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Hilton Group plc

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

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Unaudited interim results for the six months ended 30 June 2003

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Turnover	3,968.9	2,567.7	5,479.0
Operating profit			
Hotels	56.1	97.8	212.1
Betting and Gaming	101.8	76.5	149.3
Central costs and income	(6.6)	(6.6)	(13.3)
	<u>151.3</u>	<u>167.7</u>	<u>348.1</u>
Interest	(40.8)	(37.7)	(76.7)
Profit before taxation, goodwill amortisation and exceptional items	<u>110.5</u>	<u>130.0</u>	<u>271.4</u>
Exceptional income/(charges) before taxation	-	-	(46.3)
EBITDA before exceptional items	220.0	237.7	486.1
Earnings per share before goodwill amortisation and exceptional items	5.5p	6.4p	13.4p
Basic earnings per share	3.2p	4.2p	6.2p
Dividend per share	3.40p	3.40p	8.92p

Highlights

- Group profit before taxation, goodwill amortisation and exceptional items down 15% to £110.5 million.
- Hotel profits fell 42.6% to £56.1 million as global trading remains difficult.
- Worldwide revpar* fell by 4.9% with occupancy down 2.9 percentage points and rate down by 0.3%.
- Worldwide betting profits grew strongly by 33.1% to £101.8 million.
- Interim dividend of 3.40 pence – level with last year.

* Like for like properties at constant exchange rates

David Michels, Group Chief Executive, commented:

“The complementary nature of Hilton and Ladbrokes, two of the world’s best known brands, is part of the strength of the Hilton Group.

“Like all businesses they move through cycles. A few years ago Hilton hotels were performing better than Ladbrokes, today the opposite is true.

“Over the past six months the already frayed confidence of travellers was undermined further by the Iraq war and SARS. In these extreme circumstances the hotel sector takes the brunt of the pain. The news on Ladbrokes is much more positive with strong results reflecting the growing demand for our products.

Outlook

“We understand the market’s desire to gauge future trends and developments but, in this environment, it is not possible to forecast with any certainty the economic future. I take the view that hotels will steadily recover but remain uncertain and cautious about the timing and pace of that process.

“I also believe that Ladbrokes will maintain steady growth in the underlying businesses but overall results will of course be influenced by any controls, which may be placed on fixed odds betting terminals.

“Meanwhile, our job is to drive the returns from the substantial investments of recent years, improve our return on capital employed and take a pragmatic and imaginative approach to the inevitable changes in both Ladbrokes’ and Hilton’s market places.

Dividend

“The Board’s decision to maintain the interim dividend at last year’s level reflects our confidence in the acknowledged strengths of the Group, its brands and their future prospects.”

The Board

On 31 December 2003, Louise Patten will be retiring as a non-executive director and we would like to thank Louise for the significant and helpful contribution she has made to the Group over the past 10 years.

Two new appointments have been made to the Board of Hilton Group plc. On 1 June 2003, Ian Livingston (39) was appointed as a non-executive director. Mr Livingston is Group Finance Director of BT Group plc. He was previously Group Finance Director of Dixons Group plc.

In addition, Christopher Rodrigues (53) has also been appointed as a non-executive director with effect from 1 September 2003. Mr Rodrigues is currently Group Chief Executive of Bradford and Bingley plc having previously been Group Chief Executive of Thomas Cook.

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There will be a presentation to analysts and investors at 9-30 a.m. today at Merrill Lynch Financial Centre, 100 Newgate Street, London, EC1A 1HQ and to press at 11-30 a.m. at the same venue.

An audiocast of the presentation to analysts, together with this press release and slide presentation, will be available from lunchtime today 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.

Hotels Division

Business Review

The hotel industry has experienced significant disruption in the past six months.

The ongoing threat of terrorist activity compounded by war, SARS and economic uncertainty, notably in Continental Europe, had a dramatic impact on travel patterns, in particular the continued reluctance of US citizens to travel outside of the US as well as a reduction in corporate travel. There was no escape for the industry.

Our earlier decision to refocus marketing with a greater emphasis on domestic and regional leisure proved to be wise and helped maintain occupancy levels and compensate for the fall in corporate business. We will continue to pursue this successful strategy whilst uncertainties remain.

