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Hilton Group plc

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

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Ladbrokes



Scandic



Unaudited Interim results for the six months ended 30 June 2005

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Total Revenue	6,599.4	5,635.0	11,897.1
Profit from operations ⁽¹⁾			
Betting	143.6	153.3	272.8
Hotels	72.6	65.6	159.2
Central costs and income	(8.9)	(6.5)	(14.3)
	207.3	212.4	417.7
Net finance costs ⁽¹⁾	(15.2)	(21.1)	(41.0)
Profit before taxation adjusted for non-trading items⁽²⁾	192.1	191.3	376.7
Non-trading income/(charges) before taxation	9.8	2.4	(0.6)
Profit before taxation	201.9	193.7	376.1

EBITDA ⁽¹⁾	275.3	278.4	549.4
Earnings per share adjusted for non-trading items ⁽²⁾	9.6p	10.2p	20.2p
Earnings per share	10.0p	10.9p	20.7p
Dividend per share	3.8p	3.6p	9.6p

(1) Before non-trading items. Non-trading items comprise profit/losses on tangible fixed assets, unrealised gains on derivatives relating to short-term fluctuations in market value and a one-off tax credit in 2004.

(2) Profit adjusted for non-trading items (adjusted profit) and earnings adjusted for non-trading items (adjusted earnings) are calculated excluding non-trading items to assist in understanding the underlying performance.

Group Highlights

- Profit before tax⁽²⁾ has increased to £192.1 million.
- Worldwide Revpar increased by 8.4%, with occupancy up 3.5 percentage points, and rate up by 2.7%.
- Ladbrokes gross win increased by 2.7%, however profits fell by 6.3%, reflecting poor horse margins, no European Football Championships and additional costs.
- Adjusted net debt reduced by £155.5 million to £816.4 million since 31 December 2004.
- Adjusted earnings per share of 9.6 pence is down 5.9% due to an unusually low tax rate in 2004 (20% in 2005).
- Interim dividend of 3.8 pence – up 5.6%.
- Hotel disposals progressing well.

David Michels, Group Chief Executive, commented:

Overall profit in the first six months of this year has improved on last year's record first half and, looking forward the trends in both Ladbrokes and Hilton remain positive.

Whilst the first half of the year proved tough for Ladbrokes compared with last year, Retail, Telephone and eGaming all grew revenue. It was also encouraging that overall gross win increased despite a fall in margin due mainly to unfavourable horse racing results and tough Euro 2004 comparatives.

eGaming continued its rapid growth and in Retail the total number of betting shops rose by 194 to date in 2005, including the recent acquisition of 141 shops from Jack Brown Ltd in Wales last month. The business has also increased its investment in product development. In addition, we continue to pursue vigorously opportunities presented by the Gambling Act, particularly the licence for a regional casino in Blackpool.

Worldwide Revpar increased by 8.4% as the performance in the hotel division continued to improve across the globe.

Following the successful disposal of seven UK hotels earlier in the year, the sale of a further 18 UK properties, with a preference to maintain management contracts, is progressing well.

Our commitment to expanding the Hilton, Scandic and Conrad brands remains strong and during the first six months, a total of seven hotels were opened. The newly refurbished Hilton Sydney opened in July, and a further eight properties are due to open in the remainder of this year, including locations such as Italy and Saudi Arabia.

Outlook

The outlook for the Group remains strong with Ladbrokes and Hilton both enjoying steady growth. The disposal of 18 UK hotel assets is progressing well.

Dividend

The Board has recommended an interim dividend of 3.8 pence per share payable on 1 December 2005 to shareholders on the register on 9 September 2005, reflecting the Board's confidence in the Group's prospects going forward.

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A live audiocast of the presentation to analysts, including the question and answer session, together with this news release and slide presentation, will be available on Hilton Group's corporate website which may be found at www.hiltongroup.com.

High-resolution print quality images to accompany this announcement can be downloaded free of charge on www.vismedia.co.uk.

Betting and Gaming

Business Review

Ladbrokes has successfully continued its long term plan to invest in its people and customers, based upon providing leading shop service, technology and betting opportunities.

In April of this year the Gambling Act was passed, bringing the biggest change to the marketplace since the introduction of the National Lottery in 1994. We believe this legislation offers many positive opportunities for both the Ladbrokes and Hilton brands.

We continue to invest in our UK and Irish shop estates, with 142 shops being refurbished, extended or relocated at the end of June, and 175 by mid-August. A total of 194 shops have been added to the estate to date in 2005, 141 of which were purchased in July from Jack Brown. Ladbrokes now has 2,123 shops in the UK, 143 in Eire, and 305 in Belgium.

We have further extended our shop opening hours in the UK to 9.30pm on summer evenings, and we very much look forward to longer opening hours during the winter from 2007 as envisaged by the Gambling Act. This will greatly enhance the level of service we can offer our customers by enabling a move to a 12 hour, 7 day week.

By mid-October, 800 of our shops will be installed with the broadcasting ability of Ladbrokes Xtra, Ladbrokes' exclusive new in-shop TV channel. Each shop will have eight Xtra screens, presenting Xtra product and betting opportunities – such as all French horse racing and a full range of pari-mutual bets that will only be available to customers in Ladbrokes shops in the UK. All 2,266 Ladbrokes shops in UK and Eire will have Ladbrokes Xtra by mid 2006.

We now have 6,505 Fixed Odds Betting Terminals (FOBTs) installed in our shop estate (6,232 at the end of June), and 1,546 Amusement With Prizes (AWP) machines. The Gambling Act will allow for Jackpot slot machines, currently with a maximum pay out of £500 per play, to be available in our shops from 2007.

