of limited relevance or when derived from ordinary Company business.

At 31 December 2006 the Company held credit lines and loan contracts with the CAJA DE AHORROS DEL MEDITERRÁNEO to a value of 23.3 million euros with due dates between 2009 and 2016, representing 2.15% of the total financial risk of the SOL MELIA Group. The detail of these operations is as follows:

CONCEPT	EURO AMOUNT	HOLDER	CONTRACTED	DUE DATE
Loan	925,944.94	INVERSIONES Y EXPLOTACIONES TURÍSTICAS, S.A.	15.08.1998	15.05.2009
Loan	8,773,214.27	MELIA INVERSIONES AMERICANAS, N.V.	12.03.2003	12.03.2011
Loan	5,829,148.00	LOMONDO LTD.	20.07.2000	20.01.2016
Loan	3,005,060.52	INVERSIONES Y EXPLOTACIONES TURÍSTICAS, S.A.	12.04.1999	12.04.2011
Syndicated	4,800,000	SOL MELIA, S.A.	20.12.2004	20.12.2009

There are no other relevant commercial, contractual or shareholding relations between other significant shareholders and the Company.

A.6 Quasi-corporate agreements between shareholders reported to the Company and concerted actions between Company shareholders known to the Company.

The Company is unaware of the existence of quasi-corporate agreements or concerted actions amongst its stockholders as they relate to the Company.

A.7 Person or entity which exercises or may exercise control over the Company according to article 4 of Stock Market Law.

ID NUMBER	NAME
41160706K	Gabriel Escarrer Juliá

A.8 Treasury stock

At close of year 2006:

NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES (*)	% OF SHARE CAPITAL
5,884,852	---------	3.18%

Detail of the significant changes as expressed in Royal Decree 377/1991 made during the year:

Date	Number of direct shares	Number of indirect shares (*)	% of share capital
01.11.05 a 31.03.06	1,506,861	--	0.82%
01.04.06 a 25.05.06	1,862,682	--	1.01%
26.05.06 a 21.09.06	2,555,447	--	1.38%
22.09.06 a 30.11.06	2,477,115	--	1.34%

(thousands of euros)

Results obtained in the year on treasury stock operations	22

A.9 Term and conditions of the existing mandate of the General Shareholders Meeting to the Board of Directors to acquire or transfer treasury stock.

The Ordinary and Extraordinary General Shareholders Meeting held on 6 June 2006 authorised the Board of Directors, who in turn may delegate and empower the Directors considered appropriate, to acquire and sell shares in the Company through any of the methods allowed by the law, up to the limit allowed by the law and at a price that may not be less than one Euro, nor greater than thirty Euros, and within a period of eighteen months from the date of approval, all subject to the limits and requirements demanded by Company Law and the Internal Regulations on Good Conduct in Stock Markets.

A.10 Legal and bylaw restrictions to the exercise of the right to vote and restrictions on the acquisition or transfer of shareholdings.

There are no legal nor bylaw restrictions on the exercise of the right to vote. Every share has a right to vote with no maximum limit with regard to the exercise of this right, although to attend the General Shareholders Meeting shareholders must possess at least 300 shares registered in their name with the Accounts Register and, whenever appropriate, with the Shareholders Register, at least FIVE (5) days before the day on which the General Shareholders Meeting is held and have paid up any passive dividends and maintain ownership of said shares until the General Shareholders Meeting is held.

Shareholders that possess a smaller number of shares than mentioned above may Group their shareholdings in order to attend the General Shareholders Meeting , delegating representation to one shareholder within the Group. If this is not done in this manner, any such shareholder may delegate representation at the General Shareholders Meeting to another shareholder entitled by law to attend and to represent another shareholder, grouping their shareholding with that of the mentioned representative.

Article 17 of Company Bylaws foresee the possibility that the Company may issue shares without voting rights within legal limits, or preference shares that enjoy some form of privilege over ordinary shares. Up to the present, the Company has issued neither shares with no voting rights nor preference shares.

The transfer of Company shares is free and will be made by account transfer.

B COMPANY MANAGEMENT STRUCTURE

B.1 Board of Directors

B.1.1 Maximum and minimum number foreseen in Company Bylaws:

Maximum number of Directors	15
Minimum number of Directors	5

B.1.2 Members of the Board of Directors.

ID NUMBER	NAME OR COMPANY NAME	DATE FIRST APPOINTED	DATE LAST APPOINTED	POSITION	METHOD OF ELECTION
41.160.706 K	Gabriel Escarrer Juliá	7.02.96	7.04.99	Chairman	At General Meeting
43.040.129 E	Sebastián Escarrer Jaume	7.02.96	28.05.01	2nd Deputy Chairman and Chief Executive Officer	At General Meeting
43.070.810 K	Gabriel Juan Escarrer Jaume	7.04.99	29.04.02	Chief Executive Officer	At General Meeting
41.222.172 P	Juan Vives Cerdá	7.02.96	7.04.99	1st Deputy Chairman	At General Meeting
A-07332794	Hoteles Mallorquines Consolidados S.A., represented by María Antonia Escarrer Jaume	23.10.00			At General Meeting
B-82861618	Ailemlos S.L., represented by Ariel Mazín Mor (*)	15.01.01			At General Meeting
41.301.057 A	José María Lafuente López	2.07.96	28.05.01	Secretary	At General Meeting
41.067.519 F	Alfredo Pastor Bodmer	31.05.96	10.05.99		At General Meeting
39.829.380 G	Eduardo Punset Casals	31.05.96	10.05.99		At General Meeting
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta (**)	14.06.96	28.05.01		At General Meeting
37.667.252 Z	Emilio Cuatrecasas Figueras	31.05.96	28.05.01		At General Meeting
G03046562	CAJA DE AHORROS DEL MEDITERRÁNEO, represented by Armando Sala Lloret	30.03.05	30.03.05		By Board of Directors and ratified at General Meeting

(*) On 21 November 2006, it was agreed to accept the resignation of the position on the company Board of Directors of Ailemlos S.L., represented by Ariel Mazín Mor.
(**) On 27 March 2007, the Board of Directors agreed to accept the resignation of the Director José Joaquín Puig de la Bellacasa Urdampilleta.

B.1.3 Members of the Board of Directors by status.

EXECUTIVE DIRECTORS

ID NUMBER	NAME	POSITION
41.160.706 K	Gabriel Escarrer Juliá	Chairman
43.040.129 E	Sebastián Escarrer Jaume	2nd Deputy Chairman and Chief Executive Officer
43.070.810 K	Gabriel Juan Escarrer Jaume	Chief Executive Officer

OUTSIDE INSTITUTIONAL DIRECTORS

ID NUMBER	NAME	REPRESENTATIVE	POSITION	SHAREHOLDER REPRESENTED	ID NUMBER OF SHAREHOLDER
41.222.172 P	Juan Vives Cerdá		1st Deputy Chairman	Hoteles Mallorquines Asociados S.L.	B-07802531
A-07332794	Hoteles Mallorquines Consolidados S.A.	María Antonia Escarrer Jaume	Director	Hoteles Mallorquines Consolidados S.A.	A-07332794
B-82861618	Ailemlos S.L. (*)	Ariel Mazín Mor	Director	Ailemlos S.L.	B-82861618
G03046562	Caja de Ahorros del Mediterraneo	Armando Sala Lloret	Director	Inversiones Cotizadas del Mediterráneo S.L.	B-54048020

OUTSIDE INDEPENDENT DIRECTORS			
ID NUMBER	NAME	POSITION	COMMITTEE
41.301.057 A	José María Lafuente López	Secretary	Chairman of the Auditing Committee
41.067.519 F	Alfredo Pastor Bodmer	Director	
39.829.380 G	Eduardo Punset Casals	Director	Auditing and Compliance Committee
1.950.856 L	José Joaquín Puig de la Bellacasa Urdampilleta (**)	Director	Appointments and Remuneration Committee
37.667.252 Z	Emilio Cuatrecasas Figueras	Director	

(*) On 21 November 2006, it was agreed to accept the resignation of the position on the company Board of Directors of Ailemlos S.L., represented by Ariel Mazín Mor.
(**) On 27 March 2007, the Board of Directors agreed to accept the resignation of the Director José Joaquín Puig de la Bellacasa Urdampilleta.

B.1.4 Qualification of Directors in relation to the Regulations of the Board of Directors.

Article 7 of the Regulations of the Board of Directors foresee that the Board, with the objective of guaranteeing its independence and objectivity while best defending the interests of the Company, when exercising its duty to propose to the General Shareholders Meeting the coverage of any vacancies, will ensure that the majority of members of the Board of Directors are Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

The Company understands that the recommendation can be understood to have been applied as the Company currently has nine Outside Directors, of which five are Independent Directors.

B.1.5. Authority delegated to the Board of Directors.

The circumstances required by Article 38 of Company Bylaws to be designated Chief Executive Officer are as follows:

(i) To have formed part of the Board of Directors during at least the THREE (3) years prior to the said designation; or,

(ii) To have previously occupied the position of Chairman or Vice Chairman of the Company Board of Directors, or the position of Chief Executive Officer, regardless of the period of time spent as a Director.

(iii) Neither of the previous conditions will be required to be met whenever the designated Director is supported by SEVENTY-FIVE PERCENT (75%) or more of the members of the Board of Directors.

The same Article indicates the all powers may be delegated to the Board, with the exception of:

(a) The presentation of Company accounts and balance sheet to the General Shareholders Meeting .
(b) The powers that the General Shareholders Meeting confers upon the Board of Directors, save when it were explicitly authorised by the Meeting.

Whenever such is not admissible by law with effects before third parties, the previous limitations to the delegation of powers will be of an internal nature.

Currently, the Board of Directors has delegated in the Directors Sebastián Escarrer Jaume and Gabriel Escarrer Jaume all powers in relation to the Law and Company Bylaws.

B.1.6 Members of the Board of Directors that hold directorship or management positions in other SOL MELIÁ Group companies.

The following tables indicate the members of the Company Board of Directors that also hold positions in other dependant companies, understanding that such companies are those in which the direct or indirect shareholding of SOL MELIÁ is greater than 50% or in which the Company has a controlling stake:

SPANISH COMPANIES		
NAME OF COMPANY	COMPANY ID NUMBER	POSITION

GABRIEL ESCARRER JULIA (ID number 41.160.706 K)

NAME OF COMPANY	COMPANY ID NUMBER	POSITION
Apartotel S.A.	A-28111664	Chairman
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Chairman and Chief Executive Officer
Dorpan S.L.	B-80099807	Sole Administrator
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-7434731	Joint Administrator
Hogares Batle S.A.	A-07039621	Chairman
Hotel Bellver S.A.	A-07025604	Chairman
Hoteles Sol Meliá S.L.	B-57033730	Chairman
Hoteles Sol S.L.	B-57033748	Chairman
Hoteles Meliá S.L.	B-57028482	Chairman
Hoteles Paradisus XXI S.L.	B-57095929	Chairman
Hoteles Tryp XXI, S.L.	B-57095937	Chairman
Inversiones and Explotaciones Turísticas S.A.	A-28103182	Chairman
Moteles Andaluces S.A.	A-28097582	Chairman
Parque San Antonio S.A.	A-38003885	Chairman and Chief Executive Officer
Realizaciones Turísticas S.A.	A-28128254	Chairman and Chief Executive Officer
Securisol S.A.	A-07739337	Chairman and Chief Executive Officer
Tenerife Sol S.A.	A-07161821	Chairman and Chief Executive Officer
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Chairman

SEBASTIÁN ESCARRER JAUME (ID number 43.040.129 E)

NAME OF COMPANY	COMPANY ID NUMBER	POSITION
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Secretary
Hogares Batle S.A.	A-07039621	Secretary
Hotel Bellver S.A.	A-07025604	Spokesperson
Hotel Convento de Extremadura S.A.	A-10247328	Chairman as proxy of SOL MELIA S.A.
Hoteles Sol Meliá S.L.	B-57033730	Secretary
Hoteles Sol S.L.	B-57033748	Secretary
Hoteles Meliá S.L.	B-57028482	Secretary
Hoteles Paradisus XXI S.L.	B-57095929	Secretary
Hoteles Tryp XXI, S.L.	B-57095937	Secretary
Parque San Antonio S.A.	A-38003885	Secretary
Sol Melia Travel S.A.	A-57009029	Chairman and Chief Executive Officer
Tenerife Sol S.A.	A-07161821	Spokesperson and Secretary
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Secretary
Sol Meliá Vacation Club España S.L.	B-57353377	Chairman and Chief Executive Officer
Nyesa Melia Zaragoza S.L.	B-99077844	Chairman
Sol Meliá Vacation Network España S.L.	B-63749725	Chairman
Colón Verona S.A.	A- 91609792	Chairman
Lifestar Hoteles España S.L.	B-84201235	Chairman
Calimarest S.L.	B- 92669605	Chairman
Meliá Mérida S.L.	B-06318091	Chairman

SPANISH COMPANIES		
NAME OF COMPANY	COMPANY ID NUMBER	POSITION

GABRIEL JUAN ESCARRER JAUME (ID number 43.070.810 K)

