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Cover:

Entrance to the main lobby at the spectacular Hilton Hawaiian Village on Waikiki. Set on a 23-acre beachfront site, this 2,530-room resort recently completed a \$102 million renovation and expansion program, including its fourth guest-room tower, four alfresco restaurants, a new showroom and an extensive pool and garden area in addition to the lobby area.

Hilton Hotels Corporation
1987 Annual Report
Financial Highlights

	1987	1986	Percent Change
Revenue	\$843,826,000	740,366,000	14.0%
Income contribution	\$208,394,000	171,737,000	21.3
Net income	\$139,856,000	97,839,000	42.9
Earnings per share	\$ 5.59	3.92	42.6
Dividends per share	\$ 1.80	1.80	—
Return on equity	18.9%	14.4	31.3
Stockholders' equity per share	\$31.58	28.45	11.0
Percentage of occupancy			
Hotels	68%	65	4.6
Gaming	84	84	—
Working capital	\$206,962,000	173,437,000	19.3
Average number of shares	25,012,969	24,968,323	.2

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To Our Stockholders:

In this annual report for 1987, the most profitable year in our history, I would like to share with you some of my thoughts about our Company and our industry — where we have been, and, most importantly, where we are headed.

Business throughout the world is still contending with the collapse of the stock market on October 19, 1987, and despite having had a highly successful year we are all wrestling with questions about the twin deficits, a soft dollar, foreign competition and American management practices. During these uncertain times we need to reexamine our strengths and strategies for meeting whatever challenges and opportunities the future may hold.

Perspective — Strengths

For twenty-one years I have had the privilege of directing the affairs of this great Company as its president. During this period our operations have grown and flourished, never more so than in the past year. Presently, we have the programs in place that will continue to drive our progress as a premier lodging and gaming company. We have made enormous strides, but we are not content to remain where we are. What we can become is the

challenge, the driving force for all of us. My father, Conrad N. Hilton, the Company's founder, was never afraid to dream big. I intend to maintain that trait as a part of our tradition.

Among our strengths is a great tradition as hoteliers with a dedication to service, quality and value. Ours is a highly labor intensive business where *people* truly make the difference. Becoming the official hotel sponsor of the 1988 U.S. Olympic team exemplifies what we see as essential to both the Hilton team and our Olympians — hard work, commitment and achievement.

We have a deep, experienced and talented management team and we are placing prime emphasis upon the recruitment and training of the next generation of capable people for whom excellence is the only acceptable standard of performance.

Our name and the high quality of our system must also be emphasized. Our name is synonymous with "hotel," and is highly regarded throughout the world. We now serve over forty million customers annually at 271 properties with nearly 100,000 rooms. Included within our system are some of the classic properties of the world which can never be duplicated or equalled. Over the past few years we have renewed these classics and

Managing for Results

Consistent, superior performance is the result of a talented, experienced management team. Hilton's management is involved in the critical steps — planning, preparation and service — essential in the hospitality business.

This report depicts a sampling of the range of Company management activities.

At Left:

Property management encompasses all aspects of a property's maintenance and beautification. As illustrated here, the Director of Landscaping at the Hilton Hawaiian Village takes personal pride in the ongoing beautification of this lush tropical resort.



made them even more luxurious and appealing at a cost in excess of \$1.2 billion, the most substantial renovation program in the history of our industry.

As we meet the uncertainties of the economy, our very favorable financial position is an important strength. Our balance sheet is perhaps the strongest in the industry. At year end, working capital was \$207 million, and debt as a percentage of total capitalization was 22 percent. Over the years, through good times and hard times, we have learned the critical importance of maintaining a healthy and conservative financial posture. If we are headed for difficult times, our financial strength will better enable us, as it has in the past, to capitalize on opportunities to acquire desirable properties on favorable terms.

A look at the industry

Whatever the future holds, I relish the challenges of our industry because it is ever changing and ever new. The changes that have occurred in recent years are enormous. From the days when business travelers simply required a clean, conveniently located room, possibly with a radio or a television set, we have moved into a highly competitive environment where travelers require high technology systems such as electronic check-in

and check-out, plus varied amenities such as business centers, fitness facilities, "Towers" executive floors with concierge service and security systems. I am proud that Hilton has been in the forefront of offering the new services and amenities demanded by today's contemporary traveler. Product quality and consistency are fundamental concerns today and we are working to ensure that we have both.

The industry has changed in other ways as well, most notably with increased segmentation to serve evolving markets of particular interest, such as longer-stay business and leisure travelers who want the additional space provided by suites. Our Company will benefit greatly from its sound and careful entry into these new areas.

We are already well established with properties of 1,000 rooms or more in most major markets. In the future, our managed property expansion will focus on suburban and secondary markets and resorts.

Many U.S. cities have an excess supply of hotel rooms, however, and our expansion efforts must be cautious. For example, 90,000 new rooms came on stream in the U.S. during 1986, and another 75,000 new rooms were added in 1987.

Even so, it appears likely that the supply/demand ratio will improve in coming years due to recent tax law changes which



At Right:

An essential ingredient in Hilton hospitality is the efficient operation of our kitchens. An executive chef is just what the name implies — a culinary talent with management responsibilities. From menu planning to purchasing to supervising food preparation to the presentation of an entree, Hilton chefs perform a wide range of activities daily.









removed many of the tax-related incentives for development. New projects must demonstrate sound economic fundamentals, an approach that fits well with our long-held beliefs. Thus, we feel very comfortable in this new environment.

A strategy for the times

Our strategy for building our Company has served us very well and will continue to do so. With our industry changing and the economy unsettled, it is appropriate to review some of the major points of that strategy as a framework for understanding what we are doing and why.

First, we are conservative and prudent. We avoid unnecessary risks. We are already well established with superb locations and classic properties. Our goal is to build upon our position in a careful, steady manner and the maintenance of our properties in first-class condition is basic to our continuing progress.

Second, we strive to reduce the cyclical nature of our earnings performance by balancing our sources of revenues.

Third, we have moved from a preponderant emphasis on real estate ownership to leveraging our name through professional management services. Thus, we are striving, on a selective basis, to

expand our earnings without substantial investments in fixed assets. We will continue to manage our real estate portfolio aggressively to maximize the values inherent therein.

Fourth, we will invest our corporate funds in expansion, including both new properties and additions to existing facilities, only when an attractive return can be achieved. Expansion will be concentrated in areas of strength. We will grow selectively, targeting key areas. But we will move carefully. We look for strength and staying power in a product area before making our entry.

Building a strong presence in the international market represents a major opportunity and will receive a high priority within our overall development program.

Fifth, we will capitalize upon the advantages of our size and name recognition with marketing programs targeted at strengthening our position in our key market segments.

1987—overview

As mentioned earlier, 1987 was the best year in our history. We can be truly proud of that achievement because the results reflect the fruits of our various programs. Net income for the year advanced by 43 percent to \$139.9 million, equal to \$5.59 per share from \$97.8 million

At Left:

The operation of casino gaming within a resort structure is a highly specialized discipline. As shown here on the casino floor in Las Vegas, casino management requires effective teamwork to maintain control over operations in this fast-paced environment.







or \$3.92 per share in the prior year. Property transactions—including sales of the 50%-owned Dallas Hilton and Beverly Hilton and a parcel of land adjacent to the New York Hilton—resulted in net income of \$27.2 million or \$1.09 per share of our fiscal 1987 results.

By cultivating broad strength in both lodging and gaming and by serving a variety of market segments, we have enhanced our ability to cushion our results against the impact of a downturn in one particular market area or segment. In 1987, both the lodging and gaming segments turned in fine performances.

With respect to property sales, I am sure that many of our people feel, as I do, a sense of nostalgia at the sale of such a premier property as the Beverly Hilton, but the active management of our real estate portfolio, including the timely disposition of properties, clearly adds strength and vitality to our Company. In the past, proceeds from such sales have funded a great deal of our expansion as well as our stock repurchase programs. At the present time, we have an outstanding authorization from our directors to repurchase up to 3.4 million of our common shares.

Capital enhancement program

The initial returns from our massive investments in the renewal of our classic properties were reflected

in 1987's results. The Waldorf-Astoria had an outstanding year. Results also climbed at the Capital Hilton in Washington, D.C., at our all new Chicago Hilton and at the Hilton Hawaiian Village, which I regard as one of the world's most beautiful, appealing and enjoyable resorts. I hope that as a stockholder you will have the opportunity to visit our major renewed properties and see for yourself what has been accomplished. I believe you will be pleased and impressed.

Recently, we completed the enhancement and expansion of the Hilton Hawaiian Village and we plan to finish the major renewal and expansion of the San Francisco Hilton in this year's second quarter, thus bringing these renewal programs to a successful close. Our purpose was to infuse these great properties with new life and energy and to recreate first class hotel rooms at a fraction of what it would cost to build them from the ground up today. Both goals have been met.

While this program was costly in terms of time, money and disrupted operations, the effort was essential to our future and I am confident it will pay continuing dividends. Based on the higher level of amenities that we can now offer our customers, we have been able to effect increases in the rate structure of these properties averaging 16 percent since 1985.

At Left:

The reputation of a hotel is gauged by the success of its restaurants. Hilton restaurants succeed by attention to detail on the part of a Director of Food and Beverage, such as in the restocking of the wine cellar in Le Montrachet at the Las Vegas Hilton.







New directions

With this major focus of activity now largely completed, we can turn our attention to other programs. Our thrust into the international marketplace, our development of Hilton Suites to address a highly attractive market segment, and our introduction of "CrestHil by Hilton," our new "country inn" concept, to provide an attractive new option for the Hilton Inns franchise program, will contribute to our growth in coming years. Before describing these key efforts, however, I will discuss gaming, which is so fundamental to our present and to our future.

