


**Sol Melia Europe B.V.**  
**Amsterdam**  
**December 31, 2006**

**Sol Melia Europe B.V.**  
**Amsterdam**  
**Annual Report**  
**December 31, 2006**

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

**Sol Melia Europe B.V.**  
**Amsterdam**  
**December 31, 2006**

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**Sol Melia Europe B.V.**  
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**December 31, 2006**

**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, 2006.

**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 127.249.

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 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.

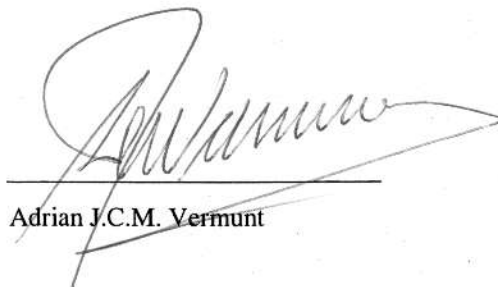
Amsterdam

February 5, 2007.

The Managing Directors



Sebastián Escarrer Jaume



Adrian J.C.M. Vermunt




David A. Bergel Rodríguez

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**Sol Melia Europe B.V.**  
**Amsterdam**  
**December 31, 2006**

**BALANCE SHEET AS AT DECEMBER 31, 2006.**  
**(BEFORE APPROPRIATION OF RESULTS).**

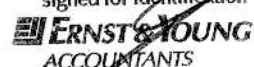
	<i>Notes</i>	2006 EUR	2005 EUR
<b>ASSETS</b>			
<b>Financial Fixed Assets</b>			
Long term loan Sol Melia S.A.	3	258.286.300	258.286.300
Deferred expenses	4	4.641.580	5.787.250
Application loan expenses		70.759	107.670
		<b>262.998.639</b>	<b>264.181.220</b>
<b>Current Assets</b>			
Corporation tax Debtor		13.070	13.871
Short term loan Sol Melia S.A.	5	-	340.000.000
Interest receivable loans Sol Melia S.A.	6	869.785	20.203.328
Cash at banks	7	1.263.639	809.596
		<b>2.146.495</b>	<b>361.026.795</b>
<b>TOTAL ASSETS</b>		<b>265.145.134</b>	<b>625.208.015</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>			
<b>Shareholder's Equity</b>			
Issued and fully paid share capital	8	1.500.000	1.500.000
Share Premium		500.000	-
Retained Earnings		590.971	641.863
Net result for the year		127.249	449.108
		<b>2.718.220</b>	<b>2.590.971</b>
<b>Non-current Liabilities</b>			
Long term loan Sol Melia Finance Ltd.	9	106.886.300	106.886.300
Exchangeable Bonds	10	150.000.000	150.000.000
Deferred interest income long term	11	4.654.532	5.849.709
		<b>261.540.832</b>	<b>262.736.009</b>
<b>Current Liabilities</b>			
Bonds EMT Programme short term	12	-	340.000.000
Interest payable Bonds EMT Programme	13	-	18.982.064
Interest payable exchangeable bonds short term	14	848.219	848.219
Due to Group Companies	15	2.981	22.829
Accounts payable and accrued expenses	16	34.882	27.923
		<b>886.082</b>	<b>359.881.035</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>		<b>265.145.134</b>	<b>625.208.015</b>
The accompanying notes form part of these accounts.			

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**Sol Melia Europe B.V.**  
**Amsterdam**  
**December 31, 2006**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006.**


	<i>Notes</i>	<b>2006</b> EUR	<b>2005</b> EUR
<b>FINANCIAL INCOME AND EXPENSES</b>			
<b>Incomes</b>			
Interest income loan Sol Melia S.A.	17	18.566.563	38.475.627
Interest income banks		11.798	7.152
Interest Short Term Deposits		51.062	3.284
<b>Expenses</b>			
Interest expense Exchangeable Bonds Sol Melia S.A. 150MM	18	-6.812.983	-6.810.170
Interest expense EMT Programme 340MM	19	-2.331.876	-21.772.544
Amortization and Other Expenses		-36.913	-44.459
Interest expense loan Sol Melia Finance Ltd.	20	-9.122.945	-9.125.779
		<u>324.705</u>	<u>733.111</u>
<b>Other Income and expenses</b>			
General and administrative expenses	21	-79.732	-68.116
Currency exchange difference		67	-96
		<u>-79.665</u>	<u>-68.212</u>
Result before provision for corporate income tax		<u>245.040</u>	<u>664.899</u>
Provision for corporate income tax	22	-117.791	-215.791
<b>NET RESULT FOR THE YEAR</b>		<u><b>127.249</b></u>	<u><b>449.108</b></u>