Apartotel S.A.	A-28111664	Spokesperson and Chief Executive Officer
Casino Tamarindos S.A. (soc. unip.)	A-35039643	Vice Chairman and Chief Executive Officer
Gest.Hot.Turística Mesol S.A. (soc. unip)	A-7434731	Joint Administrator
Hogares Batlle S.A.	A-07039621	Spokesperson
Hotel Bellver S.A.	A-07025604	Spokesperson as proxy of SOL MELIA S.A.
Hotel Convento de Extremadura S.A.	A-10247328	Vice Chairman
Hoteles Sol Meliá S.L.	B-57033730	Spokesperson and Chief Executive Officer
Hoteles Sol S.L.	B-57033748	Spokesperson and Chief Executive Officer
Hoteles Meliá S.L.	B-57028482	Spokesperson and Chief Executive Officer
Hoteles Paradisus XXI S.L.	B-57095929	Spokesperson and Chief Executive Officer
Hoteles Tryp XXI, S.L.	B-57095937	Spokesperson and Chief Executive Officer
Inversiones and Explotaciones Turísticas S.A.	A-28103182	Spokesperson and Chief Executive Officer
Moteles Andaluces S.A.	A-28097582	Spokesperson and Chief Executive Officer
Parque San Antonio S.A.	A-38003885	Vice Secretary and Chief Executive Officer
Playa Salinas S.A.	A-38043154	Sole Administrator
Realizaciones Turísticas S.A.	A-28128254	Spokesperson and Chief Executive Officer
Securisol S.A.	A-07739337	Spokesperson and Chief Executive Officer
Sol Melia Travel S.A.	A-57009029	Secretary
Tenerife Sol S.A.	A-07161821	Spokesperson and Chief Executive Officer
Credit Control de Riesgos S.L. (soc. unip.)	B-57278293	Spokesperson
Sol Meliá Vacation Club España S.L.	B-57353377	Non-executive Secretary
Sol Meliá Vacation Network S.L.	B-63749725	Non-executive Secretary
Calimarest S.L.	B- 92669605	Secretary
Meliá Mérida S.L.	B-06318091	Vice Chairman

INTERNATIONAL COMPANIES		
COMPANY NAME	NATIONALITY	POSITION

GABRIEL ESCARRER JULIA (ID number 41.160.706 K)

Bear S.A. de C.V.	Mexico	Vice Chairman of the Board
Bisol Vallarta S.A. de C.V.	Mexico	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Chairman
Controladora Turística Cozumel S.A. de CV	Mexico	Spokesperson
Caribotels de Mexico S.A. de CV	Mexico	Director
Corporación Hotelera Metor S.A.	Peru	Chairman
Desarrollos Turísticos del Caribe S.A.	Panama	Chairman
Gesmesol S.A.	Panama	Chairman
Grupo Sol Asia Ltd.	Hong Kong	Joint Administrator
Hoteles Meliá International de Colombia S.A.	Colombia	Joint Administrator
Inversiones Turísticas del Caribe S.A..	Panama	Chairman
Lomondo Limited	Great Britain	Joint Administrator
MIH S.A.	Panama	Chairman
Marina International Holding S.A.	Panama	Chairman
Marktur Turizm Isletmecilik A.S.	Turkey	Administrator
Melsol Management BV	Holland	Joint Administrator
Operadora Costa Risol S.A.	Costa Rica	Chairman
Operadora Mesol S.A. de CV	Mexico	Chairman
Sol Hotels UK Ltd.	Great Britain	Administrator
Segunda Fase Corporación	Puerto Rico	Chairman
Sol Meliá Vacation Club Dominicana S.A.	Dominican Rep.	Chairman
Sol Melia VC Panama S.A.	Panama	Director

INTERNATIONAL COMPANIES		
COMPANY NAME	NATIONALITY	POSITION

SEBASTIÁN ESCARRER JAUME (ID number 43.040.129 E)

Bisol Vallarta S.A. de CV	Mexico	Spokesperson
Cadlo France SAS	France	Spokesperson
Cadstar France SAS	France	Spokesperson
Cala Formentor S.A. de CV	Mexico	Spokesperson
Compagnie Tunisienne de Gestion Hoteliere S.A.	Tunisia	Spokesperson
Caribotels de Mexico S.A. de CV	Mexico	Director
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Spokesperson
Corporación Hotelera Metor S.A.	Peru	Vice Chairman
Desarrollos Sol S.A.	Dominican Rep.	Chairman and Treasurer
Gesmesol S.A.	Panama	Treasurer
Hotel Alexander SAS	France	Spokesperson
Hotel François SAS	France	Spokesperson
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator Chairman
Inversiones Agara S.A.	Dominican Rep.	Chairman and Treasurer
Inversiones Inmobiliarias IAR, C.A.	Venezuela	Joint Administrator
Irton Company N.V.	Dutch Antilles	Administrator
Lomondo Limited	Great Britain	Joint Administrator
MIH S.A.	Panama	Secretary
Marina International Holding S.A.	Panama	Secretary
Meliá Inversiones Americanas N.V.	Holland	Joint Administrator
Melia Management S.A.	Dominican Rep.	Vice Chairman and Secretary
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Joint Administrator
Neale S.A.	Panama	Treasurer
Operadora Costa Risol S.A.	Costa Rica	Vice Chairman and Treasurer
Operadora Mesol S.A. de CV	Mexico	Spokesperson
PT Sol Meliá Indonesia	Indonesia	Commissar
Sol Melia Benelux S.A.	Belgium	Chairman and Chief Executive Officer
Sol Melia Commercial	Cayman Islands	Director
Sol Melia China Limited	China	Administrator
Sol Melia Hrvatska	Croatia	Administrator
Sol Melia Deutschland GmbH	Germany	Joint Administrator
Sol Melia Europe BV	Holland	Joint Administrator
Sol Melia Finance Limited	Cayman Islands	Authorised Director
Sol Melia Services S.A.	Switzerland	Administrator Chairman
Segunda Fase Corporación	Puerto Rico	Vice Chairman
Sol Melia Fribourg S.A.	Switzerland	Chairman/Administrator
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Vice Chairman
Sol Melia VC Panama S.A.	Panama	Director
Guarajuba S.A	Panama	Director/Chairman
Hellenic Hotel Management Hotel and Commercial S.A.	Greece	Chairman

INTERNATIONAL COMPANIES		
COMPANY NAME	NATIONALITY	POSITION

GABRIEL JUAN ESCARRER JAUME (ID Number 43.070.810 K)

Bisol Vallarta S.A. de C.V.	Mexico	Spokesperson
Abbayé de Téleme SAS	France	Chairman of the Board
Cadlo France SAS	France	Chairman of the Board
Cadstar France SAS	France	Chairman of the Board
Cala Formentor S.A. de CV	Mexico	Spokesperson
Corporación Hotelera Hispano Mexicana S.A.	Mexico	Spokesperson
Corporación Hotelera Metor S.A.	Peru	Director
Desarrollos Hoteleros San Juan B.V.	Holland	Joint Administrator
Desarrollos Sol S.A.	Dominican Rep.	Vice Chairman and secretary
Desarrollos Turísticos del Caribe S.A.	Panama	Administrator
Desarrollos Turísticos del Caribe NV	Dutch Antilles	Administrator
Dominican Investment NV	Dutch Antilles	Administrator
Dominican Marketing & Services N.V.	Dutch Antilles	Joint Administrator
Farandole B.V.	Holland	Joint Administrator
Gesmesol S.A.	Panama	Spokesperson
Gupe Actividades Hoteleiras S.A.	Portugal	Administrator
Hotel Alexander SAS	France	Chairman of the Board
Hotel Blanche Fontaine SAS.	France	Chairman of the Board
Hotel Boulogne SAS	France	Chairman of the Board
Hotel François SAS	France	Chairman of the Board
Hotel Metropolitain SAS	France	Chairman of the Board
Hotel Royal Alma SAS	France	Chairman of the Board
Impulse Hotel Development BV	Holland	Joint Administrator
Inmotel Inversiones Italy S.r.L.	Italy	Sole Administrator
Inversiones Agara S.A.	Dominican Rep.	Vice Chairman and secretary
Inversiones Inmobiliarias IAR 1997 C.A.	Venezuela	Joint Administrator
Irton Company N.V.	Dutch Antilles	Administrator
Lomondo Limited	Great Britain	Joint Administrator
Hotel Madeleine Palace SAS	France	Chairman of the Board
MIH S.A.	Panama	Treasurer
Marina International Holding S.A.	Panama	Treasurer
Markserv B.V.	Holland	Joint Administrator
Meliá Inversiones Americanas N.V.	Holland	Joint Administrator
Melia Management S.A.	Dominican Rep.	Vice Chairman and Secretary
Melsol Management BV	Holland	Joint Administrator
Melsol Portugal Gestao Hoteleira Limitada	Portugal	Joint Administrator
Neale S.A.	Panama	Chairman
Operadora Mesol S.A. de CV	Mexico	Spokesperson
PT Sol Meliá Indonesia	Indonesia	Chairman
Punta Cana Reservation NV	Dutch Antilles	Administrator
San Juan Investment BV	Holland	Administrator
Segunda Fase Corporation	Puerto Rico	Director
Sol Melia France SAS	France	Chairman of the Board
Sol Group BV	Holland	Joint Administrator
Sol Maninvest BV	Holland	Joint Administrator
Sol Melia Benelux S.A.	Belgium	Spokesperson
Sol Melia China Limited	China	Administrator
Sol Melia Deutschland GmbH	Germany	Joint Administrator
Sol Melia Investment NV	Holland	Joint Administrator
Sol Melia Suisse S.A.	Switzerland	Administrator Chairman
Inmobiliaria Distrito Comercial CA	Venezuela	Chairman
Sol Melia Vacation Club Dominicana S.A.	Dominican Rep.	Secretary
Sol Meliá VC Panama S.A.	Panama	Director
Guarajuba S.A	Panama	Director/Secretary

B.1.7 Members of the Board of Directors that are members of the Board of Directors of other companies quoted on official Spanish stock exchanges.

There are no members of the Board of Directors of Sol Meliá that are members of the Board of Directors of other companies quoted on official Spanish stock exchanges.

B.1.8 Aggregate compensation of the Board of Directors for 2006.

The following is the aggregate amounts pertaining to the remuneration of Company Directors:

A IN SOL MELIÁ S.A.

CONCEPT	AMOUNT (THOUSAND EUROS)
Salaries	1,323(*)
Expense allowance	528
Statutory amounts	--
Share options	--
Others	--
Total	**1,851**

(*) Corresponds to the amount received by Directors as Company executives.

OTHER BENEFITS	AMOUNT (THOUSAND EUROS)
Advances	--
Loans	--
Investment funds and pension plan contributions	--
Investment funds and pension plan liabilities	--
Life insurance premiums	55
Guarantees taken out by the Company for Directors	--

B FOR MEMBERSHIP OF THE BOARDS AND/OR SENIOR MANAGEMENT OF OTHER GROUP COMPANIES

CONCEPT	AMOUNT (THOUSAND EUROS)
Base salaries	200.5
Bonus salaries	--
Expense allowance	--
Statutory amounts	--
Share options and/or other financial instruments	--
Others	--
Total	**200.5**

OTHER BENEFITS	AMOUNT (THOUSAND EUROS)
Advances	--
Loans	--
Investment funds and pension plan contributions	--
Investment funds and pension plan liabilities	--
Life insurance premiums	--
Guarantees taken out by the Company for Directors	--

C TOTAL REMUNERATION BY TYPE OF DIRECTOR

(thousands of euros)

TYPE OF DIRECTOR	TOTAL GROUP
Executives	1,658.5
Outside Institutional	162.27
Outside Independent	231.38
Other outside (*)	
Total	**2,052.15**

D WITH RESPECT TO THE RESULTS ATTRIBUTABLE TO THE PARENT COMPANY:

Total remuneration of Directors (in thousand euros)	2,052.15
Total remuneration of Directors/result attributable to the parent Company (in %)	1.26%

B.1.9 Total remuneration of senior Company executives.