The increase in leisure activity was also helped by the growing success of Hilton Worldwide Resorts and initiatives like Coral by Hilton in the Americas, the latter being an early example of our declared strategy of associating the Hilton brand with well-capitalised partners with similar ideals in growing markets. In addition, 11 hotels have been opened in the period and four management contracts signed.

While strict controls are being kept on capital expenditure appropriate steps are in place to ensure the proper maintenance of our portfolio is consistent with the levels of service our customers expect.

The organisation's ability to keep all costs to a minimum, whilst maintaining Hilton standards is key. All hotels have target profit conversion levels and are monitored monthly. Cost saving initiatives are instigated on an ongoing basis, especially in relation to energy and staffing.

Moving forward, growth in internet bookings and the greater use of IT in general is being tackled by the launch of a series of web sites focused on our largest source markets. Written in local language these sites will communicate to our customers those products that are relevant to them. The websites are aimed at customers for the Hilton brand in the UK, Germany and Japan. A number of local language sites have also been developed for the Scandic brand in Denmark, Finland, Norway and Sweden. These sites will be launched by the year end.

LivingWell had a good first half in the UK. Development of new sites continued in Australia and six LivingWell Express clubs, the new cost effective hotel health club concept opened in five countries.

Hotels Division (continued)

Operating Results

Turnover and profit by region	Half year to 30 June 2003		Half year to 30 June 2002		Year to 31 December 2002	
	Turnover	Profit	Turnover	Profit	Turnover	Profit
	£m	£m	£m	£m	£m	£m
United Kingdom	293.9	34.1	294.3	47.6	620.4	107.7
Europe & Africa	541.7	17.4	517.8	35.4	1,057.8	70.6
Middle East & Asia Pacific	300.6	5.1	336.9	10.3	705.5	24.2
The Americas	109.0	4.2	124.2	10.4	239.6	18.5
LivingWell	25.3	3.3	22.9	2.1	46.9	4.9
	<u>1,270.5</u>	<u>64.1</u>	<u>1,296.1</u>	<u>105.8</u>	<u>2,670.2</u>	<u>225.9</u>
Central and non-operating items	-	(8.0)	-	(8.0)	-	(13.8)
	<u>1,270.5</u>	<u>56.1</u>	<u>1,296.1</u>	<u>97.8</u>	<u>2,670.2</u>	<u>212.1</u>
Memo: Scandic	242.4	6.3	221.5	16.6	461.4	34.5

Turnover is that of all hotels whether owned or managed. Profit is before goodwill amortisation and exceptional items and includes a contribution from management contracts and contingent lease hotels of £26.5 million (2002: £36.4 million).

Revenue per available room ("revpar") by region (like for like, constant exchange rates)	Half year to 30 June 2003 £	Half year to 30 June 2002 £	Change
Hilton branded:			
United Kingdom			
- London	60.90	67.18	(9.3)%
- Provinces	48.51	49.75	(2.5)%
Total United Kingdom	53.62	56.79	(5.6)%
Europe & Africa	43.91	46.81	(6.2)%
Middle East and Asia Pacific			
- Middle East	31.48	30.94	1.7%
- Asia Pacific	44.63	49.71	(10.2)%
Total Middle East & Asia Pacific	39.29	42.15	(6.8)%
The Americas	45.28	45.76	(1.0)%
Total Hilton Branded	45.00	47.62	(5.5)%
Scandic Branded	30.66	31.76	(3.5)%
Total Hotels Division			
Revpar	41.44	43.56	(4.9)%
Occupancy	59.37 %	62.22 %	(2.85)% pts
Average room rate	69.79	70.02	(0.3)%

Hotels Division (continued)

The Hotels division profit decreased by 42.6% to £56.1 million as the effects of war, SARS and poor economies, especially in Europe, inevitably affected trading. Underlying profit, after adjusting for property changes and exchange movement decreased by 32.1%. On a worldwide basis (like for like properties at constant exchange rates) revpar declined by 4.9% with occupancy down 2.9 percentage points and rate down 0.3%. Exchange rate movement positively impacted results by £2.8 million.