We continue to invest in customer service improvements in our Telephone Betting business; in June we introduced new technology that will allow us to ensure customer calls are answered quickly and more

Betting and Gaming (continued)

importantly in a way that is personal to our customers' betting needs. We will continue to focus on innovation to deliver ever better service to our growing number of customers.

We have enjoyed a very good start to the year across our eGaming activities. Customer numbers registering and playing with us – on the Sportsbook, Casino, Poker room and Games are at an all time high. We have run the Ladbrokespoker.com European Online Championship of Poker and are currently filling places for the Ladbrokes Poker Cruise, which this year is in the Caribbean. Furthermore, we have just completed the televised Ladbrokes Poker Million, with the biggest added prize money in televised Poker.

Moving to new areas of growth, Hilton and Ladbrokes have registered their interest to run 'the' one resort casino announced by the Government in the Gambling Act – which we believe should be in Blackpool. As the only British company with world leading brands plus leisure and gaming experience we are well placed to make Blackpool's resort casinos a huge success for the UK, Blackpool and its visitors.

It is one of our key strategic aims to grow our business around the world in the coming years, primarily through the provision of services and expertise rather than capital.

Betting and Gaming (continued)

Operating Results

Revenue by business	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
UK Retail	4,750.9	4,065.1	8,555.4
Ireland & Belgium Retail	180.4	160.9	321.7
Telephone Betting	341.4	266.0	628.1
eGaming	424.6	281.9	591.8
Vernons	14.5	15.2	28.7
Betting & Gaming	<u>5,711.8</u>	<u>4,789.1</u>	<u>10,125.7</u>

Gross win by business	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
UK Retail	342.1	338.0	652.5
Ireland & Belgium Retail	35.6	35.9	69.0
Telephone Betting	21.6	25.9	46.1
eGaming	58.0	44.7	89.3
Vernons	9.9	10.6	20.2
Betting & Gaming	<u>467.2</u>	<u>455.1</u>	<u>877.1</u>

Profit from operations by business	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
UK Retail	108.8	119.2	214.7
Ireland & Belgium Retail	5.7	7.0	13.2
Telephone Betting	8.5	11.8	17.8
eGaming	17.5	12.1	21.3
Vernons	3.1	3.2	5.8
Betting & Gaming	<u>143.6</u>	<u>153.3</u>	<u>272.8</u>

Profit is before non-trading items.

Betting and Gaming (continued)

Revenue of £5.7 billion has increased by 19% reflecting growth in the number of FOBTs and increases in Telephone Betting and eGaming.

Gross win increased by 3% to £467.2 million with growth in UK Retail and eGaming partially offset by a decline in Telephone Betting. As such, after deducting gross profits tax and VAT, gross profit grew 3% to £399.8 million.

Operating costs increased by 9%, mainly as a result of our increased estate size, increased opening hours in the UK shops and the growth in our eGaming business. Operating profit decreased by 6% to £143.6 million.

UK Retail

- Gross win increased by £4.1 million to £342.1 million.
- Over-the-counter (OTC) gross win declined by 5% on the back of a poor run of results at major events including Aintree and Epsom as well as the effect of tough comparatives versus the European Football Championships last year. Slippage grew 1% with stake per slip up £0.17 to £8.54, an increase of 2%.
- FOBTs gross win has increased by 28%. The average number of terminals in the first half was 6,087, a 40% increase on the first half of 2004. As at 30 June 2005, there were 6,232 terminals and 1,410 AWP's. The average weekly gross win per FOBT for the period was £576.
- Like for like operating costs grew by 3.4% to £168 million. Total costs grew by 8.4% to £183 million, mainly as a consequence of increased shop trading hours, more shops and increased development.
- Operating profit of £108.8 million was down 9%.

Ireland and Belgium Retail

- Ireland and Belgium combined gross win declined by 1% with operating profit decreasing by 19% to £5.7 million.
- Ireland revenue was up 19%, although gross win declined by 2%. Like for like costs decreased by 6% following the rollout of EPOS with total costs up 9% due to the increase in estate size. Operating profit was down 30%.
- In Belgium, revenue and operating profits were level.

Betting and Gaming (continued)

Telephone Betting

- Gross win declined 17% to £21.6 million with the margin declining from 9.7% to 6.3%, as a result of unfavourable horseracing margins and no European Football Championships.
- The number of calls handled increased by 13% to 3.8 million. The number of active customers in the period increased 1% to 103,000. Average stake per call increased 14% to £91.
- Operating profit decreased 28% to £8.5 million.

eGaming

- Total gross win increased by 30% to £58.0 million with strong growth across all channels.
- Poker gross win grew by 92% with 93,000 active players; an increase of 182%.
- Sportsbook gross win benefited, despite a 1% decrease in active customers to 228,000, however the frequency of customer activity has increased with average weekly active customer numbers increasing by 13%.
- Casino gross win growth was 11%.
- Gross win from internet games increased by 77%.
- Operating costs grew 25%, reflecting increased transactional costs, payments to partners and affiliates and an increase in marketing investment.
- Operating profit increased by 45% to £17.5 million.

Vernons

- Traditional pools betting continued to decline, with gross win down 7% on last year.
- Operating profit was slightly down on last year at £3.1 million.

