


Sol Melia Europe B.V.
Amsterdam
December 31, 2007

Sol Melia Europe B.V.
Amsterdam
Annual Report
December 31, 2007

signed for identification 5/2/07
**ERNST & YOUNG**
ACCOUNTANTS

Sol Melia Europe B.V.
Amsterdam
December 31, 2007

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Sol Melia Europe B.V.
Amsterdam
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MANAGING DIRECTORS' REPORT.

The Board of Managing Directors is pleased to present the annual report and accounts of the Company for the financial year ended December 31, 2007.

Overview of Activities

The Company issues exchangeable bonds guaranteed by its sole shareholder, Sol Melia S.A.

The Bonds are listed on the Luxembourg Stock Exchange.

The state of affairs of the Company at the closing of the financial year is adequately presented in the balance sheet and profit and loss account, published herewith.

The Net Result for the year of the Company after provision for corporate Income tax is a profit of EURO 119,460.

No dividends have been paid or recommended during the year.

Financial Statements have been prepared in accordance with Dutch GAAP.

Future Developments

The Management does not anticipate any major changes during the coming financial year.

Post Balance Sheet Events

No matters or circumstances of importance have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

Amsterdam

February 5, 2008.

The Managing Directors



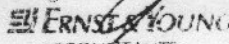
Sebastián Escarrer Jaume



Adrian J.C.M. Vermunt



David A. Bergel Rodríguez

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BALANCE SHEET AS AT DECEMBER 31, 2007.
(BEFORE APPROPRIATION OF RESULTS).

ASSETS	<i>Notes</i>	2007	2006
		EUR	EUR
Financial Fixed Assets			
Long term loan Sol Melia S.A.	3	109,286,300	258,286,300
Deferred expenses	4	3,556,324	4,641,580
Application loan expenses		33,847	70,759
		112,876,471	262,998,639
Current Assets			
Corporation tax Debtor		-	13,070
Short term loan Sol Melia S.A.	5	150,000,000	-
Interest receivable loans Sol Melia S.A.	6	942,442	869,785
Cash at banks	7	342,481	1,263,639
		151,284,923	2,146,495
TOTAL ASSETS		264,161,394	265,145,134
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's Equity			
Issued and fully paid share capital	8	1,500,000	1,500,000
Share Premium		500,000	500,000
Retained Earnings		718,220	590,971
Net result for the year		119,460	127,249
		2,837,680	2,718,220
Non-current Liabilities			
Long term loan Sol Melia Finance Ltd.	9	106,886,300	106,886,300
Exchangeable Bonds	10	-	150,000,000
Deferred interest income long term	11	3,570,990	4,654,532
		110,457,290	261,540,832
Current Liabilities			
Exchangeable Bonds Short term	12	149,990,000	-
Interest payable exchangeable bonds short term	13	848,184	848,219
Due to Group Companies	14	3,227	2,981
Accounts payable and accrued expenses	15	19,399	34,882
Corporation tax Creditor		5,614	-
		150,866,424	886,082
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		264,161,394	265,145,134

The accompanying notes form part of these accounts.

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Amsterdam
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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007.

<i>FINANCIAL INCOME AND EXPENSES</i>	<i>Notes</i>	2007	2006
		EUR	EUR
Incomes			
Interest income loan Sol Melia S.A.	16	16,216,227	18,566,563
Interest income banks		869	11,798
Interest Short Term Deposits		34,386	51,062
Other Financial Income		6,899	-
Expenses			
Interest expense Exchangeable Bonds 150MM	17	-6,816,773	-6,812,983
Interest expense EMT Programme 340MM		-	-2,331,876
Amortization and Other Expenses		-36,912	-36,913
Interest expense loan Sol Melia Finance Ltd.	18	-9,126,470	-9,122,945
Other Financial Expense		-11,741	-
		<u>266,485</u>	<u>324,705</u>
Other Income and expenses			
General and administrative expenses	19	-50,208	-79,732
Currency exchange difference		89	67
		<u>-50,119</u>	<u>-79,665</u>
Result before provision for corporate income tax		<u>216,366</u>	<u>245,040</u>
Provision for corporate income tax	20	-96,906	-117,791
NET RESULT FOR THE YEAR		<u>119,460</u>	<u>127,249</u>


The accompanying notes form part of these accounts.