Success in gaming

I have had an intense personal interest in our gaming business since we made our entry into the Las Vegas market. We entered Las Vegas in 1970 via our initial investment in two properties because it was a uniquely appealing, highly recession resistant resort. I continue to be excited about our future in this dynamic market. Through our careful efforts, we have built a position of leadership there. To meet the evolving needs of the market, we have nearly tripled the number of first class guestrooms to 6,101, added luxurious amenities, spectacular showrooms and expanded exciting casinos. As a result we have the two largest casino properties in that market.

We had a stellar year in Nevada in 1987. Our strategy has been to serve the market with a two-tiered approach. The Flamingo Hilton, an exceptional performer, addresses the broad tour and travel market with a focus on providing exceptional value. Preeminent as a convention hotel, the Las Vegas Hilton also serves a somewhat more upscale clientele as a highly attractive short-stay vacation resort, a mecca for international guests and a venue for high limit gaming.

We masterplanned these properties for growth in order to capitalize on the tremendous opportunities Las Vegas presents. The most recent 800-room tower addition to the Flamingo, completed in the latter part of 1986, clearly added strength to our results in 1987. The \$63 million investment for that expansion is being rewarded with an exceptional return.

In this context we recently announced a further expansion of our presence in the Las Vegas market. Over the next two years we will invest an additional \$100 million to add a 750-room tower addition and a 25,000 square foot theme casino to the Flamingo Hilton along with a major rелandscaping and parking garage addition for the Las Vegas Hilton. The tower addition will give the Flamingo Hilton more than 3,500 rooms, surpassing the Las Vegas Hilton as the largest hotel in the

At Left:

Daily variety is a trademark of lodging, with new guests and special requests and events occurring regularly. A General Manager reviews the upcoming day's activities with his concierge.



world. The casino addition is targeted to the large budget segment of the Las Vegas market.

Creating an aura of superstar glamor and excitement at the Las Vegas Hilton has been an important part of our Nevada strategy. The effort has paid important dividends for us with the performance of this 3,174-room property showing significant improvement. The future looks bright for both the Las Vegas Hilton and the Flamingo Hilton.

International growth

It is my conviction that the Company must have a meaningful presence in the international market and, to that end, we formed our Conrad International subsidiary several years ago. Our development efforts are directed toward the world's major business and financial centers, gateway and capital cities, and selected resort locations. Entry into the world market greatly expands our horizons and prospects for growth. Moreover, as my father so deeply believed, fostering international travel can contribute importantly to world peace and understanding.

By 1991, we plan to have a major presence in such exciting areas as the Pacific Basin, the Caribbean, Mexico, Canada and Europe. There are currently six projects in progress with numerous others under consideration.

Our first international property is the luxurious Gold Coast Conrad International Hotel & Jupiters Casino in Queensland, Australia. Its opening in late 1985 marked a dual milestone — our first non-Nevada gaming property and the return of the Company to the international market, from which we had exited in 1964 through the spin-off of the Hilton International properties to our stockholders. I am pleased to note that the Gold Coast Conrad International is showing steady improvement in its occupancy levels and results as our marketing programs increasingly take effect.

Since our initial participation in gaming with the Caribe Hilton back in 1949, the Company has amassed great experience, expertise and management capability in the highly complex gaming business. As in Queensland, we hope to apply that expertise profitably to new markets and it appears likely that opportunities for new gaming operations, such as in Istanbul, may well present themselves on the international scene.

With growing momentum and a variety of agreements either signed or in negotiation, I am truly excited about our international prospects.

New U.S. products

Our development plans for the U.S. build upon our impressive base

At Right:

Hilton has made substantial investments in computer technology to assist in management efficiency. From property management systems to reservation system upgrades, Hilton anticipates guest needs while monitoring operating costs and providing management information. Included in Hilton's information and control systems is the monitoring of ongoing activity in the control room of the Las Vegas Hilton's Race & Sports Superbook.









with new concepts and new programs. A major focus is an exciting program targeted at a market segment with demonstrated appeal that is new for us. It is called Hilton Suites. We have taken the concept, studied it carefully and added attractive refinements. The result will be a superior product that will be well received by our loyal customers and the traveling public at large. Over the next 15 to 30 months we expect to add a significant number of Hilton Suites. By catering to travelers who are staying for longer periods and who desire more space, we will increase our presence and profit opportunities and further capitalize on our favorable name recognition.

Strategically, we have sought to expand earnings without investing heavily in fixed assets, and the Hilton Inns program has proven to be an exceptional performer in this respect. The recent addition of the CrestHil concept as a franchise vehicle for owner/operators brings added strength and flexibility to our program. To a value conscious public these mid-price properties offer a first class hotel room at an affordable price. Groundbreaking for the first of these has already occurred and several more should be under construction this year.

Sophisticated marketing

In my view, our effective new marketing programs have elevated

our visibility to new heights, and we are working purposefully to increase our market share in the vitally important frequent business traveler and leisure segments.

Our new HHonors program, taking its theme from our Olympic sponsorship, is a fundamental part of our effort to establish a continuing relationship with frequent business travelers, individuals who account for about half of the nation's business trips. We want these loyal guests to receive special recognition and to understand that Hilton knows who they are and cares that their stays are enjoyable. The program builds upon our traditional marketing theme of Hilton as "America's Business Address." It is essential that our frequent traveler program does not take second place to anyone in the industry. I am confident that HHonors meets that standard.

Well targeted leisure promotions are also producing good results. Our "Summer of \$59" promotion resulted in healthy room bookings during off-peak periods, including weekends. The program concept was continued this winter and spring.

We are also using our marketing skills in the use of technology to provide flexibility in adjusting to lodging demand cycles. Upgrades in our reservation system capabilities, for example, allow us to improve our revenue performance in peak demand periods.

At Left:

Guestrooms are the core element of Hilton's business. Whether our guest requires a single room for the night or a suite in which to host a gala reception, Hilton management offers its best in services and facilities.







As for the industry in general, we are convinced that major hotel companies such as Hilton, with the financial ability and sophistication to promote and advertise effectively and to marshal substantial computer resources, will have a clear competitive edge in the years to come.

Outlook and conclusion

As to the future, my position is one of guarded optimism for the near term and of considerable enthusiasm for the longer term. It is unclear what the economy will bring in 1988, and, in any event, our business tends to lag the economic trends, either up or down, by four to six months.

Our Company is in an extremely strong financial condition. I believe we are well positioned to operate in whatever environment may develop. Several points, however, are clear. The dollar is expected to remain weak, reinforcing the trend of U.S. residents to seek their leisure travel in this country. We can also anticipate a continuing flow of foreign visitors who wish to capitalize on the great travel bargains available in the United States due to the dollar's decline.

As to gaming, I am optimistic about the outlook for our Nevada casino operations. During the past 35 years, gaming revenues in Nevada have declined on a year-to-year basis only one time, a record

of remarkable consistency. They are expected to rise again in 1988. Further, forecasts indicate that this will be a fine year for convention business in Las Vegas.

In closing, I wish to thank all those who played a part in making 1987 a record year for Hilton Hotels Corporation. The efforts of our directors and senior officers are truly appreciated and, on their behalf, I am pleased to thank our thousands of employees, our business partners and of course our guests for their support and patronage.

As always, the loyalty and support of our stockholders evoke a sense of continuing gratitude.

Respectfully,

Barron Hilton
Chairman and President
February 1, 1988

At Left:

Barron Hilton appears with members of the 1988 Winter Olympic team. Hilton is an official sponsor of both the 1988 Winter and Summer Olympic Games.

Management's Discussion and Analysis of Operations and Financial Condition

The Company's net income for 1987 increased 43 percent to \$139.9 million or \$5.59 per share compared to 1986's \$97.8 million or \$3.92 per share. Income contributions for hotels and gaming improved 20 percent and 22 percent, respectively. In 1985, the Company earned \$100.2 million or \$4.03 per share.

Included in 1987 net income were property transactions of \$27.2 million or \$1.09 per share. In 1986, property transactions, principally closures of properties, resulted in an after-tax loss of \$1.3 million or (\$.05) per share. In 1985, the Company realized an after-tax gain of \$4.3 million or \$.17 per share from property transactions.

Hotels

A summary of the operating performance of the Company's hotel segment for the three years ended December 31, 1987 is as follows:

(In thousands, except rooms and percentages)

	1987	1986	1985
Revenue (1)	\$1,279,493	1,228,336	1,138,836
Income contribution	100,650	83,572	90,503
Rooms available at year end	89,379	89,462	89,499
Occupancy (1)	68%	65	64

(1) Owned or managed hotels

Revenue

Revenue and fee income earned are principally reflective of the number of available rooms, occupancy levels and average room rates enjoyed by Hilton properties.

In 1987, 3,541 new rooms and 14 new properties were added to the Hilton system, so that at year end over 89,000 hotel rooms were available at the Company's 267 owned, managed or franchised properties. In 1986 and 1985, the Company added 5,237 rooms and 6,749 rooms, respectively. Due to terminations of managed and franchised hotels, however, the number of rooms available at year end were approximately equal for the three year period.

Occupancy for owned or managed hotels improved to 68 percent in 1987 compared to 65 percent in 1986 and 64 percent in 1985. The improvements are attributed to

the completion of certain property renovation projects, the introduction of marketing programs focusing on the business traveler and leisure markets, and a decline since the summer of 1986 in industry construction activity.