UK and Ireland

- After adjusting for the effect of the 10 properties sold in the UK as part of a sale and leaseback transaction in August 2002 profit fell by 11.8%.
- Overall, like for like revpar was down 5.6%, with rate down 5.1% and occupancy down 0.4 percentage points.
- The Provinces held up well with revpar falling by only 2.5%, the success of marketing leisure activity drove occupancy up 1.1 percentage points.
- London revpar, on a like for like basis, fell by 9.3%, driven mainly by a fall in rate of 6.2% while occupancy decreased by 2.5 percentage points to 71.3%, the five star properties being more severely affected.

Europe and Africa

- Profit fell by 50.8% to £17.4 million as trading remained difficult most notably in Germany, France and Sweden with our owned and leased estate continuing to be affected more severely than our managed portfolio.
- Hilton branded properties saw revpar (like for like at constant currencies) flat in the first quarter but the worsening economic climate and Iraqi conflict resulted in a revpar decline of 6.2% in the first half. However, our owned and leased properties saw revpar decline by 11.2%.
- Revpar in the Scandic branded properties fell by 3.5%, primarily the result of the weak Stockholm market (Stockholm airport saw the steepest fall in traffic of any European airport), however, in key locations we continue to outperform the market.

Middle East and Asia Pacific

- SARS and the Iraqi conflict had a significant impact upon trading and as a result profit fell by 50.5%.
- The Sydney Hilton is closed for major refurbishment and will reopen in mid 2004.
- The effect of SARS and the Iraqi war saw revpar gains of 6.8% in the first quarter reduced to a decline of 6.8% for the first half.

The Americas

- Profit fell by 59.6% due to the effects of SARS in Canada and political instability in Venezuela.
- Overall, revpar fell by only 1.0%, however, our owned and fixed leased properties showed a revpar decline of 11.6%.
- The Caribbean region saw good trading with revpar up 4.5% as our worldwide resorts product in the region proved particularly popular with US customers.

LivingWell

- Membership growth of 3.5% saw sales increase by 10.5%.
- Profits increased by 57.1% to £3.3 million due to the good performances by the newly opened UK Premier clubs and the impact of pre-opening costs in 2002.

Betting Division

Business Review

Ladbrokes is continuing to build on its investment in technology as a catalyst for growth, producing record levels of gross win and profit.

The UK Retail business has completed the roll out of new visual systems in its shops, offering unparalleled clarity in presenting an ever increasing choice of betting opportunities for customers. Other than traditional racing products, new opportunities include betting on virtual horse and greyhound races. In addition, the shop environment is enlivened by 'Ladbrokes Live', a voice broadcast service highlighting bets of the moment, upcoming events and other Ladbrokes services available to customers.

The introduction of fixed odds betting terminals (FOBTs) in shops is continuing to prove very popular with customers, and Ladbrokes now has 3,500 terminals installed across its UK retail estate. Of particular success is the roulette style bet, the presence of which in betting shops across the industry is party to a joint declaratory hearing with the Gaming Board. This challenge is being strenuously defended.

eGaming continues to expand, having launched a second casino www.riobay.com and an enhanced poker site offering multi-table tournaments. The poker site is now recognised as the world's leading poker site outside the USA. In addition, improvements to the sportsbook have made the site simpler and easier to use.

Telephone betting introduced to selected customers a speech recognition system for automated call handling during Royal Ascot week. In addition, continued investment in call handling and customer service technology will further enhance the overall relationship with customers and improve efficiency.

Vernons continues successfully to develop its on-line and postal games products in the face of the industry decline in pools betting.

Betting Division (continued)

Operating Results

Turnover by business	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
UK Retail	2,562.2	1,231.7	2,755.6
Belgium & Ireland	147.3	121.6	243.8
Telephone Betting	240.7	193.8	393.2
eGaming	215.1	192.3	390.3
Vernons	15.0	15.1	29.0
Worldwide Betting	<u>3,180.3</u>	<u>1,754.5</u>	<u>3,811.9</u>

Gross win by business	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
UK Retail	274.6	237.0	460.8
Belgium & Ireland	33.4	30.9	60.8
Telephone Betting	13.3	15.0	27.4
eGaming	30.8	26.8	53.4
Vernons	10.5	10.2	20.0
Worldwide Betting	<u>362.6</u>	<u>319.9</u>	<u>622.4</u>

Profit by business	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
UK Retail	83.1	58.5	113.2
Belgium & Ireland	5.5	5.6	11.2
Telephone Betting	3.8	4.7	8.1
eGaming	6.2	5.1	11.3
Vernons	3.2	2.6	5.5
Worldwide Betting	<u>101.8</u>	<u>76.5</u>	<u>149.3</u>

Profit is before goodwill amortisation and exceptional items.

