

Directors' Remuneration Report

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 strategy and policies regarding all other employees within their own divisions.

Remuneration committee composition

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

- Mr J R F Walls (Chairman of the committee);
- Mr L P Lupo;
- Lady Patten (resigned 31st December 2002); and
- Mr N M H Jones (appointed 23rd July 2002).

Mr Walls will not be standing for re-election as a director at the company's annual general meeting on 16th May 2003 at which time he will also stand down as a member (and Chairman) of the committee.

No member of the committee has any personal financial interest, other than as share owners, in the company nor do they have any conflicts of interest arising from cross-directorships or any operational involvement in the running of the company.

The Group Chairman is normally invited to attend the meetings of the committee, in an advisory capacity. The committee regularly consults with the Group Chief Executive and the Head of Group Human Resources and Legal on proposals relating to the remuneration of executive directors and they may be asked to attend committee meetings, other than when their personal remuneration is discussed. The committee has, from time to time, consulted with the other members of the board. The Company Secretary acts as secretary to the committee. The committee met nine times in 2002.

The committee appointed independent remuneration consultants (Deloitte and Touche) 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 and Touche 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 annexed to the Listing Rules 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.

Remuneration policy

The company seeks to provide competitive remuneration measured against other UK quoted companies for the calibre of executives necessary to ensure the development and delivery of the business strategy.

The policy going forward is to continue to pay base salary levels at or above market median levels for those with similar responsibilities in comparable companies and to 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.

The following comprised the principal elements of executive remuneration for the period under review:

- base salaries;
- annual incentives (performance related);
- long-term incentives, including share options and performance shares (performance related); and
- 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. Benefits are regularly reviewed and are non-pensionable.

In determining the balance between those elements of the executive package which are, and those which are not, subject to performance, the committee takes into consideration both the remuneration policy of the company and market practice.

The policy of the committee is that new appointments to the board will normally be engaged on a one-year rolling contract subject to mitigation.

During the year the committee carried out a fundamental review of the executive remuneration arrangements. The main objectives of this review were as follows:

- provide total earnings potential for the executive group that is competitive against current market practice for relevant FTSE 100 companies;
- closely align performance measures used in executive incentives with business strategy;
- strengthen the link between incentive potential and shareholder value; and
- increase share ownership among executives.

A number of amendments have been made to the existing remuneration arrangements and a proposed change to the performance share plan is outlined in this report.

The board as a whole determines the remuneration of each of the 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 any annual bonus, share incentives, pension or other benefits. Non-executive directors 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. All non-executive directors are subject to re-election every three years.

Annual Bonus

Current arrangements

Executive directors participate in the annual bonus plan, which is focused upon achievement of the annual profit plan as agreed by the board. In 2002, the performance threshold, below which no payments would be made, was set at 95% of profit plan, with maximum payments earned at 110% achievement of profit plan.

The maximum bonus opportunity for 2002 was set at 90% of basic salary (110% for Mr D M C Michels, including an element based on strategic objectives). In keeping with the company's desire to encourage employee share ownership, half of any bonus earned, is delivered in shares at the end of a 24 month deferred period.

Annual bonus payments are non-pensionable.

Bonuses for 2003

To maintain the company's competitive positioning in terms of incentive potential, from 2003 the annual bonus opportunity has been increased to include an additional 15% of basic salary based on strategic business and/or individual objectives for executive directors other than Mr D M C Michels. The bonus opportunity for Mr D M C Michels has increased by 15% of basic salary, with an additional 10% of basic salary based on profit performance and an additional 5% of basic salary based on strategic business and/or individual objectives. Half of any bonus earned will be delivered in shares at the end of a 24 month deferred period.

In addition, to encourage share ownership further, executives will be invited to invest up to 25% of any bonus earned after tax into shares deferred for a period of 36 months. If adjusted earnings per share (EPS) performance over the annual bonus year has exceeded the annual increase in the index of retail prices (RPI) and budgeted profit levels are achieved, then the company will match this additional deferral, one for one relative to the number of shares that would have been purchased with the pre-tax bonus amount. Participants will become entitled to any matching shares awarded at the end of the three-year deferral period, subject to continued employment.