Average room rates increased eight percent in 1987 compared to increases of four percent in 1986 and in 1985. Rate improvements were higher for recently renovated properties. Average room rates tend to follow the trend of occupancy levels for individual hotels. The Company can raise room rates in excess of inflation by continuing to improve its product quality, changing its market mix and focusing on available revenue opportunities as occupancy demand improves.

Management and franchise fee revenue increased six percent in 1987 over the 1986 level and 12 percent over 1985's total. Fee revenue is based primarily on operating revenues at managed properties and on rooms revenues at franchised properties. The increase is attributable to the higher occupancy levels and average room rates. Average rates for franchise hotels increased less than inflation in each of the three years, while occupancy levels increased in 1987 after declining in the prior two years.

Income Contribution

Hotel income contribution in 1987 increased 20 percent from 1986's \$83.6 million to \$100.7 million. Income contribution in 1985 was \$90.5 million.

Operating income from owned and partially owned properties increased 34 percent in 1987 over the 1986 level and 23 percent over the 1985 level. Over the three year period the Company has had significant renovation projects underway at principal operating locations. During renovation the operating income of a property generally decreases due to decreased room availability and temporary unavailability of ancillary facilities. As each renovation program is completed, the property begins rebuilding occupancy and average room rate levels. Programs at the Capital Hilton and Chicago Hilton were completed in 1986. Programs at the San Francisco Hilton and Hilton Hawaiian Village will be completed early in 1988, with the Waldorf-Astoria program concluding in 1989.

Renovation programs significantly hampered operating performance in 1986 and in 1985. In addition, in 1985 a brief airline strike occurred and the Company's New York City properties were also affected for a month by a city-wide hotel employee strike.

In 1987, the Company sold two hotel joint ventures. In 1985, the Company sold one owned property. The transactions are part of the Company's de-emphasis of hotel ownership.

The gaming segment enjoyed continued growth in 1987, as revenue and income contribution improved appreciably over comparable 1986 and 1985 levels.

(In thousands, except rooms and percentages)

	1987	1986	1985
Total revenue(1)	\$484,137	404,237	366,652
Casino revenue(1)	265,313	219,138	204,649
Casino promotional allowances(1)	(34,921)	(27,891)	(26,637)
Income contribution	107,744	88,165	76,358
Rooms available at year end	7,318	7,318	6,602
Occupancy(1)	85%	86	86

The Company's Las Vegas properties — the Las Vegas Hilton and the Flamingo Hilton — benefited from aggressive promotional marketing and the continued strength of that destination's tourist and convention appeal. The Las Vegas Hilton profited from a returning emphasis on celebrity entertainment and world-class sporting events, particularly boxing. The Reno Hilton's results equaled its 1986 level, reflecting a continuing softness in that market area.

The Las Vegas operations reflect a full year's revenue from additions completed during 1986. The Flamingo Hilton completed an 800-room tower addition in that year's third quarter, while the Las Vegas Hilton opened a 33,000 square foot Race & Sports Superbook addition in the fourth quarter.

Average room rates for the Nevada locations increased ten percent in 1987 and nine percent in 1986. Average rates increased 11 percent in 1985.

[illegible]

Interest income and expense of the Company and its share of its unconsolidated affiliates for the three years ended December 31, 1987 is as follows:

(In thousands)

	1987	1986	1985
Cash and temporary investments at year end	\$241,039	183,452	266,507
Restricted investments at year end	69,905	78,166	81,701
Interest and dividend income	22,896	24,722	18,089
Interest expense	(35,729)	(38,681)	(32,251)
Capitalized interest	6,590	4,636	11,919
Proportionate net interest expense from unconsolidated affiliates	(15,760)	(12,761)	(9,448)

The Company's interest and dividend income is determined by its investment level and the yield realized. In 1987, the average investment level decreased, while the 1986 level increased over that prevailing in 1985. In general, yields declined in each succeeding year.

In each of the three years the Company directed substantial levels of investments in tax-exempt or dividend-oriented securities with lower pre-tax but higher after-tax yields than those realized by fully taxable investments. The amount of such tax-exempt income was relatively greater in 1986 than in 1985 or in 1987.

Interest expense decreased in 1987 due to lower rates on variable rate debt. The 1986 results reflect a higher average debt level than in 1985, offset in part by declining rates on variable debt. In 1985, a lower net expense resulted from a lower debt level coupled with a high level of capitalized interest.

Net interest expense for unconsolidated affiliates parallels the renovation programs for such joint venture properties. Substantial renovation program costs have been funded by debt, with interest costs being capitalized during the renovation process. Reported interest expense accordingly increases with program completion.

Income Taxes

The Company's pre-tax income, provision for income taxes and its effective tax rates for the three years ended December 31, 1987 are as follows:

<i>(In thousands, except for percentages)</i>			
	1987	1986	1985
Income before property transactions	\$168,124	132,093	140,188
Property transactions	43,763	(2,546)	3,055
Provision for income taxes	72,031	31,708	43,080
Effective tax rate	34.0%	24.5	30.1

The Company's effective income tax rate is determined by the level and composition of the pre-tax income, the mix of income earned subject to varying state and local tax rates, the taxes applicable to property transactions as well as other items. The effective rate has been further affected by provisions of the Tax Reform Act of 1986 (the 1986 Act).

As mentioned, the Company commits significant temporary investment balances in instruments which by their nature emphasize the after-tax rather than pre-tax return. Accordingly, income before property transactions for the 1985 through 1987 period contains varying levels of pre-tax income with a small related income tax charge.

In 1987 and 1986 the Company realized \$3.9 million and \$5.0 million, respectively, of tax benefits from transactions with Alaskan Native Corporations. In 1987, 1986 and 1985, the Company recognized \$.7 million, \$6.2 million and \$4.3 million, respectively, in tax benefits related to a hotel sale.

The 1986 Act eliminated investment tax credits except on expenditures committed as of the end of 1985. Accordingly, investment and other tax credits declined to \$2.4 million in 1987 from \$5.7 million in 1986 and \$14.6 million in 1985. In 1985, a significant level of rehabilitation credits was earned on property renovations.

In December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes. The Company is required to adopt the accounting and disclosure requirements of the standard in either

fiscal 1988 or 1989. Adoption of the statement can result in either a catch-up adjustment in the year of adoption or in a restatement of prior periods.

The Company has not decided when it will adopt the new standard and if it will restate prior periods. Based on existing conditions and a preliminary review, the Company expects a favorable effect on its financial position when the new standard is adopted. Under current accounting the Company's deferred income taxes are stated at the rate prevailing when the deferred taxes arose, generally 46%, while the new statement requires that deferred taxes reflect the rate prevailing at the time of settlement, currently 34%.

Property Transactions

In 1987, the Company sold its interests in the 50%-owned Beverly Hilton and the 50%-owned Dallas Hilton. Also sold were parcels of land adjoining two other joint venture properties. The after-tax gain from all property transactions was \$27.2 million. The Beverly Hilton was retained as a managed property.

There were no significant property transactions in 1986. Two owned properties closed for redevelopment during the year. Recorded amounts primarily reflect losses associated with property closures. In 1985, the Company sold or otherwise disposed of an unopened hotel-casino, the wholly-owned Shamrock Hilton and several undeveloped parcels of land. On the transactions the Company recognized an after-tax gain of \$4.3 million.

FINANCIAL CONDITION

Working Capital, Cash Flow, Capital Expenditures and Depreciation

<i>(In thousands)</i>			
	1987	1986	1985
Working capital	\$206,962	173,437	259,255
Funds from operations	219,542	160,020	155,112
Capital expenditures			
Hotels owned or leased	106,321	148,477	219,004
Hotels partially owned(1)	253,592	209,743	209,588
Depreciation			
Hotels owned or leased	56,136	48,360	46,272
Hotels partially owned(1)	62,907	59,163	45,604

(1) Total amount

The Company realizes strong cash flows from its operations. The ability to generate funds coupled with working capital strength allows the Company to pursue

expansion, renovation and other investments while providing flexibility in approaching capital markets. Working capital amounts do not include investments restricted for property redevelopment of \$69.9 million at December 31, 1987.

The Company's capital expenditures do not include those incurred for development or refurbishment of its joint venture, managed or franchised properties. In fiscal 1987, the Company invested \$40.0 million in unconsolidated affiliates.

Long-Term Debt

(In thousands, except for percentages)

	1987	1986	1985
Long-term debt			
at year end	\$283,703	280,884	284,297
Percent of total capital(1)	22.3%	23.9	25.5
Current maturities			
of debt	\$ 1,806	3,530	3,654

(1) Total assets less current liabilities.

Long-term debt totaled \$283.7 million at December 31, 1987 or 22 percent of the Company's total capitalization and 37 percent of stockholders' equity. Maturities of debt are minimal, and do not exceed \$6 million annually through 1991.

Under shelf registrations on file, the Company can issue from time to time up to \$300 million in senior debentures and \$300 million in subordinated debentures. No debentures have been issued under these registration statements.

As a result of the Company's excellent credit rating, short-term credit needs can also be met through issuance of commercial paper and other short-term obligations. Due to declining short-term interest rates in recent years, the Company has utilized this financing technique extensively. At year end 1987 there were \$500 million in short-term credit lines available and unused.

The Company's joint venture investments in general employ greater financial leverage than does the Company on a consolidated basis. The bulk of \$500 million of joint venture renovation efforts has been financed using variable rate instruments, in many instances with interest rate caps.