ID	NAME	POSITION
42945637Z	Servera Andreu, Onofre	EVP FINANCE
41393330T	Canaves Picornell, Gabriel	EVP CUBAN DIVISION
30041663Y	Palomino Del Moral, Ángel	EVP HOTEL DEVELOPMENT
03411896F	Encinas García, Andrés	EVP EUROPEAN DIVISION
43138373X	Del Olmo Piñero, Luis	EVP MARKETING
X1108278T	Hoddinott, Mark Maurice	EVP ADMINISTRATION
00812326N	Puig De La Bellacasa Aznar, Jaime	EVP COMMUNICATION AND INSTITUTIONAL RELATIONS
8TRE83229	Gerandeau Andre	EVP NORTH & CENTRAL AMERICA
AN31151	Oliveira , Rui Manuel	EVP SOUTH AMERICA
TOTAL REMUNERATION SENIOR MANAGEMENT (THOUSANDS OF EUROS)	**3,081**	

It must also be stated that with the aim of increasing the share price, making the success of the Company the responsibility of Company executives, and allowing them to share the benefits and risks of shareholders, as foreseen in article 130 and in the fourth amendment to Company Law, and in article 37.2 of Company Bylaws, the Ordinary and Extraordinary Shareholders Meeting held on 8 June 2004 approved a bonus system consisting of a monetary remuneration linked to the share price of SOL MELIÁ, S.A. for a maximum of sixty-five (65) Company executives, including amongst them the three Company Executive Directors, and supposing a maximum payout of 160,000 euros depending on the executive's degree of responsibility in the Company if the weighted average price of SOL MELIÁ, S.A. shares in any of the stock market sessions in May and June of 2006 is equal to or greater than 10 euros. If the price were equal to or greater than 9.25 euros but below 10 euros, executives would receive two thirds (2/3) of the said amount. If the price were equal to or greater than 8.50 euros but below 9.25 euros, executives would receive one third (1/3) of the said amount. The maximum total amount that would be paid out by this bonus system is 3,650,000 euros.

In the month of June 2006, the said bonus was paid out to a total of (57) senior managers to a total amount of 3,202,500 €.

B.1.10. Extraordinary remuneration clauses in cases of dismissal or change of control for senior executives, including the executive Directors, of the Company or Group.

There are no extraordinary remuneration clauses in cases of dismissal or change of control for senior executives of the Company or Group.

B.1.11 Process to set the remuneration of Board members and relevant Company Bylaws.

Article 37 of the Company Bylaws establishes the following remuneration system:

a) a) Remuneration of Directors consists of an annual fixed amount, global for each of them, which will be determined or ratified by the General Shareholders Meeting , without prejudice to the payment of the fees or remuneration that they may receive from the Company for professional services provided or derived from their own work, as is the case.

   The Board of Directors may temporarily decide on its own remuneration, without prejudice to the subsequent required ratification by the General Shareholders Meeting , either explicitly or implicitly via the general approval of Company Accounts.

   The Board of Directors may also unilaterally set in each fiscal year the specific amount to be received by each of the Directors, adjusting the amount to be received by each of them with regards to the position they hold on the Board, as well as to their effective dedication to the Company.

   Remuneration becomes payable at the end of each month, meaning that the remuneration of each Director will be proportional to the time that they have held their position during the year to which the remuneration applies.

b) In addition, and regardless of the remuneration considered in the previous section, remuneration systems based on the share price of related to the provision of stock or stock options are foreseen. The application of such systems must be approved by the General Shareholders Meeting which will also decide the share price to be taken as a reference, the number of shares to be given to each Director, the price at which stock options may be exercised, the duration of such remuneration systems and any other conditions considered appropriate.

   After compliance with legal requirements, similar remuneration systems may also be established for Company personnel (executive or otherwise).

   The functions of the Appointments and Remuneration Committee of the Board of Directors include the review of remuneration and the formulation of the proposals it considers appropriate to the Board of Directors.

B.1.12 Members of the Board that are also members of the Board of Directors or executives of companies with significant shareholdings in Sol Meliá and/or in Group companies.

The following are Company Directors that also hold positions in companies that are significant shareholders of Sol Meliá:

ID NUMBER	COMPANY	SOL MELIÁ DIRECTORS HOLDING POSITIONS IN COMPANIES WITH SIGNIFICANT SHAREHOLDINGS
A-07332794	Hoteles Mallorquines Consolidados S.A.	Gabriel Escarrer Juliá (Chairman and Chief Executive Officer)
		Gabriel Escarrer Jaume (spokesperson)
		Sebastián Escarrer Jaume (Secretary)
		María Antonia Escarrer Jaume (spokesperson)
B-07000343	Hoteles Mallorquines Agrupados S.L.	Gabriel Escarrer Juliá (Chairman)
		Gabriel Escarrer Jaume (Secretary)
		Sebastián Escarrer Jaume (spokesperson and Chief Executive Officer)
		María Antonia Escarrer Jaume (spokesperson)
B-07802531	Hoteles Mallorquines Asociados S.L.	Gabriel Escarrer Juliá (Chairman)
		Gabriel Escarrer Jaume (Secretary and Chief Executive Officer)
		Sebastián Escarrer Jaume (spokesperson and Chief Executive Officer)
		María Antonia Escarrer Jaume (spokesperson)
	Majorcan Hotels Luxembourg S.A.R.L.	Gabriel Escarrer Jaume (Joint Administrator)

B.1.13 Modifications made during the year to Board regulations.

No modifications in Board regulations were made in 2006.

The current regulations were approved by the Board of Directors on 30 March, 2004 which, as required by article 115 of Stock Market Law, were presented to shareholders at the General Shareholders Meeting on 8 June 2004. The full text of the Regulations may be found on the Company website.

B.1.14 Appointment, re-election and dismissal procedures for Directors. List the competent bodies, procedures to be followed and criteria to be applied in each of the procedures.

As mentioned in section B.1.4., article 7 of the Regulations of the Board of Directors foresee that the Board, with the objective of guaranteeing its independence and objectivity while best defending the interests of the Company, when exercising its duty to propose to the General Shareholders Meeting the coverage of any vacancies, will ensure that the majority of members of the Board of Directors are Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

The same article also regulates the requirements for each type of Director as follows:

1) **Executive Directors**: Executive Directors are understood to include the Chief Executive Officers and any other Directors that, under whatever title, perform executive or managerial functions within the Company or in any of the associated companies.

   Executive Directors also include those that assume managerial responsibilities or have decision-making power in relation to certain aspects of the business of the Company or Group due to their delegation or empowerment by the General Shareholders Meeting or Board of Directors.

   Executive Directors do not include those that receive special permission from the General Shareholders Meeting or Board of Directors, by authorisation, delegation or empowerment, to perform specific tasks.

2) **Outside Independent Directors**: Outside Independent Directors are those designated due to their prestige and professional qualifications and their availability to contribute their experience and knowledge to the Corporate Governance of the Company. They must meet conditions that ensure their impartiality and objectivity, including at least the following:

   (a) To not have nor have had in the recent past any direct and significant labour, trade or contractual relationship with the Company, its Directors, the Outside Institutional Directors or companies of the Group, whose shareholding interest they represent, credit institutions with a significant participation in Company finance, or other organisations that receive significant subventions from the Company;
   (b) To not be a Director of another Company whose shares trade on an official secondary market that has Outside Institutional Directors in the Company;
   (c) To not have any close family relationship with Executive Directors, Outside Institutional Directors or other members of the Company Board of Directors.

   The Outside Independent Directors must inform the Board of Directors of any of the above-mentioned circumstances should they arise so that said circumstances may be evaluated after receiving the pertinent report from the Appointments and Remuneration Committee. Any such circumstance must also be included in the Annual Report on Corporate Governance.

3) **Outside Institutional Directors**: Outside Institutional Directors are those proposed by individual shareholders or groups of shareholders due to their stable participation in Company ownership which, regardless of whether it confers a right or not to a place on the Board of Directors, has been considered sufficiently significant by the Board of Directors, also bearing in mind the proportion of Company capital floated on the market, to propose their appointment to the General Shareholders Meeting.

On accepting appointment, all Directors must confirm that that they comply with the requirements of the law, Company Bylaws and these Regulations.

As stated in article 15 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must define and review the criteria to be applied for the composition of the Board of Directors and selection of candidates which must then be proposed to the Board.

B.1.15 Circumstances in which Directors must resign.

Lack of compliance with any of the duties and obligations of the Board established in Chapter 8 of the Regulations of the Board of Directors are sufficient cause for the resignation of all Board members.

B.1.16 Measures to limit the risk of concentration of power in one person.

The Chairman of the Board of Directors has not been delegated all of the powers of the Board, although his powers as a representative of the Company are vast. It must also be mentioned that the Board has named an Executive Vice Chairman and two Chief Executive Officers with different functions within the Company.

B.1.17 Majorities required for approval of resolutions by the Board. Means of approving such resolutions. Minimum required quorum.

Approval of resolutions: resolutions are passed by an absolute majority of the Directors attending or represented at the meeting. If the vote is tied, the Chairman will have a casting vote. Board meetings will normally take place at Company headquarters, but may be held at any other location as decided by the Chairman and indicated in the invitation to attend.

Means of approving resolutions: Directors may also participate in meetings from locations other than that of the meeting itself provided they do so using audiovisual telephonic or other means that sufficiently and appropriately guarantee (both in the opinion of the Director in question and in the opinion of the Chairman of the Board) the confidentiality of the business and reciprocal communication in real time and, as a consequence, the unity of the event. In such circumstances, Directors will be considered to have attended the meeting.

Directors will do all within their means to attend meetings and, whenever they cannot attend in person, will aim to be represented at the meeting. Representation or delegation of votes within the Board of Directors must be made in writing and specifically for each meeting by means of a letter to the Chairman including any necessary instructions and may only be conferred to another Director. In particular, Outside Independent Directors may only delegate to other Outside Independent Directors.

The Chairman must organise the debate to favour the participation of all of the Directors in the deliberations of the Board.

Minimum required quorum: a sufficient quorum of the Board of Directors is achieved when the meeting is attended by a majority of the Directors or their representatives, including at least one Outside Independent Director.

B.1.18 Specific requirements, different from those related to directors, for appointment as Chairman or Deputy Chairman.

Article 33.2. of Company Bylaws establishes that for a Director to become Chairman or Vice Chairman of the Board of Directors at least one of the following circumstances must occur:

a) To have been a member of the Board of Directors for at least THREE (3) years prior to the appointment; or,

b) to have previously been Chairman of the Board of Directors, whatever the period during which they may have been a Director.

Neither of the previous circumstances will be necessary for a Director to become Chairman or Vice Chairman whenever such a designation receives the support of at least SEVENTY-FIVE PERCENT (75%) of the members of the Board of Directors.

The re-election as Director of those occupying the positions of Chairman and Vice Chairman will imply automatic continuity in the mentioned positions.

B.1.19 Chairman's casting vote.

If a vote by the Board of Directors does not achieve an overall majority, the Chairman will wield a casting vote.

B.1.20 Age limit for Directors.

Company Bylaws do not include any such age limits.

B.1.21 Limits on the term of office for Independent Directors.

Company Bylaws do not include any such limits on the term of office.

B.1.22 Processes for proxy voting for the Board of Directors.

The representation or delegation of votes within the Board of Directors may be conferred by means of a letter to the Chairman and may only be conferred to another Director. In particular, Independent Directors may only delegate to another Independent Director.

Representation must be conferred in writing and specifically for each meeting.

B.1.23 Number of meetings of the Board of Directors in 2006.

During 2006, there were five (5) meetings on the following dates:

31 January 2006.
31 March 2006.
6 June 2006.
12 September 2006.
21 November 2006.

The Chairman of the Board of Directors has attended all of them. All of the other Directors have also attended all of the meetings of the Board of Directors, either personally, or on the odd occasion represented by another Director.

The Auditing and Compliance Committee held five meetings and the Appointments and Remuneration Committee held three meetings.

B.1.24 Certification of the individual and consolidated annual accounts.

The annual accounts for 2006 have been certified by the following people:

Sebastián Escarrer Jaume, Vice Chairman and Chief Executive Officer
Mark Hoddinott, Executive Vice President Administration.

B.1.25 Mechanisms defined by the Board to avoid individual and consolidated accounts being presented to the General Shareholders Meeting with exceptions noted in the auditors' report.

The Auditing and Compliance Committee is responsible for relations with external auditors in charge of the performance of the financial audit and to hold all of the communications foreseen in audit legislation and technical standards. In compliance with this duty, the Committee has held several meetings over the year with auditors in order to analyse any possible exceptions that may arise.

B.1.26 Measures adopted to ensure that information provided to markets is transmitted evenly and symmetrically.

In compliance with applicable legislation, the Company informs the Spanish Stock Exchange Commission with regard to any significant events related to its business using the corresponding communication of relevant facts and other communications.

The Company also regularly provides full financial and Company information for investors and shareholders through informational brochures. This information is also available through the Company website.

Article 37 of the Regulations of the Board of Directors specifically state that the responsibilities of the Board of Directors include that of establishing the mechanisms required to ensure that the Company complies with its obligations to provide information to the markets.

In particular, the Board of Directors must provide regular information on the regulations of corporate governance and also ensure that the half-yearly, quarterly and any other financial information required by the law or considered prudent to be presented to the markets is prepared with the same principles, criteria, professionalism and rigour as the annual accounts, and is as reliable as those accounts.

Article 3 of the Internal Regulations on Good Conduct in matters related to the stock market approved by the Board of Directors on 7 September 2004 defines the policies and procedures adopted by the Company in relation to the handling of the relevant information and its communication to the Comisión Nacional del Mercado de Valores ("CNMV" – Spanish Stock Exchange Commission) and the markets:

- Distribution of the information: the relevant information must be distributed immediately to the markets via communication to the CNMV before being distributed via any other means and as soon as the pertinent facts are known, decision has been made or agreement or contract has been signed with third parties. Whenever the Company believes that information should not be made public due to an adverse impact this might have on its legitimate interests, the Company will immediately inform the CNMV, and will request exemption from distribution as foreseen in article 91 of Stock Market Law.

