

Hilton Group plc

Remuneration Report 2003

### Introduction

The Board has final responsibility for the Company's remuneration policies with the Board delegating responsibility for remuneration policy in respect of the executive directors and senior executives to the remuneration committee.

Executive directors have delegated responsibility within the framework established by the Board for remuneration strategy and policies regarding all other employees within their own divisions.

### Remuneration committee composition

During the year the remuneration committee was comprised exclusively of independent non-executive directors, namely:

#### Mr. L P Lupo

(Chairman of the committee, from 16 May 2003 and appointed as a member on 25 May 2001)

#### Mr. J R F Walls

(Resigned 16 May 2003; Chairman of the committee to that date)

#### Mr. N M H Jones

(Resigned 31 December 2003)

#### Mr. I P Livingston

(Appointed 1 June 2003)

#### Mr. C J Rodrigues

(Appointed 29 October 2003)

Appointments to the committee are made by the Board at the recommendation of the nomination committee, which consults with the Chairman of the remuneration committee.

The Chairman of the Board is normally invited to attend the meetings of the committee in an advisory capacity. The committee regularly consults with the Chief Executive and the Head of Group Human Resources and Legal on proposals relating to the remuneration of executive directors and, from time to time, they are asked to attend committee meetings, other than when their personal remuneration is discussed. The committee has also, from time to time, consulted with the other members of the Board. The Company Secretary acts as secretary to the committee. The committee met five times in 2003 and all members of the committee were in attendance at each meeting. The committee retained independent remuneration consultants (Deloitte & Touche LLP) and has taken advice during the year from them in relation to executive remuneration matters. S J Berwin, one of the Company's corporate lawyers, has also provided material assistance. Deloitte & Touche LLP also provide the Company with outsourced internal audit and miscellaneous benchmarking and tax services. In forming the remuneration policy, the best practice provisions as set out in The Combined Code on Corporate Governance (2003) have been followed and the Guidelines issued by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) have been noted.

The Company has, during 2003, consulted with major institutional shareholders about remuneration.

### Remuneration policy

The Company seeks to provide competitive remuneration measured against other UK listed companies for the calibre of executives necessary to ensure the development and delivery of the business strategy. The policy is to pay base salary levels around market median levels for those with similar responsibilities in comparable companies and provide incentive opportunities targeted at key business measures which can provide levels of performance pay at around upper quartile of market practice for outstanding performance.

Accordingly, a significant proportion of potential total remuneration is performance related as follows:

- base salaries;
- annual incentives;
- long-term incentives, including share options and performance shares.

Additionally the Company provides benefits including pension, fully expensed company cars and fuel, private healthcare and life assurance.

Salaries are reviewed annually by reference to the data received from the independent consultants together with business and personal performance. Incentives and benefits are regularly reviewed and are non-pensionable.

In determining the extent to which the executive package is subject to performance, the committee takes into consideration both the remuneration policy of the Company and market practice. As regards contracts, the policy is that new appointments to the Board will normally be engaged on a one-year rolling contract subject to mitigation.

The committee determines the fees of the Chairman of the Board and the Board as a whole determines the remuneration of each of the other non-executive directors. Non-executive directors receive fees that are set relative to median market practice and are regularly reviewed. Non-executive directors are not eligible for annual bonus, share incentives, pension or other benefits. Non-executive directors are retained on the terms set out in their letter of appointment; they do not have service contracts with either the Company or any of its subsidiaries. The appointment of a non-executive director is terminable without notice.

**Annual bonus**

Executive directors participate in the senior executive annual bonus plan, which is focused upon the annual profit plan as agreed by the Board. In 2003, the threshold below which no payment would be made was continued at 95% of profit plan, with the maximum payment earned on achievement of 110% of profit plan.

For 2003, the maximum annual bonus opportunity for executive directors was set as 105% of base salary (125% for Mr. D M C Michels). Half of any bonus is delivered in shares, which are allocated conditionally on retention of the shares and continued employment (subject to certain specified exceptions) until the second anniversary of the award. Shares awarded under the plan are purchased in the market.

