

Hilton Hotels Corporation
1978
Annual Report



*"The degree
of success I have
obtained I attribute to
my conviction that man
with God's help and
personal dedication
is capable of anything
he can dream."*

Conrad N. Hilton

On January 3, 1979, my father Conrad Hilton, founder and Chairman of the Corporation, died at the age of 91. He was truly a remarkable man, a pioneer in the highest sense of the word. He built the greatest system of hotels in the world, not just through his financial acumen — though certainly he had genius in finance — but through his tremendous dedication to serving people, to giving his guests value for their money. He bought his first hotel in Cisco, Texas with \$5,000 of hard-earned savings. When he died more than 250 hotels around the world bore his name.

To millions upon millions of people throughout the world, his name is synonymous with hotel. To those of us who knew him his enthusiasm and vision were legendary as was his boundless optimism for the hotel business which he loved. We will sorely miss him.

Barron Hilton



Conrad Nicholson Hilton
1887 - 1979

Hilton Hotels and Inns in the United States

ALABAMA

Birmingham
Hilton Inn
Huntsville
Huntsville Hilton

ALASKA

Anchorage
Anchorage-Westward
Hilton
Juneau
Juneau Hilton

ARIZONA

Scottsdale
Scottsdale Hilton
Tucson
Hilton Inn

ARKANSAS

Little Rock
Hilton Inn

CALIFORNIA

Bakersfield
Hilton Inn
Fresno
Fresno Hilton
Long Beach
Queensway Hilton
Los Angeles
The Beverly Hilton
(*Beverly Hills*)
Los Angeles Hilton
University Hilton
Valley Hilton
(*Sherman Oaks*)
Monterey
Hilton Inn Resort
Oakland
Oakland Airport Hilton
Oxnard
Hilton Inn
Palm Springs
Hilton Riviera
Pasadena
Pasadena Hilton
San Bernardino
Hilton Inn
San Diego
San Diego Hilton
San Francisco
San Francisco Airport
Hilton
San Francisco Hilton
Sunnyvale
Sunnyvale Hilton Inn
(*Opens 1979*)

COLORADO

Boulder
Hilton Harvest House
Colorado Springs
Hilton Inn
Denver
Airport Hilton Inn
Denver Hilton

CONNECTICUT

Hartford
Hartford Hilton

DELAWARE

Wilmington
Brandywine Hilton Inn

DISTRICT OF COLUMBIA

Washington
Capital Hilton
Washington Hilton

FLORIDA

Clearwater Beach
Hilton Inn
Daytona Beach
Daytona Hilton

Fort Lauderdale

Fort Lauderdale Hilton
Hilton Inn and Conference
Center at Inverrary
(*Opens 1979*)

Gainesville

Gainesville Hilton

Jacksonville

Jacksonville Hilton

Jupiter

Hilton Inn

Lakeland

Hilton Inn

Longboat Key

Longboat Key Hilton Inn

Miami Beach

Fontainebleau Hilton

Orlando

Hilton Inn Gateway
Hilton Inn South
Hilton Inn West

Riviera Beach

Hilton Inn of the
Palm Beaches

St. Petersburg Beach

Hilton Inn

Tallahassee

Tallahassee Hilton

Tampa

Riverside Hilton Inn

GEORGIA

Atlanta
Atlanta Airport
Hilton Inn
Atlanta Hilton
Northlake Hilton Inn
Augusta
Augusta Hilton
Jekyll Island
Hilton Inn
Macon
Macon Hilton
Savannah
DeSoto Hilton

HAWAII
Honolulu
Hilton Hawaiian Village
Kailua-Kona
Kona Hilton

IDAHO

Pocatello
Hilton Inn

ILLINOIS

Aurora
Hilton Inn
Chicago
Arlington Park Hilton
The Conrad Hilton
O'Hare Hilton (*Airport*)
Palmer House
Peoria
Peoria Hilton
Skokie
North Shore Hilton
Springfield
Springfield Hilton
(*Opens 1979*)

INDIANA

Fort Wayne
Airport Hilton Inn
Indianapolis
Airport Hilton Inn
Indianapolis Hilton
Jeffersonville
Hilton Inn
West Lafayette
Hilton Inn

IOWA

Des Moines
Airport Hilton Inn
Sioux City
Sioux City Hilton

KANSAS

Garden City
Hilton Inn
Junction City
Hilton Inn
Salina
Hilton Inn
Wichita
Hilton Inn

KENTUCKY

Lexington
Hilton Inn

LOUISIANA

Baton Rouge
Baton Rouge Hilton
Bossier City
Hilton Inn
New Orleans
New Orleans Airport
Hilton
New Orleans Hilton

MAINE

Bangor
Airport Hilton Inn

MARYLAND

Annapolis
Hilton Inn
Baltimore
Baltimore Hilton
Baltimore Hilton Inn
(*Pikesville*)

MASSACHUSETTS

Boston
Logan Airport Hilton
Colonial Hilton Inn
(*Wakefield*)
Northampton
Colonial Hilton Inn
Pittsfield
Berkshire Hilton Inn

MICHIGAN

Ann Arbor
Briarwood Hilton
Bellaire
Hilton Shanty Creek
Detroit
Airport Hilton Inn
Kalamazoo
Hilton Inn
Lansing
Hilton Inn
Plymouth
Hilton Inn
Troy
Northfield Hilton Inn
Troy Hilton Inn

MISSISSIPPI

Biloxi
Biloxi Hilton
Columbus
Hilton Inn (*Opens 1979*)
Jackson
Jackson Hilton

MISSOURI

Columbia
Hilton Inn
Kansas City
Airport Hilton Plaza Inn
Hilton Plaza Inn
St. Louis
Airport Hilton Inn
Bel Air Hilton
Springfield
Hilton Inn

NEBRASKA

Lincoln
Lincoln Hilton
Omaha
Omaha Hilton

NEVADA

Las Vegas
Flamingo Hilton
Las Vegas Hilton

NEW JERSEY

East Windsor
Hilton Inn and National
Conference Center
Mount Laurel
Mount Laurel Hilton
Newark
Hilton Gateway
Secaucus
Meadowlands Hilton
Tinton Falls
Hilton Inn

NEW MEXICO

Albuquerque
Hilton Inn
Santa Fe
Hilton Inn

NEW YORK

Corning
Corning Hilton Inn
Lake Placid
Lakeside Hilton Inn
(*Opens 1979*)
New York
Airport Hilton Inn (*JFK*)
New York Hilton
Waldorf-Astoria
Niagara Falls
Niagara Hilton
Rochester
Hilton Inn on the Campus
Rye
Rye Town Hilton Inn
Syracuse
Hilton Inn
Tarrytown
Hilton Inn

NORTH CAROLINA

Asheville
Great Smokies Hilton
Resort
Burlington
Hilton Inn
Durham
Hilton Inn
Greensboro
Hilton Inn
Raleigh
Hilton Inn
Wilmington
Wilmington Hilton
Winston-Salem
Hilton Inn

OHIO

Akron
Hilton Inn
Cincinnati
Netherland Hilton
Terrace Hilton
Hilton Inn (*Sharonville*)
Cleveland
Airport Hilton Inn
Columbus
Hilton Inn
Hilton Inn East
Hilton Inn North

OKLAHOMA

Oklahoma City
Airport Hilton Inn
Hilton Inn Northwest
Tulsa
Hilton Inn

OREGON

Portland
Portland Hilton
PENNSYLVANIA
Erie
Erie Hilton
Philadelphia
Hilton Hotel of
Philadelphia
Hilton Inn Northeast
(*Trevose*)
Stadium Hilton Inn
Valley Forge Hilton
(*King of Prussia*)
Pittsburgh
Airport Hilton Inn
Pittsburgh Hilton

Stroudsburg

Pocono Hilton Inn
Washington
Hilton Inn — Meadow Lands

RHODE ISLAND

Providence
Hilton Inn
(*Cranston*)

SOUTH CAROLINA

Myrtle Beach
Myrtle Beach Hilton

TENNESSEE

Chattanooga
Choo Choo Hilton Inn
Memphis
Airport Hilton Inn
Nashville
Airport Hilton Inn

TEXAS

Amarillo
Airport Hilton Inn
Austin
Hilton Inn
Brazosport
Hilton Inn
Corpus Christi
Airport Hilton Inn
Dallas
Dallas Hilton
Hilton Inn
Hilton LBJ (*Opens 1979*)
El Paso
Airport Hilton Inn
Fort Worth
Fort Worth Hilton Inn
Houston
Airport Hilton Inn
and Conference Center
Brookhollow Hilton Inn
Hilton Inn West (*Opens 1979*)
Shamrock Hilton
Laredo
Hilton Inn
Lubbock
Hilton Inn
McAllen
Airport Hilton Inn
Midland
Midland Hilton
San Antonio
Hilton Placio del Rio
South Padre Island
Sea Island Hilton

UTAH

Salt Lake City
Hilton Inn
Salt Lake Hilton
St. George
Hilton Inn

VIRGINIA

Springfield
Springfield Hilton
Virginia Beach
Hilton Inn
Williamsburg
Hilton Motor Inn

WASHINGTON

Seattle
Seattle Airport Hilton
Seattle Hilton

WISCONSIN

Lake Geneva
Hilton Inn
Milwaukee
Hilton Inn

WYOMING

Casper
Hilton Inn

1978 Annual Report

Financial Highlights

	1978	1977	Change
Total revenue	\$451,128,000	376,118,000	+ 19.9%
Net income	\$ 67,594,000	40,065,000	+ 68.7
Average number of common and common equivalent shares	26,253,585	29,246,584	— 10.2
Earnings per share	\$2.62	1.42	+ 84.5
Dividends paid per share	\$.73 ³ / ₄	.48 ¹ / ₄	+ 52.8
Return on average stockholders' equity	26.4%	17.8	+ 48.3
Percentage of occupancy Properties owned 50% or more	73%	70	+ 4.3
Average rate per occupied room Properties owned 50% or more	\$43.00	37.90	+ 13.5
Funds provided from operations	\$87,868,000	56,422,000	+ 55.7
Working capital	\$52,713,000	43,847,000	+ 20.2

The annual meeting of stockholders will be held at The Beverly Hilton,
9876 Wilshire Boulevard, Beverly Hills, California on May 3, 1979 at 10:00 A.M.

Cover —

The most glittering star
in the Las Vegas
constellation, the
beautiful Las Vegas
Hilton rises into the
desert night as a beacon
for fun-seeking people
from all over the world.
Completion of the
sparkling-new 644-room
Tower addition in late
1978 makes the opulent
Las Vegas Hilton the
largest and most luxu-
rious resort-convention
hotel in the world.



BARRON HILTON

RECORD EARNINGS

We are privileged to report results for the most extraordinary year in Hilton's history. Net income in 1978 soared to \$67,594,000, a 69 percent gain over the \$40,065,000 earned in the year before. Earnings per share climbed to \$2.62 from \$1.42 in 1977, an 85 percent increase. The magnitude of the growth surpassed even our expectations. However, the results for 1978 are a confirmation of decisions made over the years to invest heavily in our future and to position the Corporation to capitalize on such highly favorable economic environments as existed in 1978.