  After the relevant information has been sent to the CNMV, the Company must immediately make the same information available through the Company website in line with legally defined procedures.

- Contents of the information: the contents of the communication must be truthful, clear, complete and, when required by the nature of the information, quantified to a degree that it may not generate confusion or deceit. If false, inexact or incomplete information is presented which may have a noticeable impact on shares, it must be clarified or refuted.

- Attitude of discretion: during the period of preparing, planning or researching a transaction or other activity that may be considered relevant information, an attitude of secrecy and discretion will be adopted regarding that transaction or activity (except in the normal course of the work or other activities of the persons subject to these Regulations that may be aware of the transaction or activity) to ensure that no distortion or false expectations are created in the markets.

- Momento de la comunicación: the relevant information must be communicated whenever possible at a time when the market is closed so as to avoid any distortion in trading.

- If there is any doubt about whether certain information should be considered relevant information it may be communicated to the CNMV and then the Company may work together with the CNMV to avoid the distribution of irrelevant, false, inexact or incomplete information that may have a noticeable effect on the value of any share issued by the Company or the Group.

The contents of said Regulations are published on the Company website.

B.1.27 Director status of the Secretary of the Board of Directors.

The Secretary of the Board of Directors, José María Lafuente López, is also a member of the Board of Directors.

B.1.28 Mechanisms established by the Company to ensure the independence of auditors, financial analysts, investment banks and rating agencies.

One of the functions of the Auditing and Compliance Committee is to maintain relations with external auditors so as to receive information from the auditors with regard to matters which may endanger their independence and any other matters related to the performance of the accounts audit as well as any other communications included in legislation on the accounts audit or technical audit requirements.

With regard to the mechanisms in place to ensure the independence of financial analysts, mention must be made that the company provides information requested by any analysts with no restrictions and also always aims to ensure the company does not influence the opinion of point of view of any analyst when providing this information.

Until financial year 2006 the company was covered by two ratings agencies, Standard & Poor's and Fitch IBCA, having changed the latter within that year for Moodys Corporation, precisely to preserve independence, amongst other reasons.

B1.29 Other jobs the external auditors perform for the Company and/or Group other than the audit and the amount received for those jobs and the amount expressed as a percentage of the total amount billed to the Company and/or Group.

	COMPANY	GROUP	TOTAL
Amount for jobs other than the audit (thousand euros)	129 (*)	153 (**)	282
Amount for jobs other than the audit / Total amount billed (%)	10.46%	12.41%	22.87%

(*) This amount corresponds to 107 thousand Euros for IT systems audits and 10 thousand Euros for contractual audits.
(**) Of this amount, 98 thousand Euros correspond to a tax review of international companies and 22 thousand Euros to contractual audits.

B.1.30 Number of consecutive years that the current auditors have audited annual accounts for the Company and/or Group and percentage that that number of years represents over the total number of years that the accounts have been audited:

	COMPANY	GROUP
Number of consecutive years (since)	1996	1996
Number of years audited by current auditors / Number of years audited (%)	100%	100%

Fees for the audit of consolidated annual accounts and those of subsidiaries in 2006 reached 1,47,000 euros, detailed as follows:

Ernst & Young Spain	466
Ernst& Young International	485
Other auditors	96
TOTAL IN THOUSANDS OF EUROS	**1,047**

B.1.31 Relevant shareholdings of members of the Board of Directors in companies that have the same, similar or complementary business activity to that of the Company or the Group and which have been communicated to the Company.

The following is a list of the shareholdings and positions held by members of the Board of Directors in companies that have the same, similar or complementary business activity and which do not form part of the Group:

ADMINISTRATOR	COMPANY	% SHARE	POSITION / FUNCTION
Emilio Cuatrecasas Figueras	Areas,S.A.	30%	Executive Chairman
José Maria Lafuente López	Niamey,S.A.	1%	--
José Maria Lafuente López	Sa Coma C.B.	1%	--
José Maria Lafuente López	Tenedora Aguamarina S.A.	1%	--
Juan Vives Cerdá	Finca Los Naranjos,S.A.	27.88 %	Joint Administrator

The Appointments and Remuneration Committee is aware of the shareholdings and positions mentioned and, after their analysis, does not consider that the activity of the said companies will affect their position as Company Directors, nor give rise to a conflict of interest.

B.1.32 Procedures by which Directors may receive external assistance.

Article 23 Regulations of the Board of Directors allows that Directors have the right to request the professional assistance of legal, accounts or financial advisors or other experts at Company expense to assist them in the exercise of their functions.

The request must be with regard to specific problems of a certain degree of importance or complexity that arise in the performance of their duties.

The request must be made to the Company Chairman and may be refused by the Board of Directors if it is considered that any of the following circumstances apply:

(a) it is not required for the performance of the duties assigned to Outside Directors;
(b) its cost is not reasonable in relation to the importance of the problem and the assets and revenues of the Company; or
(c) the help requested from outside experts may be provided satisfactorily by experts employed by the Company.

B.1.33 Procedures by which Directors receive the information required to prepare meetings of the Board and others sufficiently in advance.

As stated in Article 22 of the Regulations of the Board of Directors, in the performance of their duties Directors must have full access to information on any aspect of the Company, to review all of the Company's books and files, and any other registers of Company activities and to inspect all facilities. This right to access to information is extended to both domestic and international Company subsidiaries.

In order not to interrupt normal Company business, the exercise the rights to access such information will be channelled through the Chairman or Secretary of the Board of Directors whom will either provide the information directly to the Director, provide access to the most appropriate person in the organisation to provide such information or organise any measures required so that the Director may examine or inspect whatever they may require.

B.2 Board of Directors Committees

B.2.1 Administrative bodies and their functions

The Company currently operates two commissions, whose members in 2006 were as follows:

NAME OF COMMISSION	NUMBER OF MEMBERS
Auditing and Compliance	3
Appointments and Remuneration	3

Functions of the Auditing and Compliance Committee

The responsibilities of the Auditing and Compliance Committee, none of which may be delegated, and without prejudice to any others that the Board of Directors may specifically assign to the Committee, are as follows:

(a) To report to the Annual General Shareholders Meeting with regard to matters raised by shareholders in the meeting that are within the competence of the Committee.
(b) To propose to the Board of Directors for submission to the General Shareholders Meeting the appointment of external auditors. The Auditing and Compliance Committee must inform the Board of Directors with regard to the conditions under which the external auditor will be employed, the scope of its activities and, whenever appropriate, whether the appointment is revoked or not renewed.
(c) To supervise the services of the internal audit.
(d) To be aware of the financial information process and Company internal control systems and to review the designation or situation of the people responsible for said matters.
(e) To maintain a relationship with external auditors so as to receive information on those matters that may endanger their independence and any other matters related to the performance of the Audit of Accounts, as well as any other communications foreseen in legislation on the Audit of Accounts and technical aspects of the Audit.
(f) To review Company accounts and oversee compliance with legal requirements and the appropriate application of generally accepted accounting principles, receiving the direct cooperation of the both internal and external auditors.
(g) To ensure that the financial information provided to the markets is produced in line with the same principles, criteria and professional practises used to produce the Annual Accounts.
(h) To examine compliance with the Internal Regulations on Good Conduct in Stock Markets, the Regulations of the Board of Directors and, in general, with the Company Corporate Governance Regulations, and to formulate appropriate proposals for their improvement.

Functions of the Appointments and Remuneration Committee

The responsibilities of the Appointments and Remuneration Committee, none of which may be delegated, and without prejudice to any others that the Board of Directors may specifically assign to the Committee, are as follows:

(a) To define and review the criteria to be applied with regard to the composition of the Board of Directors and the selection of candidates.
b) To submit to the Board any proposals on the appointment of Directors so that the Board may directly designate such Directors (Co-opt) or adopt the proposals for their submission to the Annual General Shareholders Meeting for approval.
c) To propose members of Committees to the Board.
d) To regularly review remuneration policies, assessing their appropriateness and return.
e) To ensure transparency in remuneration.
f) To report on any transactions that imply or may imply conflict of interest and, in general, on the matters contained in chapter VIII of the Regulations pertaining to the duties of Directors.

The Committee must consider the suggestions made by the Chairman, the members of the Board, Company executives or shareholders.

B.2.2 Details of the members of the Committees of the Board of Directors.

Auditing and Compliance Committee

ID NUMBER	NAME	POSITION
41.301.057	José María Lafuente López	Independent Director and Secretary of the Board of Directors. Chairman of the Committee
39.829.380G	Eduardo Punset Casals	Independent Director
43.040.129E	Sebastián Escarrer Jaume	Executive Director
X1108278T	Mark Hoddinott	Secretary, non-member of the Committee

Appointments and Remuneration Committee

A-07332794	Hoteles Mallorquines Consolidados S.A.	Outside Institutional Director. Chairman of the Committee.
1.950.856L	José Joaquín Puig de la Bellacasa Urdampilleta (*)	Independent Director
43.070.810K	Gabriel Escarrer Jaume	Executive Director
	Miguel Angel Aller y Antonio Ruiz	Secretary and Vice Secretary, non-members of the Committee

(*) On 27 March 2007, the Board of Directors agreed to accept the resignation of the Director José Joaquín Puig de la Bellacasa Urdampilleta.

B.2.3 Rules on Committee organisation and operations and responsibilities attributed to each of them.

Auditing and Compliance Committee

- **Number of members and structure:** article 39 bis of Company Bylaws state that the Auditing and Compliance Committee will be formed by at least THREE (3) and at most FIVE (5) members, with a majority of non-executive Directors, including at least one Outside Independent Director, all named by the Board of Directors and all of which have the capacity, dedication and experience required to perform the required functions.
- **Chairman and Secretary:** the Chairman of the Committee must be one of the Outside Directors. The Chairman must be replaced every four years, and may be re-elected after a period of one year after being replaced. Both the Chairman and the rest of the members of the Committee will be automatically replaced if they resign or are dismissed from their positions as members of the Company Board of Directors and are not reinstated.
  A Committee Secretary may be appointed, a position which may be held by the Secretary of the Board of Directors, a Director that may or may not be a member of the Committee itself, or even one of the Company executives.
- **Meetings:** the Auditing and Compliance Committee will meet at least once per quarter, and as many times as is deemed appropriate with regard to the needs of the Company, as proposed by the Chairman of the Committee or on request from the majority of its members or from the Board of Directors.
- **Functions:** the functions of the Auditing and Compliance Committee are described in section B.2.1.
- **Quorum and approval of resolutions:** the Committee meeting will be considered valid on attendance, directly or via representatives, of at least half of its members, and will adopt resolutions approved by a majority of participants. Company Bylaws on the constitution and approval of resolutions will be applied to the Auditing and Compliance Committee with regard to any matters not covered in this article. The Committee must report on all such resolutions and decisions to the Board of Directors. If there is no majority, the Chairman will wield a casting vote.

Appointments and Remuneration Committee

- **Number of members and structure:** the Appointments and Remuneration Committee will be formed by at least THREE (3) and at most FIVE (5) members, with a majority of Outside Directors, including at least one Outside Independent Director, all named by the Board of Directors and all of which have the capacity, dedication and experience required to perform the required functions.
- **Chairman and Secretary:** the Chairman of the Committee must be one of the Outside Directors. The Chairman must be replaced every four years, and may be re-elected after a period of one year after being replaced.

Both the Chairman and the rest of the members of the Committee will be automatically replaced if they resign or are dismissed from their positions as members of the Company Board of Directors and are not reinstated. A Committee Secretary may be appointed, a position which may be held by the Secretary of the Board of Directors, a Director that may or may not be a member of the Committee itself, or even one of the Company executives.

- Meetings: the Appointments and Remuneration Committee will meet whenever the Board or its Chairman requests a report or the approval of proposals and, in any case, whenever it may be appropriately according to the needs of the Company.
- Functions: the functions of the Appointments and Remuneration Committee are described in section B.2.1.
- Quorum and approval of resolutions: the Committee meeting will be considered valid on attendance, directly or via representatives, of at least half of its members, and will adopt resolutions approved by a majority of participants. The Committee must report on all resolutions and decisions to the Board of Directors. If there is no majority, the Chairman will wield a casting vote.

As foreseen in Article 16 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee will meet whenever the Board or its Chairman requests a report or the approval of proposals and, in any case, whenever it may be suitable so as to appropriately perform its duties.

B.2.4 Advisory and consultancy powers and, where applicable, proxies assigned to each Committee

Auditing and Compliance Committee

The responsibilities of the Auditing and Compliance Committee, none of which may be delegated, regulated by article 39 bis of Company Bylaws and without prejudice to any others that the Board of Directors may specifically assign to the Committee, according to law and Company Bylaws are described in section B.2.1.

Appointments and Remuneration Committee

The responsibilities of the Appointments and Remuneration Committee as regulated by article 16 of the Regulations of the Board of Directors are described in section B.2.1.