Stockholders' Equity

(In millions, except for per share data)

	1987	1986	1985
Historical	\$772.8	707.4	651.4
Per share	31.58	28.45	26.29

Historical stockholders' equity increased \$65.4 million in fiscal 1987 to \$772.8 million or \$31.58 per share. Book values per share were \$28.45 in 1986 and \$26.29 in 1985. Income contribution return on average operating capital (total assets less construction in progress and current liabilities) was 17.6 percent in 1987 and has averaged 17.9 percent over the past five years.

On a current value basis, stockholders' equity increased to \$105 per share in 1987 from \$102 per share in 1986 and \$95 per share in 1985. The increase reflects values generated by the operations of the Company's wholly and partially owned properties and fees generated under its management and franchise contracts. No current value benefit is ascribed to properties in development, such as Hilton Suites or additional foreign properties, until operating income streams are demonstrated.

At December 31, 1987, the Company has authorization to repurchase up to 3.4 million common shares in open market or negotiated transactions. During 1987, the Company purchased 500,000 shares. The Company evaluates treasury share purchases based on specific return on investment criteria given its current market valuation and its prospects for future operations.

The Company paid \$1.80 in dividends on its common shares in 1987, 1986 and 1985 representing 40 percent, 45 percent and 46 percent, respectively, of net operating income. The Company's objective is to pay dividends of approximately 40% of net operating income.

Consolidated Statements of Income
(In thousands, except per share amounts)

	Year Ended December 31,	1987	1986	1985
<i>Revenue</i>				
Rooms		\$272,094	251,264	237,947
Food and Beverage		197,019	176,063	174,892
Casino		265,313	219,138	204,649
Casino promotional allowances		(34,921)	(27,891)	(26,637)
Management and franchise fees		66,527	62,093	56,402
Other		49,375	38,318	37,164
Operating income from unconsolidated affiliates		28,419	21,381	27,957
		843,826	740,366	712,374
<i>Expenses</i>				
Rooms		85,404	80,166	78,012
Food and Beverage		149,777	137,406	136,515
Casino		94,579	77,502	69,633
Other operating expenses		170,502	147,672	134,873
Property operations		55,543	55,479	59,915
Lease rentals		10,165	9,816	7,672
Property taxes		13,326	12,228	12,621
Depreciation		56,136	48,360	46,272
		635,432	568,629	545,513
		208,394	171,737	166,861
Gain (loss) from property transactions		43,763	(2,546)	3,055
<i>Operating Income</i>		252,157	169,191	169,916
Interest and dividend income		22,896	24,722	18,089
Interest expense (net of \$6,590, \$4,636 and \$11,919 capitalized)		(29,139)	(34,045)	(20,332)
Interest expense, net, from unconsolidated affiliates		(15,760)	(12,761)	(9,448)
Corporate expense		(18,267)	(17,560)	(14,982)
<i>Income before Income Taxes</i>		211,887	129,547	143,243
Provision for income taxes		72,031	31,708	43,080
<i>Net Income</i>		\$139,856	97,839	100,163
<i>Net Income per Share</i>		\$ 5.59	3.92	4.03

See notes to consolidated financial statements

	Assets	December 31,	1987	1986
<i>Current Assets</i>	Cash and temporary investments	\$	241,039	183,452
	Other current assets		117,296	117,736
	Total current assets		358,335	301,188
<i>Investments, Property and Other Assets</i>	Investments in and notes from unconsolidated affiliates		203,193	230,025
	Other investments		44,345	33,664
	Restricted securities		69,905	78,166
	Property and equipment, net		729,466	644,736
	Other assets		18,366	14,494
	Total investments, property and other assets		1,065,275	1,001,085
<i>Total Assets</i>		\$	1,423,610	1,302,273
	<i>Liabilities and Stockholders' Equity</i>			
<i>Liabilities</i>	Current liabilities	\$	151,373	127,751
	Long-term debt		283,703	280,884
	Deferred income taxes		173,752	159,063
	Insurance reserves and other		41,945	27,223
	Total liabilities		650,773	594,921
<i>Stockholders' Equity</i>	Preferred stock, no shares outstanding		—	—
	Common stock, 24,472 and 24,859 shares outstanding, respectively		67,832	67,558
	Additional paid-in capital		19,546	15,730
	Retained earnings		830,581	735,555
			917,959	818,843
	Less treasury shares, at cost		145,122	111,491
	Total stockholders' equity		772,837	707,352
<i>Total Liabilities and Stockholders' Equity</i>		\$	1,423,610	1,302,273

See notes to consolidated financial statements

Consolidated Statements of Changes in Financial Position

(In thousands)

	Year Ended December 31,	1987	1986	1985
<i>Funds from Operations</i>	Net income	\$139,856	97,839	100,163
	Non-cash charges (credits) to operations			
	Depreciation	56,136	48,360	46,272
	Deferred income taxes	21,471	12,811	9,090
	Unconsolidated affiliates' distributions in excess of (less than) earnings	2,079	1,010	(413)
	Funds from operations	219,542	160,020	155,112
<i>Changes in Non-cash Components of Working Capital</i>	Accounts and notes receivable	777	(9,332)	11,043
	Other current assets	(337)	(4,374)	(3,985)
	Accounts payable and accrued expenses	(519)	11,848	(15,770)
	Short-term borrowings	17,989	—	—
	Current maturities of long-term debt	(2,259)	3	408
	Income taxes payable	8,411	4,618	(9,263)
	Funds before investments	243,604	162,783	137,545
<i>Investments and Capital Expenditures</i>	Capital expenditures	(106,321)	(148,477)	(219,004)
	After-tax proceeds from sale of assets	58,475	3,281	334,430
	Additional investments	(39,817)	(59,040)	(20,107)
	Funds before financing activities	155,941	(41,453)	232,864
<i>Financing Activities</i>	Long-term borrowings	4,986	—	85,328
	Reduction of long-term debt	(2,167)	(3,413)	(76,609)
	Net proceeds from joint venture financing	16,100	—	—
	Change in restricted securities	8,261	3,535	(81,701)
	Deferred income taxes - tax leasing transaction	(6,782)	(5,500)	11,295
	Cash dividends	(44,830)	(44,700)	(44,551)
	Treasury stock purchases	(33,631)	—	—
	Other, net	(40,291)	8,476	(10,666)
<i>Increase (Decrease) in Cash and Temporary Investments</i>		\$ 57,587	(83,055)	115,960

See notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity

(In thousands, except shares and per share amounts)

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares, at cost	Total Stockholders' Equity
Balance, December 31, 1984	24,698,013	\$67,155	10,358	626,804	(111,491)	592,826
Exercise of stock options	85,536	214	2,794	—	—	3,000
Net income	—	—	—	100,163	—	100,163
Dividends (\$1.80 per share)	—	—	—	(44,551)	—	(44,551)
Balance, December 31, 1985	24,783,549	67,369	13,152	682,416	(111,491)	651,446
Exercise of stock options	75,860	189	2,578	—	—	2,767
Net income	—	—	—	97,839	—	97,839
Dividends (\$1.80 per share)	—	—	—	(44,700)	—	(44,700)
Balance, December 31, 1986	24,859,409	67,558	15,730	735,555	(111,491)	707,352
Exercise of stock options	109,677	274	3,816	—	—	4,090
Treasury stock acquired	(497,300)	—	—	—	(33,631)	(33,631)
Net income	—	—	—	139,856	—	139,856
Dividends (\$1.80 per share)	—	—	—	(44,830)	—	(44,830)
Balance, December 31, 1987	24,471,786	\$67,832	19,546	830,581	(145,122)	772,837

See notes to consolidated financial statements

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 inter-company transactions are eliminated. With the exception of entities with restricted securities, there are no significant restrictions on the transfer of funds from the Company's wholly-owned subsidiaries to Hilton Hotels Corporation.

Investments in unconsolidated affiliates are stated at cost plus equity in undistributed earnings less losses and distributions.

CASINO REVENUES/PROMOTIONAL ALLOWANCES

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

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—average of approximately 44 years; leasehold improvements—the remaining lives of existing leases; furniture and equipment—average of eight 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 improvements are capitalized; costs of normal repairs and maintenance are charged to expense as incurred. Upon the 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.

SELF-INSURANCE

The Company is self-insured for various levels of general liability, workers' compensation and employee medical coverage. Insurance reserves include the present values of projected settlements for the Company's anticipated claims experience.

INCOME TAXES

The provisions for deferred income taxes in the accompanying notes to consolidated financial statements reflect the results of timing differences in recognizing income or deductions for financial reporting and income tax purposes.

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

STOCK OPTION PLANS

No charges or credits to income are made with regard to the options granted under the Company's stock option plans.

RESTRICTED SECURITIES

The proceeds from two issues of industrial development revenue bonds are restricted for the redevelopment of two hotel properties.

OTHER INVESTMENTS

During 1981 the Company entered into a "safe harbor lease" under the Economic Recovery Tax Act of 1981, which provided for the deferral of income tax payments through the use of accelerated cost recovery system deductions related to the leased assets. The cost was recorded as a long-term investment in tax benefits. The portion of the cost not directly recovered through tax deductions is being amortized over a ten year period.

NET INCOME PER SHARE

Net income per share is based on the weighted average number of common shares outstanding plus the common share equivalents which arise from the assumed exercise of stock options.

RECLASSIFICATIONS

The consolidated financial statements for prior years reflect certain reclassifications to conform with classifications adopted in 1987. These reclassifications have no effect on net income.