HIGH OPERATING PERFORMANCE

In last year's annual report we observed that our return on stockholders' equity has grown dramatically in the ten years through 1977. In 1967 we earned only 8½ cents on each dollar of capital invested in Hilton. In 1977 we more than doubled that to 17.8 cents on each dollar of invested capital. Further improvement was achieved in 1978 as return on stockholders' equity rose to 26.4 percent.

Total revenues, including revenues from non-consolidated properties, were \$885,693,000 in 1978, up 20 percent from \$737,196,000 in 1977. Consolidated revenues also advanced 20 percent in 1978 to \$451,128,000, up from \$376,118,000 the year before. Management and franchise fees, a large proportion of which flows directly through to income, grew by 29 percent in 1978 to \$20,168,000 from \$15,633,000 in 1977. Our net income per share of \$2.62 in 1978 reflects a compound annual growth rate before property transactions of 32 percent over the last five years, and 19 percent over the last ten years. Earnings have exceeded prior year levels for the last 15 consecutive quarters, nearly a four-year period.

Working capital at year-end was in excess of \$52 million, more than four times greater than at year-end 1968. Stockholders' equity at the close of 1978 was \$292,587,000 or \$12.02 per share. This represented a 24 percent per share increase in the last year and a 158 percent per share increase over the last ten years. Cash flow

(working capital provided by operations) in 1978 was a record \$87,868,000, up 56 percent for the year. And, our long-term debt was less than 60 percent of stockholders' equity, one of the most conservative ratios in the lodging industry.

SUBSTANTIAL DIVIDEND INCREASE

Giving recognition to the significant growth in earnings and the sound financial condition of the Company, the Board of Directors increased the cash dividend to stockholders twice during the year. In May the dividend was raised from an annual rate of \$.55 per share to \$.70 per share, while at the November meeting the Board voted to raise the dividend to an annual rate of \$1.00 per share. This represents an 82 percent rate increase during the year. The cash dividend has now been raised five times in the last four years, and the rate is now $5\frac{1}{2}$ times that of 1968.

STOCK SPLIT

In November the Board authorized a 2-for-1 stock split in the form of a 100 percent stock distribution. This doubled the number of shares outstanding but did not change any stockholder's relative holding in the Corporation.

The purpose of the split was to increase the number of shares. Such action often serves to broaden the market for a company's stock by making the stock more accessible to individual investors and more attractive to large institutional investors. All per share figures in this report have been adjusted for the split. At year-end 24,345,479 common shares were outstanding, compared to 22,660,800 shares at the end of 1977. The greater number of shares outstanding at the close of 1978 reflects the conversion of convertible debentures by their holders into common stock and the exercise of stock options by officers and key employees.

REASONS FOR RESULTS — LAS VEGAS

Outstanding performance by our Las Vegas operations accounted for a major part of Hilton's earnings growth in 1978. Our two Las Vegas hotel/

casinos contributed operating income of \$51,264,000, a 108 percent gain over 1977 results of \$24,603,000.

Hotel/casinos provided 36 percent of Hilton's income in 1978, versus 29 percent in 1977. Revenues for the hotel/casinos grew to \$182,952,000, a 28 percent advance, while occupancy was raised 4 points to 86 percent, versus 82 percent in 1977. Average room rates for the two Las Vegas hotels increased by 6.6 percent to \$39.00, up from \$36.60 in the previous year.

Our decision to invest heavily in the Flamingo Hilton paid off handsomely in 1978. A new, larger, more elegant casino was completed in mid-1977. The new, expanded showroom and new restaurants opened in October, and the new 500-room tower addition was completed in the first quarter of 1978. The Flamingo Hilton showed a higher occupancy rate *after* the opening of the tower addition than during the prior year when a *fewer* number of rooms were available. The new facilities have proven enormously successful, resulting in the Flamingo Hilton being a major contributor to earnings.

Income jumped significantly at the Las Vegas Hilton as well. Higher occupancy in 1978 and improved casino profits helped produce the healthy increase in income. Strong convention and leisure/vacation business boosted occupancy, while the sharp reduction of the junket program in late 1977 ended many extensions of complimentary air fare, room, food and beverages.

A 644-room, \$22 million addition to the Las Vegas Hilton was completed in late December and did not affect 1978 results. However, the availability of this new tower addition and the new tower at the Flamingo Hilton for the full year of 1979 is expected to contribute to another respectable gain in earnings for our Las Vegas operations.

In the past five years we have invested a total of \$114 million in expansion and refurbishing of our Las Vegas hotel/casinos and have simulta-



neously increased the return on our assets from 17 percent in 1973 to 30 percent in 1978. Such investment and efficient management have resulted in an income contribution of 28 cents of every 1978 revenue dollar as compared to 21 cents in 1973 and 17 cents in 1977.

REASONS FOR RESULTS — HOTELS

The Hilton hotel system excluding Las Vegas also achieved outstanding performance in 1978. Occupancy was lifted by 3 points to 71 percent from 68 percent in 1977 with an increase of 166,906 paid room nights for the year. The average rate per room for 1978 increased 14.7 percent to \$43.70.

All major market categories — conventions, small business meetings, foreign travelers, frequent business travelers, tour and travel, and individuals — showed good increases. There was enormous demand from the business sector, particularly in the Eastern U.S.

Increased domestic travel due to lower airfares, greater travel in the U.S. by nationals of other countries due to the decline of the dollar relative to other major currencies (thus making their U.S. vacations less expensive), and an aggressive national marketing and promotion effort combined with the strong business demand to produce the best hotel results in Hilton's history. Hotel revenues climbed 13.3 percent to \$240,945,000, while the income contribution grew 45 percent to \$57,216,000. The income contribution for 22 percent to 50 percent owned companies, mainly hotels, increased 47 percent to \$32,625,000.

During 1978 Hilton added 120 rooms to the 50 percent-owned Rye Town Hilton Inn and benefited from a full year of operations of the 27 percent-owned New Orleans Hilton, which opened in the late summer of 1977 and continued its success in 1978. Two managed hotels, in which Hilton has no equity, were added in 1978, the new 303-room Meadowlands Hilton near the Meadowlands

Sports Complex across the Hudson River from New York City, and the well-established Fontainebleau Hotel in Miami Beach, Florida, which Hilton began managing in July. Renamed the Fontainebleau Hilton, this internationally-famous, 1173-room resort and convention hotel is now undergoing a refurbishing costing in excess of \$13 million. With more than 1,000 feet of prime frontage along the Atlantic Ocean and outstanding facilities, we expect this hotel to contribute importantly to our future management fee income.

In 1978 our fees from management contracts amounted to \$11,826,000, up 25 percent from the \$9,473,000 received in 1977. At the end of 1978 we had 30 hotels with 20,886 rooms under management contract, as compared to 20,156 rooms in 1977.

Franchised Hilton Inns benefited as well from the favorable business conditions during the year. Total franchise fees in 1978 were \$8,342,000 versus \$6,160,000 in 1977, a 35 percent increase. During 1978 the average room rate for franchised properties increased about 14 percent and occupancy rose an average of 3 percentage points.

Fourteen new franchise properties were added during the year, while four were terminated, giving a net addition of ten properties and a net addition of 2,891 rooms. Two of the 14 properties added in 1978, the Indianapolis Hilton and the Troy Hilton Inn, were converted from management

*Fontainebleau Hilton —
Seen from across a
stretch of Florida's
Indian River, the inter-
nationally-famous
Fontainebleau Hilton
with its 1173 rooms and
1,000 feet of ocean
front beach shines as one
of the newest members
of the Hilton family.*





to franchise status. At year-end there were 136 Hilton Inns with 28,968 rooms in 124 cities.

As franchised properties mature they run higher occupancies and are able to command increased rates. This benefits Hilton's income, which is based on a percentage of gross room revenues. In addition, beginning in 1977 the franchise percentage was raised, so properties contracted for after 1977 are contributing at the higher level.

CAPITAL GAINS AND EXPENDITURES

In January, 1979, the Corporation agreed to sell the Statler Hilton in New York for \$24 million, far in excess of book value. The transaction is scheduled to close in April, 1979. The sale of the Statler Hilton is part of our on-going asset management program whereby we invest our capital in those assets which hold the greatest promise for generating future profits. The gain on the sale of the assets further supports our assertions over the years of the tremendous underlying value of our assets which is not reflected on our balance sheet. To demonstrate this point even more fully we are again including in this annual report (Page 34) the market value of our real estate holdings, which, for the first time, exceeds \$1 billion and is \$717 million in excess of net book value.

In 1978 Hilton made capital expenditures of \$58 million. Of this amount, \$15 million was allocated to the Flamingo Hilton tower, \$19 million to the new Las Vegas Hilton tower, and \$24 million to other capital projects. Hilton closed 1978 with cash and temporary investments in excess of \$100 million, a current ratio (current assets to current liabilities) of 1.5 to 1, and a comparatively low debt/equity ratio. We are in a superb position to finance the future growth of the Company through the use of internal funds and through an increased level of borrowing easily supported by our cash flow. In addition, Hilton has used only \$138 million of mortgage debt.

We are, therefore, not only blessed with the highest quality portfolio of properties in the Company's history and attractive, diversified sources of earnings in our management and franchise contracts, but with an opportunity unparalleled in the lodging and gaming industries to take advantage of growth potentials.

FUTURE EXPANSION

In October Hilton and Metro-Goldwyn-Mayer announced the joint purchase of an option on 22 acres of land in the Marina section of Atlantic City, New Jersey. Arrangements have now been made to acquire a total of more than 30 acres and it is intended that Hilton, MGM and Harrah's separately will build hotel/casinos on the site, creating a locus of luxury hotels and a new resort area about 1½ miles from the Atlantic City Boardwalk.

We plan to build a wholly-owned, luxury hotel/casino upon completion of the land transaction. Operation of the hotel/casino will require approvals from the Nevada Gaming Control Board, the New Jersey Casino Control Commission and others.

We have no assurances that Hilton can obtain the required approvals and licenses, although we know of no reason why we should not qualify. At this writing we have submitted our application in Nevada. Because of the complexities of the various approval processes, no estimate can be given as to an opening date for an Atlantic City hotel/casino.

San Francisco Hilton and Tower — A bright addition to the San Francisco skyline is provided by the San Francisco Hilton Tower, a now-famous landmark in the City of Lights.





ASHBY'S

THE WASHINGTON HILTON

We believe that Atlantic City's location, within one day's drive for one quarter of the total U.S. population, offers tremendous convention, resort and gaming potential to an experienced hotel/casino operator. Furthermore, an analysis of the sources of our Las Vegas business leads us to conclude that Atlantic City will have little adverse effect on our Las Vegas operations.