B.2.5 Regulations of Board Committees, location where they may be reviewed, and changes made to them during the year. Annual reports on Committee activities.

Board Committees are regulated by Company Bylaws and the Regulations of the Board of Directors which may be viewed on the Company website.

B.2.6 and B.2.7 Executive Committee

The Company does not have an Executive Committee.

B.2.8 Structure of the Appointments and Remuneration Committee.

The Appointments and Remuneration Committee comprises two Outside Directors, one of them Independent and an executive as described in section B.2.2.

C ASSOCIATED OPERATIONS

C1 Detail of operations that involve a transfer of resources or obligations between the company and/or the Group and major shareholders::

Tax ID of significant shareholder	Name of significant shareholder	Tax ID of Company or Group Company	Name of Company or Group Company	Nature of relation	Type of operation	Amount (thousand euros)
A-07332794 A-07000343 A-07802531	Hoteles Mallorquines Consolidados S.A. Hoteles Mallorquines Agrupados S.L. Hoteles Mallorquines Asociados S.L.	A07905573	CARMA SIGLO XXI, S.A.	SUPPLIES TO HOTELS	PURCHASE OF FOODS (*)	19,432
G-03046562	CAJA DE AHORROS DEL MEDITERRANEO	A-53075891	TI PARTICIPACIONES S.A.	TRADING	Purchase of 25% of the capital stock of Inversiones Hoteleras La Jaquita S.A.	8,171
41.160.706	Gabriel Escarrer Juliá			TRADING	Purchase of the shares of Hogares Batle S.A.	2,355

Also in relation to the issue of bonds exchangeable for ordinary shares in SOL MELIA S.A. made on 20 October 2003 by the Dutch company SOL MELIA EUROPE BV, a company wholly owned by SOL MELIA S.A., the shareholder of the company MAJORCAN HOTELS LUXEMBOURG S.A.R.L. made available as a loan to Barclays Securities Limited 6,826,653 shares in SOL MELIA S.A. in order to guarantee financial cover for the operation required by the participating bodies to ensure the success of the operation.

In 2006 a reduction in the number of shares made available by MAJORCAN HOTELS LUXEMBOURG S.A.R.L. to 5,250,000 shares in SOL MELIA has been agreed with Barclays Securities Limited, at the same time increasing the 3,673,347 shares made available by SOL MELIA S.A. to 5,250,000 shares, thus leaving unaltered the total number of shares made available as a loan. The effective total number of shares in SOL MELIA S.A. loaned by MAJORCAN HOTELS LUXEMBOURG S.A.R.L. at 31 December 2006 was 443.

C2 Detail of operations that involve a transfer of resources or obligations between the Company and/or the Group and its Directors

Tax ID of significant shareholder	Name of director	Tax ID of Company or Group Company	Name of Company or Group Company	Nature of relation	Type of operation	Amount (thousand euros)
41.222.172P	Juan Vives Cerdá	A07232861	FINCA LOS NARANJOS, S.L.	HOTEL MANAGEMENT (*)	FEES AND HOTEL SERVICES	731
37.667.252-Z	Emilio Cuatrecasas Figueras	B59942110	CUATRECASAS ABOGADOS, SRL	LEGAL AND FISCAL SERVICES	SERVICE FEES	138
41.160.706 K	Gabriel Escarrer Juliá	B57279366	ARQUITECTURA HOTELERA, SL (**)	ARCHITECTURAL SERVICES	HOTEL PROJECTS	291

(*) Refers to the management fees for the Meliá Cala d'Or (Mallorca), Sol Cala d'Or (Mallorca) and Meliá Girona hotels, all owned by the Company FINCA LOS NARANJOS S.A.
(**) This Company is controlled by Alvaro Sans, who is a family relation of Gabriel Escarrer Juliá

C3 Relevant operations made by the Company with other Group companies that are not eliminated in the process of drawing up consolidated financial statements and whose object and conditions set them apart from the normal trading of the Company.

The object and conditions of all operations made with other Group companies form part of the Company's normal trading.

C.4 Possible conflicts of interest affecting Company Directors pursuant to article 127 of Company Law.

The Company is currently unaware that any of the Directors of the Company are affected by possible conflicts of interest.

Article 28 of the Regulations of the Board of Directors states that members of the Board of Directors must communicate to the Company any direct or indirect potential conflict of interest with the Company in compliance with the applicable legislation. Directors must also abstain from attending or intervening in deliberations that may affect matters in which they may be personally involved or which may affect persons related to them.

Any member of the Board of Directors that requests and obtains public representation may not exercise a right to vote in those decisions affected by the conflict of interest, in compliance with the applicable legislation.

Members of the Board of Directors must also communicate any participation they may have in the share capital of companies with the same or similar or complimentary business activity, as well as the positions or responsibilities they may perform for such companies, or any other direct or indirect employment in regard to said activity. This information is included in section B.1.31. of this report.

Members of the Board of Directors may not carry out, neither directly nor indirectly, commercial transactions with the Company, except when the Board of Directors, after a report from the Appointments and Remuneration Commission, authorises such a transaction. Neither may they, for their own benefit or for the benefit of persons related to them, make investments or other similar operations related to Company assets of which they have received information thanks to the performance of their functions, without prejudice to other provisions of the law, Company Bylaws and Company regulations.

Members of the Board of Directors may not use the name of the Company nor the mention of their status as Company directors to influence the commission of operations on their own behalf or on behalf of persons related to them.

C.5 Mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group, and its Directors, Managers and/or significant shareholders.

As seen in the previous section, Directors must inform the Company whenever a situation of direct or indirect conflict of interest may arise with the interests of the Company. As foreseen in article 15.2. of the Regulations of the Board of Directors, the Appointments and Remuneration Committee, must report such situations to the Board and propose the measures which should be taken to avoid such situations.

D RISK CONTROL SYSTEMS

D.1 General description of risk policy in the Company and/or its Group, listing and evaluating the risks covered by the system, along with an explanation of how far these systems match the profile of each type of risk.

SOL MELIÁ is fundamentally involved in businesses related to tourism and hotels or with other leisure-related businesses, as well as participating in the creation, development and operation of new businesses, establishments or entities in the tourism and hotel business and leisure-related businesses.

The control of risks to the Company and the Group in the development of its activities is a basic function of the Board of Directors and the Company Management Committee. The Auditing and Compliance Committee is, amongst other responsibilities, responsible for supervising internal audits, awareness of both the process of the production of financial information and internal control systems, and the review of the designation and replacement of its members. Section 2.26 of this report provides greater detail on the responsibilities of the Commission.

In order to establish appropriate control systems, the Company prepares and regularly reviews rules which aim to regulate the basic aspects of the system, as well as the implementation of the said control systems. Company executives participate actively in the preparation of the proposals of the said rules through specific internal committees. The day-to-day verification of the implementation of said rules, as well as of the level of compliance and of the processes that they require, is a responsibility of the Internal Auditing section of the Administration Department, which in turn directly informs the Auditing and Compliance Committee of the Board of Directors and also the Control Committee.

Within corporate offices, the Internal Auditing team has a specific section named "Corporate Control" which supervises compliance as well as control of the application of funds, travel and representation expenses, the implementation of basic controls on corporate operations, etc., all without prejudice to the fact that different departments possess specific responsibilities with regard to specific risks for the Company: Insurance, Personnel Management, Quality and Human Resources.

1 Types of risk

Sol Meliá has identified the risks associated to its business and has established an internal control system for each of them. The main types of risk identified and managed by Sol Meliá are summarised as follows:

- **Material Risk:** The risk of damage to goods owned or under the control of the Company.
- **Civil liability:** Responsibility that may be derived from personal or material damage, as well as direct damages caused to third parties in accordance with existing legislation in each country due to events related to Company activity.
- **Loss of profits:** Losses as a consequence of an interruption and/or disturbance in activity or as a result of material damage, extraordinary or catastrophic risks or attributable to suppliers.
- **Riesgo Financiero:** Es el riesgo ocasionado por una variación en los tipos de cambio o generado por riesgos de carácter crediticio que afecten a la liquidez de una unidad de negocio.
- **Political risk:** The probability that an act or omission of a governing body, economic crisis or war or social disturbances (terrorism) may damage the success of a project in a developing country.

2 Risk management depending on the contractual relationship of the Company with the asset (hotel) or activity carried out by the asset..

The perception of the existence of the previously described risks together with the different ways which Sol Meliá manages the assets at its disposal make it necessary to apply different approaches in the evaluation of associated risks, depending on each particular case. These approaches are fundamentally based on the type of contractual agreement that supports the activity performed by Sol Meliá and the means by which Sol Meliá uses the asset (hotel) in which the said activity is carried out.

In summary, these different approaches may be classified as follows:

- Owned hotels and service centres: Sol Meliá manages all of the risks that may affect the building, content and activity.

- Leased hotels: The owner of the hotel manages risks related to the building and Sol Meliá as the leasee of the property manages those related to the contents (generally) and Civil Liability.

- Managed hotels: Sol Meliá manages risks related to Civil Liability derived from the activity.

- Franchised hotels: Risk management is the responsibility of the franchisee.

- Hotels in which there are time-share units: SOL MELIA manages all of the specific risks of the operations and sales of said units.

3 3. Operational risks

Group companies are covered by insurance against possible risks. Such policies also include certain franchises. The management of insurance is centralised at a Group level by the Insurance section within the Finance Department.

- Related to hotel and service centre operations: Insured risks are those related to Civil Liability, Loyalty Risks, Comprehensive policies, Loss of Profits and other additional risks.

- Related to accidents at work: Covers all of the aspects related to work and the people that perform that work, following the relevant guidelines given in the Manual on the Prevention of Accidents in the Workplace.

- Related to construction: For the performance of major construction work, contracting by the hotel owner is verified. For repair work, maintenance and installations carried out in the insured building, verification is made of the coverage of existing policies.

  All works or construction must be in possession of the appropriate insurance required by law. Whenever other firms are contracted to carry out renovation, reform or construction, a check is made to ensure that the said firm is in compliance with all of the legal requirements for the performance of their function.

- Other activities such as Transport, Vehicles and Installations which by their nature may represent a potential risk. Checks are made to ensure that they are covered by appropriate policies and risk management procedures.

D2 Control systems established to assess, mitigate and reduce the main risks of the Company and its Group.

The Company has an Internal Auditing Department responsible for examining and evaluating Group activities as a service to the organisation. The objective of the internal audit is to assist the organisation in the performance of its duties. The department provides analysis, valuations, recommendations, advice and information on the activities reviewed, both to members of Company management and to the Board of Directors. The Internal Auditing Department provides regular reports on its activity to the Auditing and Compliance Committee and the Control Committee. The objectives of the audit include the promotion of effective control at a reasonable cost.

The internal audit includes the examination and evaluation of the appropriateness of internal organisation and control systems and the quality of performance of the assigned tasks.

The responsibilities of internal auditors include:

- To review the reliability and integrity of financial and operational information and the means used to identify, evaluate, classify and communicate that information.

- To review the systems used to ensure that they are in line with policies, plans, procedures, laws and regulations that might have a significant effect on operations and reports, determining whether the organisation is applying them.

- To review asset safety measures and, where appropriate, verify their existence.

- To evaluate the economy and efficiency with which resources are employed.

- To review operations or programmes to verify that they are in line with set objectives and goals, and whether operations or programmes are carried out as planned.

The Internal Auditing Department is an integral part of the organisation and operates subject to the policies established by senior management and the Board of Directors.

Internal auditors are independent of the activities which they audit and free to perform their work objectively. Their independence allows them to issue impartial judgements. Objectivity is a basic principle of their activity and under no circumstances must they subordinate their auditing judgement to that of others.

The Company also has a Credit Control Department which analyses requests for sales credit and, where appropriate, approves, authorises and signs on behalf of SOL MELIA the corresponding contracts to concede credit payment facilities in trading to debtors that satisfy the pertinent credit objectives. At certain times bank guarantees (guarantees or letters of credit) are requested to mitigate any potential risks of non-payment. The functions of the Department also include the performance of all of the duties related to claims for delayed payments, recovering the amounts due and appropriately processing and monitoring credit accounts. In the recovery of unpaid debts the Department also prepares any preliminary reports required to assist decision making before any legal procedures are initiated to assess the eventual viability of the recovery of the unpaid amounts.

The Company also has an Insurance Department within its financial team to detect and analyse the risks of the different company activities, differentiating between those that may be subject to coverage by insurance policies and those that should be avoided by appropriate compliance with internal rules and procedures. The department manages relationships with insurance brokers and companies to obtain proposals with the best possible coverage to price ratios, ensuring at all times that the Company enjoys sufficient coverage. The department also monitors all relevant events that may occur to ensure that they are correctly compensated by insurance companies, distributing all of the reports received from the insurance companies in order to reduce the risks to which the different Company activities are exposed.

D3 Risks that have affected the Company and/or its Group, circumstances surrounding them and functioning of control systems.

In 2006 there has been no relevant risk other than that derived from normal Company operations.

D4 Committees or other governing bodies in charge of establishing and supervising control systems and their duties.