Longer term incentives

Share option plans

The company operates two share option plans (a UK Inland Revenue approved and an unapproved option plan) under which executives are eligible to participate at the discretion of the board:

- the Hilton Group 1978 share option scheme (1978 scheme); and
- the Hilton Group international share option scheme (international scheme).

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

Executive option awards are determined annually with grant levels related to an individual's level of responsibility and personal performance. Annual option awards will not normally exceed 1.5 times basic salary, other than in exceptional circumstances, e.g recruitment or promotion, where an annual award could be increased to a maximum of 2 times basic salary. Subject to these annual limits, allocations will normally be made twice a year.

Options awarded prior to March 1996 do not have a performance criterion. Options granted under the company's schemes 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 and 1999 have not yet met this performance condition.

The required performance level for all options awarded from September 2000 onwards is adjusted EPS growth in a three-year period exceeding the RPI by tiered targets as follows:

EPS growth (over the three years from grant)	Proportion of annual grant vesting
RPI + 9%	2/3
RPI + 12%	5/6
RPI + 15%	Full vesting

If the above conditions are not met over the first three years, retesting limited to two further years is possible subject to increasing performance criteria measured from the date of grant. For example, for two thirds of an annual grant to vest, adjusted EPS growth would need to exceed RPI by 13% over four years or by 18% over five years. Options granted in 2000 have not 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 is consistent with best practice.

The company also operates UK Inland Revenue approved 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. 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 plan – current arrangements

Participation in the performance share plan (PSP) is limited to executive directors and a number of key senior executives, as determined by the committee. Awards of shares (subject to performance conditions) are normally made to participants as at 1st January. Awards are currently capped at one times basic salary.

The PSP performance conditions focus on the key measure of achievement for the most senior executives within the company, delivery to shareholders of a superior return on their investment in the company. Total Shareholder Return (TSR) includes share price growth and reinvested dividends and the total value created for shareholders over the three-year period is benchmarked against the other FTSE 100 companies.

The full award vests if TSR performance exceeds all other companies in the FTSE 100. 35% of any award vests if the company achieves the median position of the FTSE 100 companies.

Share price and dividend data are provided by independent sources. The committee has discretion to ensure that performance measurement takes appropriate account of the impact of mergers, acquisitions and disposals during the performance period.

The award is also subject to a second performance condition, that absolute growth in the company's adjusted EPS exceeds the increase in the RPI over the performance period by at least 6%.

Performance share plan – proposals for 2003

Subject to shareholder approval which is being sought at the company's annual general meeting on 16th May 2003, it is proposed that the maximum potential award under the PSP be increased to 120% of basic salary to enable the company to provide incentive potential at around upper quartile of market practice for outstanding performance. In addition, to align performance measures further with the current business strategy and provide a more relevant comparison, it is proposed to sharpen the performance focus of the plan by concentrating the TSR performance measure on other companies in the international hotel, leisure and gaming sectors and provide a significant element of the plan with clear line of sight to underlying business performance. On this basis 50% of the award will vest subject to the satisfaction of TSR performance versus a select comparator group and 50% will vest subject to specific financial measures; these are Return on Capital Employed (ROCE) performance for the Hotels Division and operating profit growth performance for the Betting and Gaming Division.

This change will measure the company's performance against other companies facing similar opportunities and challenges to ensure a more effective assessment of success. The introduction of specific financial measures will support the drive to increase operating profit and efficient capital usage.

For the TSR element of the award, 100% will vest if TSR performance is ranked 1st or 2nd against the comparator group and 40% will vest for 9th position, with vesting on a straight-line basis between 9th and 2nd positioning. It is proposed that for the 2003 award the comparator group will consist of the following 16 companies, plus the company:

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

The vesting of the remaining element of the award will be subject to operating profit growth for the Betting and Gaming Division and ROCE for the Hotels Division. ROCE, for the purpose of the PSP, is defined as profit before interest, tax, goodwill amortisation and exceptional items divided by net assets, excluding goodwill, adjusted for revaluation reserves.