In addition, to further encourage share ownership, executives may be invited to invest up to 25% of any bonus earned, net of tax, into shares that are deferred for three years. The Company will only make this offer if adjusted earnings per share (earnings per share before the impact of goodwill amortisation, and exceptional items) (EPS) has increased more than the index of retail prices (RPI) during the bonus year and the profit plan has been achieved. As an incentive to invest, the Company will match on a one to one basis relative to the number of shares that would have been purchased with up to 25% of the executive's gross bonus. Participants will become entitled to any matching shares awarded after three years, subject to continued employment. The Company made no offer to senior executives in 2003, as the performance conditions had not been satisfied.

Annual bonus payments are non-pensionable.

**Longer-term incentives**

**Share option plans**

The Company operates two share option plans under which executives are eligible to participate at the discretion of the Board:

- the Hilton Group 1978 share option scheme (1978 scheme), a UK Inland Revenue approved scheme; and
- the Hilton Group international share option scheme (international scheme).

Options are granted at market value, determined shortly before the option grant.

Awards to executive directors are made annually as determined by the committee. Annual option awards will not normally exceed 1.5 times base salary, other than in exceptional circumstances, e.g. recruitment or promotion, when an annual award may be increased to a maximum of two times base salary. Subject to these annual limits, allocations will normally be made twice a year. Options granted prior to March 1996 do not have a performance criterion. Options granted from March 1996 to May 2000 inclusive cannot be exercised unless adjusted EPS growth in a consecutive three-year period exceeds the increase in the RPI by 6%. Options granted in 1998, 1999 and May 2000 have not yet met this performance condition. The required performance level for all options granted since September 2000, as approved by shareholders following consultation, is that adjusted EPS growth in a three-year period must exceed the increase in the RPI by the tiered targets as follows:

EPS growth	Proportion of annual grant vesting
RPI + 9%	2/3
RPI + 12%	5/6
RPI + 15%	Full vesting

If the performance levels are not met over the first three years, to take account of the cyclical nature of the hotel industry, limited retesting was approved by shareholders. Retesting, measured from the original base, is for a maximum of a further two years and subject to more demanding performance criteria. If the adjusted EPS growth for the first two-thirds of the option grant is not achieved after three years, the performance criterion is that it must at least equal RPI plus 13% after four years or RPI plus 18% after five years. To achieve the maximum vesting in years four or five requires adjusted EPS growth of RPI plus 21% and RPI plus 28% respectively. If the conditions are not met over the first five years, the grant lapses. Options granted in September 2000 have not yet met these performance conditions. The use of EPS as the performance measure for the share option schemes is consistent with market practice and the tiered approach detailed above has been consistent with best practice.

The Company also operates a savings related share option scheme and share incentive plan, details of which are provided later in this report.

Schemes previously operated by Stakis Limited being the Stakis 1984 executive share option scheme, the Stakis 1994 executive share option scheme and the Stakis 1993 savings related share option scheme continue in operation in relation to outstanding options. No further grants will be made under these schemes, which do not have performance criteria.

Any benefits provided under the share option plans are non-pensionable.

**Performance share plans**

Currently there are two plans in operation, both of which have been approved by shareholders. Under the earlier plan, awards were made on 1 January 2001 and 2002 respectively and these operate to 31 December 2003 and 2004 respectively; awards under the new plan started on 1 January 2003 and operate to 31 December 2005. Participation in both plans is limited to executive directors and a number of key executives as determined by the committee.

Potential awards under the earlier plan were made to a maximum of 100% of base salary in shares. The award lapses unless the Company achieves a 6% growth over RPI in adjusted EPS and at least the 50th percentile position in comparison with the total shareholder return (TSR) for all FTSE100 companies.

TSR is calculated from share price growth and reinvested dividends. The full award vests if TSR performance exceeds all other companies in the FTSE100; 35% of an award vests if the Company achieves the median position of the FTSE100 companies between these points the award vests on a straight line basis otherwise the full award lapses.

For the 2001 awards under the earlier plan the Company achieved the 19th percentile on the TSR measure over the three years ended on 31 December 2003 but awards made to executives did not vest, as the EPS condition was not fulfilled. The 2002 awards continue to operate until 31 December 2004 at which point the earlier plan will then cease.

The new plan makes potential awards to a maximum of 120% of base salary in shares. Half of the award is based on TSR comparisons with other leading international hotel, leisure and gaming companies.