Accounts and Notes Receivable

Included in other current assets at December 31, 1987 and 1986 are accounts and notes receivable as follows:

(In thousands)	1987	1986
Hotel accounts and notes receivable	\$75,796	75,946
Less allowance for doubtful accounts	3,256	1,915
	72,540	74,031
Casino accounts receivable	26,334	18,205
Less allowance for doubtful accounts	6,654	4,910
	19,680	13,295
Federal tax refund receivable	2,585	8,256
Total	\$94,805	95,582

Based primarily on historical trends, an allowance for estimated uncollectible casino receivables is provided to reduce casino accounts receivable to amounts anticipated to be collected within twelve months of the date credit was granted. Such allowances are included in casino expenses in the amount of \$5.5 million, \$5.4 million and \$3.5 million in 1987, 1986 and 1985, respectively.

Inventories

Included in other current assets at December 31, 1987 and 1986 are inventories of \$9.5 million and \$8.5 million, respectively, determined on a first-in, first-out basis.

Investments

The composition of the Company's total investments in and notes from unconsolidated affiliates at December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Equity investments		
50% owned unconsolidated affiliates		
Hotel partnership joint ventures (seven in 1987, ten in 1986)	\$170,648	204,749
Compass Computer Services, Inc.	7,323	6,335
Hilton Reservation Equipment Company	2,872	2,890
Less than 50% owned unconsolidated affiliates		
Hotel partnership joint ventures (ten in 1987, nine in 1986)	18,281	12,887
Total equity investments	199,124	226,861
Notes receivable (net of current maturities of \$845 and \$793)	4,069	3,164
Total	\$203,193	230,025

The changes in the Company's equity investments in such affiliates are as follows:

(In thousands)	1987	1986
Investments, January 1	\$226,861	170,572
Earnings	12,659	8,620
Distributions received	(14,738)	(9,630)
Additional investments	38,067	57,299
Net proceeds from joint venture financing	(16,100)	—
Sales of interests in hotel partnership joint ventures	(12,443)	—
Transfer of assets	(35,182)	—
Investments, December 31	\$199,124	226,861

Three unconsolidated affiliates have limitations on distributions of earnings under certain circumstances. At December 31, 1987 one property had a restriction on such distributions of \$3.8 million. At December 31, 1987 undistributed earnings from unconsolidated affiliates aggregated \$10.0 million.

Management fees totalling approximately \$17.2 million, \$16.0 million and \$11.6 million were charged by the Company to its unconsolidated affiliates in 1987, 1986 and 1985, respectively. Other group services were provided to unconsolidated affiliates with no significant element of profit.

Summarized balance sheet information of the 50% owned affiliates at December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Current assets	\$ 93,623	99,675
Property and other assets, net	831,938	759,496
Current liabilities	59,995	61,471
Long-term debt and other	368,882	345,356
Equity	496,684	452,344

Summarized balance sheet information of the less than 50% owned affiliates at December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Current assets	\$ 39,843	29,804
Property and other assets, net	540,386	488,374
Current liabilities	47,553	41,045
Long-term debt and other	424,090	385,517
Equity	108,586	91,616

Of long-term joint venture obligations totalling \$793.0 million at December 31, 1987, \$747.8 million is secured solely by venture assets or is guaranteed by other venture partners without recourse to the Company.

The Company's proportionate share of equity as reflected in the unconsolidated affiliates' financial statements is \$23.8 million and \$33.8 million in excess of the Company's cost in 1987 and 1986, respectively, and is being amortized over the estimated useful lives of the underlying assets. Such amortization amounted to \$1.9 million annually in 1987, 1986 and 1985.

The Company's proportionate shares of capital expenditures and depreciation expense of unconsolidated affiliates were \$99.2 million and \$24.3 million, respectively, in 1987, \$92.3 million and \$22.9 million, respectively, in 1986, and \$74.1 million and \$19.1 million, respectively, in 1985.

Summarized results of operations of the 50% owned affiliates for the three years ended December 31, 1987 are as follows:

(In thousands)	1987	1986	1985
Revenue	\$435,513	401,073	394,152
Expenses	401,489	373,669	352,839
Net income	31,936	26,364	39,586

Summarized results of operations of the less than 50% owned affiliates for the three years ended December 31, 1987 are as follows:

(In thousands)	1987	1986	1985
Revenue	\$291,027	240,880	118,652
Expenses	312,161	262,079	130,765
Net income (loss)	(21,134)	(21,199)	(12,113)

The proportionate taxable income or loss of all partnership joint ventures is included in the taxable income of their respective partners. Therefore, no provisions for income taxes on such entities, except for certain local taxes on income of partnership joint ventures in the District of Columbia and the Federal income tax of a corporate joint venture, are included in the above statements.

Other investments at December 31, 1987 and 1986 consist of:

(In thousands)	1987	1986
Safe harbor tax lease benefits	\$11,618	12,697
Other notes and investments	32,727	20,967
Total	\$44,345	33,664

The lessee under the safe harbor lease has filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code. Management does not believe such reorganization will have a material adverse effect on the Company's consolidated financial position.

Property and Equipment

Property and equipment at December 31, 1987 and 1986 are as follows:

(In thousands)	1987	1986
Land	\$ 55,083	56,107
Buildings and leasehold improvements	628,252	595,421
Furniture and equipment	258,304	242,020
Property held for sale or development	7,255	6,767
Construction in progress	66,878	12,665
	1,015,772	912,980
Less accumulated depreciation	286,306	268,244
Total	\$ 729,466	644,736

Current Liabilities

Current liabilities at December 31, 1987 and 1986 are as follows:

(In thousands)	1987	1986
Accounts payable and accrued expenses	\$115,846	116,365
Short-term borrowings	17,989	—
Current maturities of long-term debt	1,806	4,065
Income taxes payable	15,732	7,321
Total current liabilities	\$151,373	127,751

Long-term Debt

Long-term debt at December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Mortgage bonds and notes, 7% to 12%, due 1988 to 2003	\$ 42,766	40,892
Collateral trust bonds, 8%, due 1988 to 1993	8,190	9,096
Senior debentures, 11 ³ / ₈ %, due 1992	74,730	74,675
Senior debentures, 10 ⁵ / ₈ %, due 1994	75,000	75,000
Industrial development revenue bonds at adjustable rates, due 2015	82,000	82,000
Other	2,823	3,286
	285,509	284,949
Less current maturities	1,806	4,065
Net long-term debt	\$283,703	280,884

Debt maturities during the next five years are as follows:

(In thousands)	
1988	\$ 1,806
1989	3,331
1990	4,538
1991	5,154
1992	81,142

Secured debt obligations of \$51.0 million at December 31, 1987 are collateralized by property with a net book value of \$329.0 million and are payable serially over remaining terms ranging to fifteen years.

The collateral trust bonds, due December 1, 1993, are presented net of \$246,000 and \$312,000 of unamortized discount and \$1.6 million and \$1.8 million principal amount of treasury bonds in 1987 and 1986, respectively.

The \$150 million of senior debentures are redeemable by the Company, in whole or from time to time in part, at 100% of the principal amount plus accrued interest to the date of redemption on or after December 1, 1989 for

the 11³/₈% issue and on or after January 15, 1991 for the 10⁵/₈% issue. The 11³/₈% debentures are presented net of \$270,000 and \$325,000 unamortized discount at December 31, 1987 and 1986, respectively.

The \$82 million in adjustable rate industrial development revenue bonds were issued by certain local authorities in Georgia and Louisiana. The proceeds of these issues will provide for the renovation of airport properties in those states.

The Company has on file shelf registration statements whereby it could offer up to \$300 million in senior debentures and \$300 million in subordinated debentures. There were no borrowings under these facilities in 1987 and 1986.

Lines of credit available include \$500 million in money-market facilities with interest and maturity terms as quoted by the participating banks at the time of any borrowing thereunder. The money-market facilities carry no commitment fees and may be withdrawn at the discretion of the participating banks. There were no borrowings under these facilities in 1987 and 1986.

During 1987, 1986 and 1985 the Company issued and renewed commercial paper for varying periods with interest at market rates. The Company had \$18.0 million in commercial paper outstanding at December 31, 1987, and had no amounts outstanding at year end in 1986 or 1985. In 1987, 1986 and 1985 the average amounts of commercial paper outstanding were \$140.5 million, \$138.0 million and \$89.6 million, respectively, with the largest amounts outstanding at any one time being \$194.3 million, \$147.0 million and \$104.0 million, respectively. Weighted average interest rates were 6.72%, 6.88% and 8.26%, respectively.

Under the Company's most restrictive indenture the Company is limited on the amount of retained earnings available for payment of cash dividends and acquisition of the Company's stock. At December 31, 1987, approximately \$629.0 million of retained earnings was unrestricted.

Income Taxes

The provisions for income taxes for the three years ended December 31, 1987 are as follows:

(In thousands)	1987	1986	1985
Current			
Federal	\$46,748	17,310	44,895
Investment and other tax credits	(2,371)	(5,651)	(14,598)
State and local	6,183	4,821	4,659
	50,560	16,480	34,956
Deferred	21,471	15,228	8,124
Total	\$72,031	31,708	43,080

Deferred tax expense arises primarily from excess tax over book depreciation of \$21.5 million in 1987, \$24.1 million in 1986 and \$21.6 million in 1985, differences in financial and tax basis reporting of income from joint ventures, \$10.8 million, \$9.6 million and \$10.7 million in 1987, 1986 and 1985, respectively, and from differences in the reporting of expense related to self-insurance and operating equipment. Deferred taxes arising from the safe harbor leasing transaction are charged or credited directly to deferred income tax liabilities.