Turnover at £3.2 billion has increased by 81% reflecting mainly the introduction of FOBTs, but also continuing growth following the introduction of 'tax-free' betting and strong growth in both telephone betting and eGaming.

Betting Division (continued)

Gross win at £363 million was up by 13%, increasing in all channels except telephone betting where losses to high rolling punters offset an increase in the underlying base business. After deducting gross profits tax and VAT, gross profit consequently grew 16% to £308 million.

With operating costs increasing at 9%, operating profit at £101.8 million increased by 33%, principally driven by growth in UK Retail.

UK Retail

- Gross win increased by 16% to £275 million, with FOBTs accounting for over 80% of this growth. However, ignoring the theory that some of the growth in FOBTs may be at the expense of other products in the shops, gross win in the underlying business grew 3% despite a poor run of results on major horse races which depressed margins. Margins continue to be under pressure from the effect of betting exchanges.
- Turnover growth of 14% (excluding FOBTs) reflects continued growth in the 'tax-free' era and increasing enthusiasm for all other products continues. Slippage grew by 3%, with stake per slip up £0.76 to £8.24, an increase of 10.2%.
- Operating costs grew by 7% to £151 million mainly as a consequence of UK shops being open for longer periods including more Sundays and weekday evenings.
- Operating profit of £83.1 million represented a 42% increase.

European Retail

- Ireland and Belgium grew combined gross win by 8%, with operating profit decreasing by 2% to £5.5 million. A poor run of results on major horse races depressed margin in Ireland which, combined with the introduction of UK levy and picture fees, led to a fall in operating profit. Conversely, good margins in Belgium led to an increased profit from this business.

Telephone Betting

- Gross win fell 11% to £13.3 million as a consequence of losses to high rolling customers in June. Excluding these results, underlying gross win grew by 6%.
- Turnover increased by 24% to £241 million.
- The number of calls handled increased by 35% to 3.1 million, with the number of active customers in the period up by 5% to 92,000 despite the comparable benefits of the World Cup boosting activity in 2002. Average stake per call fell by 7% to £78, reflecting changes to the mix of customers as volumes grow.
- Operating profit, after losses to high rolling customers, fell 19% to £3.8 million, although the underlying business grew operating profit by 28% in line with the rate of growth in turnover.

eGaming

- Gross win increased by 15% to £30.8 million with strong growth in both casino and poker. Active customers in the casino grew 30% in the period, and gross win increased by 24%. The poker site has been extremely successful, with over 13,000 players active on the site; gross win has increased nearly fifteen-fold in the period.
- A 16% increase in active Sportsbook customers to 151,000 led to a 5% increase in turnover. However, registrations in the period fell by 4% to 141,000, 2002 having benefited from the World Cup. Poor results in the major horse races, the loss of Hong Kong business and no World Cup led to a 27% decrease in gross win.
- Operating profit of £6.2 million represented a 22% increase with costs impacted by the change in business mix.

Vernons

- Operating profit of £3.2 million increased 23%, reflecting a successful move in mix of business away from traditional pools betting (where the industry remains in decline) to higher margin numbers product.

Operating and Financial Review

Financial review

Turnover and profit before tax	Half year to 30 June 2003		Half year to 30 June 2002		Year to 31 December 2002	
	Turnover	Profit	Turnover	Profit	Turnover	Profit
	£m	£m	£m	£m	£m	£m
Hotels	788.6	56.1	812.1	97.8	1,666.0	212.1
Betting & Gaming	3,180.3	101.8	1,755.6	76.5	3,813.0	149.3
Central costs	-	(6.6)	-	(6.6)	-	(13.3)
	<u>3,968.9</u>	<u>151.3</u>	<u>2,567.7</u>	<u>167.7</u>	<u>5,479.0</u>	<u>348.1</u>
Interest	-	(40.8)	-	(37.7)	-	(76.7)
	<u>3,968.9</u>	<u>110.5</u>	<u>2,567.7</u>	<u>130.0</u>	<u>5,479.0</u>	<u>271.4</u>

Profit is before goodwill amortisation and exceptional items.