The financial performance measures over the three-year performance period will be:

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

Vesting between base and maximum performance for ROCE/operating profit elements will be on a straight-line basis.

Share price and dividend data will continue to be provided by independent sources with the committee retaining the 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 and accounts. 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 PSP are non-pensionable.

Retirement benefits

Executive directors 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 basic salary above the Earnings Cap; or
- (ii) membership of the HGPP plus a cash supplement of 30% of basic salary above the Earnings Cap; or
- (iii) cash supplement of 30% of basic salary in lieu of membership of a company pension arrangement.

Executive directors who chose membership of the HGPP and the HUURBS are credited with a HUURBS allocation of 42% of basic salary above the Earnings Cap, reference (i) above.

Mr D M C Michels has a separate money purchase arrangement into which is paid 30% of basic salary. The company contribution to this arrangement is shown on page 11. Mr Michels also receives a pension supplement of 10.7% of basic salary above the Earnings Cap.

Executive directors' shareholding guidelines

Personal shareholding guidelines require executive directors going forward to build up personal shareholdings equivalent in value to at least one year's basic 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 with mitigation other than in exceptional circumstances. In addition it is the company's intention that all executive directors will move to one-year rolling contracts over time.

Mr D M C Michels and Mr A R Harris had two-year rolling contracts with Stakis dated 16th January 1992 and 8th April 1996 respectively and they had this provision continued in their contracts with the company dated 26th March 1999 and 6th June 2001 respectively. Mr B G Wallace is employed under a two-year rolling contract dated 21st December 1994. In line with the company's policy, Mr C Bell is employed on a one-year rolling contract dated 6th June 2001. The committee has considered the position of the executive directors who have held two-year rolling contracts for a significant period of time.

Given that the Group Chief Executive, Mr D M C Michels, is in his 57th year, no change is proposed.

In respect of the Deputy Chief Executive & Finance Director, Mr B G Wallace, it is proposed that the existing arrangement in respect of both the contract period and change in control provisions be reduced. He has been offered a one-year rolling contract with a liquidated damages provision of £1.45 million, index-linked to RPI. The existing contract provides for a full payment without mitigation in the event of termination following a change of control. In circumstances where the company terminates the contract otherwise than for cause, the executive may be entitled to payment subject to mitigation. The proposed amount is based on the mid-point of a range of values for the existing contract, taken from independent legal advice. As the liquidated damages provision is likely to reduce in real terms over time, he will be given the option of electing to revert to normal damages in due course. Should he so elect, this would help achieve the overall company objective of moving all executive directors to one-year rolling contracts, subject to mitigation.

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.

Currently, one year's notice is required from executive directors. Consequent from the changes detailed above it is proposed that the notice period required from executive directors, other than the Group Chief Executive, be reduced to six months.