For the TSR element of these awards, 100% will vest if TSR performance is ranked 1st or 2nd against the selected comparator group and 40% will vest for 9th position. If at least 9th position is not achieved, this part of the award lapses. Vesting is on a straight line basis between 9th and 2nd positioning. The use of TSR as the performance measure for half of the award is consistent with market practice. The comparator group for the 2003 award consists of the following 16 companies, plus the Company:

Accor	P&O Princess
Enterprise Inns	Rank Group
First Choice Holidays	Sol Melia
Four Seasons Hotels	Stanley Leisure
Intercontinental Hotels	Starwood Hotels & Resorts
Marriott International	Thistle Hotels
Millennium & Copthorne	Whitbread
N H Hoteles	William Hill

The vesting of the remaining elements of the award is subject to operating profit growth for the Betting and Gaming Division and return on capital employed (ROCE) for the Hotels Division. ROCE, for the purpose of the plan, is defined as profit before interest, tax, goodwill, amortisation and exceptional items divided by net assets, excluding goodwill, adjusted for revaluation reserves. ROCE and operating profit were chosen as the performance measure for the remaining element of the award because the Company view these as the key financial drivers for the Hotel and Betting & Gaming divisions respectively. The financial performance measures over the three-year performance period that started on 1 January 2003 are:

	Base performance (i.e. 40% of award vesting)	Maximum performance (i.e. 100% of award vesting)
<b>Betting &amp; Gaming Division</b> (Operating Profits)	£170m	£203m
<b>Hotels Division</b> (ROCE)	10%	12.1%

Vesting between base and maximum performance for ROCE/operating profit elements is on a straight line basis. If the base performance measures are not achieved the relevant parts of the award lapse. The committee has discretion to ensure that performance measurement takes appropriate account of the impact of mergers, acquisitions and disposals during the performance period. It is the intention of the Company to ensure that the achievement of the targets can be readily identifiable from the Company's Annual Report. The extent to which the financial performance measures have been achieved will be independently confirmed. Performance against the target will be reviewed annually and with independent advice, comparisons will be made on a consistent basis taking account of any accounting changes over the measurement period.

Any benefits provided under the plan are non-pensionable.

**Retirement benefits**

Executive directors and senior executives have a choice between:

- (i) membership of the Executive Section of the Hilton Group Pension Plan (HGPP) together with membership of the Hilton Unfunded Unapproved Retirement Benefits Scheme (HUURBS) established to cover base salary above the Earnings Cap; or
- (ii) membership of the HGPP plus a cash supplement of 30% of base salary above the Earnings Cap; or
- (iii) cash supplement of 30% of base salary in lieu of membership of a company pension arrangement.

Those who chose membership of the HGPP and the HUURBS are credited with a HUURBS allocation of 42% of base salary above the Earnings Cap, reference (i) above. Mr. D M C Michels, who does not participate in the retirement benefits mentioned above, has a separate money purchase arrangement into which is paid 30% of base salary. The company contribution to this arrangement is shown on page 11. Mr. Michels also receives a pension supplement of 10.7% of base salary above the Earnings Cap.

**Executive directors' shareholding guidelines**

Personal shareholding guidelines require executive directors to build up, over time, personal shareholdings equivalent in value to at least one year's base salary.