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**STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2006.**

	2006 EUR '000	2005 EUR '000
<b>Operating profit</b>	245	665
<i>Movements in working capital:</i>		
Decrease (Increase) in receivables and other current assets	359.334	13
Increase (decrease) in current liabilities	-358.995	-36
<b>Net cash provided by (used in) operations</b>	<u>339</u>	<u>-23</u>
	<b>584</b>	<b>642</b>
Taxation paid	<u>-118</u>	<u>-239</u>
<b>Cash flows from operating activities</b>	<u>-118</u>	<u>-239</u>
	<b>466</b>	<b>403</b>
Redemption of / (payments for) financial fixed assets	<u>1.183</u>	<u>1.699</u>
<b>Cash flows from investing activities</b>	<u>1.183</u>	<u>1.699</u>
	<b>1.649</b>	<b>2.102</b>
Proceeds from long-term borrowings	<u>-1.195</u>	<u>-1.754</u>
<b>Cash flows from financing activities</b>	<u>-1.195</u>	<u>-1.754</u>
<b>Net cash flow</b>	<u>454</u>	<u>348</u>
Increase (decrease) in fully paid share capital	0	0
Exchange gains on cash in foreign currencies	0	0
<b>Increase (decrease) in cash</b>	<u>454</u>	<u>348</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 Sol Melia S.A.	2006 EUR	2005 EUR
-at an interest rate of 7,92375% p.a.	106.886.300	106.886.300
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		
-at an interest rate of 4,39375% p.a.	150.000.000	150.000.000
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		
-at an interest rate of EURIBOR + 1% p.a.	1.400.000	1.400.000
Sol Melia Europe B.V. to Sol Melia S.A., issued on 15/12/2003, for an amount of EUR 1.400.000. Date of maturity 01/01/2008		
	<u>258.286.300</u>	<u>258.286.300</u>

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<b>4 Deferred Expenses</b>	<b>2006</b>	<b>2005</b>
	<b>EUR</b>	<b>EUR</b>
- 4,30% Exchangeable Bonds due 2008 150MM	669.055	1.032.037
- EMTN Program 340MM	-	63.941
- 6,87115%, Sol Melia Finance 107MM Loan.	3.972.525	4.691.272
From these deferred expenses an amount of EUR 1.085.256 should be considered short term in nature as these expenses relate to 2007.		
	<u>4.641.580</u>	<u>5.787.250</u>

**5 Short Term Loan Sol Melia S.A.**  
-at an interest rate of 6,375% p.a.

On 09/02/2006 Sol Melia S.A., payed off the debt to Sol Melia Europe B.V.,  
for an amount of EUR 340.000.000.

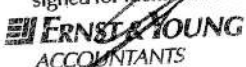
- 340.000.000

**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	866.712	866.712
-at an interest rate of EURIBOR + 1% p.a.1.4MM	3.073	96.342
-at an interest rate of 6,375% p.a. 340MM	-	19.240.274
	<u>869.785</u>	<u>20.203.328</u>

**7 Cash at banks**

- ABN AMRO bank account	312.290	322.592
- ABN AMO deposit account	453.586	-
- ABN AMRO savings account	497.763	487.004
	<u>1.263.639</u>	<u>809.596</u>

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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:

	<i>Changes for the</i>		
	<b>2005</b>	<b>Year</b>	<b>2006</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Issued and fully paid share capital	1.500.000	-	1.500.000
Share Premium	-	500.000	500.000
Retained earnings	641.863	-50.892	590.971
Net result for the year	449.108	-321.859	127.249
	<u>2.590.971</u>	<u>127.249</u>	<u>2.718.220</u>

**9 Long term Loan Sol Melia Finance Ltd.**

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.	<u>106.886.300</u>	<u>106.886.300</u>
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**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.

The bonds are listed on the Luxembourg Stock Exchange.

- 4,30% Exchangeable Bonds due 2008	<u>150.000.000</u>	<u>150.000.000</u>
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<b>11 Deferred interest income long term</b>	<b>2006 EUR</b>	<b>2005 EUR</b>
- Interest 4,30% 150MM	675.000	1.035.000
- Interest 1,00% 340MM	-	111.635
- Interest 6,873% 107MM	3.979.532	4.703.074
	<u>4.654.532</u>	<u>5.849.709</u>

From this deferred income an amount of EUR 1.083.542 should be considered short term in nature as these income relates to 2007.