In August we announced that an agreement in principle had been reached with the City of Chicago to purchase a large site in downtown Chicago. On this site, which is part of a seven-square-block urban redevelopment of downtown Chicago, Hilton proposes to build an 1800-room hotel costing in excess of \$135 million. The hotel, which will overlook the Chicago River, will be one of the great hotels of the world. Hilton plans to have a management contract and retain an equity interest in the hotel. Completion is scheduled for 1982.

The Conrad Hilton will continue as our major Chicago convention facility until the new hotel is opened. We plan to sell the Conrad Hilton after the new hotel opens. The redevelopment of Chicago's downtown area will enhance the attractiveness of the Palmer House as a major Hilton hotel serving the Chicago business and financial communities. Accordingly, the Palmer House is targeted for complete remodeling and refurbishing over the next three years.

In Hawaii we expect to break ground in 1979 for a 1060-room tower at the 50 percent-owned Hilton Hawaiian Village. This premier resort hotel

will then total 2,615 rooms. This addition, which will cost in excess of \$70 million, is expected to make a major contribution to revenue and income after its completion in early 1981.

In June, 1978, the Corporation signed an agreement to manage the 270-room Mobile Hilton in Mobile, Alabama, in which it will have no equity. The new hotel is scheduled to open in September.

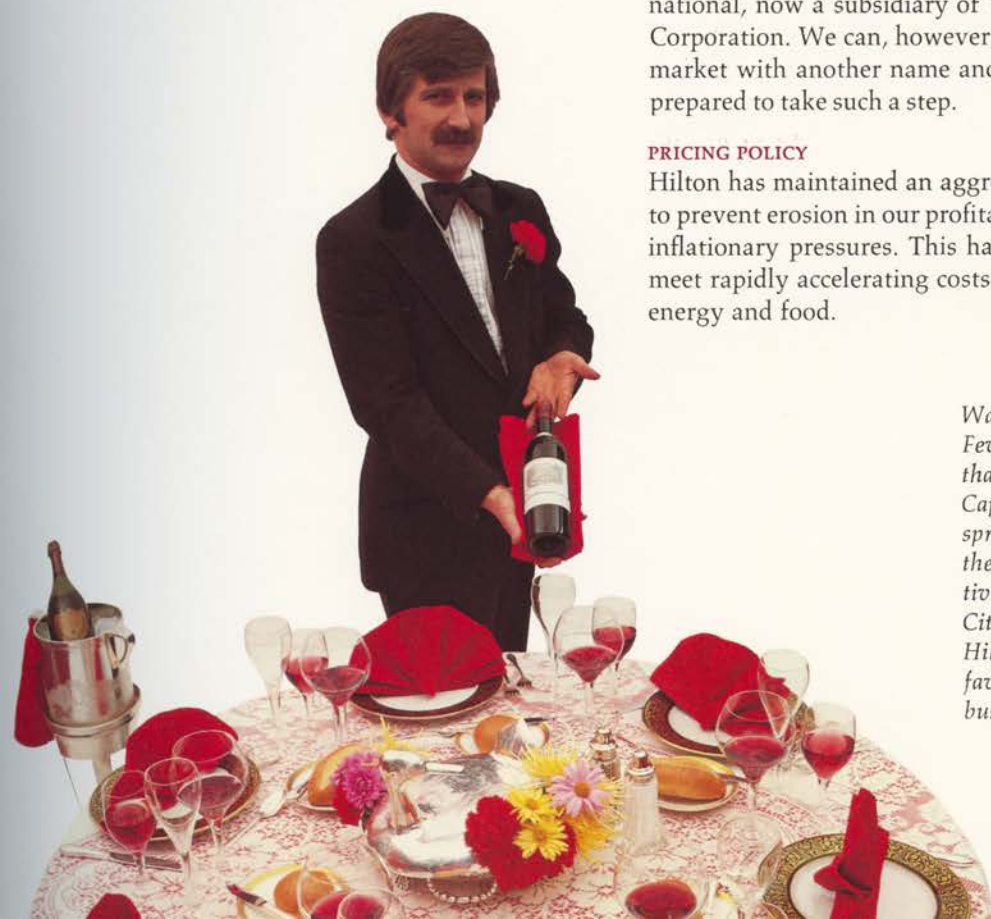
Not to be overlooked in our expansion plans is the Hilton Inn franchise program, where we expect continued vigorous growth. Nine present Hilton Inns are now building additions which will add 907 rooms in 1979 and 17 new Hilton Inns now under construction are scheduled to open in 1979, adding another 3,817 rooms. Four existing properties are scheduled to join the Hilton system during the upcoming year with 1,230 rooms. Thus, nearly 6,000 rooms will be added during the year. Some existing operations may be terminated, but it appears that the net gain in franchised rooms will be substantial in the year ahead. And, for the longer term, another 28 properties are planned to commence construction (but not open) in 1979 with a total of 5400 rooms.

We believe that the expansion projects described above together with a number of others being explored will assure Hilton's position as the pre-eminent growth company in the lodging and gaming fields. Hilton is also continuing discussions relative to the Corporation's reentry in the international hotel business. We are precluded from using the Hilton name outside of the United States under an agreement with Hilton International, now a subsidiary of Trans World Corporation. We can, however, enter the overseas market with another name and we are fully prepared to take such a step.

PRICING POLICY

Hilton has maintained an aggressive pricing policy to prevent erosion in our profitability from intense inflationary pressures. This has enabled us to meet rapidly accelerating costs for such items as energy and food.

Washington Hilton — Few cities are lovelier than the Nation's Capital, especially in springtime. Adding to the comfort and attractiveness of the First City is the Washington Hilton, a long-time favorite of tourists and business people alike.



THE YEAR AHEAD

I have recommended and the Board has approved and encouraged major refurbishing and remodeling expenditures to maintain the high service standard and quality of our product. Only in this way can we justify and succeed with an adequate pricing structure. In 1978 we expended \$24 million in refurbishing and remodeling.

Notwithstanding our need to meet inflationary cost increases with pricing increases, Hilton is making a dedicated effort to cooperate with and assist the President of the United States in keeping inflation under control. We have established internal guidelines to enable us to the best of our ability to meet the targets established by the President.

We do, however, need to absorb a 9.5 percent increase in the minimum wage in 1979, which comes on top of a 15 percent increase in 1978. And, we are fearful of accelerating energy costs, as utility companies are generally allowed by regulatory commissions to pass on to customers higher costs for fuel and other inputs, regardless of whether these increases are inflationary. We are closely monitoring all costs and will continue to recognize our responsibility to our stockholders to cover inflationary cost increases and to hold our profitability at an acceptable level.

MANAGEMENT CHANGES

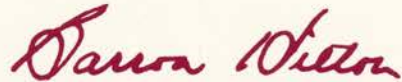
At the February, 1979, meeting of the Board of Directors I was elected Chairman of the Board in addition to my title of President and Chief Executive Officer.

At the same meeting Mr. John V. Giovenco, Senior Financial Vice President and Treasurer, was elected to the Board of Directors.

We are well aware of the recession forecasts for 1979 made by respected economists. However, we do not now see any indications that the economic environment for our business will be less favorable than in 1978. We are not unmindful, however, that events during the year may alter our view and we are prepared operationally to respond to whatever conditions prevail.

We look forward to another favorable year and thank our stockholders, business associates, directors and employees for their continued support.

Respectfully,



Barron Hilton
Chairman and President

February 9, 1979

*New York Hilton —
In the heart of exciting
midtown Manhattan, the
New York Hilton is a
stone's throw from the
glamorous night life of
Broadway and New
York's most famous
discos and restaurants.*



THE
NEW YORK
HILTON



Management's Discussion and Analysis of Operations

COMPARISON OF 1978 AND 1977

NET INCOME

Net income in 1978 increased 69 percent to \$67,594,000. The increase resulted primarily from a 64 percent increase in total operating earnings to \$141,105,000. The income contributions of our three major segments resulting in such operating earnings were all up substantially — hotels up 45 percent to \$57,216,000; hotel/casinos increased 108 percent to \$51,264,000; and 22 percent to 50 percent owned companies rose 47 percent to \$32,625,000. Earnings per share rose at a greater rate, 85 percent, than the 69 percent increase in earnings as a result of fewer average shares and equivalents outstanding. Earnings per share have increased at a compounded rate of 32 percent over the last five years and 19 percent over ten years.

REVENUES

Revenues of owned hotels, primarily rooms, food and beverage, increased 13 percent to \$240,945,000, and hotels owned and managed increased 18 percent to \$702,741,000. The increase was due to a combination of an increase in occupancy rates resulting from a strong demand and an increase in the average rate per occupied room. For hotels owned 50 percent or more such occupancy rate increased 4 percent to 71 percent and average room rate increased 15 percent to \$43.70. Occupancy rates were strong throughout the system as 35 hotels we own or managed had increased rates whereas only 11 showed slight declines. Average room rates were up in all properties.

Management and franchise fees increased 29 percent to \$20,168,000 as a result of the above-mentioned occupancy and average rate increases, as well as the addition of ten franchise properties and 730 rooms to managed properties. Management fee income growth was particularly strong at the New Orleans Hilton, which opened in August 1977.

Revenues of hotel/casinos increased \$39,495,000, 28 percent, to \$182,952,000. \$17,617,000, an increase of 23 percent, was in

rooms, food and beverage and other hotel services, mainly as a result of available room nights being up 18 percent. The occupancy rate was up 5 percent to 86 percent on a larger room base, and the average rate was up \$2.40, 6.6 percent, to \$39.00. Casino revenues increased \$20,615,000, 24 percent, attributable in part to the greater number of guests accommodated in the expanded facilities. The reduction in promotional allowances, consisting of complimentary rooms, food and beverage, of \$1,263,000, 7 percent, was due to curtailment of the junket program in late 1977. In 1978 we again shifted our emphasis away from complimentary gaming groups to the convention and tour market. This shift did not adversely affect casino revenue.

An increase of \$2,770,000, 65 percent, in interest and dividend income reflects mainly an increase in amounts invested. At year-end we had \$92,101,000 in short-term securities as against \$59,278,000 at December 1977.

Total costs and expenses increased \$33,724,000, 10 percent, to \$355,822,000, as the result of (i) an increase of \$19,412,000, 11 percent, in departmental costs and expenses related to the overall rise in revenues and increased costs of labor and purchases; (ii) a \$1,530,000, 12 percent, increase in marketing expense resulting from more extensive sales and advertising campaigns; (iii) a \$1,505,000, 16 percent, increase in entertainment expense in our Las Vegas properties; (iv) a

*Hilton Riviera —
Amidst the splendor of
Palm Springs, the
Hilton Riviera stands as
a gateway to Califor-
nia's glowing outdoor
life of sun, swimming,
golf and tennis.*





\$2,600,000, 7 percent, increase in property operations, principally from repairs and maintenance; (v) a \$5,404,000, 58 percent, increase in interest net of amounts capitalized, related largely to the \$50,000,000, 9 percent, bank loan taken down in the 1977 fourth quarter, a major portion of which was used to repurchase 1,874,094 shares (pre-split basis) of the Company's common stock; and (vi) a \$3,297,000, 17 percent, increase in depreciation of which \$2,100,000, 26 percent, relates to the hotel/casinos and \$1,197,000, 10 percent, relates to hotels.