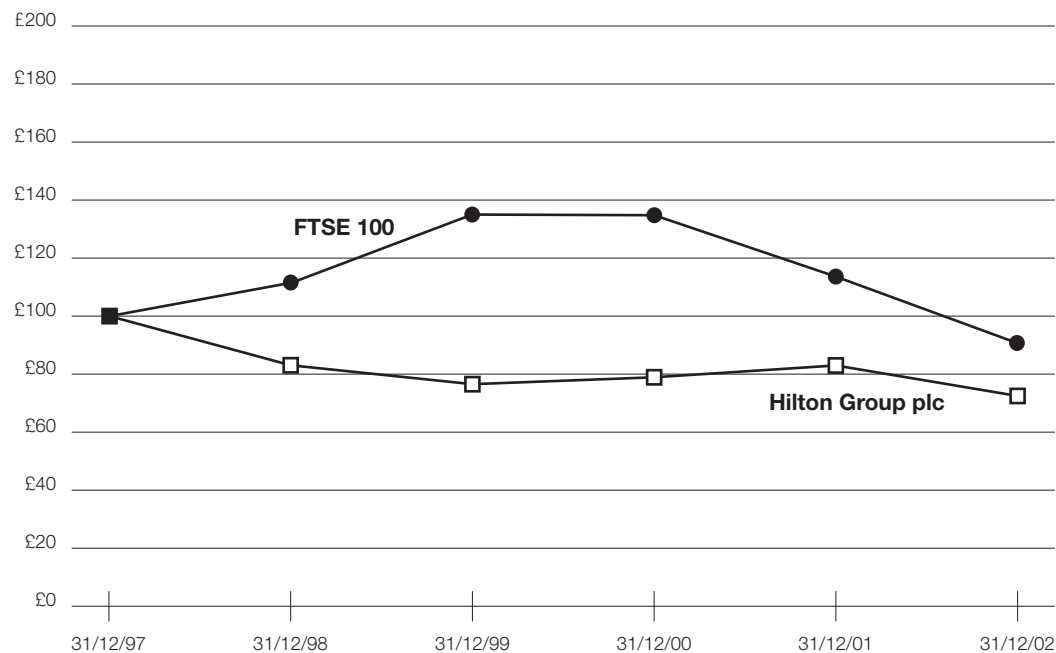
Mr D M C Michels was last elected to the board on 17th May 2002; Mr B G Wallace, Mr A R Harris and Mr C Bell were all last elected to the board on 25th May 2001. Mr B G Wallace and Mr C Bell are standing for re-election at the company's 2003 annual general meeting on 16th May 2003.

Contracts are available for viewing, on request to the Company Secretary.

Performance graph

As the company is a constituent company of the FTSE 100, the FTSE 100 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 FTSE 100 index over the five years ended 31st December 2002.

Historical TSR performance growth in the value of a hypothetical £100 holding over five years FTSE 100 comparison based on spot values



In addition to the incentive arrangements previously outlined, two share plans are operated in which all employee groups, 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) is linked to a Save-As-You-Earn contract which participants enter into to 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 UK Inland Revenue approved 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 UK Inland Revenue approved share incentive plan 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.

Directors' remuneration and interests

The following table shows the emoluments of the executive directors and non-executive directors in the year ended 31st December 2002 excluding gains from the exercise of share options.

	Basic salary ^(v) & fees ^(vi) £000	Annual Bonus £000 ^(iv)	Benefits in kind £000	Pension supplement £000 ⁽ⁱⁱⁱ⁾	2002 Total £000	2001 Total £000
Executive directors						
C Bell	303	120	12	62	497	419
A R Harris	424	55	20	138	637	668
D M C Michels	571	181	23	51	826	772
B G Wallace	446	116	17	147	726	741
Total	1,744	472	72	398	2,686	2,600
Non-executive directors⁽ⁱ⁾						
Sir Ian Robinson	180	–	–	–	180	81
S F Bollenbach	–	–	–	–	–	–
L P Lupo	33	–	–	–	33	29
Lady Patten	33	–	–	–	33	32
J R F Walls	33	–	–	–	33	32
N M H Jones ⁽ⁱⁱ⁾	14	–	–	–	14	–
Total	293	–	–	–	293	174^(vii)

- (i) Non-executive directors are not eligible for annual bonus, share incentives, pension or any other benefits. The non-executive directors do not have service contracts with the company or any of its subsidiaries. The appointments of non-executive directors are terminable without notice. All non-executive directors are subject to re-election every three years.
- (ii) Mr N M H Jones was appointed a non-executive director of the company on 22nd July 2002.
- (iii) Of which £285,000 represents an increase in accruals in respect of Mr A R Harris and Mr B G Wallace.
- (iv) This includes a special payment of £20,000 made to Mr C Bell in recognition of exceptional hours worked and the achievement of the settlement of the media and data dispute with Racing. It is intended under the provisions of the plan, see page 2, that shares be delivered in 2005, as follows: Mr C Bell 59,712; Mr A R Harris 33,034; Mr D M C Michels 108,535 and Mr B G Wallace 69,371.
- (v) Annual basic salaries on 1st January 2002 were £280,900 Mr C Bell; £412,000 Mr A R Harris; £541,059 Mr D M C Michels and £432,600 Mr B G Wallace respectively. With effect from 1st July 2002 the annual basic salaries of Mr C Bell and Mr D M C Michels were increased to £325,000 and £600,000 respectively. With effect from 1st January 2003, the annual basic salaries of the executive directors were increased by 2.5% as follows: Mr C Bell to £333,125; Mr A R Harris to £434,969; Mr D M C Michels to £615,000 and Mr B G Wallace to £456,717.
- (vi) 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 (increased from £32,500 per annum with effect from 1st January 2003) and the Chairman of each of the audit and remuneration committees (Mr L P Lupo and Mr J R F Walls respectively): an additional £5,000 per annum with effect from 1st January 2003.
- (vii) In addition there were payments of £108,000 made to non-executive directors who retired in 2001.