The Company operates an internal Control Committee for all of the SOL MELIÁ Group.

The Control Committee comprises the following members: Executive Vice Chairman, a Chief Executive Officer, the Chief Financial Officer, the Executive Vice President Administration and a Legal Director.

In 2006 the Control Committee met once each quarter.

Any of the members of the Committee may request the urgent meeting of the Committee whenever it is considered appropriate to do so

The Control Committee is authorised to investigate any matter within its sphere of activity. It is authorised to request information from any employee and such employees are obliged to cooperate with any Committee request.

The Control Committee is subject to the supervision of the Board of Directors, and particularly to its Auditing and Compliance Committee, to which they must report. The Committee must develop and promote control so as to improve the quality of Corporate Governance and risk control management within the Group, seeking to integrate control within the processes of planning, budgeting management, accounting, presentation of accounts and audits performed within the Group. The Committee also has the following objectives:

1. To improve the quality of the information on Group finances.

2. To create a climate of discipline and control which reduces the chance of fraud.

3. To allow employees to contribute an independent criteria to control and develop a positive role.

4. To assist the organisation by providing a forum to air matters of concern.

5. To strengthen the position of both internal and external auditors and provide them with an additional channel for communication.

6. To establish a framework within which auditors may demonstrate their independence whenever there may be a dispute with Company management.

7. To improve confidence in the credibility and objectivity of financial reports and internal decision-making processes.

The functions and responsibilities of the Control Committee are:

1. To supervise risk management and control within the Group, reviewing processes with inherent risk and control of governance, researching and proposing best practises. The identification of risks must be accompanied by an evaluation of their impact upon strategic and financial objectives.

2. In particular, to evaluate:
    a. The acquisition and disposal of relevant Group assets.
    b. To constantly review investments, important projects, levels of authority, treasury policies and risk management policies.

3. To authorise any corrective measures which may be required.

4. To monitor the application of the Integrated Control Plan to be implemented within the Group, supervising and promoting the implementation of best practises and registering them appropriately.

5. To develop the guidelines, procedures and materials relevant to risk management and control. To define performance rules, rather than descriptive models: to define how things should work.

6. To occasionally establish teams and tasks to carry out specific research or activities. Such teams will only exist for the time required to perform their job and report to the Committee.

7. To prepare a report on Company risk management every year. The annual report must evaluate the level of security that exists and whether controls meet the objectives defined, helping to identify flaws and improvements required in controls.

8. To publish guidelines and materials for all of the organisation. Ethical codes and other guidelines must receive appropriate internal and external publicity.

9. To propose the appointment of the external auditor.

10. To review the Group financial reports in order to:
    a. Propose changes in accounting policies and practises.
    b. Identify areas of potential contingencies.
    c. To comply with accounting standards.
    d. To comply with the requirements defined by stock market authorities and other legal requirements to which the Group may be subject.

11. To review the reports of external auditors. At least once a year they must debate any questions or systems pending resolution and the procedures to be applied.

12. To review the degree of compliance in the Group with internal control systems.

13. To ensure coordination between external and internal auditors.

14. To ensure that the necessary resources are in place for internal audits.

15. To evaluate the relevant information of which they are made aware and coordinate the response of Company management.

16. To prepare the annual Committee budget and submit it to the Board of Directors for approval.

E.1 Quorum for general shareholders meetings contained in Bylaws. Differences with respect to the requirements of Company Law.

Article 24 of the Bylaws establishes that General Shareholders Meetings, Ordinary or Extraordinary, are valid when in their first or second meeting there is a percentage of the share capital either present or represented which satisfies existing legislation on minimum levels in each case and for each matter included in the Order of the Day.

Nevertheless, in order that the General Shareholders Meeting may validly approve a change in the object of the Company, a request for the withdrawal from negotiation of Company shares, or the transformation or liquidation of the Company, the first meeting must be attended by FIFTY FIVE PERCENT (55%) of capital stock with voting rights. In a second meeting, a quorum of FORTY PERCENT (40%) of the capital stock with voting rights would be sufficient.

Any type of merger or split, either total or partial, of the Company requires the quorum indicated in the previous paragraph, unless the mentioned merger or split is carried out with companies in which SOL MELIÁ, S.A. is a majority shareholder either directly or indirectly. In the latter case normal quorum conditions will apply.

E.2 Requirements for the approval of resolutions.

Article 28 of the Company Bylaws establishes that motions at the Annual General Shareholders Meeting must be approved by a majority of the share capital present or represented at the meeting, except in cases where the law or Company Bylaws require a greater majority.

The same Article 28 requires a greater majority for the Annual General Shareholders Meeting to validly approve a change in the object of the Company, a request for the withdrawal from trading of Company shares, or the transformation or liquidation of the Company, requiring a vote in favour by SIXTY PERCENT (60%) of the share capital present or represented at the meeting, both in a first or second meeting. Nevertheless, whenever in a second meeting there are shareholders that represent less than FIFTY PERCENT (50%) of the capital stock with voting rights, the motions mentioned in this section may only be approved with a vote in favour by TWO THIRDS (2/3) of the share capital present or represented at the meeting.

Any type of merger or split, either total or partial, of the Company requires the quorum indicated in the previous paragraph, unless the mentioned merger or split is carried out with companies in which SOL MELIÁ, S.A. is a majority shareholder either directly or indirectly. In the latter case normal quorum conditions as described in section 28.1 will apply.

Motions to modify Articles 3, 7, 8, 24.6, 24.7, 28, 31, 32, 33, 35, and 38 of Company Bylaws require a vote in favour by at least SEVENTY-FIVE PERCENT (75%) of the share capital present or represented at the meeting, both at a first or second calling.

E.5 Simultaneous occupation of positions as Chairman of the General Shareholders Meeting and Chairman of the Board of Directors. Detail of measures taken to guarantee independence and correct operation of the General Shareholders Meeting.

As foreseen in article 14.7 of the Regulations of the General Shareholders Meeting , the exercise of al of the powers required to ensure the correct organisation and development of the General Shareholders Meeting is the responsibility of the Chairman of the General Shareholders Meeting , and in particular the following duties:

(a) to declare whether the General Shareholders Meeting is validly constituted and to determine the number of shareholders that attend, either personally or via representatives, as well as defining the participation in share capital and number of votes which they possess;
(b) to resolve any doubts, explanations or claims related to the list of attendees, proxies or representatives;
(c) to resolve any doubts raised with respect to the matters included on the Agenda as well as to examine, accept or reject new proposals in relation to the Agenda;
(d) to lead the debate, scheduling, ordering, limiting and ending debates whenever the matter is considered to have been discussed sufficiently;
(e) to delegate leadership of the debate to the member of the Board of Directors consider appropriate, or to the Secretary, whom shall perform this function on behalf of the Chairman. This function may be revoked by the Chairman at any time;
(f) to announce the result of votes taken;
(g) to close the General Shareholders Meeting ; and,
(h) in general, to resolve any doubts or incidents that may arise;

All of the members of the Board of Director must attend the General Shareholders Meeting and must assist the Chairman in the application of the Regulations of the General Shareholders Meeting during the meeting itself and in the interpretation of its spirit and objectives.

The General Shareholders Meeting is always attended by a Notary responsible for writing the Minutes of the meeting as required by Company Law and to assist the members of the Board of Directors in performing their duties. Article 20.3 of the Regulations of the General Shareholders Meeting states that the Board of Directors may require the presence of a Notary to take the Minutes of the meeting and will obliged to request such presence whenever requested by shareholders that represent at least ONE PER CENT (1%) of the Company share capital at least FIVE (5) days before the General Shareholders Meeting is held. In both cases the Notary's Minutes will be considered the Minutes of the General Shareholders Meeting as defined by law and in the Regulations of the Commercial Register.

E.6 Changes introduced during the year in the regulations of the General Shareholders Meeting.

No changes were made in 2006.

In line with article 113 of Stock Market Law, the Ordinary and Extraordinary Annual General Shareholders Meeting held on 8 June 2004 approved the most recent changes to the Regulations of the General Shareholders Meeting , the full text of which may be found on the Company website. The same General Shareholders Meeting approved changes to articles 22, 24, 25, 27, 28, and 30 of Company Bylaws relating to the celebration of the General Shareholders Meeting to make them consistent with the approval of the new Regulations of the General Shareholders Meeting.

E.7 Attendance at the most recent Ordinary and Extraordinary General Shareholders Meeting.

From the list of attendees at the Ordinary and Extraordinary Annual General Shareholders Meeting held on 6 June 2006 it may be seen that 673 shareholders attended the event, of which 23 attended personally and 650 by proxy, together representing ownership of 133,954,411 Company shares, 72.495% of share capital wholly made up of shares with voting rights.

E.8 Agreements adopted in the Ordinary and Extraordinary General Shareholders Meeting

In summary, the Ordinary and Extraordinary General Shareholders Meeting held on 6 June 2006 approved the following:

1 Approval of the Annual Accounts (Balance Sheet, Profit and Loss Account, Annual Report) both of Sol Meliá S.A. and of the Consolidated Group for the fiscal year ending 31 December, 2005, verified by the Company auditor, ERNST & YOUNG, S.L.

2 With regard to the Individual Accounts there is a positive result of FOURTEEN MILLION, THIRTY SIX THOUSAND, EIGHT HUNDRED AND FIVE EUROS AND FORTY ONE CENTS (14.036.805,41) which it is proposed be applied in full to the distribution of dividends.

The distribution of a net dividend of 0.083 per share is approved, to be charged to results for the amount mentioned previously and to the Company voluntary reserves with regard to the remaining amount.

Dividends will be paid out on 3 July 2006 by the entity designated by the Company Board of Directors in accordance with the regulations defined by the Management Company for Registration, Compensation and Liquidation of Securities ("Iberclear").

3 In view of the Management Report presented by the Board, to approve without any type of reserve, the management by the Board of Directors during financial year 2005.

4 To renew for one further year the appointment of ERNST & YOUNG S.L. as external auditor so that they may examine and review the annual accounts and management report of SOL MELIÁ S.A. and of the consolidated group for the financial year 2006.

5 To renew the appointment as Directors of Sebastián Escarrer Jaume, José María Lafuente López, José Joaquín Puig de la Bellacasa Urdampilleta, Emilio Cuatrecasas Figueras and of the entities Hoteles Mallorquines Consolidados S.A. and Ailemlos S.L., whose appointment expired on 28 May 2006, for the statutory period of five years from that date.

Mention is made of the fact that Sebastián Escarrer Jaume will be considered an Executive Director, José María Lafuente, José Joaquín Puig de la Bellacasa Urdampilleta and Emilio Cuatrecasas Figueras will be considered Independent External Directors and Hoteles Mallorquines Consolidados S.A. and Ailemlos S.A. will be considered Institutional External Directors.

6 In virtue of the capacity conferred by article 153.1.b) of Company Law, the Board of Directors is authorised to agree a capital increase, without prior approval from the Annual General Meeting, up to a maximum amount of EIGHTEEN MILLION, FOUR HUNDRED AND SEVENTY-SEVEN THOUSAND, SIX HUNDRED AND SEVENTY-SEVEN EUROS (18,477,677 euros), and a right to exercise this power, up to the indicated amount, in one or several steps, deciding in each case its suitability or convenience as well as the amount and conditions considered most appropriate. Whatever capital increase may be approved, it must be made within a period of five years from the date of approval. The resolution also includes the conditions under which capital increases may be carried out.

7 Authorise the Board of Directors, as stated in Article 319 of the Regulations of the Company Register and in accordance with general regulations on the issue of securities, and applying by analogy the conditions stated in 153.1 b) and 159.2 of Company Law, the power to issue fixed, rate, convertible and/or exchangeable securities, in line with the conditions in the resolution.

8 Authorise the Board of Directors, which in turn may delegate or empower whosoever is considered appropriate amongst the Directors, to buy and sell Company treasury shares by any means allowed by Law, up to the limits allowed by the Law, for a price which may not be less than one Euro, nor greater than thirty Euros, and for a period of eighteen months from the date of approval of the current resolution, all in accordance with the limits and requirements defined by Company Law and the Company Code of Conduct on matters related to the Securities Market.

9 Express approval of the widest powers provided by Law for all members of the Company Board of Directors so that any of their rank may, in the name of and as representatives of the Company, and in relation to the previous items, may appear before a Notary and in his presence to declare the approval of the previous resolutions and their corresponding registration, the issue of the corresponding deed, after resolution of any pertinent matter derived directly or indirectly from the preceding resolutions and to carry out as many actions as are required or convenient to achieve full completion and registration.

E.9 Number of shares required to attend the General Shareholders Meeting and possible Bylaw restrictions.

To attend the General Shareholders Meeting shareholders must possess at least 300 shares registered in their name with the Accounts Register and, whenever appropriate, with the Shareholders Register, at least FIVE (5) days before the day on which the General Shareholders Meeting is held and have paid up any passive dividends and maintain ownership of said shares until the General Shareholders Meeting is held.

There are no legal nor by-law restrictions on the exercise of the right to vote.