After-tax earnings from 22 percent to 50 percent owned companies increased \$4,420,000, 46 percent, due principally to increases in occupancy and average rate per occupied room of hotel properties in this group. The major contributors to the increase were the New York Hilton, Hilton Hawaiian Village, and San Francisco Hilton, which increased \$3,100,000 in total.

The tax rate was almost identical in both years, 43.7 percent in 1978 and 43.5 percent in 1977.

In 1978 an after-tax gain of \$584,000 from the sale of vacant land in Los Angeles was recorded in the fourth quarter.

1978 FINANCIAL REVIEW

The Company's record-setting performance in 1978 reflects the results of management decisions made over recent years to maximize the return on investment. Substantial progress was achieved in all areas.



Return on average stockholders' equity climbed to 26.4 percent compared to the 9.6 return recorded a decade ago.

Return on average assets increased for all three income segments; hotels from 29 percent to 35 percent; hotel/casinos from 16 percent to 30 percent; and 22 percent to 50 percent owned companies from 22 percent to 31 percent.

The relative income contribution of hotels, hotel/casinos and 22 to 50 percent owned companies as a percentage of assets applicable to each of these segments varied because of the following factors:

The investment in 22 to 50 percent owned companies of \$105,692,000 represents net assets, a figure equivalent to a computation of stockholders' equity; i.e., after debt. Hotel and hotel/casino assets of \$167,051,000 and \$214,982,000, respectively, however, represent total assets, including debt.

A significant part of the income contribution of \$57,216,000 for hotels is made up of management and franchise fees, which carry a very high margin of profit and a very small corresponding asset base.

The hotel/casinos asset base includes assets of both the Flamingo Hilton and Las Vegas Hilton. The earnings contribution of the Flamingo Hilton had been minimal since 1973, a condition which was remedied in 1978. In 1979 the return should be further enhanced by the 644-room addition at the Las Vegas Hilton.

Increases in cash dividends in May and November marked the fourth consecutive year of increases and the present annual rate of \$1.00 per share is *quadruple* the 1974 rate.

Funds provided from operations in 1978 totaling \$87,868,000 were in excess of the amounts needed to cover *five years* current debt maturities.

Capital expenditures of \$43,363,000 for hotel/casinos include substantially all of the funds required to complete new facilities at both the Las Vegas Hilton and Flamingo Hilton. The justification of dedicating funds to expanding these two properties is well evidenced by the 108 percent increase in 1978 income even though the additional rooms at the Las Vegas Hilton did not affect 1978 net income.

*Flamingo Hilton —
With dazzling new
casino and showroom,
and new Tower addition
and restaurants, the
Flamingo Hilton is the
hot-spot on the fabulous
Las Vegas "Strip."*



THE WALDORF ASTORIA

BN Bank

Working capital at year-end of \$52,713,000 included a \$34,835,000 increase in cash and temporary investments. During the last two years working capital has increased \$29,247,000, thus enabling the Company to position itself to take advantage of growth opportunities. Capital expenditures in 1978 of \$58,579,000 were financed entirely from cash flow.

The ratio of long-term debt to stockholders' equity was substantially reduced from .93 in 1977 to .59 at year-end 1978. The primary factor in this decrease was the conversion of \$22,324,000 of 5½% debentures from long-term debt to equity. Due to a strong earnings growth, an expanding equity base and extremely strong cash flow, the Company has established a prime credit rating in financial circles.

Stockholders' equity per share reached an all-time high of \$12.02 at December 31, 1978. This, of course, is based on the book value of our assets and, in management's opinion, does not truly reflect the underlying value of our assets on a market basis as described on Page 33. The fair market value of our property increased 52 percent from \$774,000,000 to \$1,180,000,000, whereas our cost increased 14 percent to \$465,518,000.

As we enter the final year of this decade and look confidently to the future, Hilton Hotels Corporation is in the strongest financial position in its history. Management will continue to seek out those opportunities which afford the greatest potential for high returns.

COMPARISON OF 1977 AND 1976

Revenues increased by \$25,816,000, 7 percent, as a result of (i) an increase of \$10,702,000, 5 percent, in hotels with occupancy up 2 percentage points and the average room rate up \$3.70, 11 percent, to \$38.10; (ii) an increase of \$2,129,000, 16 percent, in management and franchise fees reflecting added facilities and increased revenues; (iii) an increase in revenues of hotel/casinos' rooms, food, beverages and other hotel services of \$5,101,000, 7 percent, with occupancy down one percentage point to 82 percent and the average

rate up \$1.70, 5 percent, to \$36.60, an increase of \$4,836,000, 6 percent in casino revenues due in part to the new and larger casino at the Flamingo Hilton, and a \$2,287,000 decrease, 11 percent, in promotional allowances related to reduced emphasis on junkets; and (iv) a \$761,000, 22 percent, increase in interest and dividends resulting from increased investments and resumption of dividends in the third quarter of 1976 on the 264,000 shares of Avco Corporation \$3.20 preferred stock owned by Hilton and its exchange in 1977 for 264,000 shares of Avco's new \$4.20 preferred stock.

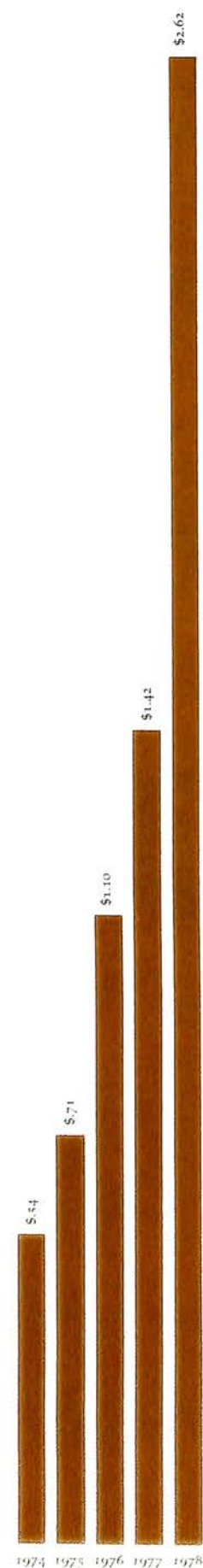
Costs and expenses increased by \$16,155,000, 5 percent, because of (i) an increase of \$10,797,000, 5 percent, in operating costs and expenses related primarily to inflationary cost increases and a 14 percent increase in marketing expense; (ii) a \$2,150,000, 7 percent, increase in property operations consisting of energy costs and repairs and maintenance; (iii) a \$1,070,000, 13 percent, increase in interest, net of amounts capitalized, due to increased borrowings; and (iv) a \$2,301,000, 13 percent, increase in depreciation related to the Waldorf-Astoria purchase and major additions to other properties.

Earnings from 22 percent to 50 percent owned companies increased \$1,555,000, 20 percent, of which \$353,000 was from the Hilton Hawaiian Village and \$533,000 from increased investment tax credits from the group.

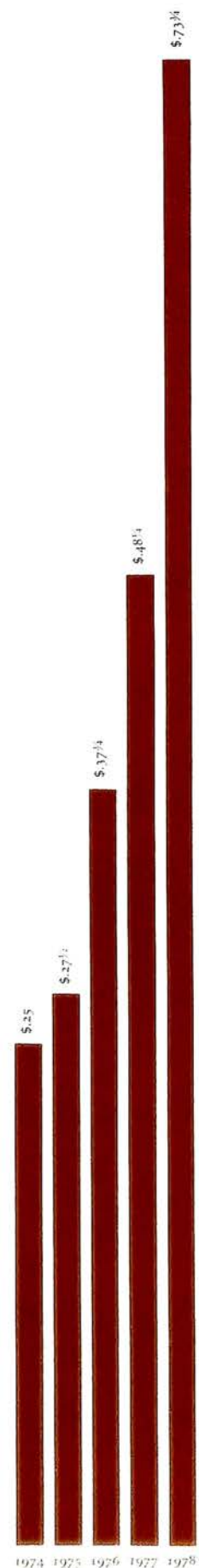
*Waldorf-Astoria —
Matchless elegance and
luxury make the
Waldorf-Astoria the
stopping-off place in
New York City for
diplomats, royalty, and
discriminating travelers
from home and abroad.*



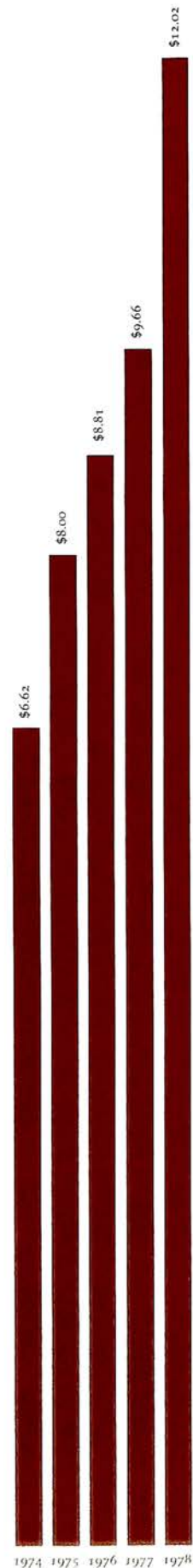
NET INCOME PER
SHARE BEFORE
PROPERTY
TRANSACTIONS



DIVIDENDS PAID
PER SHARE



STOCKHOLDERS'
EQUITY PER SHARE
AT YEAR-END



RETURN ON
STOCKHOLDERS'
EQUITY BEFORE
PROPERTY
TRANSACTIONS



MANAGEMENT
FEES



FRANCHISE
FEES



NUMBER OF FACILITIES AT YEAR-END

Year Ended Dec. 31	Owned 100% (Excluding Las Vegas)	Owned 50% and Managed	Other Hotels Managed	Las Vegas Hotel-Casinos	Other Hotels Franchised
1969	28	5	7	—	31
1970	29	5	10	2	40
1971	29	5	10	2	45
1972	28	5	10	2	55
1973	24	6	9	2	81
1974	23	6	15	2	100
1975	17	11	17	2	114
1976	16	11	17	2	123
1977	16	11	19	2	126
1978	16	11	19	2	136

NUMBER OF GUEST ROOMS AT YEAR-END

Year Ended Dec. 31	Owned 100% (Excluding Las Vegas)	Owned 50% and Managed	Other Hotels Managed	Las Vegas Hotel-Casinos	Other Hotels Franchised
1969	23,096	5,689	2,939	—	6,142
1970	23,442	5,823	4,127	2,273	7,803
1971	23,826	5,817	4,121	2,265	9,163
1972	21,832	5,818	4,097	2,220	11,673
1973	20,750	6,156	3,973	2,274	16,447
1974	20,625	6,153	5,808	2,274	20,587
1975	15,111	11,201	6,914	2,874	24,144
1976	13,960	11,190	7,512	2,874	25,774
1977	13,778	11,047	9,109	2,874	26,125
1978	13,558	11,132	9,754	3,819	28,968