Trading summary

Turnover for the Group increased by £1,401.2 million (54.6%) to £3,968.9 million, mainly as a result of significantly higher fixed odds betting terminal ('FOBT') revenue in the Betting division. Hotels decreased £23.5 million (2.9%) to £788.6 million.

Operating profit before goodwill amortisation and exceptional items fell 9.8% to £151.3 million (2002: £167.7 million). An increase in Betting profits of £25.3 million to £101.8 million, was more than offset by lower Hotel profits (down £41.7 million to £56.1 million).

Interest

The interest charge of £40.8 million was 8.2% higher than last year (£37.7 million), mainly reflecting the higher interest cost of the 2002 bond issues, together with the impact of adverse foreign exchange.

Profit Before Tax

The operating profit decline combined with the higher interest charge resulted in a 15% decrease in first half profit before taxation, exceptional items and goodwill amortisation to £110.5 million (2002: £130.0 million).

Taxation

The total taxation charge was £24.3 million, an effective tax rate of 22.0% (2002: 22.0%) on profits before goodwill amortisation and exceptional items.

Earnings per share (EPS)

EPS (before the impact of goodwill amortisation and exceptional items) fell 14.1% to 5.5 pence, reflecting the decrease in profit before tax. The impact of dilutive share options is not significant.

Dividend

The Board has proposed an interim dividend of 3.40 pence per share in line with the dividend for the equivalent period last year. The cost of the first half dividend is £53.7 million (2002: £53.7 million). This dividend will be payable on 1 December 2003 to shareholders on the register on 5 September 2003.

Cash flow, capital expenditure and borrowings

Cash flow from operating activities of £226.5 million was up £14.7 million due to favourable working capital movements.

Capital expenditure on operating and intangible assets of £103.9 million increased by £18.7 million, with £42 million of acquisition linked development in hotels including the acquisition of Luxembourg, and major refurbishment in the recently acquired Sydney and Dusseldorf properties.

Interest, tax and equity dividend outflows amounted to £155.9 million compared to £132.2 million in 2002, reflecting higher tax payments.

At 30 June 2003, the Group had gross borrowings of £1,592.6 million and cash and short-term investments of £309.5 million, resulting in net debt of £1,283.1 million (31 December 2002: £1,164.8 million). The £118.3 million increase in net borrowings is after an adverse exchange translation impact of £88.5 million.

Pensions

In the 2002 Annual Report, we noted that a valuation, as at 30 June 2002, of the main UK defined benefit scheme was still in progress. The valuation, which was completed earlier this year, disclosed a deficit of £48 million as at 1 July 2002 and the Group's contributions to the scheme have been agreed at 28.4% of pensionable salary (2002: 19%).