The Deficit Reduction Act of 1984 provided certain tax benefits to corporations established by the Alaskan Native Claims Settlement Act known as Alaskan Native Corporations (ANCs). The Tax Reform Act of 1986 clarified the availability of these tax benefits. Accordingly, during 1987 and 1986 the Company entered into transactions with various ANCs resulting in reductions of \$3.9 million and \$5.0 million, respectively, in the Company's provision for income taxes.

In December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes. The Company is required to adopt the accounting and disclosure requirements of the standard in either fiscal 1988 or 1989. Adoption of the statement can result in either a catch-up adjustment in the year of adoption or in a restatement of prior periods.

The Company has not decided when it will adopt the new standard and if it will restate prior periods. Based on existing conditions and a preliminary review, the Company expects a favorable effect on its financial position when the new standard is adopted. Under current accounting the Company's deferred income taxes are stated at the rate prevailing when the deferred taxes arose, generally 46%, while the new statement requires that deferred taxes reflect the rate prevailing at the time of settlement, currently 34%.

Reconciliation of the Federal income tax rate and the Company's effective tax rate is as follows:

	1987	1986	1985
Federal income tax rate	40.0%	46.0	46.0
Increase (reduction) in taxes			
State income tax (net of Federal tax benefit)	1.7	2.0	1.8
Investment and other tax credits	(1.1)	(4.3)	(10.0)
Benefit of capital gains rate	(1.4)	—	(.6)
Benefit of municipal bond and dividend income	(2.7)	(7.4)	(3.6)
Charitable contribution	(.3)	(4.8)	(1.7)
ANC tax benefits	(1.8)	(3.9)	—
Other	(.4)	(3.1)	(1.8)
Effective tax rate	34.0%	24.5	30.1

Capital Stock

Ninety million shares of common stock with a par value of \$2.50 per share are authorized, of which 27,133,020 and 27,023,343 were issued at December 31, 1987 and 1986, respectively, including treasury shares of 2,661,234 and 2,163,934 in 1987 and in 1986, respectively.

Ten million shares of preferred stock with a par value of \$1.00 per share are authorized. The shares are issuable in series. No shares were outstanding in 1987 or 1986.

At December 31, 1987, 806,635 shares of common stock were reserved for the exercise of options under the Company's stock option plans. Options may be granted to salaried officers and other key employees of the Company to purchase common stock at not less than fair market value at the date of grant.

Options may be exercised in installments commencing one year after date of grant and expire either five or ten years after date of grant. The plan also permits the granting of Stock Appreciation Rights (SARs). There were no SARs outstanding at December 31, 1987 or 1986.

Changes in stock options during 1987 were as follows:

	Options Price Range (Per Share)	Options Outstanding	Available for Grant
Balance at			
January 1	\$11.56-73.13	555,739	365,758
Granted	72.13-88.75	130,375	(130,375)
Exercised	11.56-61.25	(114,862)	—
Cancelled	36.06-72.13	(33,755)	33,755
Balance at			
December 31	17.75-88.75	537,497	269,138
Exercisable at			
December 31	\$17.75-61.25	214,734	

Under provisions of Nevada gaming laws and the Company's certificate of incorporation, certain securities of the Company are subject to restrictions on ownership which may be imposed by specified governmental commissions. Such restrictions may require the holder to dispose of the securities or, if the holder refuses to make such disposition, the Company may be obligated to repurchase the securities.

Employee Benefit Plans

The Company has a non-contributory retirement plan ("Basic Plan") covering substantially all regular full-time, non-union employees. The Company also has plans covering qualifying officers and non-officer directors ("Supplemental Plans"). Benefits for all plans are based upon years of service and compensation, as defined.

The Company's funding policy is to contribute annually the minimum amount required by the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date, but also for benefits expected to be earned in the future.

The funded status for the Basic Plan as of December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$(47,706) and \$(48,940), respectively	\$(57,357)	(56,562)
Projected benefit obligation for service rendered to date	\$(72,333)	(67,993)
Plan assets at fair value, primarily listed securities and temporary investments	79,234	77,499
Plan assets in excess of projected benefit obligation	6,901	9,506
Unrecognized net loss from changes in assumptions	8,380	7,801
Unrecognized net asset as of January 1, 1986	(17,311)	(18,882)
Accrued pension liability	\$ (2,030)	(1,575)
Pension cost includes the following components:		
Service cost	\$ 3,658	2,585
Interest cost on projected benefit obligation	5,280	4,760
Actual return on plan assets	(5,178)	(7,000)
Net amortization and deferral	(3,277)	(497)
Net periodic cost (income) before allocation	483	(152)
Cost allocated to managed properties	320	336
Net periodic pension cost (income)	\$ 163	(488)

The funded status for the Supplemental Plans as of December 31, 1987 and 1986 is as follows:

(In thousands)	1987	1986
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$(3,753) and \$(4,538), respectively	\$(5,506)	(6,497)
Projected benefit obligation for service rendered to date	\$(7,750)	(6,990)
Plan assets	—	—
Unrecognized plan obligation	(7,750)	(6,990)
Unrecognized net loss from changes in assumptions	817	485
Unrecognized obligation as of January 1, 1986	4,555	4,906
Accrued pension liability	\$(2,378)	(1,599)
Pension cost includes the following components:		
Service cost	\$ 176	118
Interest cost on projected benefit obligation	623	522
Net amortization and deferral	445	350
Net periodic pension cost	\$ 1,244	990

The discount rates used in determining the actuarial present value of the projected benefit obligations were eight and one-half percent and eight percent in 1987 and 1986, respectively, with the rate of increase in future compensation projected at four and one-half percent in each year. The expected long-term rate of return on assets is nine percent. The unrecognized net (asset) obligation is being amortized over a 15 year period.

A significant number of the Company's employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed and charged to expense approximately \$7.1 million, \$7.1 million and \$6.2 million in 1987, 1986 and 1985, respectively, for such plans. Information from the plans' administrators is not sufficient to permit the Company to determine its share of unfunded vested benefits, if any.

The Company also has an employee investment plan whereby the Company contributes certain percentages of employee contributions. The cost of the plan is not significant.

Leases

The Company operates six properties under non-cancellable operating leases, all of which are for land only, having remaining terms up to 46 years. Upon expiration of two of the leases, the Company has renewal options of 40 and 45 years. Four leases require the payment of additional rentals based on varying percentages of revenue or income. Additionally, the Company is committed under non-cancellable leases for office space having remaining terms up to 18 years.

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

Year ending December 31,	(In thousands)
1988	\$ 8,122
1989	8,016
1990	7,212
1991	7,044
1992	6,562
1993 to 2033	67,598
Total	\$104,554

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

(In thousands)	1987	1986	1985
Minimum rentals	\$ 8,330	8,063	5,859
Additional rentals	1,835	1,753	1,813
Total	\$10,165	9,816	7,672

Segments of Business

Financial data of the Company's business segments for the years ended December 31, 1987, 1986 and 1985 are as follows:

(In thousands)	1987	1986	1985
Depreciation (1)			
Hotels	\$ 52,274	47,849	42,247
Gaming	28,214	23,451	23,112
Total	\$ 80,488	71,300	65,359
Capital Expenditures (1)			
Hotels	\$ 173,293	148,954	137,677
Gaming	32,259	91,794	155,470
Total	\$ 205,552	240,748	293,147
Assets			
Hotels (2)	\$ 756,189	665,106	577,852
Gaming (2)	444,454	427,556	347,437
Corporate	222,967	209,611	300,316
Total	\$1,423,610	1,302,273	1,225,605

(1) Includes Hilton's proportionate share of unconsolidated affiliates.

(2) Includes investments in unconsolidated affiliates.

Supplemental hotels segment operating data for the three years ended December 31, 1987 are as follows:

(In thousands)	1987	1986	1985
Revenue			
Rooms	\$151,146	146,916	147,162
Food and beverage	87,086	83,241	87,164
Other products and services	26,511	22,498	27,037
Management and franchise fees	63,160	59,527	56,402
Operating income from unconsolidated affiliates	27,304	20,233	27,957
Total	355,207	332,415	345,722
Costs and expenses			
Departmental direct costs			
Rooms	44,793	44,757	45,820
Food and beverage	69,238	67,781	72,062
Other costs and expenses	140,526	136,305	137,337
	254,557	248,843	255,219
Hotels income contribution	\$100,650	83,572	90,503

Supplemental gaming segment operating data for the three years ended December 31, 1987 are as follows:

(In thousands)	1987	1986	1985
Revenue			
Rooms	\$120,948	104,348	90,785
Food and beverage	109,933	92,822	87,728
Casino	265,313	219,138	204,649
Casino promotional allowances	(34,921)	(27,891)	(26,637)
Other products and services	27,346	19,534	10,127
Total	488,619	407,951	366,652
Costs and expenses			
Departmental direct costs			
Rooms	40,611	35,409	32,192
Food and beverage	80,539	69,625	64,453
Casino	94,579	77,502	69,633
Other costs and expenses	165,146	137,250	124,016
	380,875	319,786	290,294
Gaming income contribution	\$107,744	88,165	76,358

Supplementary Financial Information (unaudited)

Quarterly Financial Data

(In thousands, except per share amounts and percentages)

	Occupancy (1)				Income Before Income Taxes	Net Income	Earnings Per Share	Dividends Per Share	High/Low Stock Price
1987	Hotels	Gaming	Revenue	Contribution					
1st Quarter	66%	84	\$201,175	46,560	36,917	24,012	.96	.45	91.75/67.00
2nd Quarter	69	85	224,021	64,175	55,129	35,207	1.40	.45	91.38/81.25
3rd Quarter	70	82	198,247	42,115	31,847	22,276	.89	.45	89.88/80.25
4th Quarter	66	84	220,383	55,544	87,994	58,361	2.35	.45	87.00/55.00
Year	68%	84	\$843,826	208,394	211,887	139,856	5.59	1.80	91.75/55.00
1986									
1st Quarter	62%	85	\$162,424	32,684	24,810	17,433	.70	.45	73.88/60.50
2nd Quarter	68	84	194,322	52,728	43,204	30,505	1.22	.45	80.25/68.00
3rd Quarter	67	85	186,608	40,723	32,834	23,727	.95	.45	72.00/62.75
4th Quarter	63	81	197,012	45,602	28,699	26,174	1.05	.45	74.63/66.25
Year	65%	84	\$740,366	171,737	129,547	97,839	3.92	1.80	80.25/60.50

(1) Properties owned or managed.