The number of options granted to the executive directors in 2002 and outstanding as at 31st December 2002 are set out below:

	Plan	No. of options at 31/12/01	Options granted during year	Options exercised during year	Options lapsed during year	No. of options at 31/12/02	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)	-	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
		4,511	-	-	4,511	-	11.06.99	214.72	-	-	01.08.02	31.01.03
Total		830,659	249,728	-	4,511	1,075,876				-		
A R Harris	(i)	14,218	-	-	-	14,218	07.10.99	212.00	-	-	07.10.02	07.10.09
	(ii)	-	179,156	-	-	179,156	11.09.02	177.65	-	-	11.09.05	11.09.12
		-	128,697	-	-	128,697	17.04.02	247.30	-	-	17.04.05	17.04.12
		278,463	-	-	-	278,463	24.09.01	166.45	-	-	24.09.04	24.09.11
		169,487	-	-	-	169,487	23.04.01	212.70	-	-	23.04.04	23.04.11
		125,000	-	-	-	125,000	20.09.00	197.60	-	-	20.09.03	20.09.10
		50,000	-	-	-	50,000	03.05.00	268.90	-	-	03.05.03	03.05.10
		135,782	-	-	-	135,782	07.10.99	212.00	-	-	07.10.02	07.10.09
		150,000	-	-	-	150,000	01.04.99	290.70	-	-	01.04.02	01.04.09
	(iii)	5,319	-	-	-	5,319	26.06.01	182.12	-	-	01.08.04	31.01.05
Total		928,269	307,853	-	-	1,236,122				-		

Directors' remuneration and interests

continued

Plan	No. of options at 31/12/01	Options granted during year	Options exercised during year	Options lapsed during year	No. of options at 31/12/02	Date of grant	Exercise price (pence)	Market price at date of exercise	Gain made on exercise £000	Date from which exercisable	Expiry date
D M C Michels (i)	10,319	-	-	-	10,319	01.04.99	290.70	-	-	01.04.02	01.04.09
(ii)	-	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
Total	1,200,770	444,280	-	-	1,645,050				-		
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)	-	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
Total	1,804,612	323,246	-	-	2,127,858				-		

(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 respectively.

The market price of the company's shares on 31st December 2002 was 167p. The highest price of the shares during the financial year was 263.50p. The lowest price of the company's shares during the financial year was 139.25p.

The highest and lowest price of the company's shares since the date of option grants during the year were 263.50p and 139.25p; 235.75p and 139.25p; 188.00p and 139.25p in respect of grants made on 17th April 2002, 18th June 2002 and 11th September 2002 respectively.

In addition to the above options, Mr D M C Michels and Mr A R Harris have outstanding options under the Stakis 1994 executive share option scheme and Stakis 1993 savings related share option scheme, details of which are provided below:

	Plan	No. of options at 31/12/01	Options granted during year	Options exercised during year	Options lapsed during year	No. of options at 31/12/02	Date of grant	Date of exercise	Exercise price (pence)	Market price at date of exercise	Gain made on exercise £000	Date from which exercisable	Expiry date
A R Harris	(i)	84,532	–	–	–	84,532	10.06.97	–	169.88	–	–	10.06.00	10.06.07
		191,780	–	–	–	191,780	12.02.98	–	175.86	–	–	12.02.01	12.02.08
Total		276,312	–	–	–	276,312					–		
D M C Michels	(i)	417,662	–	417,662	–	–	12.02.98	11.03.02	175.86	248.00	301	12.02.01	12.02.08
	(ii)	2,831	–	2,831	–	–	11.07.96	13.02.02	141.33	224.00	3	–	–
Total		420,493	–	420,493	–	–					304		

(i) Stakis 1994 executive share option scheme.