OCCUPANCY RATIO AND AVERAGE RATE PER OCCUPIED ROOM

Year Ended Dec. 31	Hotels Owned 50% or More		Las Vegas Hotel-Casinos		Total Properties Owned 50% or More	
	Occupancy Ratio	Average Rate per Occupied Room	Occupancy Ratio	Average Rate per Occupied Room	Occupancy Ratio	Average Rate per Occupied Room
1969	67%	\$21.70	—%	\$ —	67%	\$21.70
1970	61	23.90	81	22.00	62	23.80
1971	59	24.10	80	22.50	60	23.90
1972	61	24.80	85	23.20	63	24.60
1973	64	26.40	89	25.50	66	26.10
1974	65	28.50	82	29.20	67	28.60
1975	62	31.70	83	31.60	64	31.70
1976	66	34.40	83	34.90	67	34.50
1977	68	38.10	82	36.60	70	37.90
1978	71	43.70	86	39.00	73	43.00

MANAGEMENT AND FRANCHISE FEES

Year Ended Dec. 31	Fees			Number of Rooms Open at December 31		
	Management	Franchise	Total	Management	Franchise	Total
1969	\$ 2,482,000	\$ 938,000	\$ 3,420,000	8,628	6,142	14,770
1970	2,923,000	1,041,000	3,964,000	9,950	7,803	17,753
1971	2,690,000	1,320,000	4,010,000	9,938	9,163	19,101
1972	2,755,000	2,029,000	4,784,000	9,915	11,673	21,588
1973	3,182,000	2,746,000	5,928,000	10,129	16,447	26,576
1974	3,774,000	3,024,000	6,798,000	11,961	20,587	32,548
1975	6,594,000	3,728,000	10,322,000	18,115	24,144	42,259
1976	8,518,000	4,986,000	13,504,000	18,702	25,774	44,476
1977	9,473,000	6,160,000	15,633,000	20,156	26,125	46,281
1978	11,826,000	8,342,000	20,168,000	20,886	28,968	49,854

	Assets	December 31,	1978	1977
<i>Current Assets</i>	Cash		\$ 8,850,000	6,838,000
	Temporary investments (at cost, which approximates market)		92,101,000	59,278,000
	Accounts and notes receivable			
	Hotel and other (less allowance for doubtful accounts of \$1,737,000 and \$1,875,000)		31,262,000	26,972,000
	Casino (less allowance for doubtful accounts of \$5,468,000 and \$4,444,000)		14,288,000	13,271,000
	Inventories — at cost (first-in, first-out)		8,769,000	6,882,000
	Prepaid expenses and other		3,940,000	3,418,000
	Total current assets		159,210,000	116,659,000
<i>Investments</i>	Investments in and notes from 22% to 50% owned companies		105,692,000	103,421,000
	Marketable securities and other investments		4,672,000	4,932,000
	Total investments		110,364,000	108,353,000
<i>Property and Equipment</i>	Land		59,752,000	59,752,000
	Buildings and leasehold improvements		289,824,000	245,290,000
	Furniture and equipment		111,460,000	93,190,000
			461,036,000	398,232,000
	Less accumulated depreciation		153,000,000	143,030,000
			308,036,000	255,202,000
	Property held for future development or sale		4,021,000	6,969,000
	Construction in progress		1,391,000	19,127,000
	Net property and equipment		313,448,000	281,298,000
<i>Other Assets</i>	Debt issuance cost less amortization		1,961,000	2,295,000
	Other deferred charges		4,897,000	2,863,000
	Total other assets		6,858,000	5,158,000
<i>Total Assets</i>			\$589,880,000	511,468,000

See notes to financial statements.

	Liabilities and Stockholders' Equity	December 31,	1978	1977
<i>Current Liabilities</i>	Accounts and notes payable	\$ 23,833,000		11,423,000
	Accrued expenses and other	42,032,000		36,909,000
	Current maturities of long-term debt	6,279,000		5,982,000
	Federal and state income taxes			
	Current	28,989,000		13,290,000
	Deferred	5,364,000		5,208,000
	Total current liabilities	106,497,000		72,812,000
<i>Long-Term Debt</i>	4½% to 9% mortgage bonds and notes, due 1979 to 2002	69,416,000		72,536,000
	5½% convertible subordinated debentures, due 1995	26,396,000		48,720,000
	8% collateral trust bonds, due 1993	16,974,000		17,005,000
	4% sinking fund debentures, due 1983	905,000		977,000
	Bank loans	65,685,000		68,475,000
	Other	977,000		1,045,000
		180,353,000		208,758,000
	Less current maturities	6,279,000		5,982,000
	Total long-term debt	174,074,000		202,776,000
<i>Other Liabilities</i>	Deferred income taxes	14,482,000		14,724,000
	Other	2,240,000		2,297,000
	Total other liabilities	16,722,000		17,021,000
<i>Commitments and Contingent Liabilities</i>	(Note 8)			
<i>Total Liabilities</i>		297,293,000		292,609,000
<i>Stockholders' Equity</i>	Common stock, par value \$2.50 per share, authorized 30,000,000 and 20,000,000 shares; issued 25,902,357 and 13,733,462 shares including shares in treasury	64,756,000		34,334,000
	Retained earnings	256,385,000		228,588,000
		321,141,000		262,922,000
	Less common stock held in treasury (at cost) 1,556,878 and 2,403,062 shares	28,554,000		44,063,000
	Total stockholders' equity	292,587,000		218,859,000
<i>Total Liabilities and Stockholders' Equity</i>		\$589,880,000		511,468,000

*Consolidated Statement
of Income*

Year Ended December 31,		1978	1977
<i>Revenue</i>	Hotels	\$240,945,000	212,735,000
	Management and franchise fees	20,168,000	15,633,000
	Hotel — casinos		
	Hotels	92,872,000	75,255,000
	Casinos	107,893,000	87,278,000
	Promotional allowances	(17,813,000)	(19,076,000)
	Interest and dividends	7,063,000	4,293,000
		451,128,000	376,118,000
<i>Expenses</i>	Operating costs and expenses	263,834,000	241,488,000
	Property operations	37,759,000	35,159,000
	Lease rentals	4,734,000	4,670,000
	Property taxes	11,714,000	11,701,000
	Interest (net of \$1,207,000 and \$604,000 capitalized)	14,750,000	9,346,000
	Depreciation	23,031,000	19,734,000
		355,822,000	322,098,000
<i>Income before Income Taxes</i>		95,306,000	54,020,000
	Federal and state income taxes	41,657,000	23,480,000
<i>Income from Consolidated Operations</i>		53,649,000	30,540,000
	Earnings from 22% to 50% owned companies	13,945,000	9,525,000
<i>Net Income</i>		\$ 67,594,000	40,065,000
<i>Net Income per Common and Common Equivalent Share</i>		\$2.62	1.42

See notes to financial statements.

	Number of Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Common Stock Held in Treasury	Total Stockholders' Equity
Balance, December 31, 1976	13,103,069	\$40,000,000	36,101,000	200,715,000	(45,815,000)	231,001,000
Purchase of treasury stock	(1,874,094)	—	—	—	(41,473,000)	(41,473,000)
Exercise of stock options	101,425	—	(208,000)	—	1,666,000	1,458,000
Net income	—	—	—	40,065,000	—	40,065,000
Dividends paid						
(\$.4825 per share)	—	—	—	(12,192,000)	—	(12,192,000)
Treasury stock retired	—	(5,666,000)	(35,893,000)	—	41,559,000	—
Balance, December 31, 1977	11,330,400	34,334,000	—	228,588,000	(44,063,000)	218,859,000
Exercise of stock options	111,497	—	—	(581,000)	2,035,000	1,454,000
Net income	—	—	—	67,594,000	—	67,594,000
Dividends paid						
(\$.7375 per share)	—	—	—	(17,395,000)	—	(17,395,000)
Conversion of \$22,324,000 face value of 5½% con- vertible subordinated debentures	734,687	—	—	8,601,000	13,474,000	22,075,000
Stock split 2-for-1 in form of a 100% distribution on all outstanding shares	12,168,895	30,422,000	—	(30,422,000)	—	—
Balance, December 31, 1978	24,345,479	\$64,756,000	—	256,385,000	(28,554,000)	292,587,000

See notes to financial statements.

	Year Ended December 31,	1978	1977
<i>Source of Funds</i>			
Net income	\$ 67,594,000		40,065,000
Charges (credits) to operations not affecting working capital			
Depreciation	23,031,000		19,734,000
Deferred income taxes	(242,000)		712,000
Equity in earnings of 22% to 50% owned companies in excess of distributions	(2,515,000)		(4,089,000)
Working capital provided by operations	87,868,000		56,422,000
Proceeds on sale of properties	3,791,000		590,000
Long-term debt financing	—		110,000,000
Issuance of common stock upon conversion of debentures	22,075,000		—
Payments and current maturities of notes receivable	1,033,000		387,000
Proceeds from exercise of stock options	1,454,000		1,458,000
	116,221,000		168,857,000
<i>Use of Funds</i>			
Property and equipment additions			
Waldorf-Astoria purchase	—		35,788,000
Hotel — casinos	43,363,000		35,401,000
Hotels	15,216,000		12,524,000
	58,579,000		83,713,000
Payments and current maturities of long-term debt	6,568,000		10,254,000
Conversion of debentures	22,324,000		—
Payment of cash dividends	17,395,000		12,192,000
Purchase of treasury stock	—		41,473,000
Additional investments	529,000		1,720,000
Other net	1,960,000		(876,000)
	107,355,000		148,476,000
<i>Increase in Working Capital</i>	\$ 8,866,000		20,381,000

*Summary of Changes
in Components of Working Capital*

<i>Increase (Decrease) in Current Assets</i>	Cash and temporary investments	\$ 34,835,000	27,548,000
	Accounts and notes receivable	5,307,000	4,206,000
	Inventories	1,887,000	636,000
	Prepaid expenses and other	522,000	1,048,000
		42,551,000	33,438,000
<i>Increase (Decrease) in Current Liabilities</i>	Accounts and notes payable	12,410,000	1,815,000
	Accrued expenses and other	5,123,000	10,663,000
	Current maturities of long-term debt	297,000	(4,797,000)
	Federal and state income taxes	15,855,000	5,376,000
		33,685,000	13,057,000
<i>Increase in Working Capital</i>		\$ 8,866,000	20,381,000

See notes to financial statements.

December 31, 1978

[1] Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Hilton Hotels Corporation and its majority and wholly-owned subsidiaries (the Company). All material intercompany transactions are eliminated.

INVESTMENTS

Investments in companies in which the Company has a 22% to 50% interest are stated at cost plus equity in undistributed earnings and losses since acquisition.