Unaudited financial statements
Consolidated profit and loss account

	Half year to 30 June 2003		Half year to 30 June 2002		Year to 31 December 2002	
	Before exceptional items and goodwill amortisation	Total	Before exceptional items and goodwill amortisation	Total	Before exceptional items and goodwill amortisation	Total
	£m	£m	£m	£m	£m	£m
Turnover – continuing operations	3,968.9	3,968.9	2,567.7	2,567.7	5,479.0	5,479.0
Cost of sales before goodwill amortisation and depreciation	(3,690.8)	(3,690.8)	(2,270.9)	(2,270.9)	(4,890.0)	(4,895.1)
Goodwill amortisation	-	(35.8)	-	(34.8)	-	(68.7)
Depreciation and amounts written off tangible and intangible fixed assets	(68.7)	(68.7)	(70.0)	(70.0)	(138.0)	(179.4)
Cost of sales	(3,759.5)	(3,795.3)	(2,340.9)	(2,375.7)	(5,028.0)	(5,143.2)
Gross profit	209.4	173.6	226.8	192.0	451.0	335.8
Administrative expenses	(67.0)	(67.0)	(66.1)	(66.1)	(117.9)	(119.5)
Group operating profit – continuing operations	142.4	106.6	160.7	125.9	333.1	216.3
Share of results from associated undertakings	8.9	8.9	7.0	7.0	15.0	15.0
Share of goodwill amortisation of associated undertakings	-	(0.2)	-	(0.2)	-	(0.3)
Total operating profit	151.3	115.3	167.7	132.7	348.1	231.0
Continuing operations:						
Profit / (loss) on tangible fixed assets	-	-	-	-	-	13.0
Profit / (loss) on sale or closure of operations	-	-	-	-	-	(1.2)
Provision for losses on fixed assets pending sale	-	-	-	-	-	(10.0)
Profit before interest	151.3	115.3	167.7	132.7	348.1	232.8
EBITDA	220.0	220.0	237.7	237.7	486.1	481.2
Interest	(40.8)	(40.8)	(37.7)	(37.7)	(76.7)	(76.7)
Profit on ordinary activities before taxation	110.5	74.5	130.0	95.0	271.4	156.1
Tax on profit on ordinary activities	(24.3)	(24.3)	(28.6)	(28.6)	(59.7)	(58.7)
Profit on ordinary activities after taxation	86.2	50.2	101.4	66.4	211.7	97.4
Equity minority interests	-	-	(0.1)	(0.1)	(0.1)	(0.1)
Profit attributable to shareholders	86.2	50.2	101.3	66.3	211.6	97.3
Dividends	(53.7)	(53.7)	(53.7)	(53.7)	(141.0)	(141.0)
Transferred to / (from) reserves	32.5	(3.5)	47.6	12.6	70.6	(43.7)
Earnings per share:						
- basic	5.5p	3.2p	6.4p	4.2p	13.4p	6.2p
- diluted	5.5p	3.2p	6.4p	4.2p	13.4p	6.2p

Consolidated balance sheet

	30 June 2003	30 June 2002	31 December 2002
	£m	£m	£m
Intangible assets	1,682.5	1,707.6	1,672.6
Operating assets	2,598.0	2,820.2	2,514.7
Investments	114.6	109.2	109.4
	<u>4,395.1</u>	<u>4,637.0</u>	<u>4,296.7</u>
Assets held for resale	2.7	2.7	2.7
Stocks	18.0	19.9	19.4
Debtors	377.1	397.9	353.4
Cash at bank and in hand	309.5	100.5	400.9
	<u>707.3</u>	<u>521.0</u>	<u>776.4</u>
Creditors	(2,406.9)	(2,389.5)	(2,383.8)
Provisions	(215.4)	(214.9)	(215.5)
	<u>2,480.1</u>	<u>2,553.6</u>	<u>2,473.8</u>
Capital and reserves			
Called up share capital	158.1	158.0	158.0
Share premium account	1,718.9	1,717.9	1,718.5
Revaluation reserve	248.6	289.7	252.3
Other reserve	158.2	158.2	158.2
Profit and loss account	192.8	226.3	183.3
Equity shareholders' funds	<u>2,476.6</u>	<u>2,550.1</u>	<u>2,470.3</u>
Equity minority interests	3.5	3.5	3.5
	<u>2,480.1</u>	<u>2,553.6</u>	<u>2,473.8</u>

Statement of total recognised gains and losses

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Profit attributable to shareholders	50.2	66.3	97.3
Currency translation differences on foreign currency net investments	<u>9.3</u>	<u>(5.7)</u>	<u>(29.8)</u>
Total recognised gains and losses relating to the period	<u>59.5</u>	<u>60.6</u>	<u>67.5</u>

Reconciliation of movements in shareholders' funds

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Opening equity shareholders' funds	2,470.3	2,539.1	2,539.1
Total recognised gains and losses	59.5	60.6	67.5
Dividends	(53.7)	(53.7)	(141.0)
New share capital subscribed	0.5	4.2	4.8
Premium on allotment of ordinary shares	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
Closing equity shareholders' funds	<u>2,476.6</u>	<u>2,550.1</u>	<u>2,470.3</u>