E.10 Policies applied by the Company in reference to proxy voting at the General Shareholders Meeting.

Shareholders may exercise their right to vote without any need to attend the General Shareholders Meeting by sending the attendance card received from their bank to SOL MELIÁ at least one (1) day before the Meeting is held by any of the following means:

By regular mail:
To the Department of Investor Relations
Calle Gremio Toneleros 24, Polígono Son Castelló
07009 Palma de Mallorca (Balearic Islands)

By fax:
To the Department of Investor Relations
Fax: + 34 971224498

By e-mail:
Including a scanned image of the vote delegation attendance card.
Address: atención.accionista@solmelia.com

E.11 Possible knowledge of the policies of institutional investors regarding taking part in Company decisions.

The Company has no knowledge of any policies applied by institutional investors.

E.12 Address and route to corporate governance information on Company website.

The Company website is found at www.solmelia.com. Users must then click on the “Investor relations” link at the foot of the page which contains full documentation on Company corporate governance.

F DEGREE OF COMPLIANCE WITH GOOD GOVERNANCE RECOMMENDATIONS

Given that the Document of Recommendations on Corporate Governance approved by the Spanish Stock Exchange Commission on 22 May 2006 is not due to become a point of reference for public companies until financial year 2007, and in relation to the annual report to be presented in the first half of 2008, the following section presents a review of the degree of compliance with the good governance recommendations used by the Company in previous years and based on the recommendations in the Report on Corporate Governance in publicly quoted companies produced by the Commission presided by Manuel Olivencia Ruiz, designated by the Ministerial Order of 24 March 1997. Given that some of the said recommendations have been reviewed by the Commission presided by Enrique Aldama y Miñón, reference is also made to the same.

1. "That the Board of Directors should explicitly assume as its core mission the general function of supervision; exercise without delegation the responsibilities this implies; and establish a formal record of the items reserved for their knowledge".

Article 34 of the Company Bylaws states that the Board of Directors is responsible for the representation, direction and administration of the Company with respect to all of the activities undertaken within the objectives of the Company as limited by the Company Bylaws, as well as those activities required by Law and the Company Bylaws, and without prejudice to those activities specifically reserved for them at the General Shareholders' Meeting. The mentioned Article details the legal acts or business activities which are within the competence of the Board of Directors.

Article 5 of the Regulations for the Board of Directors clearly defines the general supervision function of the Board of Directors, specifying as matters within their competence:

a) The approval of general Company strategy.
b) The appointment, compensation and, if appropriate, dismissal of senior Company managers.
c) The approval of policies on treasury stock.
d) The control of senior management performance and evaluation.
e) The identification of risk factors, especially those that are generated by operations involving financial derivatives, and the implementation and monitoring of appropriate internal control and information systems.
f) The definition of policies on the communication of information to shareholders, markets and the public.
g) The policies that require the availability of substantial Company assets and major transactions.

Article 6 of the Regulations for the Board of Directors establishes the maximization of the value of the Company as the priority criteria for the Board, indicating the guidelines to be followed by the Board to define and review Company business and financial strategies. The same Article also establishes the responsibility of the Board to adopt appropriate measures to ensure that Company management pursues the creation of value for shareholders and provides appropriate incentives to achieve this end, under the effective supervision of the Board, as well as that no person or small Group of people acquire a level of decision-making authority that is not subject to appropriate control, and that no shareholder receives preferential treatment above any other.

2. "That the Board of Directors includes a reasonable number of independent Directors that are persons of professional prestige unrelated to the Company management team nor significant shareholders".

Article 7 of the Regulations of the Board of Directors states that in order to guarantee its independence and the objectivity of the criteria it applies to best defend the interests of the Company, said Board should ensure that the majority of its members are Outside Directors and that amongst these Outside Directors there must be a significant number of Independent Outside Directors taking into account the Company shareholding structure and the shareholdings represented on the Board.

This recommendation is followed in that, of the twelve Directors, nine of them are Outside Directors, of which five are Independent Outside Directors, designated bearing in mind their significant professional qualifications and prestige and their lack of relations with the management team nor controlling shareholders.

3. *"That Outside Directors (representatives of majority shareholders and independents) should represent a large majority of the members of the Board of Directors with respect to Company executives, and that the proportion between representatives of majority shareholders and independents should be established bearing in mind the relation that exists between majority and minority shareholders".*

The Aldama Report has reviewed this recommendation and established that the criteria should be that there must be a large majority of Outside Directors and that these must include a significant number of Independent Outside Directors, bearing in mind the shareholding structure of the Company and the shareholding represented on the Board.

As indicated in section 2 above, the Company currently has nine Outside Directors out of a total of 12 members, thus forming a large majority. Of the nine, five are Independent Outside Directors, and we thus understand that the recommendation can be understood to have been applied.

4. *"That the Board of Directors adjusts its size in order to be more efficient and participative. In principal, the appropriate size may oscillate between five and fifteen members".*

According to the Company Bylaws, Article 31.2, the Board of Directors should consist of a minimum of five and a maximum of fifteen members chosen by the General Shareholders' Meeting.

As has already been mentioned, at 31 December 2006, the Board of Directors comprised 12 members in compliance with the Good Governance Code.

5. *"That, should the Board opt to combine the roles of Chairman and Chief Executive in one person, the Board should adopt all necessary cautionary measures to reduce the risks of concentration of power in one person".*

Sol Meliá S.A. has also adopted this recommendation given that the Chairman of the Board of Directors has not been delegated all of the powers of the Board of Directors, although he has significant powers of representation, and, at the same time, a number of additional measures are in place to ensure compliance: appointment of two Vice Chairmen, two Chief Executive Officers, and creation of two delegate commissions (Audit and Compliance Committee and Appointments and Remuneration Committee), as described in a later section of this report.

6. *"That the figure of Secretary of the Board be given greater relevance, reinforcing their independence and stability and highlighting their function to ensure the formal and material legality of the actions of the Board".*

Article 33 of the Company Bylaws, as well as the Regulations of the Board of Directors, in its Article 12, highlight the figure of the Secretary of the of the Board of Directors naming amongst his functions those of supporting the Chairman in his labours and providing directors with the advice and information they require as well as conserving all documentation and maintaining minutes on the development of the sessions and agreements reached. Directors are also formally committed to appointing a person that is capable of performing the role appropriately as Secretary.

The current Secretary of the Board of Directors is an Independent Outside Director, thus complying with the recommendation.

7. *"That the Executive Committee, wherever such exists, should reflect the same balance as the Board between different types of Directors and that the relations between both bodies is based on principals of transparency, in such a way that the Board is fully aware of the matters dealt with and decisions made by the Committee".*

Article 13 of the Regulations of the Board of Directors foresees the possibility of the constitution of such a commission, although it has not been deemed necessary to date given that a full meeting of the Board has always been called whenever it has been required.

8. *"That the Board of Directors creates within its ranks delegate control commissions, made up exclusively of Outside Directors, to monitor accounts information and control (Audits); selection of Directors and senior management (Appointments); remuneration policies and reviews (Remuneration); and the evaluation of governance (Compliance)".*

On 23 February, 1999, the Board of Directors agreed to create Delegate Committees for Auditing and Compliance and for Appointments and Remuneration whose composition, functions and organisation have been fully explained in sections B.2.1. of this report.

With regard to the Auditing and Compliance Committee, on 31 March, 2003, the Board of Directors of Sol Meliá S.A. approved a proposal to modify Company Bylaws, incorporating a new Article 39 bis. which was approved at the Annual General Shareholders' Meeting on 6 May, 2003. The new Article regulates the Auditing Committee of the Board of Directors in Company Bylaws as required by Law 44/2002.

9. *"That all necessary measures are taken to ensure that Directors are provided sufficiently in advance with the information they require, specifically prepared to assist in the duties of the Board without prejudice, except in exceptional circumstances, to the importance or reserved nature of the information".*

The Regulations of the Board of Directors in its Article 17 foresees that Board meetings are convened by letter, fax, telegram or e-mail sent to the most recent address of each Director as registered in Company records in a way which ensures its receipt by the Director sufficiently in advance and authorised by the signature of the Chairman or the Secretary or Vice Secretary on behalf of the Chairman. The Regulations also foresee the possibility that extraordinary sessions of the Board are convened by telephone with no regard for the required advance warning and other requirements whenever the Chairman may feel that circumstances make this appropriate.

The communication must include the agenda for the session along with a summary of the information required.

Under normal circumstances the information will be provided to Directors ten days in advance.

10. *"That, to ensure the appropriate performance of the duties of the Board, meetings should be held with the frequency required to allow achievement of objectives; that the Chairman should encourage the intervention and independence of mind of all Directors; that special care should be taken with the taking of minutes and that an assessment of the quality and efficiency of the work of the Board should be carried out at least once per year".*

The Board of Directors, as stated in Article 17 of the Regulations of the Board of Directors must meet at least five times per year and whenever the interests of the Company require, whenever decided by the Chairman or by his substitute, or on request of at least one third of the members of the Board, in which case the Chairman should convene a Meeting of the Board within a period of ten days from such a request.

During 2006, a total of five (5) meetings of the Board were held.

11. *"That the intervention of the Board of Directors in the selection and re-election of its members is carried out using formal and transparent procedures after presentation of a detailed proposal by the Appointments Committee".*

Article 15.2. of the Regulations of the Board of Directors states that the Appointments and Remuneration Committee should define and revise the criteria to be applied to the composition of the Board of Directors and the selection of candidates.

The Committee must thus propose the appointment of Directors so that the Board may directly approve them or submit such a decision to the General Shareholders' Meeting.

12. *"That companies include in their regulations an obligation that Directors resign in circumstances which might have a negative effect on the functioning of the Board or the credit or reputation of the Company".*

Chapter VIII of the Regulations of the Board of Directors establishes the general duties and obligations of Directors, as described in Recommendation 16 later in this section, and for which lack of compliance is sufficient reason for dismissal.

13. *"That a maximum age is set for the position of Director, that may be between sixty five and seventy for Executive Directors and the Chairman, and more flexible for other members of the Board".*

Neither the Regulations of the Board nor the Company Bylaws include maximum limits on the age of Directors. Nevertheless, the Aldama Report has reviewed this recommendation and does not establish any age limit.

14. *"That there is formal recognition of the right of all Directors to gather and obtain the information and advice required to perform their supervisory duties, and that appropriate means are established to allow this right to be exercised, including the use of external experts in special circumstances".*

As stated in Article 22 of the Regulations of the Board of Directors, in the performance of their duties must have full access to information on any aspect of the Company, to review all of the Company's books and files, and any other registers of Company activities and to inspect all facilities. This right to access to information is extended to both domestic and international Company subsidiaries.

Article 23 of the same Regulations also allows that Directors have the right to request the professional assistance of legal, accounts or financial advisors or other experts at Company expense to assist them in the exercise of their functions. The request must be with regard to specific problems of a certain degree of importance or complexity that arise in the performance of their duties. The request must be made to the Company Chairman and may be refused by the Board of Directors if it is considered that any of the following circumstances apply:

(a) it is not required for the performance of the duties assigned to Outside Directors;
(b) its cost is not reasonable in relation to the importance of the problem and the assets and revenues of the Company; or
(c) the help requested from outside experts may be provided satisfactorily by experts employed by the Company.

15. *"That the remuneration policy applied to Directors, the proposal, evaluation and revision of which should be carried out by the Remuneration Committee, should reflect moderation and Company performance with detailed and personalized information".*

Article 24 of the Regulations of the Board of Directors refers to this matter and provides that Directors have a right to pertain the remuneration set by the General Shareholders Meeting or Board of Directors as foreseen in Company Bylaws and after having received a report from the Appointments and Remuneration Committee. In all cases, Outside Directors will receive expenses payments for attendance at each meeting of the Board of Directors.

The Board of Directors will ensure that the remuneration of Directors is related to their effective dedication, is moderate in comparison to market trends, and, at least in as far as it concerns Executive Directors, is partially related to Company and Group performance. The Board will also ensure that the amount received by Independent Outside Directors provides incentives to encourage dedication but does not hinder their independence.

The remuneration of the Board of Directors will be transparent, the total amount being reported in the Annual Report on Corporate Governance.

The amounts received should be compatible with and independent of salaries, other remuneration, compensation, pension, share options or any other form of payments established in general for all Executive Directors or in particular for any one of them, whatever the nature of their relationship with the Company, whether it be through employment – general or senior management –, commercial or on a service basis, relationships that will be compatible with their condition as members of the Board of Directors.

16. "That the internal regulations of the Company detail the obligations derived from the general duties of diligence and loyalty expected of Directors, including, specifically, matters relating to conflicts of interest, confidentiality requirements, the exploitation of business opportunities and the use of Company assets".