Hotels

Business Review

The first half of the year saw a continuation of the encouraging signs, within both corporate and leisure business, experienced in the second half of 2004. All areas of the world saw healthy Revpar growth compared to the first half of 2004 with the exception of the UK, where Revpar performance was less satisfactory. However, despite the short-term impact of the recent London bombings, the second half is showing signs of improvement.

Capital expenditure remains under tight control. The redevelopment of the Sydney Hilton is now complete and the hotel re-opened in mid July. The corporate and conference markets in Sydney are strong and the hotel is ideally placed to take advantage of the trading climate. There are now no major refurbishment or redevelopments ongoing within the owned estate.

An increasing emphasis is being placed on the growth of all our brands (Hilton, Scandic and Conrad) under both franchise and management agreements. Over the last six months contracts have been signed for 16 franchise and management properties including Hilton Ushuaia (Argentina), Scandic Beijing and Conrad Bimini (Bahamas). In the second half of the year, we expect to open a total of eight hotels including Hiltons in Italy and Saudi Arabia.

Our strategy to reduce the capital intensity of the business continues to make good progress. The sale of seven UK hotels for £79 million was completed in the first half. A further 18 UK hotels have recently been placed on the market, with the intention being to retain management contracts at these properties.

The Hilton HHonors loyalty programme, run with Hilton Hotels Corp., continues to grow with the strengthening of member benefits and targeted acquisition of new members. During the first six months international membership has grown 4% to 6.9 million.

Our focus on electronic distribution continues. Compared to the first half of 2004, Hilton's brand websites booked revenue increased by 62% and now represent 5.8% of all revenue booked. We will continue to develop our websites in order to improve upon both content and functionality. Continued strong growth was made in our Global Distribution Systems business, where bookings for comparable properties increased by 12%.

Hotels (continued)

Our commitment to training and development is ongoing through the Hilton University. In the first half of this year 20,000 programmes have been completed and there are now 5,000 registered “students”. In addition, all senior managers have now completed an executive development programme at the IMD Business School in Switzerland.

The trading environment for LivingWell remains challenging. The business increased the number of members during the period although there was continuing pressure on yield. New openings this year include the health club and spa at Mount Wolseley Hilton and the LivingWell club at the Sydney Hilton. In addition six new “LivingWell Express” clubs have been added this year. The disposal of three small loss making clubs in Australia was completed earlier this month.

Hotels (continued)**Operating Results**

Revenue and profit from operations by region	Half year to 30 June 2005		Half year to 30 June 2004		Year to 31 December 2004	
	Revenue	Profit	Revenue	Profit	Revenue	Profit
	£m	£m	£m	£m	£m	£m
United Kingdom	303.9	30.1	318.7	38.9	655.7	88.3
Europe & Africa	601.7	31.3	541.3	20.2	1,138.3	58.2
Middle East & Asia Pacific	326.9	8.5	309.1	6.3	652.7	18.5
The Americas	122.4	10.9	113.0	7.6	236.0	18.9
LivingWell	26.8	1.9	24.8	2.7	50.0	6.3
	<u>1,381.7</u>	<u>82.7</u>	<u>1,306.9</u>	<u>75.7</u>	<u>2,732.7</u>	<u>190.2</u>
Central and non-operating items	-	(10.1)	-	(10.1)	-	(31.0)
	<u>1,381.7</u>	<u>72.6</u>	<u>1,306.9</u>	<u>65.6</u>	<u>2,732.7</u>	<u>159.2</u>
Memo: Scandic acquired	257.2	9.0	241.2	2.9	503.1	17.6

Revenue is that of all hotels whether owned or managed. Profit is before non-trading items and includes a contribution from franchise, management contracts and contingent lease hotels of £36.7 million (June 2004: £28.0 million; December 2004: £77.4 million).

Revenue per available room (Revpar) by region (like for like, constant exchange rates)	Half year to 30 June 2005	Half year to 30 June 2004	Change
	£	£	
Hilton Branded:			
United Kingdom			
- London	77.06	73.57	4.7%
- Provinces	50.42	50.81	(0.8)%
Total United Kingdom	61.75	60.46	2.1%
Europe & Africa	51.59	47.43	8.8%
Middle East & Asia Pacific			
- Middle East	38.87	34.29	13.4%
- Asia Pacific	48.84	44.00	11.0%
Total Middle East & Asia Pacific	43.69	39.16	11.6%
The Americas	46.08	40.57	13.6%
Total Hilton Branded	51.04	47.09	8.4%
Scandic Branded	35.12	32.53	8.0%
Total Hotels Division			
Revpar	47.14	43.50	8.4%
Occupancy	68.3%	64.8%	3.5% pts
Average room rate	69.01	67.19	2.7%

Hotels (continued)

The hotel division operating profit increased by 10.7% to £72.6m. Underlying profit after adjusting for property changes, one off charges and exchange rate movements increased by 9.7%.

On a worldwide basis (like for like properties at constant exchange rates) Revpar increased by 8.4%. The increase was driven by higher occupancy for the period of 68.3%, a movement on the prior year of 3.5 percentage points. Rate has increased by 2.7% on a worldwide basis.

United Kingdom & Ireland

- Profit in the United Kingdom and Ireland fell by 22.6% to £30.1m. After adjusting for property changes, underlying profit fell by 17.0%. Whilst overall Revpar has increased, five major owned hotels showed decline, which has impacted UK profits. However, forward bookings for 2006 already look more positive.
- Overall like for like Revpar increased by 2.1% driven in the main by an increase in rate of 4.3%.
- London continued to experience high levels of occupancy at 77.3%. Rate also improved, an increase of 4.7%, as demand increased during peak trading periods.
- Trading in the provincial market was more difficult. A Revpar decrease of 0.8% driven by a 2.7 percentage point decrease in occupancy reflected difficult leisure and conference business, notably at the Birmingham Metropole.