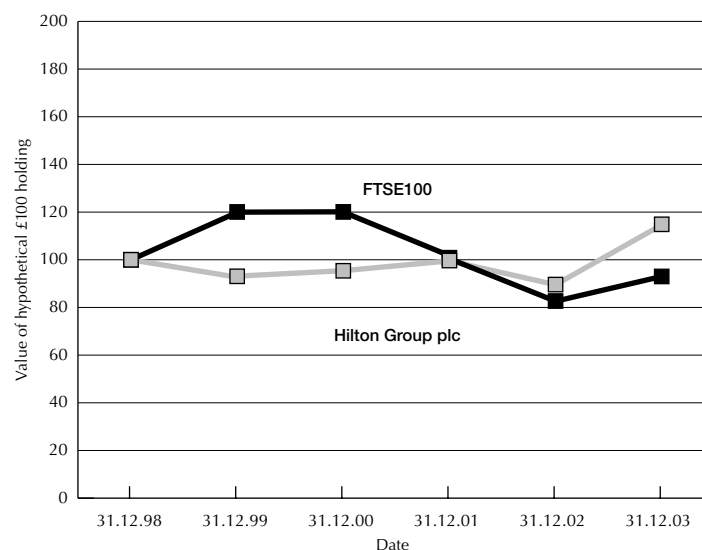
**Service contracts**

The policy of the Company is that new appointments to the Board will normally be engaged on a one-year rolling contract. In line with the Company's policy, Mr. C Bell, Mr. D M C Michels and Mr. B G Wallace are all now employed on conventional one-year rolling contracts dated 9 May 2003 (as amended by a side letter dated 9 December 2003); 26 March 1999 (as amended by side letters dated, 21 June 2000, 9 May 2003 and 9 December 2003) and 9 May 2003 (as amended by a side letter dated 9 December 2003) respectively. The Company normally expects executive directors, in case of a breach of contract, to mitigate their loss. In any specific case that may arise, the committee will carefully consider any compensatory payments having regard to performance, age, length of service and other circumstances that are relevant. The notice period required from executive directors is six months.

**Performance graph**

As the Company is a constituent company of the FTSE100, the FTSE100 index provides an appropriate indication of market movements against which to benchmark the Company's performance. The chart below summarises the Company's TSR performance against the FTSE100 index over the five years ended 31 December 2003.

Historical TSR performance against FTSE100  
Growth in the value of a hypothetical £100 holding over five years



Source: Datastream

In addition to the incentive arrangements previously outlined, two share plans are operated in which all UK employees, subject to minimum service requirements, are eligible to participate. These are summarised below.

**Savings related share option scheme**

The Hilton Group 1983 savings related share option scheme (1983 scheme), which is approved by the UK Inland Revenue, is linked to a Save-As-You-Earn contract under which participants save a regular monthly sum by deduction from earnings of up to £250 per month for either three or five years. Subject to common service criteria, the 1983 scheme is open to all UK employees (including executive directors) of the Company. Options are normally exercisable during a period of six months following the expiry of three, five or seven years (as previously selected by the participant) from the date of grant and there are no performance conditions. Option prices are calculated by reference to the average of the mid-market quotation of a share as shown by the Stock Exchange Daily Official List for the five business days immediately preceding the date of grant, discounted by 20%.

**Share incentive plan**

A share incentive plan, approved by the UK Inland Revenue, was introduced in 2000 to strengthen and widen employee share ownership. The plan is open to all UK employees, (including executive directors) who have completed at least 12 months service. To encourage employee participation, the Company provides a match of one bonus share for every two salary shares purchased by employees. The bonus shares are held conditional upon satisfaction of a one-year service requirement. The maximum monthly contribution by employees has been set at £75 per month.

## directors' remuneration and interests: information subject to audit

The following table shows the emoluments of the executive directors and non-executive directors in the year ended 31 December 2003 excluding gains from the exercise of share options and contributions to money purchase schemes.

	Basic salary & fees <sup>(a)</sup> £000	Annual bonus <sup>(a)</sup> £000	Benefits- in-kind £000	Pension supplement <sup>(a)</sup> £000	2003 Total £000	2002 Total £000
<b>Executive directors</b>						
C Bell	333	186	23	70	612	497
A R Harris <sup>(b)</sup>	109	82	5	28	224	637
D M C Michels	615	338	23	55	1,031	826
B G Wallace	457	234	27	150	868	726
<b>Total</b>	<b>1,514</b>	<b>840</b>	<b>78</b>	<b>303</b>	<b>2,735</b>	<b>2,686</b>
<b>Non-executive directors<sup>(a)</sup></b>						
Sir Ian Robinson	180	–	–	–	180	180
S F Bollenbach	–	–	–	–	–	–
N M H Jones	38	–	–	–	38	14
I P Livingston <sup>(c)</sup>	20	–	–	–	20	–
L P Lupo	40	–	–	–	40	33
Lady Patten <sup>(d)</sup>	35	–	–	–	35	33
C J Rodrigues <sup>(e)</sup>	12	–	–	–	12	–
J R F Walls <sup>(f)</sup>	15	–	–	–	15	33
<b>Total</b>	<b>340</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>340</b>	<b>293<sup>(g)</sup></b>