CASINO REVENUES AND RECEIVABLES

Casino revenues are the aggregate of gaming wins and losses. Promotional allowances consist of complimentary food, beverage and accommodations.

Based on historical trends, allowances for estimated uncollectible casino receivables are provided to reduce casino receivables to amounts anticipated to be collected within twelve months of the date the credit was granted. Such allowances are included in operating costs and expenses in the amount of \$2,259,000 in 1978 and \$3,531,000 in 1977.

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost. Interest incurred during construction of new facilities or major additions to facilities is capitalized and amortized over the life of the asset.

Depreciation has been computed on the straight-line method using the following estimated useful lives: buildings and improvements — 10 to 55 years; leasehold improvements over the remaining lives of existing leases; furniture and equipment — average of 8 years. Expenditures for revisions and alterations to existing facilities are classified with buildings and leasehold improvements and are amortized over varying periods in accordance with the useful lives of the respective assets. Costs of major improvements are capitalized; costs of normal repairs and maintenance are charged to expense as incurred. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in income.

PRE-OPENING COSTS

Operating costs and expenses associated with the opening of hotels or major additions to hotels are deferred and charged to income over a three year period after the opening date.

UNAMORTIZED LOAN COSTS

Debt discount and issuance costs incurred in connection with long-term debt are amortized by charges to expense principally on the bonds outstanding method.

INCOME TAXES

Provisions for deferred income taxes in the accompanying financial statements reflect the results of timing differences in recognizing income for financial reporting and income tax purposes.

Casino revenues are excluded from taxable income until collected. Federal income tax payable upon collection is included in current liabilities as deferred tax.

Investment tax credits are accounted for on the flow-through method as a reduction of Federal income taxes.

EMPLOYEES PENSION AND STOCK OPTION PLANS

Pension plan costs charged to expense include amounts for current service, interest on unfunded prior service and amortization of prior service cost over a 40 year period.

No charges are made to expense in connection with the Company's stock option plans. Differences between proceeds received and cost of treasury shares issued upon exercise of options are accounted for as increases to equity.

MARKETABLE SECURITIES

Marketable securities are stated at cost which is lower than market.

NET INCOME PER SHARE

Net income per common and common equivalent share is based on net income plus the interest expense on convertible debentures divided by the total of the weighted average number of common shares outstanding during the year, plus the equivalent shares relating both to the assumed exercise of stock options and the assumed conversion of outstanding convertible debentures. Net income for per share computations amount to \$68,703,000 and \$41,477,000 for 1978 and 1977, respectively. Average number of common and common equivalent shares are 26,253,585 and 29,246,584 for 1978 and 1977, respectively.

RECLASSIFICATIONS

The financial statements for 1977 reflect certain reclassifications, which have no effect on net income, to conform with classifications adopted in 1978.

[2] Investments

The composition of the Company's total investment in and notes receivable from 22% to 50% owned companies is as follows:

(In thousands of dollars)	1978	1977
Equity investments		
50% owned companies		
Eleven hotel partnership joint ventures	\$ 93,529	89,988
Compass Computer Services, Inc.	2,486	1,918
22% to 35% owned companies		
Three hotel partnership joint ventures	1,578	2,638
Total equity investments	97,593	94,544
Notes receivable (net of current maturities of \$487 and \$444)	8,099	8,877
Total	\$105,692	103,421

(Continued)

The change in the Company's equity investment in such companies is as follows:

(In thousands of dollars)	1978	1977
Investments, January 1	\$ 94,544	85,982
Earnings	13,945	9,525
Cash received — net of income taxes	(11,430)	(5,436)
Additional investment	534	4,473
Investments, December 31	\$ 97,593	94,544

Summarized financial information of these companies is as follows:

(In thousands of dollars)	1978	1977
Working capital	\$ 9,788	5,412
Property and equipment — net	479,788	488,540
Other assets	3,072	3,614
	492,648	497,566
Long-term debt		
Due joint venturers	41,370	42,582
Due others	145,512	147,142
Net equity	\$305,766	307,842

The Company's proportionate share of net equity is \$55,030,000 and \$57,526,000 in excess of its cost in 1978 and 1977, respectively, and that portion attributable to depreciable assets is being amortized over the estimated useful lives of the joint ventures respective assets. Such amortization, net of taxes, amounted to \$1,141,000 in 1978 and \$485,000 in 1977.

Earnings

(In thousands of dollars)	1978	1977
Revenue		
Hotels	\$305,445	244,203
Computer operations	8,505	6,585
Total	\$313,950	250,788
Net income — after taxes		
Hotels	\$ 22,819	15,865
Computer operations	1,454	1,380
Total	\$ 24,273	17,245

Net income — after taxes is presented as though the hotel partnership joint ventures were separate taxable entities.

Marketable securities and other investments at December 31, 1978 and 1977 consist of:

(In thousands of dollars)	1978	1977
Avco Corporation — 264,000 shares of \$4.20 cumulative convertible preferred stock	\$ 4,518	4,518
Other notes and investments — (net of current maturities of \$150 and \$170)	154	414
Total	\$ 4,672	4,932

The market value of Avco stock at December 31, 1978 and 1977 was \$16,005,000 and \$13,728,000.

[3] Income Taxes

Income tax expense is made up of the following components:

(In thousands of dollars)	1978	1977
Current tax expense		
Federal	\$ 39,597	23,091
State and local	2,591	1,757
	42,188	24,848
Deferred tax expense	(531)	(1,368)
Total	\$ 41,657	23,480

Deferred tax expense is principally attributable to excess tax over book depreciation and to self-insurance and operating equipment accounted for financial reporting on a basis which differs from income tax reporting.

Total tax expense averaged 43.7% and 43.5% of pre-tax income for 1978 and 1977. Reconciliation of the Federal statutory rate of 48% and these rates is as follows:

(In thousands of dollars)	1978		1977	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed "expected" tax expense	\$45,747	48.0%	\$25,929	48.0%
Increase (reduction) in taxes				
State income tax	1,128	1.2	983	1.8
Investment tax credit	(3,857)	(4.1)	(2,818)	(5.2)
Other	(1,361)	(1.4)	(614)	(1.1)
Total	\$41,657	43.7%	\$23,480	43.5%

The Internal Revenue Service has completed examinations of the Company's Federal income tax returns through 1974 and all taxes and interest on agreed issues have been reflected in the accompanying statements. The Company is contesting several items, one of which relates to a timing difference wherein the Internal Revenue Service has proposed taxing gaming income in the year accrued rather than when collected. The Company has provided for \$407,000 of interest expense, net of taxes, based on a proposed settlement offer. Approximately \$801,000 of additional interest expense after taxes would be payable if the Internal Revenue Service were to prevail. The Company has filed protests with the Internal Revenue Service, is seeking resolution of this matter in Federal Court and is vigorously asserting its position.

[4] Long-term Debt

The 4½% to 9% mortgage bonds and notes, a 9% \$50,000,000 bank loan and the 8% collateral trust bonds are, or will be at the lenders' option, secured by property and equipment and are payable serially over remaining terms ranging to twenty-four years.

The 5½% convertible subordinated debentures, due January 1, 1995, presented net of \$1,280,000 principal amount of treasury debentures, are convertible into common stock of the Company at \$15.25 per share, are redeemable at the option of the Company as defined in the indenture presently at 103.05% and at decreasing prices hereafter, and are subordinated to all present and future senior indebtedness of the Company. The debentures are subject to a sinking fund which provides for annual redemption beginning January 1, 1980 of not less than 4% nor more than 8% of the principal amount of debentures outstanding on October 15, 1979.

The 8% collateral trust bonds, due December 1, 1993, are presented net of \$1,655,000 and \$1,844,000 of unamortized discount and \$1,121,000 and \$1,651,000 principal amount of treasury bonds in 1978 and 1977, respectively. The 4% sinking fund debentures due July 1, 1983, are presented net of \$698,000 principal amount of treasury debentures.

The 9% (increasing to 9½% on November 25, 1982), \$50,000,000 bank loan agreement requires current quarterly interest payments. Quarterly principal payments of \$2,500,000 commence February 25, 1983, with the remaining principal payable November 25, 1984. Other bank loans bear interest at prime and prime plus ½%.

Under the most restrictive covenants of the Company's loan agreements, the Company is required to maintain minimum consolidated working capital of \$10,000,000, a working capital ratio of 1.1 to 1 and a net worth ratio of not less than 1 to 1. Additionally, limitations are imposed on the payment of dividends and the acquisition of the Company's stock. At December 31, 1978 the Company was in compliance with all terms of the loan agreements and approximately \$127,887,000 of retained earnings was not restricted. The Company has informal agreements with certain banks with respect to bank loans in the amount of \$15,685,000 at December 31, 1978, to maintain average compensating balances aggregating 15% of the outstanding loan balances. Withdrawals by the Company of these balances are not legally restricted.

The aggregate maturities for all long-term debt for each of the next five years are:

1979	\$6,279,000
1980	6,962,000
1981	7,970,000
1982	8,495,000
1983	20,346,000

[5] Common Stock

On December 22, 1978, the Company issued 12,168,895 shares of common stock in connection with a 2-for-1 stock split in the form of a 100% distribution. No distribution was made to the Company with respect to common stock held in treasury. All per share figures included in the financial statements and notes, as well as all shares of common stock reserved for conversion and subject to option, have been adjusted to reflect the stock split.

In 1978, the Board of Directors authorized and the stockholders approved an amendment to the certificate of incorporation increasing the number of authorized shares of common stock from 20,000,000 to 30,000,000 shares.

On February 16, 1978, the Company retired 2,266,538 shares of treasury stock. The cost in excess of par value was charged to additional capital and was accounted for as of December 31, 1977.

At December 31, 1978, 1,730,885 shares of common stock were reserved for conversion of the 5½% convertible subordinated debentures and 1,276,854 shares were reserved for the exercise of options under the Company's 1967 and 1975 stock option plans. Under the 1975 plan, options may be granted to salaried officers and other key employees of the Company and its subsidiaries to purchase common stock at not less than fair market value at date of grant. No further options may be granted under the 1967 plan. Options granted may be exercised one year after grant to the extent of 25% per year of the shares initially granted with the cumulative right to acquire in subsequent years shares not acquired during the previous years. Qualified options expire five years after date of grant, and non-qualified options expire five years and one week after date of grant.

Changes in stock options during 1978 were as follows:

	Option Price Range (Per Share)	Options Out- standing	Available for Grant
Balance at January 1	\$3.41- 11.56	686,750	856,400
Granted	17.75	152,800	(152,800)
Exercised	3.41- 11.56	(220,944)	—
Cancelled	3.41- 17.75	(49,202)	49,202
Expired	—	—	(45,352)
Balance at December 31	\$3.41- 17.75	569,404	707,450
Exercisable at December 31	\$3.41- 11.56	201,602	

(Continued)

Under provisions of the Nevada Gaming Control Act, certain securities of the Company are subject to restrictions on ownership which may be imposed by the Nevada Gaming Commission. Such restrictions may include certain obligations upon the Company to repurchase securities under certain circumstances.