Europe & Africa

- Overall profit rose by 55% to £31.3m with a continuation of the encouraging growth seen during the later stages of 2004.
- Hilton branded Revpar was up by 8.8%, with Germany up 2.3%, Paris up 10.5% and Sweden up 12.6%.
- The owned and leased estate saw Revpar up 7.8% with trading improving in Barcelona, Zurich and Amsterdam.
- Revpar in Scandic branded properties improved by 8% reflecting an improvement in both rate (up 0.7%) and occupancy (up 4.1 percentage points).
- Both Stockholm (Revpar up 13.4%) and Copenhagen (Revpar up 21.3%) saw encouraging growth in trading conditions as corporate volume improved.
- Management contract development continues to be actively pursued with four new hotels already signed this year.

Hotels (continued)

Middle East and Asia Pacific

- High demand in the Middle East and Asia Pacific region saw profits rise by 34.9% to £8.5m.
- Overall Revpar increased by 11.6% with both rate (up 5.8%) and occupancy (up 4.0 percentage points) performing strongly.
- The Middle East was particularly strong with Revpar up 13.4% reflecting buoyant trading in Dubai and Kuwait as demand continues to be strong.
- Japan saw some recovery with Revpar up 6.5% as consumer confidence began to return.
- The opening of the Sydney Hilton is expected to have a positive effect on the Hilton brand in Australia. The country is seeing strong levels of demand with Revpar up 11.6%.

The Americas

- The region saw profits rise by 43.4% to £10.9m.
- A 6.0% growth in rate and 4.6 percentage point increase in occupancy drove Revpar 13.6% higher.
- The Caribbean properties (Revpar up 9.1%) experienced improved leisure business, most notably the Caribe Hilton our only owned property in the area.
- Trading in Latin America continued to improve with Revpar up 28.2% most notably in Sao Paulo up 26.8%.
- Canada, with Revpar growth of 4.5%, was held back by a slightly disappointing conference market, which kept rates flat.

LivingWell

- Revenue increased 8% to £26.8 million as continuing pressure on yield was offset by the increase in member numbers and ancillary revenue.
- Membership of 154,398 shows an increase of 6% versus last year and reflects the increased sales effort that has been made within the business.
- Focus on member retention has continued with retention increased to 68.5% compared to 67.8% at December 2004 and 66.3% in June 2004.
- Operating profit of £1.9m was down £0.8m compared to June 2004 due partially to restructuring costs of £0.4m.

Operating and Financial Review

Financial review

Revenue and profit before tax	Half year to 30 June 2005		Half year to 30 June 2004		Year to 31 December 2004	
	Revenue £m	Profit £m	Revenue £m	Profit £m	Revenue £m	Profit £m
Retail Betting	4,945.8	117.6	4,241.2	129.4	8,905.8	233.7
Other Betting	766.0	26.0	547.9	23.9	1,219.9	39.1
Total Betting	5,711.8	143.6	4,789.1	153.3	10,125.7	272.8
Hotels	887.6	72.6	845.9	65.6	1,771.4	159.2
Central costs	-	(8.9)	-	(6.5)	-	(14.3)
	6,599.4	207.3	5,635.0	212.4	11,897.1	417.7
Net finance costs	-	(15.2)	-	(21.1)	-	(41.0)
	6,599.4	192.1	5,635.0	191.3	11,897.1	376.7

Profit is before non-trading items.

Trading summary

Revenue for the Group increased by £964.4 million (17%) to £6,599.4 million, mainly as a result of higher FOBTs in Retail and growth in both eGaming and Telephone revenue in Other Betting. Hotels increased £41.7 million (4.9%) to £887.6 million.

Central costs have increased by £2.4 million predominantly due to share award costs.

Profit before finance costs and non-trading items decreased 2% to £207.3 million (2004: £212.4 million) reflecting a decrease in Betting profits of £9.7 million (6%) to £143.6 million and an increase in Hotels profits of £7.0 million (11%) to £72.6 million. Exchange translation favourably impacted profit by £0.5 million, mainly in Hotels.

Finance costs

The net finance costs of £15.2 million were 28% below last year (£21.1 million) reflecting lower average debt and the favourable impact of lower interest rates offset by amortisation charges on the £300 million convertible bond following the adoption of IAS 39 on 1 January 2005.

Profit before tax

Reduced trading profits offset by lower financing costs have resulted in a 0.4% increase in first half profit before taxation and non-trading items to £192.1 million (2004: £191.3 million).

Non-Trading items

The £9.8 million non-trading profit arose on disposal of non-core fixed assets (£4.9 million) and the unrealised gain on derivatives (£4.9 million). There is a related tax charge of £3.9 million on these non-trading items.

Taxation

The taxation charge of £38.4 million represents an effective tax rate of 20.0% (2004: 15.5%) before non-trading items. The effective rate of 20.0% is a best estimate of the annual tax rate for 2005, which is higher than 2004 due to the recognition of deferred tax assets in respect of tax losses in that year.

Earnings per share (EPS)

EPS (before non-trading items) fell 6% to 9.6 pence (2004: 10.2 pence), reflecting the increased tax rate. EPS (including the impact of non-trading items) was 10.0 pence (2004: 10.9 pence). Fully diluted EPS was 9.5 pence (2004: 10.8 pence) after adjustment for outstanding share options and the convertible bond.