(ii) Stakis 1993 savings related share option scheme.

There are no performance conditions attached to the vesting of the options detailed above.

Directors' remuneration and interests

continued

Long-term incentive schemes

Outstanding allocations made under the performance share plan, the share incentive plan and the annual bonus plan to executive directors at 31st December 2002 are as follows:

	Plan	Outstanding awards at 31.12.01	Awards vesting during the year ⁽ⁱ⁾	Awards lapsing during the year ⁽ⁱ⁾	Awards made during the year	Outstanding awards at 31.12.02	Date of award	Share price on date of award (pence)	Performance period end
C Bell	(a)	–	–	–	140,450	140,450	01.03.02	200.00	31.12.04
		117,045	–	–	–	117,045	08.03.01	198.00	31.12.03
		99,346	–	–	–	99,346 ⁽ⁱⁱ⁾	01.03.00	198.00	31.12.02
		85,856	15,024	70,832	–	–	01.04.99	221.30	31.12.01
Total		302,247	15,024	70,832	140,450	356,841			
	(b)	86	–	–	216	302	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾
A R Harris	(a)	–	–	–	212,180	212,180	01.03.02	200.00	31.12.04
		208,080	–	–	–	208,080	08.03.01	198.00	31.12.03
		170,940	–	–	–	170,940 ⁽ⁱⁱ⁾	01.03.00	198.00	31.12.02
		134,207	23,486	110,721	–	–	01.04.99	221.30	31.12.01
Total		513,227	23,486	110,721	212,180	591,200			
	(b)	54	–	–	216	270	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾
D M C Michels	(a)	–	–	–	270,529	270,529	01.03.02	200.00	31.12.04
		265,303	–	–	–	265,303	08.03.01	198.00	31.12.03
		196,153	–	–	–	196,153 ⁽ⁱⁱ⁾	21.06.00	260.00	31.12.02
		165,688	28,995	136,693	–	–	01.04.99	221.30	31.12.01
Total		627,144	28,995	136,693	270,529	731,985			
	(b)	86	–	–	216	302	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾
B G Wallace	(a)	–	–	–	222,789	222,789	01.03.02	200.00	31.12.04
		218,484	–	–	–	218,484	08.03.01	198.00	31.12.03
		161,538	–	–	–	161,538 ⁽ⁱⁱ⁾	21.06.00	260.00	31.12.02
		135,563	23,723	111,840	–	–	01.04.99	221.30	31.12.01
Total		515,585	23,723	111,840	222,789	602,811			
	(b)	86	–	–	216	302	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾	see note ⁽ⁱⁱⁱ⁾

(a) Performance share plan.

(b) 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 3 and 5.

Notes:

- (i) As described in the 2001 accounts and in respect of the year that ended 31st December 2001, the company achieved the 50th percentile on the TSR performance condition relative to the other FTSE 100 companies. The EPS performance condition was not met. The committee, taking into account all of the circumstances of the company's performance, were satisfied that the underlying financial performance of the company over the performance period had been satisfactory. Accordingly, they concluded that it was reasonable to exercise their discretion and approve partial vesting of the awards. The awards that vested on 1st March 2002 together with those that lapsed are as shown above. The share price as at 1st March 2002 was 224.25p.
- (ii) Conditional awards made at 1st March 2000 lapsed on 31st December 2002 as the relevant performance conditions had not been met.
- (iii) Bonus shares were awarded on a monthly basis on award dates between 28th January and 17th December. Share prices on the award dates ranged from 164.50p – 256.50p.