[6] Pension Plans

The Company has a non-contributory retirement plan which, with union plans, covers substantially all employees. Provisions for the cost of the Company plan charged against income during 1978 and 1977 amounted to \$1,475,000 and \$1,205,000. Prior service costs that have not been funded or provided for at December 31, 1978 and 1977 aggregated approximately \$6,602,000 and \$4,097,000. Based on the latest actuarial review, the market value of the plan assets exceeds the present value of vested benefits.

[7] Leases

The Company operates eight properties under non-cancellable operating leases having remaining terms ranging from three to fifty-five years from December 31, 1978. Upon expiration of four leases, the Company has renewal options ranging from forty-five to one hundred years. Six leases require the payment of additional rentals based upon varying percentages of revenue or income. Additionally, the Company is committed under non-cancellable leases for office space having remaining terms ranging from one to three years.

Minimum rental commitments under non-cancellable operating leases are as follows:

Year ended December 31:

1979	\$ 3,153,000
1980	3,056,000
1981	2,846,000
1982	2,321,000
1983	2,321,000
1984 to 2033	27,576,000

\$41,273,000

Total lease rental expense for all operating leases was composed of:

	1978	1977
Minimum rentals	\$3,494,000	3,555,000
Additional rentals	1,240,000	1,115,000
Total	\$4,734,000	4,670,000

[8] Commitments and Contingent Liabilities

Commitments to various entertainers for appearances at the Company's hotel/casinos through 1980 aggregated approximately \$7,500,000 at December 31, 1978, substantially all of which is expected to be paid within one year.

On August 10, 1978, the Company announced that an agreement in principle with the City of Chicago has been reached for the acquisition of property for the construction of a major convention hotel. The Company estimates that costs for the planned hotel will exceed \$135,000,000. The Company has made no arrangements for financing.

The Company has an agreement in principle with Metro-Goldwyn-Mayer, Inc. and Harrah's for the development of property in Atlantic City, New Jersey, with each party to own a portion of the land for the construction of its own hotel/casino facilities. On October 9, 1978, and subsequently, agreements have been entered into to acquire options or purchase outright this property. The project will require the approval of Nevada gaming authorities, the New Jersey Casino Control Commission and other regulatory agencies. There is no assurance that all requisite approvals will be obtained. The Company has not yet determined the cost of such project and has made no arrangements for financing.

As a partner, the Company, with its partners, is jointly and severally liable for all liabilities (except non-recourse mortgage debt) of its 22% to 50% owned companies, other than one 27% owned company where the Company is proportionately liable. However, in each partnership, assets available to satisfy its recourse liabilities were in excess of such liabilities.

The Company, in the ordinary course of business, has guaranteed obligations of others, none of which, in the opinion of management, are material.

Several lawsuits are pending against the Company, some in substantial amounts. In the opinion of management, disposition of these lawsuits is expected to have no material effect on the accompanying financial statements.

[9] Subsequent Event

On January 18, 1979, the Company entered into an agreement to sell certain real and personal property comprising the New York Statler Hilton Hotel for \$24,000,000. The sale is expected to close in April, 1979 and will result in a profit.

[10] Segments of Business

Financial data, conforming to the Statement No. 14 of the Financial Accounting Standards Board for the years ended December 31, 1978 and 1977, is shown on pages 36 and 37 of this annual report and are incorporated herein by reference.

[11] Information on Replacement Cost (Unaudited) and Fair Market Value of Property and Equipment

As part of the Company's compliance with the Securities and Exchange Commission's Accounting Series Release 190 (ASR 190), the Company had appraisals made of each of its major wholly-owned and 22% to 50% owned properties. The appraisals were made by Joseph J. Blake and Associates, Inc., Valuation Counselors, Inc. and Real Estate Research Corporation.

Although ASR 190 requires replacement cost data only for depreciable property, the appraisers were requested also to estimate the fair market value of the same properties as well as that of the underlying land.

The replacement cost information represents estimates of the cost to be incurred at December 31, 1978 and 1977, if such assets were replaced at that time. The replacement cost of buildings, leaseholds and improvements was developed by estimating construction costs to obtain comparable facilities; replacement cost for furniture and equipment, representing all personal property, was arrived at by applying current furnishing costs per room to the existing number of rooms. Replacement cost was developed by the use of indices, units of capacity, and component costing techniques.

Fair market value is frequently referred to as the price at which a willing seller would sell and a willing buyer would buy, neither being compelled to sell or buy. Fair market value was arrived at by calculating the present worth of estimated future income streams accruing to the owner utilizing rates of

return ranging from 9 to 14 percent, and various terms of financing, and conditions of sale and profitability factors with respect to individual properties. It was assumed that the buyers of the hotel properties would retain management companies to operate the properties and therefore \$6,616,000 of 1978 and \$4,385,000 of 1977 annual pro-forma management fees were deducted from the estimated future earnings stream used to value the hotel properties. No management fee was assumed for the Las Vegas properties since it is not customary for owners of hotel/casinos to employ third party management firms.

In the development of the information on replacement cost and fair market value, various critical estimates and assumptions were made. Although these estimates and assumptions are believed to be reasonable in the circumstances, they nevertheless are subjective judgments of management and the appraisers relevant only to the time as of which the information is furnished. The resulting estimated replacement cost and fair market value information may vary therefore from actual future replacement cost or fair market value because of changed conditions.

The basic replacement cost data presented does not take into consideration any operating cost savings or additional revenues which may result from the replacement of existing properties with properties having improved technology and facilities. If the Company's income producing properties were to be replaced in the manner assumed in the calculation of replacement cost of existing properties, many costs other than depreciation, such as labor costs, repairs and maintenance and heat, light and power, would be affected. Although these probable cost changes cannot be quantified with any precision, the current level of operating costs other than depreciation and possibly property taxes may be reduced as a result of the technological improvements assumed in the hypothetical replacement.

Replacement cost depreciation was calculated on the straight-line method generally over the historical depreciation lives. The exceptions were those properties which had been operating prior to the time they were acquired by the Company. Such properties are depreciated for replacement cost purposes as new property from the date of construction including the estimated remaining life at December 31, 1978 and 1977 versus a shorter term as used property for historical cost purposes.

The following table represents the summary of data described above as of December 31, 1978 and 1977:

Hilton Hotels Corporation and Subsidiaries

	1978			1977		
	Historical Cost	Estimated Replace-ment Cost Exclusive of Land (Unaud-ited)	Estimated Fair Market Value Inclusive of Land	Historical Cost	Estimated Replace-ment Cost Exclusive of Land (Unaud-ited)	Estimated Fair Market Value Inclusive of Land
<i>(In thousands of dollars)</i>						
Depreciable property						
Buildings, leaseholds and improvements	\$289,824	794,000		245,290	691,000	
Furniture and equipment	108,835	157,000		90,749	136,000	
Total	398,659	951,000		336,039	827,000	
Less accumulated depreciation	153,000	527,000		143,030	470,000	
Net depreciable property	245,659	424,000		193,009	357,000	
Land	59,752			59,752		
Net property	305,411		818,000	252,761		496,000
Reconciliation to consolidated balance sheet:						
Add operating equipment at cost	2,625			2,441		
Total as shown on the accompanying consolidated balance sheet	\$308,036			255,202		
Depreciation expense	\$ 23,031	33,000		19,734	29,000	

Hilton Hotels Corporation and Subsidiaries Proportionate Share of 22% to 50% Owned Companies

	1978			1977		
	Historical Cost	Estimated Replace-ment Cost Exclusive of Land (Unaud-ited)	Estimated Fair Market Value Inclusive of Land	Historical Cost	Estimated Replace-ment Cost Exclusive of Land (Unaud-ited)	Estimated Fair Market Value Inclusive of Land
<i>(In thousands of dollars)</i>						
Depreciable property						
Buildings and leasehold improvements	\$150,724	298,000		144,607	271,000	
Furniture and equipment	32,214	41,000		28,284	41,000	
Total	182,938	339,000		172,891	312,000	
Less accumulated depreciation	60,599	140,000		54,219	114,000	
Net depreciable property	122,339	199,000		118,672	198,000	
Land	35,143			34,950		
Net property	\$157,482		362,000	153,622		278,000
Depreciation expense	\$ 8,837	13,000		7,473	11,000	

The excess of the estimated fair market value of wholly-owned and 22% to 50% owned property over historical cost is \$717,107,000 and \$367,617,000 for 1978 and 1977, respectively. The presentation of this information does not imply management's intent to replace or sell existing properties.

[12] Unaudited Quarterly Financial Data

(In thousands of dollars, except per share amounts)								
	Revenue	Income Before Income Taxes	Income from Consolidated Operations	Earnings from 22% to 50% Owned Companies	Net Income	Net Income Per Share	Dividends Per Share	High-Low Price on N.Y.S.E.
1978								
1st Quarter	\$100,456	17,517	9,634	3,039	12,673	.50	.1375	15-3/8—11-3/8
2nd Quarter	118,939	29,081	15,575	3,791	19,366	.75	.175	21-1/2—14-1/2
3rd Quarter	111,945	23,824	13,523	3,302	16,825	.65	.175	32-3/4—19-7/16
4th Quarter	119,788	24,884	14,917	3,813	18,730	.72	.25	29-3/4—20-1/4
Year	\$451,128	95,306	53,649	13,945	67,594	2.62	.7375	32-3/4—11-3/8
1977								
1st Quarter	\$ 89,888	13,094	6,875	2,586	9,461	.33	.115	11-7/16 —10
2nd Quarter	94,519	13,537	7,185	2,420	9,605	.33	.115	11-15/16— 9-13/16
3rd Quarter	90,218	12,170	7,401	1,977	9,378	.33	.115	10-5/16 — 8-1/2
4th Quarter	101,493	15,219	9,079	2,542	11,621	.43	.1375	13 — 9-1/4
Year	\$376,118	54,020	30,540	9,525	40,065	1.42	.4825	13 — 8-1/2

Accountants' Report

To the Board of Directors and Stockholders
of Hilton Hotels Corporation

We have examined the consolidated balance sheet of Hilton Hotels Corporation and Subsidiaries at December 31, 1978 and 1977 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Hilton Hotels Corporation and Subsidiaries at December 31, 1978 and 1977, and the results of consolidated operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HARRIS, KERR, FORSTER & COMPANY

Los Angeles, California
January 26, 1979

Stockholders wishing to receive a copy of the Corporation's annual report on the Securities and Exchange Commission's Form 10-K, exclusive of the exhibits thereto, may do so without charge by writing to Mr. E. Timothy Applegate, Senior Vice President, Secretary and General Counsel, Hilton Hotels Corporation, 9990 Santa Monica Boulevard, Beverly Hills, California 90212.