Dividend

The Board has proposed an interim dividend of 3.8 pence per share, a 5.6% increase compared to the equivalent period last year (2004: 3.6 pence). This dividend will be payable on 1 December 2005 to shareholders on the register on 9 September 2005.

Cash flow, capital expenditure and borrowings

Net cash flows from operating activities of £192.2 million was down £21.5 million due to the £3.1 million decrease in EBITDA coupled with adverse working capital movements (decreased creditors due to timing of payments).

Capital expenditure on operating assets of £82.6 million decreased by £2.8 million, and included £14.6 million of acquisition linked development in hotels relating to the now completed major refurbishment

in the Sydney and Düsseldorf properties. Proceeds from disposal of plant, property and equipment of £104.3 million include £103.5 million relating to hotel disposals.

Finance, tax and equity dividend outflows amounted to £128.1 million compared to £126.6 million in 2004 as lower net finance payments (down £2.7 million) and lower tax payments (down £4.3 million) are more than offset by a higher dividend cash outflow (up £8.5 million).

At 30 June 2005, the Group had gross borrowings of £1,386.1 million and cash, deposits and short-term investments of £569.7 million, resulting in adjusted net debt of £816.4 million (31 December 2004: £971.9 million). The £155.5 million decrease in net debt includes a favourable exchange translation impact of £38.7 million.

Unaudited financial statements

Consolidated income statement

	Half year to 30 June 2005		Half year to 30 June 2004		Year to 31 December 2004	
	Before non-trading items*	Total	Before non-trading items*	Total	Before non-trading items*	Total
	£m	£m	£m	£m	£m	£m
Revenue – continuing operations	6,598.9	6,598.9	5,634.1	5,634.1	11,893.4	11,893.4
Share of results from associated undertakings	0.5	0.5	0.9	0.9	3.7	3.7
Total revenue	6,599.4	6,599.4	5,635.0	5,635.0	11,897.1	11,897.1
Cost of sales before depreciation	(6,271.1)	(6,271.1)	(5,308.8)	(5,308.8)	(11,249.1)	(11,249.1)
Administrative expenses	(53.0)	(53.0)	(47.8)	(47.8)	(98.6)	(98.6)
Net gain /(loss) on sale of tangible fixed assets	-	4.9	-	2.4	-	(0.6)
EBITDA	275.3	280.2	278.4	280.8	549.4	548.8
Depreciation and amounts written off fixed assets	(68.0)	(68.0)	(66.0)	(66.0)	(131.7)	(131.7)
Profit before tax and finance costs	207.3	212.2	212.4	214.8	417.7	417.1
Finance costs	(25.1)	(25.1)	(45.7)	(45.7)	(83.1)	(83.1)
Finance income	9.9	14.8	24.6	24.6	42.1	42.1
Profit before taxation	192.1	201.9	191.3	193.7	376.7	376.1
Income tax expense	(38.4)	(38.4)	(29.8)	(29.8)	(57.1)	(57.1)
Tax on non-trading items	-	(3.9)	-	-	-	-
Non-trading tax credit	-	-	-	9.0	-	9.0
Profit for the year – continuing operations	153.7	159.6	161.5	172.9	319.6	328.0
Attributable to:						
Minority interests	0.1	0.1	0.1	0.1	0.1	0.1
Equity holders of the parent	153.6	159.5	161.4	172.8	319.5	327.9
	153.7	159.6	161.5	172.9	319.6	328.0
Earnings per share:						
- basic	9.6p	10.0p	10.2p	10.9p	20.2p	20.7p
- diluted	9.2p	9.5p	10.1p	10.8p	19.0p	19.5p

* Non-trading items are profit/losses on tangible fixed assets, one-off tax credits and gains on derivatives (see note 3).

Consolidated balance sheet

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
ASSETS			
Non-current assets			
Goodwill	1,143.7	1,152.1	1,184.4
Intangible assets	574.2	517.8	537.6
Property, plant and equipment	2,451.7	2,490.2	2,528.9
Interests in associates	59.9	71.6	57.1
Other financial assets	9.4	15.7	7.9
Deferred tax asset	40.7	30.5	39.1
Derivatives	69.7	-	-
Retirement benefit asset	0.5	4.8	1.8
	<u>4,349.8</u>	<u>4,282.7</u>	<u>4,356.8</u>
Current assets			
Inventories	15.4	14.8	15.8
Trade and other receivables	372.7	359.3	327.2
Assets classified as held for sale	2.9	2.8	2.8
Derivatives	20.9	-	-
Cash and cash deposits	569.7	617.4	483.3
	<u>981.6</u>	<u>994.3</u>	<u>829.1</u>
Total assets	<u>5,331.4</u>	<u>5,277.0</u>	<u>5,185.9</u>
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	(95.7)	(271.9)	(115.6)
Obligations under finance leases	(2.3)	(16.5)	(17.6)
Derivatives	(28.3)	-	-
Trade and other payables	(611.7)	(581.8)	(582.7)
Corporation tax liabilities	(177.5)	(153.7)	(172.6)
	<u>(915.5)</u>	<u>(1,023.9)</u>	<u>(888.5)</u>
Non-current liabilities			
Interest-bearing loans and borrowings	(993.5)	(1,021.1)	(987.5)
Obligations under finance leases	(31.9)	(34.0)	(34.5)
Convertible bond	(280.2)	(300.0)	(300.0)
Derivatives	(18.0)	-	-
Other financial liabilities	(22.6)	(22.9)	(16.5)
Deferred tax liabilities	(447.7)	(449.1)	(433.6)
Retirement benefit obligation	(136.0)	(109.6)	(130.4)
Provisions	(13.6)	(19.7)	(18.4)
	<u>(1,943.5)</u>	<u>(1,956.4)</u>	<u>(1,920.9)</u>
Total liabilities	<u>(2,859.0)</u>	<u>(2,980.3)</u>	<u>(2,809.4)</u>
Net assets	<u>2,472.4</u>	<u>2,296.7</u>	<u>2,376.5</u>
EQUITY			
Called up share capital	160.1	158.4	158.6
Share premium account	1,758.4	1,725.6	1,729.6
Equity component of convertible bond	34.3	-	-
Own shares	(16.3)	(7.6)	(14.5)
Foreign currency translation	(8.5)	(28.6)	7.1
Other reserves	158.2	158.2	158.2
Retained earnings	383.2	287.0	334.6
Equity shareholders' funds	<u>2,469.4</u>	<u>2,293.0</u>	<u>2,373.6</u>
Equity minority interests	3.0	3.7	2.9
Total Equity	<u>2,472.4</u>	<u>2,296.7</u>	<u>2,376.5</u>