As of December 31, 1987 there were approximately 6,200 stockholders of record.

Commitments and Contingent Liabilities

At December 31, 1987 the Company had contractual commitments at its wholly-owned or leased properties for major expansion and rehabilitation projects of approximately \$38.6 million. There were also entertainer and sporting event commitments of approximately \$10.3 million. Additionally, the Company is committed, under certain conditions, to invest or loan up to \$29.0 million to entities developing hotel properties and has guaranteed the completion of certain hotel construction programs with remaining budgets estimated at \$125.7 million at December 31, 1987.

Various lawsuits are pending against the Company. In the opinion of management, disposition of these lawsuits is expected to have no material effect on the consolidated financial statements.

To the Board of Directors and Stockholders of Hilton Hotels Corporation:

We have examined the consolidated balance sheets of Hilton Hotels Corporation (a Delaware corporation) and subsidiaries as of December 31, 1987 and 1986 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. 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 financial position of Hilton Hotels Corporation and subsidiaries as of December 31, 1987 and 1986 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the accompanying condensed consolidated balance sheets—current value basis of Hilton Hotels Corporation and subsidiaries as of December 31, 1987 and 1986. Such statements are based on the consolidated historical cost financial statements referred to above, adjusted as described in the notes thereto, to present assets and liabilities at their estimated current values.

The condensed consolidated balance sheets—current value basis have been prepared by management to provide relevant information about assets of the Company that is not provided by the historical cost consolidated financial statements and that differs significantly from the historical cost amounts required by generally accepted accounting principles. Consequently, these condensed consolidated financial statements are not intended to summarize financial position in conformity with generally accepted accounting principles.

In our opinion, the condensed consolidated balance sheets—current value basis as of December 31, 1987 and 1986 present fairly the assets and liabilities of Hilton Hotels Corporation and subsidiaries as of December 31, 1987 and 1986 on the basis of accounting described in the notes thereto applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Los Angeles, California
February 1, 1988.

The Company's consolidated financial statements are prepared based on historical prices in effect when individual transactions occurred. These statements do not therefore reflect changes in the fair market values of the Company's assets. It is management's opinion that presentation of market values based on industry valuation methods and sound theory is significant information for its stockholders. For this reason the Company also reports market value information on its assets.

However, other qualitative and quantitative methods and considerations are also used in valuing companies, including analyses of the market prices of publicly traded equity securities of the Company and of other companies engaged in similar businesses, the financial consideration offered in recent business combinations of competitive companies, the skill and depth of management and business prospects. Each method and consideration can result in different valuations. The reader is accordingly cautioned against any simplistic use of the data presented. The Company's market value information may vary significantly from future values due to changing competitive conditions or changes in Federal or other tax laws.

Presented below are audited, condensed consolidated balance sheets on the current value basis, accompanied by notes thereto.

*Condensed Consolidated
Balance Sheets—Current Value Basis
(In thousands)*

	December 31,	1987	1986
<i>Assets</i>			
Current assets		\$ 358,000	301,000
Investments in and notes from unconsolidated affiliates		531,000	588,000
Other investments		136,000	125,000
Operating properties		1,658,000	1,562,000
Other property		21,000	24,000
Management and franchise agreements		506,000	505,000
Other assets		18,000	14,000
<i>Total current value of assets</i>		<i>\$3,228,000</i>	<i>3,119,000</i>
<i>Liabilities and Stockholders' Equity</i>			
Liabilities		\$ 651,000	595,000
Stockholders' equity			
Historical cost basis		773,000	707,000
Revaluation equity		1,804,000	1,817,000
<i>Total stockholders' equity</i>		<i>2,577,000</i>	<i>2,524,000</i>
<i>Total liabilities and stockholders' equity</i>		<i>\$3,228,000</i>	<i>3,119,000</i>

The presentation of current value information does not imply management's intent to dispose of any assets or, if such assets were sold, that the current value could be obtained.

Notes to Condensed Consolidated Balance Sheets—Current Value Basis

Current assets and other assets are stated at historical cost, which is estimated to approximate current value. The value of other investments is based on market prices as of December 31, 1987 and 1986, respectively.

Other property consists primarily of construction in progress and vacant land. Construction in progress is stated at historical cost, which is estimated to approximate current value. Vacant land is stated at management's estimate of current value, which does not differ significantly from cost at December 31, 1987 and 1986.

Real estate values are based on appraisals using the estimated present values of future income streams, with the values of the unconsolidated affiliates reduced by long-term debt. Management and franchise agreements are valued at the present values of the respective estimated net income streams to be generated. Discount rates used were comparable between 1987 and 1986 and primarily range from 8.5% to 13%. Estimates for values of wholly-owned and unconsolidated affiliates' properties were made by the following outside appraisers: Joseph J. Blake and Associates, Inc., Valuation Counselors, Inc., Real Estate Research Corporation, Hospitality Valuation Services, Inc., The Weitzman Group, Inc., Harps & Harps, Inc., Peter F. Korpacz & Associates, Inc., and Richard O. Haase, M.A.I.

Long-term debt is valued at the present value of future cash flows based on existing interest rates. This may represent an economic savings compared to current rates for an equivalent amount of conventional debt. Such differences were included in the Company's equity interests in operating properties. Consequently, long-term debt is carried at historical cost. Other liabilities are stated on a historical cost basis.

Income taxes have not been computed on the differences between the current value and historical income tax bases of the Company's assets and liabilities. The increase in deferred income taxes attributable to the current value increment utilizing the currently prevailing Federal rate of 34% is estimated to be approximately \$557 million at December 31, 1987. The Company anticipates such amount substantially exceeds the present value at December 31, 1987 of its future taxes payable.

Revaluation equity is the aggregate difference between current value and historical accounting bases of the Company's assets and liabilities. The components of the change in revaluation equity are as follows:

(In thousands)	1987	1986
Balance—January 1	\$1,817,000	1,711,000
Increase (Decrease)		
Unconsolidated affiliates	48,000	26,000
Other investments	8,000	14,000
Operating and other properties	9,000	26,000
Management and franchise agreements	1,000	40,000
Property transactions (1)	(79,000)	—
Total	(13,000)	106,000
Balance—December 31	\$1,804,000	1,817,000

(1) In 1987 two joint venture properties and certain land held by other joint ventures were sold. The Company's share of the proceeds from 1987 property transactions exceeded 1986 appraised values by \$8 million.

(Dollars in thousands, except per share amounts)		1987	1986	1985
Summary Data For Years Ended December 31	Revenue			
	Hotels ⁽¹⁾	\$1,279,493	1,228,336	1,138,836
	Management fees	31,311	28,833	28,178
	Franchise fees	31,849	30,694	28,224
	Total hotels	1,342,653	1,287,863	1,195,238
	Gaming ⁽¹⁾	589,683	483,653	366,652
	Total	1,932,336	1,771,516	1,561,890
	Less non-consolidated managed	1,116,929	1,052,531	877,473
	Total revenue from consolidated operations	\$ 815,407	718,985	684,417
	Income contribution ⁽²⁾			
	Hotels	\$ 100,650	83,572	90,503
	Gaming	107,744	88,165	76,358
	Total	208,394	171,737	166,861
	Net interest and dividend income (expense) ⁽²⁾	(22,003)	(22,084)	(11,691)
	Corporate expense	(18,267)	(17,560)	(14,982)
	Property transactions	43,763	(2,546)	3,055
	Provision for income taxes	(72,031)	(31,708)	(43,080)
	Net income	\$ 139,856	97,839	100,163
	Net income per share	\$ 5.59	3.92	4.03
	Return on average stockholders' equity	18.9%	14.4	16.1
	Dividends per share	\$ 1.80	1.80	1.80
	Market price — high/low	91.75/55.00	80.25/60.50	73.50/55.75
	Funds provided from operations	219,542	160,020	155,112
	Depreciation ⁽²⁾	80,488	71,300	65,359
	Capital expenditures ⁽²⁾	205,552	240,748	293,147
Financial Position at Year End	Working capital	\$ 206,962	173,437	259,255
	Assets	1,423,610	1,302,273	1,225,605
	Long-term debt	283,703	280,884	284,297
	Stockholders' equity	772,837	707,352	651,446
	Stockholders' equity per share	31.58	28.45	26.29
	Ratio of long-term debt to total capital ⁽³⁾	.22	.24	.26
General Information	Average common and equivalent shares	25,012,969	24,968,323	24,881,903
	Percentage of occupancy ⁽¹⁾			
	Hotels	68	65	64
	Gaming	84	84	86
	Number of properties at year end			
	Wholly-owned or leased	8	8	11
	Partially owned	13	14	14
	Managed	22	22	23
	Franchised	224	223	218
	Gaming	4	4	4
	Total	271	271	270
	Available rooms at year end			
	Wholly-owned or leased	6,027	6,085	7,399
	Partially owned	13,528	14,350	14,123
	Managed	14,183	13,425	13,692
	Franchised	55,641	55,602	54,285
	Gaming	7,318	7,318	6,602
	Total	96,697	96,780	96,101

(1) Includes properties owned or managed.