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STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2007.

	2007 EUR '000	2006 EUR '000
Operating profit	216	245
<i>Movements in working capital:</i>		
Decrease (Increase) in receivables and other current assets	1,050	359,334
Increase (decrease) in current liabilities	<u>-1,081</u>	<u>-358,995</u>
Net cash provided by (used in) operations	<u>-31</u>	<u>339</u>
	185	584
Taxation paid	<u>-96</u>	<u>-118</u>
Cash flows from operating activities	<u>-96</u>	<u>-118</u>
	89	466
Redemption of / (payments for) financial fixed assets	<u>0</u>	<u>1,183</u>
Cash flows from investing activities	<u>0</u>	<u>1,183</u>
	89	1,649
Redemption from long-term borrowings	-10	<u>-1,195</u>
Loans provided	-1,000	
Cash flows from financing activities	<u>-1,010</u>	<u>-1,195</u>
Net cash flow	<u>-921</u>	<u>454</u>
Increase (decrease) in fully paid share capital	0	0
Exchange gains on cash in foreign currencies	<u>0</u>	<u>0</u>
Increase (decrease) in cash	<u>-921</u>	<u>454</u>

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NOTES TO THE ANNUAL ACCOUNTS.

1 General

The principal business activity of the Company is financing by issuing convertible vouchers. The Company was incorporated on July 22, 1999 as a limited liability company having its seat in Amsterdam, the Netherlands.

The Company is a wholly-owned subsidiary of Sol Meliá, S.A., a company registered in Palma de Mallorca, Spain

2 Summary of significant accounting policies

General

The accounts have been prepared under the historical cost convention and in conformity with the requirements of the Netherlands Civil Code, Book 2, Title 9.

Translation of foreign currencies

Transactions arising in foreign currencies are translated into the local currency at the exchange rate at the date of the transaction. At balance sheet date all assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. The resulting net translation gains or losses are included in the profit and loss account.

Financial Fixed Assets

Financial fixed assets comprise long-term loans, deferred interest and deferred expenses. Financial fixed assets are stated at nominal value.

Taxation

Deferred taxation is provided, using the liability method, for all timing differences between tax and financial reporting. Deferred tax assets arising from tax losses carry forwards are only recognized if recovery is reasonably certain.

Other assets and liabilities


All other assets and liabilities are stated at the amounts at which they were acquired or incurred.

Income and expenses

Financial income and expenses are allocated to the year to which they relate. Losses are accounted for in the year in which they are identified.


Cash flow statement

The cash flow statement is prepared using the indirect method. Cash consists of current (including short term deposits) accounts with banks and cash in hand.

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3 Long Term Loan to Sol Melia S.A.	2007 EUR	2006 EUR
-at an interest rate of 7,92375% p.a.	106,886,300	106,886,300
<p>Sol Melia Europe B.V. to Sol Melia S.A., issued on 06/05/2002, for an amount of EUR 106,886,300, with a fixed interest rate stipulated on contract. Date of maturity 30/06/2012</p>		
-at an interest rate of 4,39375% p.a.	-	150,000,000
<p>Sol Melia Europe B.V. to Sol Melia S.A., issued on 14/11/2003, for an amount of EUR 150,000,000, with a fixed interest rate stipulated on contract. Date of maturity 13/11/2008, transferred to short term.</p>		
-at an interest rate of EURIBOR + 1% p.a.	2,400,000	1,400,000
<p>Sol Melia Europe B.V. to Sol Melia S.A., issued on 15/12/2003, On 15/12/2007, addendum of the loan was signed, the expiry date was extended to 01/01/2013 and an additional amount of EUR 1,000,000 was granted.</p>		
	109,286,300	258,286,300

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4 Deferred Expenses	2007	2006
	EUR	EUR
- 4,30% Exchangeable Bonds due 2008 150MM	306,071	669,055
- 6,87115%, Sol Melia Finance 107MM Loan.	3,250,253	3,972,525

From these deferred expenses an amount of EUR 1,038,516 should be considered short term in nature as these expenses relate to 2008.