Consolidated cash flow

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Net cash flows from operating activities	192.2	213.7	407.8
Cash flows from investing activities			
Interest received	14.8	5.2	43.2
Dividends received from associates	1.3	1.2	2.3
Payments for intangible assets	(40.4)	(19.5)	(40.7)
Purchase of plant, property and equipment	(82.6)	(85.4)	(174.9)
Proceeds from the sale of property, plant and equipment	104.3	12.6	38.6
Purchase of interests in associates	(5.7)	-	-
Proceeds from return of capital in associates	1.1	-	-
Proceeds on disposal of investments	-	1.1	1.5
	<u>(7.2)</u>	<u>(84.8)</u>	<u>(130.0)</u>
Cash flows from financing activities			
Proceeds from issue of shares	30.3	3.6	7.8
Proceeds from borrowings	3.5	23.8	15.3
Proceeds from associates repayment of loans	1.4	2.4	17.9
Payments of finance lease liabilities	(15.9)	(0.8)	(1.9)
Repayment of borrowings	(27.7)	(48.4)	(287.5)
Payments of new loans to associates	(0.2)	(1.1)	(1.1)
(Increase)/decrease in deposits - maturity greater than three months	(254.3)	103.4	103.5
Dividends paid	(95.9)	(87.4)	(144.5)
	<u>(358.8)</u>	<u>(4.5)</u>	<u>(290.5)</u>
Net (decrease)/increase in cash and cash equivalents	(173.8)	124.4	(12.7)
Net foreign exchange difference	0.7	(8.0)	(2.1)
Cash and cash equivalents at beginning of period	459.5	474.3	474.3
Cash and cash equivalents at end of period	<u>286.4</u>	<u>590.7</u>	<u>459.5</u>
Cash and cash equivalents comprise:			
Cash at bank and in hand and current asset investments	310.3	612.2	478.2
Bank overdraft	(23.9)	(21.5)	(18.7)
	<u>286.4</u>	<u>590.7</u>	<u>459.5</u>

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Convertible bond adjustment £m	Other Reserve £m	Own shares £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2004	158.2	1,722.2	-	158.2	(7.9)	165.8	2,196.5	3.6	2,200.1
Currency translation differences	-	-	-	-	-	(2.2)	(2.2)	(0.6)	(2.8)
Actuarial losses on defined benefit pension scheme	-	-	-	-	-	(10.6)	(10.6)	-	(10.6)
Tax on items taken directly to equity	-	-	-	-	-	3.1	3.1	-	3.1
Total income and expense recognised directly in equity	-	-	-	-	-	(9.7)	(9.7)	(0.6)	(10.3)
Profit for the year	-	-	-	-	-	328.0	328.0	(0.1)	327.9
Total income and expense for the year	-	-	-	-	-	318.3	318.3	(0.7)	317.6
Exercise of options	0.4	7.4	-	-	-	-	7.8	-	7.8
Net decrease due to shares held in ESOP trusts	-	-	-	-	(6.6)	-	(6.6)	-	(6.6)
Equity dividends	-	-	-	-	-	(144.4)	(144.4)	-	(144.4)
Cost of share based payments	-	-	-	-	-	2.0	2.0	-	2.0
At 31 December 2004	158.6	1,729.6	-	158.2	(14.5)	341.7	2,373.6	2.9	2,376.5
Effect of adopting IAS 39	-	-	34.3	-	-	(22.5)	11.8	-	11.8
At 1 January 2005	158.6	1,729.6	34.3	158.2	(14.5)	319.2	2,385.4	2.9	2,388.3
Currency translation differences	-	-	-	-	-	(5.5)	(5.5)	0.2	(5.3)
Actuarial losses on defined benefit pension scheme	-	-	-	-	-	(7.4)	(7.4)	-	(7.4)
Tax on items taken directly to equity	-	-	-	-	-	1.6	1.6	-	1.6
Total income and expense recognised directly in equity	-	-	-	-	-	(11.3)	(11.3)	0.2	(11.1)
Profit for the period	-	-	-	-	-	159.6	159.6	(0.1)	159.5
Total income and expense for the period	-	-	-	-	-	148.3	148.3	0.1	148.4
Exercise of options	1.5	28.8	-	-	-	-	30.3	-	30.3
Net decrease due to shares held in ESOP trusts	-	-	-	-	(1.8)	-	(1.8)	-	(1.8)
Equity dividends	-	-	-	-	-	(95.9)	(95.9)	-	(95.9)
Cost of share based payments	-	-	-	-	-	3.1	3.1	-	3.1
At 30 June 2005	160.1	1,758.4	34.3	158.2	(16.3)	374.7	2,469.4	3.0	2,472.4