Consolidated cash flow

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Net cash inflow from operating activities	226.5	211.8	455.7
Dividends received from associated undertakings	2.9	0.3	7.7
Returns on investments and servicing of finance			
Net interest paid	(17.8)	(23.2)	(59.3)
Net cash outflow from returns on investments and servicing of finance	(17.8)	(23.2)	(59.3)
Taxation			
UK corporation tax paid	(38.9)	(5.9)	(17.3)
Overseas tax paid	(11.9)	(16.0)	(31.4)
Tax paid	(50.8)	(21.9)	(48.7)
Capital expenditure and financial investment			
Payments for intangible and operating assets	(103.9)	(85.2)	(202.2)
Payments for fixed asset investments	(1.0)	-	(0.9)
Receipts from sales of intangible and operating assets	0.8	6.7	341.2
Receipts from sale of other investments	-	1.0	1.0
Net cash (outflow)/inflow for capital expenditure and financial investment	(104.1)	(77.5)	139.1
Acquisitions and disposals			
Disposal of subsidiaries	-	6.6	5.9
Net cash disposed with subsidiaries	-	(1.6)	(1.6)
Loans to associates	-	(0.2)	(25.2)
Purchase of interests in associates	-	(1.3)	(1.2)
Net cash inflow/(outflow) from acquisitions and disposals	-	3.5	(22.1)
Equity dividends paid	(87.3)	(87.1)	(140.7)
Cash (outflow)/inflow before use of liquid resources and financing	(30.6)	5.9	331.7
Opening net borrowings	(1,164.8)	(1,473.9)	(1,473.9)
Net cash (outflow)/inflow	(30.6)	5.9	331.7
Exchange movements	(88.5)	(48.6)	(28.6)
Issue of ordinary share capital	0.5	4.1	4.7
Other non-cash movements	0.3	0.6	1.3
Closing net borrowings	(1,283.1)	(1,511.9)	(1,164.8)

Notes to the accounts

1. Turnover and profit by activity

Half year to 30 June 2003

	Turnover	Profit before exceptionals & goodwill amortisation	Profit after exceptionals & goodwill amortisation
	£m	£m	£m
Continuing operations:			
Hotels	788.6	56.1	20.1
Betting and Gaming	3,180.3	101.8	101.8
Central costs and income	-	(6.6)	(6.6)
	<u>3,968.9</u>	<u>151.3</u>	<u>115.3</u>
Interest	-	(40.8)	(40.8)
	<u>3,968.9</u>	<u>110.5</u>	<u>74.5</u>

Half year to 30 June 2002

	Turnover	Profit before exceptionals & goodwill amortisation	Profit after exceptionals & goodwill amortisation
	£m	£m	£m
Continuing operations:			
Hotels	812.1	97.8	62.8
Betting and Gaming	1,755.6	76.5	76.5
Central costs and income	-	(6.6)	(6.6)
	<u>2,567.7</u>	<u>167.7</u>	<u>132.7</u>
Interest	-	(37.7)	(37.7)
	<u>2,567.7</u>	<u>130.0</u>	<u>95.0</u>

Year to 31 December 2002

	Turnover	Profit before exceptionals & goodwill amortisation	Profit after exceptionals & goodwill amortisation
	£m	£m	£m
Continuing operations:			
Hotels	1,666.0	212.1	103.1
Betting and Gaming	3,813.0	149.3	143.0
Central costs and income	-	(13.3)	(13.3)
	<u>5,479.0</u>	<u>348.1</u>	<u>232.8</u>
Interest	-	(76.7)	(76.7)
	<u>5,479.0</u>	<u>271.4</u>	<u>156.1</u>