Retirement provision

Mr C Bell, Mr A R Harris 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 27 of the Annual Report 2002. In respect of basic salary above the Earnings Cap, Mr A R Harris and Mr B G Wallace are members of the HUURBS; 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 2002 was £171,159 (2001: £157,590). In addition Mr D M C Michels receives a cash supplement in respect of his basic salary above the Earnings Cap.

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.

Listing rule disclosures:

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 31st December 2002. The accrued pensions shown below 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 2002 £000	Transfer value of increase, less director's contributions over 2002 £000	Accrued pension at 31.12.02 £000	Accrued pension at 31.12.01 £000
C Bell	3	11	28	25
A R Harris	3	20	21	17
B G Wallace	3	20	25	21

Schedule 7A disclosures:

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 31st December 2002 in respect of qualifying services. The accrued benefits include only benefits earned for qualifying services, that is after becoming a director of the company.

	Additional accrued pension over 2002 £000	Total accrued pension as a director at 31.12.02 £000	Transfer value at 31.12.02 £000	Transfer value at 31.12.01 £000	Increase (or decrease) in transfer value over 2002 £000	Increase (or decrease) in transfer value, less director's contributions over 2002 £000
C Bell	3	6	43	31	12	5
A R Harris	3	8	66	48	18	11
B G Wallace	4	25	202	210	(8)	(15)

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

Directors' remuneration and interests

continued

Directors' interests in shares

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

Ordinary shares	At 31st December 2002 Fully paid	At 31st December 2001 (or later date of appointment) Fully paid
Sir Ian Robinson	28,000	20,000
D M C Michels	309,346 ⁽ⁱⁱ⁾	276,849
C Bell	31,478 ⁽ⁱⁱ⁾	15,783
S F Bollenbach	–	–
A R Harris	68,977 ⁽ⁱⁱⁱ⁾	44,826
N M H Jones	20,000	20,000
L P Lupo	10,000	10,000
Lady Patten	5,130	5,130
B G Wallace	52,372 ⁽ⁱⁱ⁾	27,978
J R F Walls	2,965	465

(i) All the share interests above were beneficial.

(ii) 929 (2001: 258 shares) shares are held under the Hilton Group share incentive plan.

(iii) 828 (2001: 163 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 8th January 2003; Mr D M C Michels 69 shares, Mr C Bell 69 shares, Mr A R Harris 69 shares and Mr B G Wallace 69 shares; and on 6th February 2003; Mr D M C Michels 73 shares, Mr C Bell 73 shares, Mr A R Harris 74 shares and Mr B G Wallace 73 shares.
- (b) On 31st January 2003, Mr D M C Michels' option over 1,443 shares under the 1983 savings related share option scheme at an option price of 214.72p lapsed.
- (c) Conditional awards made under the PSP at 1st March 2000 lapsed on 31st December 2002, as the relevant performance conditions had not been met.

No other changes to directors' share interests have taken place between 31st December 2002 and 27th February 2003.

Except for service contracts on page 4, none of the directors were 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 2002, including pension supplements, payments to money purchase pension schemes and benefits in kind were as follows:

	2002 £000	2001 £000
Executive directors		
Annual emoluments:		
Basic salaries	1,744	1,617
Annual bonus	472	561
Benefits-in-kind	72	55
Pension supplements ⁽ⁱ⁾	398	367
	2,686	2,600
Contributions to money purchase schemes	171	158
Annual emoluments total	2,857	2,758
Longer term emoluments:		
Performance share plan awards ⁽ⁱⁱⁱ⁾	205	–
Gains on exercise of share options ⁽ⁱⁱ⁾	304	23
Longer term emoluments total	509	23
Executive directors total	3,366	2,781
Non-executive directors:		
Fees	293	282
All directors total	3,659	3,063

(i) Of which £285,000 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 the three years to 31st December 2001 and represents the market value of the 1999 PSP awards that vested on 1st 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 Annual Report 2001. This amount has been transferred from 2001 to 2002 with a corresponding reduction in the amount previously reported from 2001.

By order of the board

J R F Walls

27th February 2003

Hilton Group plc
Maple Court, Central Park,
Reeds Crescent, Watford
Herts WD24 4QQ

020 7856 8000
www.hiltongroup.com