Notes to the accounts

1. Basis of preparation

- (a) The interim financial report has been prepared in accordance with the accounting policies that the directors anticipate will be adopted in the annual financial statements as expected to be in issue at 31 December 2005. These will be based on the accounting policies as required on transition to International Financial Reporting Standards (IFRS) available on the Group's website www.hiltongroup.com. These accounting policies comply with the amendment to IAS 19 that was published in December 2004 which the Group expects to early adopt in its first IFRS financial statements. As permitted by IFRS 1, the Group has applied IAS 32 and 39 from 1 January 2005. Reconciliations between UK GAAP and IFRS for both the six months to 30 June 2004 and the full year to 31 December 2004 can be found in the Group's 2004 statutory accounts. The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 25 August 2005 and is unaudited. The auditors have carried out a review and their report is set out on page 27.
- (b) To assist in understanding of underlying performance the Group has defined the following items of income and expense as non-trading in nature:
- Profits/losses on disposal of non-current assets
 - Profits/losses on disposal of businesses and investments
 - Unrealised gains/losses on derivatives arising from hedging interest rate and currency exposures
 - Discontinued operations
 - Litigation settlements

The non-trading items have been included within the appropriate classification in the consolidated income statement.

- (c) The financial information set out in this document in respect of the year ended 31 December 2004 does not constitute the Group's statutory accounts for the year ended 31 December 2004. The auditors' report on the statutory accounts for 2004 was unqualified and did not contain a statement under section 237 of the Companies Act 1985. Statutory accounts for 2004 have been delivered to the Registrar of Companies.

2. Revenue and profit by activity

Half year to 30 June 2005	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non- trading items £m
Continuing operations:			
Retail Betting	4,945.8	117.6	117.6
Other Betting	766.0	26.0	26.0
Total Betting	5,711.8	143.6	143.6
Hotels	887.6	72.6	77.5
Central costs and income	-	(8.9)	(8.9)
	6,599.4	207.3	212.2
Net finance costs	-	(15.2)	(10.3)
	6,599.4	192.1	201.9
Half year to 30 June 2004			
	Revenue £m	Profit before non-trading items £m	Profit after non-trading items £m
Continuing operations:			
Retail Betting	4,241.2	129.4	129.4
Other Betting	547.9	23.9	23.9
Total Betting	4,789.1	153.3	153.3
Hotels	845.9	65.6	68.0
Central costs and income	-	(6.5)	(6.5)
	5,635.0	212.4	214.8
Net finance costs	-	(21.1)	(21.1)
	5,635.0	191.3	193.7
Year to 31 December 2004			
	Revenue £m	Profit before non-trading items £m	Profit after non-trading items £m
Continuing operations:			
Retail Betting	8,905.8	233.7	233.7
Other Betting	1,219.9	39.1	39.1
Total Betting	10,125.7	272.8	272.8
Hotels	1,771.4	159.2	158.6
Central costs and income	-	(14.3)	(14.3)
	11,897.1	417.7	417.1
Net finance costs	-	(41.0)	(41.0)
	11,897.1	376.7	376.1

3. Non-Trading items

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Continuing operations:			
Profit on sale of tangible fixed assets	9.6	2.5	5.9
Losses on sale of tangible fixed assets (a)	(4.7)	(0.1)	(6.5)
Total non-trading profit before finance costs	4.9	2.4	(0.6)
Unrealised gains on derivatives	4.9	-	-
Total non-trading profit before taxation	9.8	2.4	(0.6)
Taxation thereon (b)	(3.9)	-	-
Non-trading tax credit (c)	-	9.0	9.0
Non-trading items after taxation	5.9	11.4	8.4

- (a) The loss on tangible fixed assets in 2005 and 2004 relates to disposal of non-core assets.
(b) There is no tax on the 2004 profit/losses on fixed assets.
(c) The £9.0 million non-trading tax credit in 2004 relates to a specific case settled during the period where related losses were previously treated as non-trading items.

4. Taxation

The total tax charge of £42.3 million (June 2004: £20.8 million; December 2004: £48.1 million), includes a non-trading tax credit of £nil (June 2004: £9.0 million; December 2004 £9.0 million). The taxation charge relates to £29.7 million of UK tax and £12.6 million of overseas tax.

5. Dividends

Pence per share	Half year to 30 June 2005 pence	Half year to 30 June 2004 pence	Year to 31 December 2004 pence
Interim	3.80	3.60	3.60
Final	-	-	6.00
	3.80	3.60	9.60

The dividends paid in June 2005 and June 2004 were £95.9 million (6.00p per share) and £87.4 million (5.52p per share) respectively. An interim dividend of 3.80p per share (2004: 3.60p) amounting to a total dividend of £60.9 million (2004: £57.0 million) was declared by the Directors at their meeting on 25 August 2005. These financial statements do not reflect this dividend payable.

6. Earnings per share

The calculation of adjusted earnings per share before non-trading items is included as it provides a better understanding of the underlying performance of the Group.