Hilton Hotels Corporation
and Subsidiaries

Ten Year Summary

		(In thousands of dollars, except per share amounts)	1978
Summary of Operations for Years Ended December 31	Revenue		
	Hotels		
	100% owned or leased	\$	240,945
	Management and franchise fees		20,168
	Non-consolidated managed (1)		441,628
	Total hotels		702,741
	Hotel — casinos		182,952
	Total		885,693
	Less non-consolidated managed		441,628
	Total consolidated revenue (excluding interest and dividend income)	\$	444,065
	Income contribution		
	Hotels	\$	57,216
	Hotel — casinos		51,264
	22% to 50% owned companies (2)		32,625
	Total		141,105
	Interest expense (net of interest and dividend income)		
	Hotels and hotel — casinos		(7,687)
	22% to 50% owned companies (2)		(5,390)
	General corporate expense		(5,487)
	Minority interest		—
	Income before property transactions and income taxes		122,541
	Property transactions		—
	Income taxes		
	Hotels and hotel — casinos		(41,657)
	22% to 50% owned companies (2)		(13,290)
	Net income	\$	67,594
	Net income per share		
	Before property transactions	\$	2.62
	Property transactions		—
	Percentage of return on average stockholders' equity		26.4%
	Dividends per share	\$	.737
	Market price — high/low		32.75/11.38
	Funds provided from operations		87,868
	Depreciation		
	Hotels		12,944
	Hotel — casinos		10,087
	22% to 50% owned companies (2)		11,287
	Capital expenditures		
	Hotels		15,216
	Hotel — casinos		43,363
	22% to 50% owned companies (2)		7,660
	Working capital at year-end		52,713
Financial Position at Year-End	Assets		
	Hotels		167,051
	Hotel — casinos		214,982
	Investment in 22% to 50% owned companies		105,692
	Corporate		100,764
	Construction in progress		1,391
	Total		589,880
	Long-term debt		174,074
	Stockholders' equity		292,587
	Stockholders' equity per share		12.02
	Ratio of long-term debt to stockholders' equity		.59
General Information at Year-End	Number of common shares outstanding		24,345,479
	Average number of common and common equivalent shares		26,253,585
	Number of hotels owned, managed and franchised		184

(1) Represents 100% of the revenue of non-owned managed hotels as well as those owned 22% to 50%.

(2) Represents Hilton's proportionate share of these items.

(3) All per share items are adjusted for the 2-for-1 stock split.

1977	1976	1975	1974	1973	1972	1971	1970	1969
212,735	202,033	197,380	254,819	243,648	232,318	224,782	226,860	237,163
15,633	13,504	10,322	6,798	5,928	4,784	4,010	3,964	3,420
365,371	313,036	253,779	153,084	134,151	114,133	106,548	105,453	102,467
593,739	528,573	461,481	414,701	383,727	351,235	335,340	336,277	343,050
143,457	131,233	124,440	106,727	109,023	95,846	86,501	—	—
737,196	659,806	585,921	521,428	492,750	447,081	421,841	336,277	343,050
365,371	313,036	253,779	153,084	134,151	114,133	106,548	105,453	102,467
371,825	346,770	332,142	368,344	358,599	332,948	315,293	230,824	240,583
39,453	32,428	21,098	28,478	28,012	24,094	26,439	31,364	37,060
24,603	21,301	16,150	10,643	22,534	18,182	14,072	—	—
22,243	19,385	14,925	8,489	7,173	5,836	5,357	7,843	9,092
86,299	73,114	52,173	47,610	57,719	48,112	45,868	39,207	46,152
(5,053)	(4,744)	(5,869)	(7,944)	(7,732)	(9,573)	(10,031)	(4,345)	(4,486)
(4,381)	(4,201)	(4,110)	(3,546)	(3,913)	(3,187)	(3,481)	(3,954)	(4,516)
(4,983)	(4,625)	(4,000)	(3,022)	(2,910)	(2,699)	(2,767)	(2,174)	(2,126)
—	—	—	—	—	—	(2,143)	—	—
71,882	59,544	38,194	33,098	43,164	32,653	27,446	28,734	35,024
—	—	34,413	—	(7,196)	—	—	—	—
(23,480)	(21,001)	(25,316)	(13,322)	(16,603)	(14,290)	(12,601)	(12,192)	(16,490)
(8,337)	(7,215)	(4,910)	(2,497)	(1,855)	(1,446)	(1,080)	(1,914)	(2,527)
40,065	31,328	42,381	17,279	17,510	16,917	13,765	14,628	16,007
1.42	1.10	.71	.54	.65	.51	.44	.47	.52
—	—	.72	—	(.11)	—	—	—	—
17.8	14.2	9.8	8.7	11.2	9.1	8.2	9.8	11.5
.4825	.3775	.275	.25	.25	.25	.25	.25	.2375
13.00/8.50	11.63/7.50	8.66/2.84	4.81/2.22	10.84/2.88	15.00/7.81	13.72/9.88	15.13/6.03	17.72/12.25
56,422	47,642	33,475	37,917	44,943	39,159	38,704	31,984	33,240
11,747	10,546	13,102	17,622	18,108	18,992	18,824	18,940	18,612
7,987	6,887	6,064	4,482	3,508	3,004	3,228	—	—
8,612	7,617	6,620	2,986	2,933	3,014	3,063	3,137	2,968
48,312	18,074	5,949	17,450	7,717	16,151	16,064	25,794	28,779
35,401	8,034	9,305	18,255	6,979	924	72	—	—
16,906	12,281	17,213	2,000	6,676	5,163	1,980	5,171	4,081
43,847	23,466	23,348	4,124	25,655	19,230	17,796	27,783	8,623
158,502	111,043	111,328	213,678	206,612	216,898	238,050	234,277	245,165
155,925	146,135	148,861	125,233	129,728	132,216	120,764	—	—
103,865	98,768	93,917	62,723	53,775	49,452	51,695	73,761	49,022
74,049	46,761	56,135	38,964	56,271	57,533	54,258	62,556	36,381
19,127	6,063	—	15,211	3,246	2,241	166	12,630	6,476
511,468	408,770	410,241	455,809	449,632	458,340	464,933	383,224	337,044
202,776	102,835	117,951	176,066	181,296	195,059	216,683	184,894	144,480
218,859	231,001	209,400	199,924	195,610	191,224	181,575	153,735	145,235
9.66	8.81	8.00	6.62	6.15	5.87	5.60	5.16	4.94
.93	.45	.56	.88	.93	1.02	1.19	1.20	.99
22,660,800	26,206,138	26,184,472	30,185,080	31,785,080	32,575,680	32,396,792	29,814,520	29,424,032
29,246,584	29,694,724	30,530,588	34,380,916	35,399,176	35,805,316	34,505,568	34,156,276	31,265,676
174	169	161	146	122	100	91	86	71

Board of Directors of Hilton Hotels Corporation

<i>Directors</i>	JAMES E. BATES*	Attorney at Law, Los Angeles
	GREGORY R. DILLON	Senior Vice President — Corporate Properties Division
	DONALD W. DOUGLAS, JR.†	Consultant, Santa Monica, California
	WILLIAM H. EDWARDS*	Executive Vice President — Operations and President, Hilton Hotels Division
	BARRON HILTON*	Chairman, President and Chief Executive Officer
	JOHN V. GIOVENCO	Senior Financial Vice President and Treasurer
	BENJAMIN V. LAMBERT†	President, Eastdil Realty, Inc., New York — Real Estate Investment Bankers
	WILLIAM R. ROESCH [‡]	Executive Vice President, United States Steel Corporation, Pittsburgh
	FRANK G. WANGEMAN	Senior Vice President — New York Region
	THOMAS R. WILCOX* [‡]	Chairman, Crocker National Bank and Crocker National Corporation, San Francisco
	SAM D. YOUNG, JR.† [‡]	President, El Paso National Bank and Trans Texas Bancorporation, Inc.
*Members of the Executive Committee †Members of the Audit Committee [‡]Members of the Personnel and Compensation Committee		

Officers of Hilton Hotels Corporation

<i>Executive Officers</i>	BARRON HILTON WILLIAM H. EDWARDS E. TIMOTHY APPEGATE GREGORY R. DILLON JOHN V. GIOVENCO	Chairman, President and Chief Executive Officer Executive Vice President — Operations and President, Hilton Hotels Division Senior Vice President, Secretary and General Counsel Senior Vice President — Corporate Properties Division Senior Financial Vice President and Treasurer
<i>Hilton Hotels Division</i>	WILLIAM H. EDWARDS JAMES C. COLLINS JOHN E. CULLERTON JOSEPH W. F. GARDINER HENRI LEWIN DON L. MADSEN CARL T. MOTTEK A. W. SALOMONE JAMES F. SHEERIN RICHARD E. SMITH FRANK G. WANGEMAN ROBERT F. EISEMAN WERNER LEWIN PORTER P. PARRIS HILMAR A. ROSENAST	President Senior Vice President — Marketing Senior Vice President — Industrial Relations Senior Vice President — Food and Beverage Senior Vice President — Western Region Senior Vice President — Hawaiian Region Senior Vice President — Southern Region Senior Vice President — Eastern Region Senior Vice President — Central Region Senior Vice President — Employee Relations and Development Senior Vice President — New York Region Vice President — Purchasing Vice President, General Manager — San Francisco Hilton Vice President, General Manager — Palmer House Vice President and Assistant to the President, Hilton Hotels Division
<i>Hilton Nevada Division</i>	BARRON HILTON HENRI LEWIN JOHN T. FITZGERALD FRANK H. JOHNSON FRANK W. SHATTUCK	President Executive Vice President Vice President, Managing Director — Las Vegas Hilton Vice President — Gaming Policy Consultant Vice President and Assistant General Counsel
<i>Other Corporate Officers</i>	FRANCIS C. CRALL FRANCIS M. N. DUBEAU LLOYD S. FARWELL ERIC M. HILTON DAVID C. JOHNSON LEROY A. JUDGE FORDYCE H. MERIAM BERNARD M. NAGEL JAMES L. PHILON WILLIAM B. REES JOSEPH B. ROSENTHAL MAURICE J. SCANLON RICHARD H. WHITE EDWARD S. DOUGLASS	Vice President — Insurance Vice President — Project Coordination Vice President — Franchising and Development Vice President — Western Franchise Operations Vice President and Assistant General Counsel Vice President and Assistant to the Chairman Vice President — Financial Administration Vice President — Commercial Leasing Vice President — Real Estate and Development Vice President and Assistant General Counsel Vice President — Planning and Construction Vice President — Accounting Vice President — Credit Department Comptroller
<i>Executive Offices</i>	9880 Wilshire Boulevard, Beverly Hills, California 90210 General Executive Offices 9990 Santa Monica Boulevard, Beverly Hills, California 90212 Office of the Chairman and President	
<i>Transfer Agent and Registrar for Common Stock</i>	The First National Bank of Chicago Stock Transfer Administration Chicago, Illinois 60670	
<i>Accountants</i>	Harris, Kerr, Forster & Company, Los Angeles, California	

HILTON HOTELS CORPORATION

9880 Wilshire Boulevard, Beverly Hills, California 90210