### Notes:

- (i) Mr. A R Harris died on 11 March 2003.
- (ii) Annual basic salaries on 1 January 2003 were Mr. C Bell £333,125; Mr. A R Harris £434,969; Mr. D M C Michels £615,000 and Mr. B G Wallace £456,717 respectively. With effect from 1 January 2004, the annual basic salaries of the executive directors were increased by 3% (7.5% Mr. C Bell) as follows: Mr. C Bell to £358,109; Mr. D M C Michels to £633,450 and Mr. B G Wallace to £470,419 respectively. Executive directors serve elsewhere as non-executive directors and retain fees which are as follows, Mr. C Bell £36,500 per annum, Mr. D M C Michels £31,000 per annum and Mr. B G Wallace £40,000 per annum.
- (iii) Mr. D M C Michels and Mr. B G Wallace were awarded bonuses of £90,000 and £60,000 respectively in recognition of their substantial extra workload following the untimely death of Anthony Harris. Pursuant to the provisions of the annual bonus plan, see page 2, shares will be delivered in 2006 as follows: Mr. C Bell 89,962; Mr. D M C Michels 163,504 and Mr. B G Wallace 113,555. Similarly, under the provisions of the plan the share awards that otherwise would have been made in respect of Mr. A R Harris have been cashed out and the amounts paid are included in the table opposite. 600 managers across the Company shared bonuses totalling £5,800,000, reflecting their achievements in 2003. In addition a significant number of employees benefited from payments made from local plans.
- (iv) Of which £178,000 represents entitlements from the HUURBS, accrued by the Company in respect of Mr. A R Harris and Mr. B G Wallace.
- (v) Non-executive directors are not eligible for annual bonus, share incentives, pension or any other benefits.
- (vi) Mr. I P Livingston was appointed a non-executive director of the Company on 1 June 2003 and Mr. C J Rodrigues was appointed a non-executive director of the Company on 1 September 2003. Mr. J R F Walls resigned as a non-executive director of the Company on 16 May 2003 and Lady Patten resigned as a non-executive director of the Company on 9 December 2003.
- (vii) The non-executive directors' only remuneration from the Company (with the exception of Mr. S F Bollenbach who receives no remuneration) is a fee: Sir Ian Robinson (Chairman): £180,000 per annum, each other non-executive director: £35,000 per annum and the Chairman of each of the audit and remuneration committees an additional £5,000 per annum. Sir Ian Robinson's fees increased by 3% to £185,400 per annum, effective 1 January 2004.

Share option schemes

The number of options granted to the executive directors in 2003 and outstanding as at 31 December 2003 are set out below:

	Plan	No. of options at 31.12.02	Options granted during year	Options exercised during year	Options lapsed during year	No. of options at 31.12.03	Date of grant	Exercise price (pence)	Market price at date of exercise	Gain made on exercise £000	Date from which exercisable	Expiry date
C Bell												
	(i)	84,600	–	–	–	84,600	31.05.95	182.65	–	–	31.05.98	31.05.05
	(ii)	–	264,664	–	–	264,664	04.04.03	141.60	–	–	04.04.06	04.04.13
		–	67,727	–	–	67,727	16.09.03	184.45	–	–	16.09.06	16.09.13
		155,826	–	–	–	155,826	11.09.02	177.65	–	–	11.09.05	11.09.12
		85,190	–	–	–	85,190	17.04.02	247.30	–	–	17.04.05	17.04.12
		196,588	–	–	–	196,588	24.09.01	166.45	–	–	24.09.04	24.09.11
		95,336	–	–	–	95,336	23.04.01	212.70	–	–	23.04.04	23.04.11
		170,799	–	–	–	170,799	20.09.00	197.60	–	–	20.09.03	20.09.10
		71,657	–	–	–	71,657	01.04.99	290.70	–	–	01.04.02	01.04.09
		70,000	–	–	–	70,000	24.04.98	337.45	–	–	24.04.01	24.04.08
		70,000	–	–	–	70,000	22.05.97	244.50	–	–	22.05.00	22.05.07
		40,672	–	–	–	40,672	08.10.96	207.55	–	–	08.10.99	08.10.06
		26,496	–	–	–	26,496	20.05.96	193.95	–	–	20.05.99	20.05.06
	(iii)	8,712	–	–	–	8,712	18.06.02	189.96	–	–	01.08.07	31.01.08
<b>Total</b>		<b>1,075,876</b>	<b>332,391</b>	<b>–</b>	<b>–</b>	<b>1,408,267</b>			<b>–</b>	<b>–</b>		
D M C Michels												
	(i)	10,319	–	–	–	10,319	01.04.99	290.70	–	–	01.04.02	01.04.09
	(ii)	–	488,612	–	–	488,612	04.04.03	141.60	–	–	04.04.06	04.04.13
		–	125,034	–	–	125,034	16.09.03	184.45	–	–	16.09.06	16.09.13
		278,191	–	–	–	278,191	11.09.02	177.65	–	–	11.09.05	11.09.12
		164,089	–	–	–	164,089	17.04.02	247.30	–	–	17.04.05	17.04.12
		355,040	–	–	–	355,040	24.09.01	166.45	–	–	24.09.04	24.09.11
		216,096	–	–	–	216,096	23.04.01	212.70	–	–	23.04.04	23.04.11
		225,000	–	–	–	225,000	20.09.00	197.60	–	–	20.09.03	20.09.10
		389,681	–	–	–	389,681	01.04.99	290.70	–	–	01.04.02	01.04.09
	(iii)	2,000	–	–	–	2,000	18.06.02	189.96	–	–	01.08.05	31.01.06
		3,191	–	–	–	3,191	26.06.01	182.12	–	–	01.08.04	31.01.05
		1,443	–	–	1,443	–	11.06.99	214.72	–	–	01.08.02	31.01.03
<b>Total</b>		<b>1,645,050</b>	<b>613,646</b>	<b>–</b>	<b>1,443</b>	<b>2,257,253</b>			<b>–</b>	<b>–</b>		
B G Wallace												
	(i)	250,000	–	–	–	250,000	31.05.95	182.65	–	–	31.05.98	31.05.05
		100,000	–	–	–	100,000	04.10.95	166.75	–	–	04.10.98	04.10.05
	(ii)	–	362,857	–	–	362,857	04.04.03	141.60	–	–	04.04.06	04.04.13
		–	92,854	–	–	92,854	16.09.03	184.45	–	–	16.09.06	16.09.13
		188,114	–	–	–	188,114	11.09.02	177.65	–	–	11.09.05	11.09.12
		135,132	–	–	–	135,132	17.04.02	247.30	–	–	17.04.05	17.04.12
		292,386	–	–	–	292,386	24.09.01	166.45	–	–	24.09.04	24.09.11
		177,961	–	–	–	177,961	23.04.01	212.70	–	–	23.04.04	23.04.11
		225,000	–	–	–	225,000	20.09.00	197.60	–	–	20.09.03	20.09.10
		300,000	–	–	–	300,000	01.04.99	290.70	–	–	01.04.02	01.04.09
		150,000	–	–	–	150,000	24.04.98	337.45	–	–	24.04.01	24.04.08
		150,000	–	–	–	150,000	22.05.97	244.50	–	–	22.05.00	22.05.07
		150,000	–	–	–	150,000	20.05.96	193.95	–	–	20.05.99	20.05.06
	(iii)	9,265	–	–	–	9,265	26.06.01	182.12	–	–	01.08.06	31.01.07
<b>Total</b>		<b>2,127,858</b>	<b>455,711</b>	<b>–</b>	<b>–</b>	<b>2,583,569</b>			<b>–</b>	<b>–</b>		

(i) 1978 share option scheme.

(ii) International share option scheme.

(iii) 1983 savings related share option scheme.

The performance conditions attached to the vesting of the options detailed above are outlined on pages 2 and 5.

The market price of the Company's shares on 31 December 2003 was 224.75p. The highest price of the shares during the financial year was 225.50p. The lowest price of the Company's shares during the financial year was 130.00p.

The highest and lowest price of the Company's shares since the date of option grants during the year were 225.50p and 141.50p, 225.50p and 178.50p, 225.50p and 178.50p in respect of grants made on 4 April 2003, 17 June 2003 and 16 September 2003 respectively.

**Other share schemes**

Outstanding allocations made under the performance share plan, the share incentive plan and the annual bonus plan to executive directors at 31 December 2003 are as follows:

	Plan	Outstanding awards at 31.12.02	Awards vesting during the year <sup>(a)</sup>	Awards lapsing during the year <sup>(a)</sup>	Awards made during the year	Outstanding awards at 31.12.03	Date of award	Share price on date of award (pence)	Performance period end
C Bell	(a)	–	–	–	239,371	239,371	16.05.03	167.00	31.12.05
		140,450	–	–	–	140,450	01.03.02	200.00	31.12.04
		117,045	–	–	–	117,045 <sup>(i)</sup>	08.03.01	198.00	31.12.03
		99,346	–	99,346	–	–	01.03.00	198.00	31.12.02
	<b>Total</b>	<b>356,841</b>	<b>–</b>	<b>99,346</b>	<b>239,371</b>	<b>496,866</b>			
	(b)	–	–	–	59,716	59,716	07.03.03	see note (ii)	see note (ii)
	(c)	302	–	–	256	558	see note (iii)	see note (iii)	see note (iii)
D M C Michels	(a)	–	–	–	441,916	441,916	16.05.03	167.00	31.12.05
		270,529	–	–	–	270,529	01.03.02	200.00	31.12.04
		265,303	–	–	–	265,303 <sup>(i)</sup>	08.03.01	198.00	31.12.03
		196,153	–	196,153	–	–	21.06.00	260.00	31.12.02
	<b>Total</b>	<b>731,985</b>	<b>–</b>	<b>196,153</b>	<b>441,916</b>	<b>977,748</b>			
	(b)	–	–	–	108,542	108,542	07.03.03	see note (ii)	see note (ii)
	(c)	302	–	–	256	558	see note (iii)	see note (iii)	see note (iii)
B G Wallace	(a)	–	–	–	328,179	328,179	16.05.03	167.00	31.12.05
		222,789	–	–	–	222,789	01.03.02	200.00	31.12.04
		218,484	–	–	–	218,484 <sup>(i)</sup>	08.03.01	198.00	31.12.03
		161,538	–	161,538	–	–	21.06.00	260.00	31.12.02
	<b>Total</b>	<b>602,811</b>	<b>–</b>	<b>161,538</b>	<b>328,179</b>	<b>769,452</b>			
	(b)	–	–	–	69,375	69,375	07.03.03	see note (ii)	see note (ii)
	(c)	302	–	–	256	558	see note (iii)	see note (iii)	see note (iii)

(a) Performance share plan.

(b) Deferred bonus plan.

(c) The amounts shown are in respect of the Bonus shares awarded on a monthly basis under the share incentive plan.

The performance conditions attached to the awards vesting detailed above are outlined on pages 2, 3 and 5.

**Notes:**

- (i) Conditional awards made at 8 March 2001 lapsed on 31 December 2003 as the relevant performance conditions had not been met.
- (ii) Awards were made under the deferred bonus plan on 7 March 2003 based on an award price of 166.99p. Awards will vest on 7 March 2005.
- (iii) Bonus shares were awarded under the share incentive plan on a monthly basis on award dates between 8 January and 17 December. Share prices on the award dates ranged from 145.75p-216.00p.

**Retirement provision**

Mr. C Bell and Mr. B G Wallace are members of the Executive Section of the HGPP, details of which are set out in note 5 on page 29 of the Annual Report 2003. In respect of base salary above the Earnings Cap, Mr. B G Wallace is a member of the HUURBS and Mr. C Bell receives the cash supplement. Mr. D M C Michels is not a member of HGPP or HUURBS. The Company has continued his money purchase arrangement and the cost in 2003 was £184,500 (2002: £171,159). In addition Mr. D M C Michels receives a cash supplement in respect of his base salary above the Earnings Cap, the amount of which is as shown in the table on page 6.

The transfer value figures below have been provided by the independent actuary appointed by the Trustees of the HGPP, in accordance with Actuarial Guidance Note GN 11. The accrued pension benefit is an annual figure. The transfer value represents the amount that would be paid to another pension scheme if this accrued pension benefit were to be transferred away from the HGPP.

Set out below are details of the pension benefits, payable on retirement at age 60, to which each of the directors shown is entitled at 31 December 2003. The figures shown below, including the accrued pensions are the total pension entitlements in respect of all Pensionable Service with the Company, including any service with the Company prior to becoming a director.

	Increase, excluding revaluation, in accrued pension over 2003 £000	Transfer value of increase, less director's contributions over 2003 £000	Accrued pension at 31.12.03 £000	Accrued pension at 31.12.02 £000
C Bell	3	10	31	28
A R Harris*	1	2	22	21
B G Wallace	3	22	29	25

## directors' remuneration and interests: information subject to audit (continued)

Set out below are details of the pension benefits, payable on retirement at age 60, to which each of the directors shown is entitled at 31 December 2003 in respect of qualifying services. The figures shown below, including the accrued pensions are the total pension entitlements in respect of all Pensionable Service with the Company, including any service with the Company prior to becoming a director.