Chapter VIII of the Regulations of the Board of Directors indicates the obligations of directors. The most relevant obligations are:

1. Duty of diligence: while performing their functions, directors must work with the diligence of an organised businessperson and a loyal representative, and in accordance with any other legally required standard of diligence, and in particular to:

    (a) Remain diligently informed about Company performance.
    (b) Appropriately prepare Board meetings and those of other delegate committees of which they form part.
    (c) Attend the meeting of the bodies of which they form part and to actively take part in decision-making to ensure that their criteria makes an effective contribution to such decision-making. If directors are justifiably unable to attend a meeting to which they have been called, they must provide instructions to the director who is to represent them. Independent Outside Directors may only be represented by Independent Outside Directors.
    (d) Carry out any specific task delegated by the Board of Directors and reasonably within the bounds of their commitment to the Board.
    (e) Investigate any irregularities in Company management that they may discover and monitor any risk situations.
    (f) Encourage the appropriate persons to call extraordinary Board meetings or include within the Agenda of Board Meetings the measures that they consider appropriate.

2. Duty of confidentiality and loyalty: while performing their functions diligently, directors must maintain confidentiality regarding the deliberations of the Board and the delegate Committees of which they may form part and, in general, must abstain from revealing information to which they have had access due to their position in accordance with existing law and Company Bylaws.

    The aforementioned confidentiality must be maintained even after such persons cease to be directors in accordance with existing law and Company Bylaws.

    If the member of the Board of Directors is an institution, the duty of confidentiality will fall upon the representative of that institution without prejudice to the duties of information that the representative must provide to the institution.

3. **Duty not to compete:** members of the Board of Directors may not occupy management positions in companies whose mission or nature is partially analogous with that of the Company, with the exception of other companies controlled by the Group. Before accepting any management position with another Company, the Director must consult the Appointments and Remuneration Committee.

4. **Conflicts of interest:** members of the Board of Directors must communicate to the Company any direct or indirect potential conflict of interest with the Company in compliance with the applicable legislation. Directors must also abstain from attending or intervening in deliberations that may affect matters in which they may be personally involved or which may affect persons related to them. The conflict of interest situations in which members of the Board of Directors may be involved should be reported in the Annual Report on Corporate Governance.

   Any member of the Board of Directors that requests and obtains public representation may not exercise a right to vote in those decisions affected by the conflict of interest, in compliance with the applicable legislation.

   Members of the Board of Directors must also communicate any participation they may have in the share capital of companies with the same or similar or complimentary business activity, as well as the positions or responsibilities they may perform for such companies, or any other direct or indirect employment in regard to said activity.

   This information will be included in the Annual Report and in the Annual Report on Corporate Governance.

   Members of the Board of Directors may not carry out, neither directly nor indirectly, commercial transactions with the Company, except when the Board of Directors, after a report from the Appointments and Remuneration Commission, authorises such a transaction. Neither may they, for their own benefit or for the benefit of persons related to them, make investments or other similar operations related to Company assets of which they have received information thanks to the performance of their functions, without prejudice to other provisions of the law, Company Bylaws and Company regulations.

   Members of the Board of Directors may not use the name of the Company nor the mention of their status as Company directors to influence the commission of operations on their own behalf or on behalf of persons related to them.

   In regard to the Regulations, the persons related to Directors are as defined by law.

5. **Use of assets:** directors may not make use of company assets nor their position to obtain private advantage other than when there is an appropriate corresponding advantage for the company. Exceptionally, if the law and company by-laws allow, the Board may, after receiving the appropriate report from the Appointments and Remuneration Committee, relieve directors of the obligation to provide a corresponding advantage. In such cases, any increase in the assets of directors will be considered indirect remuneration.

   If the advantage is received due to their condition as shareholders, this will only be appropriate if the principle of parity in the treatment of shareholders is respected.

6. **Regulations on behaviour:** directors must observe all regulations on behaviour established in stock market legislation and, particularly, those contained in the Internal Regulations on Good Conduct.

7. **Business opportunities:** Directors may not use a company business opportunity for their private benefit or benefit of associates, unless the opportunity is first offered to the company and then rejected by the company with no influence exercised by the Director, and that its use is then authorised by the Board after a Report by the Appointments and Remuneration Committee.

   A business opportunity is understood to include any opportunity to make an investment or carry out a commercial transaction that may arise within the realms of the performance of their duties by Directors, or through the use of company facilities or information, or under circumstances in which it may be reasonable to assume that an offer from a third party was in fact made in the first instance to the company.

8. **Indirect operations:** Directors infringe their duties of loyalty to the company if, in their knowledge, they allow or do not reveal transactions or operations by people related to them that in some way do not comply with the conditions and controls defined in previous articles.

9. **Information required from Directors:** as well as all of the other obligations contained within the Regulations, Directors must inform the company about the shares in the company which they hold personally or through companies in which they have a significant shareholding. They must also provide information on any shareholdings directly or indirectly held by close family members as foreseen in the Internal Regulations on Good Conduct.

   Directors must also inform the company about all of the positions held and activities carried out in other companies whenever relevant.

10. **Related operations:** the Board of Directors must be aware of and authorise any transaction made by the company with its principal shareholders and directors and executives.

    Under no circumstances must the transaction be authorised unless a report has been received from the Appointments and Remuneration Committee evaluating the operation from the point of view of equality in the treatment of shareholders and of market conditions.

    The Board of Directors must also ensure compliance with legal and information requirements and transparency in the communication of such operations.

17. "That the Board of Directors should promote the adoption of appropriate measures to extend the duties of loyalty to major shareholders, establishing, specifically, cautionary procedures relating to any transactions carried out between such shareholders and the company".

This recommendation is in place and regulated in Articles 34 of the Regulations of the Board concerning hypothetical relevant transactions that may occur between major shareholders. Specifically, the Board of Directors will not authorise any transactions that are not the subject of a report by the Appointments and Remuneration Committee, evaluating the transaction from the point of view of the equality of treatment of shareholders and market conditions.

The Board of Directors must also summarise in its annual public communications any transactions carried out by the company with Directors and major shareholders. This information is given in section D of this report.

18. "That measures are taken to make mechanisms for delegating votes more transparent and to reinforce communications between the company and its shareholders, particularly with institutional investors".

As established in Article 25.1. of the Company Bylaws, the Board of Directors may demand that in the convening of the General Shareholders Meeting the company is in possession of the delegation of representation by shareholders at least one day before the day on which the General Shareholders Meeting is to be held, specifically indicating the name of the corresponding representative.

This representation must be assigned in writing for each General Shareholders Meeting within the terms established by Company Law.

In 2006, the Sol Meliá Investor Relations Department has carried out a number of activities focused on communication with company shareholders and potential investors. The most relevant actions in 2006 include a number of road shows in major European cities (Madrid, Barcelona, Milan, Geneva, Zurich, London, and Frankfurt) and in North America (New York and Boston), private visits to Spanish and international investors, participation in Mid Cap conferences, etc, all in close cooperation with the financial analysts that cover the trading of Sol Meliá shares and with the objective of ensuring they receive accurate and timely information.

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

Each road show implies a greater degree of commitment to and involvement with investors, the main protagonists of our stock market performance, which is why the Department works intensively to improve the service and the information it provides to investors on each trip.

In 2006, visits were made to more than one hundred institutional investors in Europe and the United States during the following road shows organised by a wide range of financial institutions.

Durante todo el año se visitaron del orden de cien inversores institucionales en Europa y América en los siguientes road - shows y seminarios organizados por un amplio rango de entidades financieras:

- On 17 and 18 January 2006, the Investor Relations team through Kepler Equities visited 12 important institutional investors in New York and Boston (USA) .
- On 8 February 2006, at the "Small & Mid Caps Conference" organised by Banco de Santander in Madrid, Sol Meliá made a presentation of the Company, financial results and corporate strategy to 180 institutional investors from Europe and the United States. The Company also held individual meetings with European fund managers.
- On 23 and 24 March 2006, Sol Meliá met ten institutional investors in the two most important cities in Switzerland (Geneva and Zurich) at a road show organised by Banco de Santander.
- On 12 May de 2006, the Investor Relations team met a number of real estate investors at a "Property Tour" in Madrid organised by BBVA.
- On 18 May 2006, Sol Meliá met ten institutional investors at a road show in London organised by Banco de Santander.
- On 31 May 2006, Sol Meliá through Bolsa Madrid joined seventy other public companies at the second Forum for Small and Mid Caps organised by "Bolsas and Mercados Españoles" attended by Spanish and other European analysts and investors to debate the future of their industries. The Company also held individual meetings with institutional investors.
- On 7 June 2006, the Company met 3 institutional investors in Geneva and the following day, 8 June, met 5 institutional investors at a road show in Milan organised by Banco de Santander.
- On 22 and 23 June 2006, Sol Meliá met seven institutional investors at a road show in Frankfurt organised by Kepler Equities.
- On 14 October 2006 the Investor Relations team visited four important investors in the company at a road show in Madrid organised by Sol Melia in cooperation with several Spanish financial analysts.
- On 17 December 2006, the Company took part in a lunch-presentation for "Sectorial Small & Mid Caps" in Barcelona organised by Venture Finanzas for local institutional investors.

In 2006, the Director of Investor Relations, Carlos López, was named a member of the Management Board as one of the four spokespersons (in addition to the Chairman and Vice Chairman) of the Spanish Investor Relations Association. The Spanish Investor Relations Association was founded in 1991 as a non-profit organisation which aims to assist members in the improvement and promotion of investor relations in Spanish public companies, promoting activities focused primarily on training for members, the organisation of events and conferences, the promotion of international best practices in investor relations, and the sharing of know-how, demonstrating the commitment of the Investor Relations Department in particular and of Sol Meliá in general to communication with the markets and the transparency of information.

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

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

Every shareholder member of the Club is also given a card which provides access to a series of benefits in company hotels such as priority reservations, express check-in, free newspapers, free breakfast for room mate, late check-out, advance warning of exclusive online offers. MaS Gold Shareholders, with more than 1,000 shares and holders of the MaS Gold card, also get upgrades to a superior room, 20% extra MaS Rewards points for every stay, discounts in hotel restaurants and other benefits.

Registration for the Shareholders' Club may be made through www.solmelia.com or by telephone on 901 34 44 44 for MaS Blue Rewards members with less than 1,000 shares and 901 10 00 02 for MaS Gold Rewards shareholders.

At the end of 2006, there were 160 MaS Gold Rewards Shareholders and 2,675 MaS Blue Rewards Shareholders. Every two months they receive a points account statement, every three months an exclusive newsletter with special offers and benefits, and twice a year a newsletter with news on company performance.

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

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

19. "That the Board of Directors, over and above the requirements of existing legislation, should assume responsibility for providing the markets with rapid, precise and reliable information, particularly regarding the shareholder structure, substantial modifications to the rules of governance, particularly relevant deals or operations and company shareholdings".

The company has followed recommendations as indicated in Chapter IX of the Regulations of the Board of Directors. The company has provided information considered to be of sufficient detail and through the appropriate channels (Statements to the Spanish Stock Exchange Commission, regular published information, communications regarding majority shareholders, other communications, etc.), on matters regarding the share price and any other matter considered relevant, as well as regular information on the company rules of governance.

20. "That all of the regular financial information as well as the annual information offered to the markets is generated using the same professional principles and practices as the annual accounts and that, before being published, are verified by the Audit Committee".

Amongst their duties, the Board of Directors, along with the Audit and Compliance Committee are entrusted with the duty of providing financial information to the markets following the same professional principles, criteria and practices as those employed in the production of the annual accounts.

Financial analysts have also been kept informed through conference calls on quarterly results after their presentation and registration with the Spanish Stock Exchange Commission.

21. *"That the Board of Directors and the Audit Committee supervise situations that may present a risk to the independence of the company's external auditors and, specifically, that they verify the amounts paid to external auditors as a percentage of the total revenues of the auditing firm, and that they make public information on fees paid for services other than audits".*

The Board of Directors and Audit and Compliance Committee have made an analysis of the possible risks regarding the independence of external auditors.

That total amount paid for the audit of annual consolidated accounts and subsidiaries in 2006 are detailed in section B1.29 of this report.

22. *"That the Board of Directors should avoid presenting accounts to the General Shareholders' Meeting that contain exceptions and reservations in the auditors' report, and that, whenever this is not possible, both the Board of Directors and the auditors must clearly explain to shareholders and to the market the content and scope of the discrepancies".*

This recommendation is included in article 39 of the Regulations of the Board of Directors, establishing that the Board of Directors and, in particular, the Auditing and Compliance Committee, ensure that Auditors have access to all of the documentation and information that may be relevant for the performance of their duties, as well as that the Annual Accounts are drawn up in such a way that exceptions and reservations are not required.

D. Gabriel Escarrer Juliá ______________________

D. Juan Vives Cerdá ______________________

D. Sebastián Escarrer Jaume ______________________

D. Gabriel Escarrer Jaume ______________________

D. José Mª Lafuente López ______________________

D. Eduardo Punset Casal ______________________

D. Alfredo Pastor Bodmer ______________________

D. Emilio Cuatrecasas Figueras ______________________

CAJA DE AHORROS DEL MEDITERRÁNEO

D. Armando Sala Lloret ______________________

HOTELES MALLORQUINES CONSOLIDADOS S.A.

María Antonia Escarrer Jaume ______________________