2. Exceptional items

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Operating items			
Amounts written off tangible and intangible fixed assets and investments (a)	-	-	(39.7)
Costs of closure (b)	-	-	(8.4)
Total operating exceptional items	<u>-</u>	<u>-</u>	<u>(48.1)</u>
Non-operating items			
Continuing operations:			
Profit / (loss) on tangible fixed assets:			
Profit on sale of UK hotels	-	-	17.9
Loss on disposal of other tangible fixed assets	-	-	(4.9)
	<u>-</u>	<u>-</u>	<u>13.0</u>
Loss on closure of operations	-	-	(1.2)
Provision for losses on fixed assets pending sale	-	-	(10.0)
Total non-operating exceptional items	<u>-</u>	<u>-</u>	<u>1.8</u>
Exceptional items before taxation	-	-	(46.3)
Taxation thereon (c)	-	-	1.0
Exceptional items after taxation	<u>-</u>	<u>-</u>	<u>(45.3)</u>

- a) Amounts written off tangible and intangible fixed assets and investments in the year ended 31 December 2002 comprise impairment in the value of hotels and healthclubs across the estate.
- b) Costs in the year ended 31 December 2002 relate to the closure of 54 betting shops and the closure of a hotel for refurbishment.
- c) The tax credit for the year ended 31 December 2002 relates to operating exceptional items.

3. Interest

The interest charge is net of interest receivable of £14.2m (June 2002: £4.5m; December 2002: £17.4m). The interest charge is covered 3.7 times (June 2002: 4.4 times; December 2002: 4.5 times) by profit before exceptional items and goodwill amortisation.

4. Taxation

The total tax charge of £24.3m (June 2002: £28.6m; December 2002: £58.7m), includes associated undertakings tax of £0.2m (June 2002: £0.5m; December 2002: £0.8m).

5. Earnings per share

The calculation of basic earnings per share before exceptional items and goodwill amortisation is based on profit attributable to shareholders of £86.2m (June 2002: £101.3m; December 2002: £211.6m). It is included as it provides a better understanding of the underlying trading performance of the Group. The calculation of basic earnings per share after exceptional items and goodwill amortisation is based on profit attributable to shareholders of £50.2m (June 2002: £66.3m; December 2002: £97.3m). The adjusted weighted average number of shares used in the diluted earnings per share calculations 1,581.3m (June 2002: 1,585.3m; December 2002: 1,583.0m) is the weighted average number of shares in issue 1,580.3m (June 2002: 1,578.6m; December 2002: 1,579.1m), plus adjustments for dilutive share options 1.0m (June 2002: 6.7m; December 2002: 3.9m).

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	pence per share	pence per share	pence per share
Basic earnings per share before exceptional items and goodwill amortisation	5.5p	6.4p	13.4p
Basic earnings per share	3.2p	4.2p	6.2p
Diluted earnings per share before exceptional items and goodwill amortisation	5.5p	6.4p	13.4p
Diluted earnings per share	3.2p	4.2p	6.2p

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

	Half year to 30 June 2003	Half year to 30 June 2002	Year to 31 December 2002
	£m	£m	£m
Total operating profit	115.3	132.7	231.0
Depreciation	68.7	70.0	138.0
Amounts written off tangible and intangible fixed assets and investments	-	-	41.4
Amortisation of subsidiary goodwill	35.8	34.8	68.7
Decrease in stocks	1.4	0.8	1.1
Decrease in debtors	1.9	5.0	31.1
Increase/(decrease) in creditors	14.6	(22.8)	(48.1)
(Decrease)/increase in provisions	(2.1)	(0.7)	1.7
Share of profits from associated undertakings	(8.9)	(7.0)	(15.0)
Amortisation of associated undertaking goodwill	0.2	0.2	0.3
Other items	(0.4)	(1.2)	5.5
Net cash inflow from operating activities	<u>226.5</u>	<u>211.8</u>	<u>455.7</u>

7. Basis of reporting

The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's 2002 statutory accounts. The tax charge is calculated by applying the directors' best estimate of the annual tax rate to the profit for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 28 August 2003 and is unaudited. The auditors have carried out a review and their report is set out on page 23.

- (b) The financial information set out in this document in respect of the year ended 31 December 2002 does not constitute the Group's statutory accounts for the year ended 31 December 2002. The auditors' report on the statutory accounts for 2002 was unqualified and did not contain a statement under section 237 of the Companies Act 1985. Statutory accounts for 2002 have been delivered to the Registrar of Companies.

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 2003, which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 7. 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 the 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 which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

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 management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. 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 2003.

Ernst and Young LLP
London
28 August 2003