	Additional accrued pension over 2003 £000	Total accrued pension as a director at 31.12.2003 £000	Transfer value at 31.12.03 £000	Transfer value at 31.12.02 £000	Increase or (decrease) in transfer value over 2003 £000	Increase or (decrease) in transfer value, less director's contributions over 2003 £000
C Bell	3	31	227	182	45	36
A R Harris*	1	22	178	176	2	–
B G Wallace	4	29	261	202	59	50

\* Prior to his death on 11 March 2003, Mr. A R Harris was a member of the Executive Section of the HGPP and was a member of the HUURBS in respect of base salary above the Earnings Cap. In line with the rules of the HGPP and the HUURBS, a lump sum payment was made and a spouse's pension is now in payment from the HGPP. An additional lump sum payment was made in respect of earnings in excess of the Earnings Cap, which was paid from an insurance arrangement.

A transfer value represents a liability of the Company but not a sum paid or due to the individual.

### Directors' interests in shares

The interests of the directors in the Company's 10p ordinary shares, excluding interests under share options and long-term incentive plans, at the dates stated were:

Ordinary shares	At 31 December 2003 Fully paid	At 31 December 2002 (or later date of appointment) Fully paid
Sir Ian Robinson	28,000	28,000
D M C Michels	310,172 <sup>(ii)</sup>	309,346
C Bell	32,304 <sup>(ii)</sup>	31,478
S F Bollenbach	–	–
N M H Jones	50,000	20,000
I P Livingston	2,000	–
L P Lupo	10,000	10,000
C J Rodrigues	–	–
B G Wallace	53,198 <sup>(ii)</sup>	52,372

(i) All the share interests above were beneficial.

(ii) 1,755 (2002: 929 shares) shares are held under the Hilton Group share incentive plan.

The following changes have occurred to the directors' share interests since the year-end:

(a) Shares were purchased by/awarded to the directors under the share incentive plan as follows: on 5 January 2004; Mr. D M C Michels 49 shares, Mr. C Bell 49 shares, and Mr. B G Wallace 49 shares; and on 5 February 2004; Mr. D M C Michels 50 shares, Mr. C Bell 50 shares, and Mr. B G Wallace 50 shares.

(b) Conditional awards made under the performance share plan at 8 March 2001 lapsed on 31 December 2003, as the relevant performance conditions had not been met.

No other changes to directors' share interests have taken place between 31 December 2003 and 26 February 2004.

Except for service contracts on page 4, none of the directors was materially interested during the year in any contract of significance in relation to the Company's business entered into by the Company or its subsidiaries or, other than is shown in this report, has any interest in the shares or debentures of the Company or its subsidiaries.

### Emoluments

The emoluments of the directors in 2003 including pension supplements, payments to money purchase pension schemes and benefits-in-kind were as follows:

Executive directors	2003 £000	2002 £000
Annual emoluments:		
Basic salaries	1,514	1,744
Annual bonus	840	472
Benefits-in-kind	78	72
Pension supplements <sup>(i)</sup>	303	398
	2,735	2,686
Contributions to money purchase schemes	185	171
<b>Annual emoluments total</b>	<b>2,920</b>	<b>2,857</b>
Longer-term emoluments:		
Performance share plan awards <sup>(iii)</sup>	–	205
Gains on exercise of share options <sup>(iii)</sup>	–	304
<b>Longer-term emoluments total</b>	<b>–</b>	<b>509</b>
	2,920	3,366
<b>Executive directors total</b>	<b>2,920</b>	<b>3,366</b>
Non-executive directors		
Fees:	340	293
	3,260	3,659
<b>All directors total</b>	<b>3,260</b>	<b>3,659</b>

(i) Of which £178,000 represents an increase in accruals in respect of Mr. A R Harris and Mr. B G Wallace.

(ii) Represents the gain on the exercise of options under the Stakis 1994 executive share option scheme and the Stakis 1993 savings related share option scheme.

(iii) This relates to performance over three years to 31 December 2001 and represents the market value of the 1999 PSP awards that vested on 1 March 2002, based on the mid-market quotation for a share on that date of 224.25p. This was reported to shareholders in the Company's 2001 Annual Report. This amount has been transferred from 2001 to 2002 with a corresponding reduction in the amount previously reported for 2001.

By order of the Board

**L P Lupo**

26 February 2004

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