	3,556,324	4,641,580
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5 Short Term Loan Sol Melia S.A.
-at an interest rate of 4,39375% p.a.

Sol Melia Europe B.V. to Sol Melia S.A., issued on 14/11/2003,
for an amount of EUR 150,000,000, with a fixed interest rate stipulated on contract.
Date of maturity 13/11/2008, transferred to short term.

	150,000,000	-
--	-------------	---

6 Interest receivable loans Sol Melia S.A.


Interest receivable loans Sol Melia S.A.
-at an interest rate of 4,39375% p.a. 150MM
-at an interest rate of EURIBOR + 1% p.a. 2.4MM (1.4MM, 2006)

	866,712	866,712
	75,730	3,073
	942,442	869,785

7 Cash at banks

- ABN AMRO bank account
- ABN AMO deposit account
- ABN AMRO savings account

	342,226	312,290
	-	453,586
	255	497,763
	342,481	1,263,639

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8 Shareholder's Equity

The share capital is divided in 7,500,000 shares of one Euro each. In 2003 the Company issued 1,480,000 shares to Sol Melia S.A., which are fully paid in.
 At balance sheet a total of 1,500,000 shares were issued and fully paid.

On 02/06/2006 and after the proposal made by the Board of Managers, the Shareholders approved a contribution of EUR 500,000 in the Share Premium account of the company. This contribution is made by converting part of the the company's reserve funds into share premium account.

Movements in the shareholders' equity accounts are as follows:

	2006	<i>Changes for the</i> Year	2007
	EUR	EUR	EUR
Issued and fully paid share capital	1,500,000	-	1,500,000
Share Premium	500,000	-	500,000
Retained earnings	590,971	127,249	718,220
Net result for the year	127,249	-7,789	119,460
	<u>2,718,220</u>	<u>119,460</u>	<u>2,837,680</u>

9 Long term Loan Sol Melia Finance Ltd.

2007 **2006**
EUR **EUR**

Sol Melia Finance Ltd. to Sol Melia Europe B.V., issued on 29/04/2002,
 for an amount of EUR 106,886,300, with a fixed interest rate stipulated on contract.
 Date of maturity 30/06/2012

-at an interest rate of 7,83% p.a. 106,886,300 106,886,300

10 Exchangeable bonds

Sol Melia Europe B.V. has issued EUR 150,000,000, 4,30% guaranteed exchangeable bonds due November 14, 2008, exchangeable for ordinary shares of Sol Melia S.A. Transferred to Short term.
 The bonds are listed on the Luxembourg Stock Exchange.

- 4,30% Exchangeable Bonds due 2008 - 150,000,000

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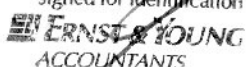
11 Deferred interest income long term	2007	2006
	EUR	EUR
- Interest 4,30% 150MM	315,000	675,000
- Interest 6,873% 107MM	3,255,990	3,979,532
	<u>3,570,990</u>	<u>4,654,532</u>

From this deferred income an amount of EUR 1,083,542 should be considered short term in nature as these income relates to 2008.