Half year to 30 June 2005	Earnings £m	Diluted earnings* £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	159.5	164.6	10.0p	9.5p
Non-trading items net of tax	(5.9)	(5.9)	(0.4)p	(0.3)p
Adjusted profit attributable to shareholders	<u>153.6</u>	<u>158.7</u>	<u>9.6p</u>	<u>9.2p</u>
Half year to 30 June 2004	Earnings £m	Diluted earnings* £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	172.8	172.8	10.9p	10.8p
Non-trading items net of tax	(11.4)	(11.4)	(0.7)p	(0.7)p
Profit attributable to shareholders	<u>161.4</u>	<u>161.4</u>	<u>10.2p</u>	<u>10.1p</u>
Year to 31 December 2004	Earnings £m	Diluted earnings* £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	327.9	335.0	20.7p	19.5p
Non-trading items net of tax	(8.4)	(8.4)	(0.5)p	(0.5)p
Profit attributable to shareholders	<u>319.5</u>	<u>326.6</u>	<u>20.2p</u>	<u>19.0p</u>

*Diluted earnings includes an adjustment to the attributable profit to reflect a reduction in the interest charge net of tax of £5.1 million (June 2004: £nil, December 2004: £7.1 million) which would result from the conversion of the convertible bond to equity.

The number of shares used in the calculation is shown below:

	Half year to 30 June 2005 millions	Half year to 30 June 2004 millions	Full year to 31 December 2004 millions
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,595.1	1,583.0	1,584.2
Effect of dilutive potential ordinary shares:			
Share options	13.5	11.0	12.5
Convertible bond conversion to ordinary share capital	115.4	-	115.4
Issue of contingently issuable shares	2.5	4.2	3.4
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	<u>1,726.5</u>	<u>1,598.2</u>	<u>1,715.5</u>

7. Net debt

The Group's net debt structure is as follows:

	30 June 2005	30 June 2004	31 December 2004
	£m	£m	£m
Non current assets			
Derivative financial instruments	69.7	-	-
Current assets			
Derivative financial instruments	20.9	-	-
Cash and cash equivalents	569.7	617.4	483.3
Current liabilities			
Interest-bearing loans and borrowings	(95.7)	(271.9)	(115.6)
Obligations under finance leases	(2.3)	(16.5)	(17.6)
Derivative financial instruments	(28.3)	-	-
Non current liabilities			
Derivative financial instruments	(18.0)	-	-
Interest-bearing loans and borrowings	(993.5)	(1,021.1)	(987.5)
Obligations under finance leases	(31.9)	(34.0)	(34.5)
Convertible bond	(280.2)	(300.0)	(300.0)
Net debt per balance sheet	(789.6)	(1,026.1)	(971.9)
Net debt adjustments :			
Equity component of convertible bond	(34.3)	-	-
Amortisation of convertible bond	4.8	-	-
Interest rate fair value of net investment hedges	2.7	-	-
Adjusted Net Debt	(816.4)	(1,026.1)	(971.9)

Adjusted net debt movement in the period:

	Half year to 30 June 2005	Half year to 30 June 2004	Year to 31 December 2004
	£m	£m	£m
Opening net debt	(971.9)	(1,147.7)	(1,147.7)
Net debt adjustments at 1 January 2005	(4.1)	-	-
Adjusted opening net debt	(976.0)	(1,147.7)	(1,147.7)
Net cash inflow from operating activities	192.2	213.7	407.8
Cash outflows from investing activities	(7.2)	(84.8)	(130.0)
Proceeds from associates repayment of loans	1.4	2.4	17.9
Payment of new loans to associates	(0.2)	(1.1)	(1.1)
Dividends paid	(95.9)	(87.4)	(144.5)
Exchange movements	38.7	74.7	17.8
Issue of ordinary share capital	30.3	3.6	7.8
Other non-cash movements	0.3	0.5	0.1
Adjusted closing net debt	(816.4)	(1,026.1)	(971.9)

8. Reconciliation of profit to net cash inflow from operating activities

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Profit before tax and finance costs	207.3	212.4	417.7
Depreciation	64.5	63.9	126.2
Amortisation of intangible assets	3.5	2.5	6.8
Costs of share based payments	3.1	1.0	2.0
Other items	(5.7)	(0.4)	-
Operating cashflows before movements in working capital	272.7	279.4	552.7
Increase in assets classified as held for sale	0.4	(0.1)	(0.1)
Decrease/(increase) in inventories	0.4	1.2	(0.3)
Increase in receivables	(5.5)	(37.7)	(13.6)
(Decrease)/increase in payables	(23.6)	17.6	17.9
Decrease in provisions	(4.7)	(1.4)	(3.3)
Share of results from associates	(0.5)	(0.9)	(3.7)
Cash generated by operations	239.2	258.1	549.6
Income taxes paid	(21.7)	(26.0)	(54.6)
Interest paid	(25.3)	(18.4)	(87.2)
Net cash inflow from operating activities	192.2	213.7	407.8

Cash and cash deposits in the balance sheet comprise:

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Cash at bank and in hand	80.5	72.9	73.3
Short-term deposits and current asset investments	229.8	539.3	404.9
Deposits with maturity greater than three months	259.4	5.2	5.1
	569.7	617.4	483.3

Cash and cash equivalents in the cashflow statement comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less and overdrafts:

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 December 2004 £m
Cash at bank and in hand	80.5	72.9	73.3
Short-term deposits and current asset investments	229.8	539.3	404.9
Bank overdrafts (included in current liabilities)	(23.9)	(21.5)	(18.7)
	286.4	590.7	459.5

Independent review report to Hilton Group plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, and the related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.