(2) Includes Hilton's proportionate share of unconsolidated affiliates.

(3) Total capital represents total assets less current liabilities.

* Average annual return.

1984	1983	1982	1981	1980	1979	1978	Ten Year Compound Growth Rate
1,086,281	977,962	908,938	891,966	832,644	770,137	682,573	8.3%
25,395	20,536	17,728	17,058	15,924	13,963	11,826	12.7
26,274	23,088	19,506	17,528	14,305	10,894	8,342	17.9
1,137,950	1,021,586	946,172	926,552	862,873	794,994	702,741	8.5
340,954	323,811	291,422	269,147	251,622	230,856	182,952	15.2
1,478,904	1,345,397	1,237,594	1,195,699	1,114,495	1,025,850	885,693	10.1
831,607	696,117	638,075	610,476	560,168	511,916	441,628	11.8
647,297	649,280	599,519	585,223	554,327	513,934	444,065	8.2
107,807	101,004	92,595	113,813	114,529	105,286	88,901	5.0
69,745	68,639	52,248	79,126	79,983	69,864	51,264	15.9
177,552 (3,196)	169,643 (7,937)	144,843 3,843	192,939 12,609	194,512 8,589	175,150 (3,154)	140,165 (13,061)	9.2
(10,743)	(10,519)	(9,982)	(8,965)	(7,793)	(6,147)	(5,487)	13.9
27,882	37,581	2,764	—	—	14,717	—	
(77,512)	(76,131)	(58,095)	(83,960)	(89,176)	(81,283)	(54,023)	
113,983	112,637	83,373	112,623	106,132	99,283	67,594	13.3
4.33	4.20	3.12	4.22	4.00	3.76	2.62	14.7
18.6	18.7	15.1	22.7	25.1	29.3	26.5	20.5*
1.80	1.80	1.80	1.65	1.42	1.09	.7375	14.1
8.00/45.50	60.25/40.13	52.00/27.63	52.25/33.25	48.63/25.50	35.63/22.00	32.75/11.38	
148,590	164,890	134,399	141,914	132,092	120,922	87,868	
58,885	56,735	51,076	40,249	36,101	33,826	31,872	
261,427	99,526	131,854	178,695	92,821	57,083	66,239	
125,728	165,651	99,671	109,072	132,063	98,584	60,350	
1,163,752	1,099,212	938,321	816,470	696,824	636,076	588,951	
275,578	242,217	179,553	119,524	120,602	125,442	174,074	
592,826	634,297	568,501	532,555	458,878	386,315	290,589	
24.00	23.73	21.31	19.98	17.40	14.83	11.94	
.27	.24	.21	.17	.19	.23	.36	
26,348,220	26,846,197	26,740,344	26,698,553	26,545,225	26,445,125	26,253,585	
64	60	61	65	69	71	70	
84	80	72	81	81	86	86	
11	13	14	14	15	15	16	
13	13	14	15	14	14	14	
22	23	19	16	15	17	16	
204	194	188	171	163	145	136	
3	3	3	3	2	2	2	
253	246	238	219	209	193	184	
7,580	10,464	10,909	11,072	11,737	11,878	13,558	
12,904	13,430	14,152	13,235	12,887	12,894	13,078	
13,258	12,031	8,852	7,977	7,454	8,052	7,808	
49,543	46,914	44,877	39,630	36,877	31,855	28,968	
6,025	6,025	6,025	5,523	4,539	3,997	3,819	
89,310	88,864	84,815	77,437	73,494	68,676	67,231	

Hilton Hotels Corporation

Directors

RAYMOND C. AVANSINO, JR.^o
Partner, Avansino & Melarkey,
Reno, Nevada—
Attorneys-at-law

GREGORY R. DILLON
Executive Vice President—
Corporate Properties and
President, Conrad International
Hotels Corporation

DONALD W. DOUGLAS, JR.^{oo}
Business Consultant,
Placentia, California

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Vice Chairman

JOHN V. GIOVENCO
Executive Vice President—
Nevada Gaming Operations
and President, Nevada
Division

BARRON HILTON*
Chairman, President and
Chief Executive Officer

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President, Eastdil Realty, Inc.,
New York—Real Estate
Investment Bankers

CARL T. MOTTEK
Executive Vice President—
Operations and President,
Hilton Hotels Division

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Chairman, The Pullman
Company, Princeton, New
Jersey—Transportation,
Aerospace and Defense;
Chairman & Chief
Executive Officer, Wilton II,
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Retired Chairman of the
Executive Committee of
Crocker National Corporation,
San Francisco, California

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Chairman and President,
Trans West Enterprises, Inc.,
El Paso, Texas—Investments

Executive Officers

BARRON HILTON
Chairman, President and
Chief Executive Officer

GREGORY R. DILLON
Executive Vice President—
Corporate Properties and
President, Conrad International
Hotels Corporation

JOHN V. GIOVENCO
Executive Vice President—
Nevada Gaming Operations
and President, Nevada
Division

CARL T. MOTTEK
Executive Vice President—
Operations and President,
Hilton Hotels Division

WILLIAM C. LEBO, JR.
Senior Vice President and
General Counsel

MAURICE J. SCANLON
Senior Vice President—
Finance

Hilton Hotels Division

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Senior Vice President—
Hilton Suite Division

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Senior Vice President—
Purchasing

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Senior Vice President—
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Senior Vice President—
Southern Region

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Senior Vice President—
Food and Beverage

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Human Resources

EARL MCDONOUGH
Senior Vice President—
Hawaiian Region

ROBERT C. MOORE
Senior Vice President—
Sales

HILMAR A. ROSENAST
Senior Vice President—
Western Region

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Senior Vice President—
Marketing

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Eastern Region

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Vice President—
Labor Relations and
Personnel Administration

DENNIS KOCI
Vice President—
Front Office Operations
and Systems

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Vice President and Assistant
to the President, Hilton
Hotels Division

Nevada Division

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Senior Vice President, and
President—Flamingo
Hilton

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Senior Vice President,
and President—
Las Vegas Hilton

JAMES E. GARRETT
Vice President, and
Senior Vice President,
Casino Operations—
Flamingo Hilton

PAUL V. HOUDAYER
Vice President—
Food and Beverage

ROBERT L. KELLEY
Vice President—
Casino Marketing,
Las Vegas Hilton

JAMES W. NEWMAN
Vice President, and
Senior Vice President,
Casino Operations—
Las Vegas Hilton

* Members of the Executive
Committee

^oMembers of the Audit Committee

^{oo}Members of the Personnel and
Compensation Committee

Conrad International Hotels Corporation

(A subsidiary of
Hilton Hotels U.S.A.)

Other Corporate Officers

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Senior Vice President—
Franchising and Development

JAMES R. GALBRAITH
Senior Vice President—
Corporate Affairs

SALVATORE F. GUARINO
Senior Vice President—
Development and Acquisitions

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Real Estate Development,
International

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Information Services

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General Counsel

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Vice President and Assistant
to the Chairman

STEVE KRITHIS
Vice President and
Corporate Comptroller

TERRENCE P. MCGOWAN
Vice President—
Operations Accounting

WARNER H. MCLEAN
Vice President—Tax

STEVEN A. MILLER
Vice President and
Treasurer

THOMAS B. PARRIS
Vice President—Real
Estate Development,
Eastern Region

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General Counsel

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Vice President—
Risk Management

DONALD E. TOBIAS
Vice President

IRVING P. WILLIAMS
Vice President—
Real Estate Development,
Southern Region

CHERYL L. MARSH
Corporate Secretary

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BARRON HILTON
ERIC M. HILTON
WILLIAM C. LEBO, JR.
MAURICE J. SCANLON

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Chairman of the Board

GREGORY R. DILLON
President

ERIC M. HILTON
Executive Vice President

MAURICE J. SCANLON
Senior Vice President

WILLIAM C. LEBO, JR.
Senior Vice President

IRVING P. WILLIAMS
Senior Vice President—
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Vice President—Finance,
Australian Division

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Vice President—Casino
Operations, Australian
Division

RONALD L. HUGHES
Vice President—
Operations, Australia

CLAUDE J. INNOCENTI
Vice President—
Food and Beverage

STEVEN A. MILLER
Vice President and
Treasurer

JEAN-PIERRE PIQUET
Vice President—Europe

CHERYL L. MARSH
Corporate Secretary

Executive Offices

WORLD HEADQUARTERS
9336 Civic Center Drive
Beverly Hills, California
90210

Transfer Agent and
Registrar for Common
Stock

THE FIRST NATIONAL BANK
OF CHICAGO
Stock Transfer Administration
Chicago, Illinois 60670

Independent
Public Accountants

ARTHUR ANDERSEN & CO.

Form 10-K

Stockholders wishing to
receive a copy of the Com-
pany'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 Ms.
Cheryl L. Marsh, Corporate
Secretary, Hilton Hotels Cor-
poration, 9336 Civic Center
Drive, Beverly Hills,
California 90210.

Annual Meeting

The annual meeting of
stockholders will be held at
the Beverly Hilton, 9876
Wilshire Boulevard, Beverly
Hills, California on May 12,
1988, at 10:00 a.m.



HILTON HOTELS CORPORATION
9336 Civic Center Drive, Beverly Hills, California 90210