12 Exchangeable Bonds Short term	2007	2006
	EUR	EUR
The exchangeable bonds due November 14, 2008, are transferred to Short term In march 2007 Bonds for an amount of EUR 10,000 were redeemed		
- 4,30% Exchangeable Bonds due 2008	<u>149,990,000</u>	-

13 Interest payable exchangeable bonds short term	2007	2006
	EUR	EUR
- Interest 4,30% 150MM	<u>848,184</u>	<u>848,219</u>

14 Due to Group Companies	2007	2006
	EUR	EUR
Melia Inversiones Americanas N.V.	<u>3,227</u>	<u>2,981</u>

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Sol Melia Europe B.V.
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15 Accounts Payable and Accrued Expenses	2007	2006
	EUR	EUR
Accounts payable	2,708	20,267
Accrued taxation advisory fees	4,770	4,500
Accrued audit fees	10,621	10,115
Accrued other financial services	1,300	-
	<u>19,399</u>	<u>34,882</u>


16 Interest income loan Sol Melia, S.A.		
-at an interest rate of 4,39375% p.a. 150MM	6,590,625	6,590,625
-at an interest rate of 6,375% p.a.340MM	-	2,256,576
-at an interest rate of 7,92375% p.a. 107MM	8,469,403	8,469,403
-at an interest rate of EURIBOR + 1% p.a.2.4MM (1.4MM, 2006)	72,657	54,782
-Interest bond discount of the 340MM loan	-	111,635
-Amortization of Premium	360,000	360,000
-at an interest rate of 6,873% p.a.	723,542	723,542
	<u>16,216,227</u>	<u>18,566,563</u>

17 Interest expense Exchangeable Bonds 150MM

Sol Melia Europe B.V. has issued EUR 150,000,000, 4,30% guaranteed exchangeable bonds due November 14, 2008, exchangeable for ordinary shares of, Sol Melia S.A.

The bonds are listed on the Luxembourg Stock Exchange.

Interest 4,30%	6,449,661	6,450,000
Amortization of Premium	367,112	362,983
	<u>6,816,773</u>	<u>6,812,983</u>

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Sol Melia Europe B.V.
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	2007	2006
18 Interest expense loan Sol Melia Finance Ltd.	EUR	EUR
-at an interest rate of 6,87115%	757,273	753,748
-at an interest rate of 7,83%	8,369,197	8,369,197
	<u>9,126,470</u>	<u>9,122,945</u>

19 General and Administrative Expenses


Consultancy	4,096	7,400
Tax advisory fees	5,946	33,193
Audit fees	10,621	9,081
Register	123	144
Bank charges	720	869
Office Expenses	28,702	29,046
	<u>50,208</u>	<u>79,732</u>

The Company has signed an agreement with Melia Inversiones Americanas N.V in order to share the costs of renting the office space, employing one or more employees, telecommunication expenses, administrative expenses, inventory and office equipment.

20 Provision for Corporate Income Tax

Provision for corporate income tax year 2007	95,602	-4,345
Prior years Income Tax	1,303	122,136
	<u>96,906</u>	<u>117,791</u>

An Advance Price Agreement was signed with the tax authorities on 05/12/2006.


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21 Directors and Employees

The Company has no employees other than its directors.
No loans or advances have been given to or were received from the director.
The managing directors do not receive a remuneration.
The Company has no supervisory directors.

Amsterdam
February 05, 2008

The Managing Directors


Sebastián Escarrer Jaume
Adrian J.C.M. Vermunt
David A. Bergel Rodríguez

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9/2/08
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Sol Melia Europe B.V.
Amsterdam
December 31, 2007

OTHER INFORMATION

1 Proposed Appropriation of Net Result for the year

Profit for the year has been reported in equity until the appropriation of the result has been decided in the Annual General Meeting of Shareholders in accordance with the Company's Articles of Incorporation.

2 Post Balance Sheet Events

No matters or circumstances of importance have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

signed for identification ⁵⁷²⁶
 **ERNST & YOUNG**
ACCOUNTANTS

To: the management of Sol Meliá Europe B.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2007 of Sol Meliá Europe B.V., Amsterdam, which comprise the balance sheet as at December 31, 2007, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Sol Meliá Europe B.V. as at December 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, February 5, 2008

for Ernst & Young Accountants



S. van den Ham