**12 Bonds EMT Programme short term**

-at an interest rate of 6,25% p.a.	-	<u>340.000.000</u>
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On 09/02/2006 the 1.500.000.000 Euro Medium Term Note Programme, issued on 09/02/2001, for an amount of EUR 340.000.000, was terminated.

**13 Interest Payable bonds EMT Programme**

-at an interest rate of 6,25% p.a.	-	<u>18.982.064</u>
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The 1.500.000.000 Euro Medium Term Note Programme, issued on 09/02/2001 for an amount of EUR 340.000.000, with a fixed interest rate stipulated on contract, was terminated on 09/02/2006.

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<b>14 Interest payable exchangeable bonds short term</b>	<b>2006</b>	<b>2005</b>
	<b>EUR</b>	<b>EUR</b>
- Interest 4,30% 150MM	848.219	848.219
<b>15 Due to Group Companies</b>		
Melia Inversiones Americanas N.V.	2.981	22.829
<b>16 Accounts Payable and Accrued Expenses</b>		
Accounts payable	20.267	-
Accrued taxation advisory fees	4.500	9.833
Accrued audit fees	10.115	18.090
	34.882	27.923
<b>17 Interest income loan Sol Melia, S.A.</b>		
-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	21.615.617
-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.1.4MM	54.782	46.330
-Interest bond discount of the 340MM loan	111.635	670.110
-Amortization of Premium	360.000	360.000
-at an interest rate of 6,873% p.a.	723.542	723.542
	18.566.563	38.475.627

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<b>18 Interest expense Exchangeable Bonds Sol Melia S.A 150MM</b>	<b>2006</b>	<b>2005</b>
	<b>EUR</b>	<b>EUR</b>
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%	6.450.000	6.450.000
Amortization of Premium	362.983	360.170
	<u>6.812.983</u>	<u>6.810.170</u>
 <b>19 Interest expense EMT Programme 340MM</b>		
-at an interest rate of 6,25% p.a.	2.267.935	21.191.781
-Interest bond discount	63.941	580.763
	<u>2.331.876</u>	<u>21.772.544</u>
 <b>20 Interest expense loan Sol Melia Finance Ltd.</b>		
-at an interest rate of 6,87115%	753.748	756.582
-at an interest rate of 7,83%	8.369.197	8.369.197
	<u>9.122.945</u>	<u>9.125.779</u>
 <b>21 General and Administrative Expenses</b>		
Consultancy	7.400	7.293
Tax advisory fees	33.193	12.495
Audit fees	9.081	18.090
Register	144	163
Bank charges	869	850
Office Expenses	29.046	29.225
	<u>79.732</u>	<u>68.117</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.

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**22 Provision for Corporate Income Tax**

Provision for corporate income tax year 2005	-	219.820
Provision for corporate income tax year 2006	122.136	-
Prior years Income Tax	-4.345	-4.029
	<u>117.791</u>	<u>215.791</u>

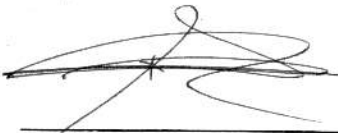
The tax ruling granted to Sol Melia Europe B.V expired on 31.12.2005.  
An Advance Price Agreement has been signed with the tax authorities on 05/12/2006.  
This Advanced Price Agreement starts to apply in 2006.

**23 Directors and Employees**

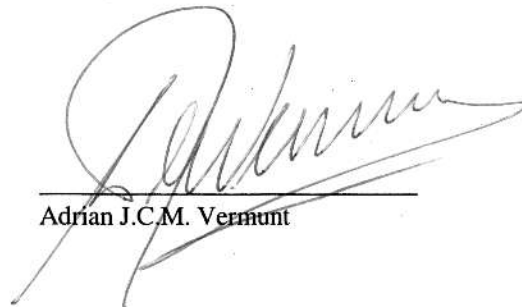
The Company has no employees other than its directors.  
No loans or advances have been given to or were received from the director.  
The managing directors do not receive a remuneration.  
The Company has no supervisory directors.

Amsterdam  
February 5, 2007.

The Managing Directors



Sebastián Escarrer Jaume



Adrian J.C.M. Vermunt



David A. Bergel Rodríguez

**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.

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

## **AUDITORS' REPORT**

### **Report on the financial statements**

We have audited the accompanying annual report of Sol Meliá Europe B.V., Amsterdam, which comprise the balance sheet as at December 31, 2006, 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 annual accounts and for the preparation of the management directors' 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 annual accounts 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 annual accounts 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, 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 annual accounts 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 annual accounts.

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 annual accounts give a true and fair view of the financial position of Sol Meliá Europe B.V. as at December 31, 2006, 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, 2007

for Ernst & Young Accountants



S. van den Ham