



Annual Report

1947

FOR THE YEAR ENDED DECEMBER 31

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HILTON HOTELS CORPORATION



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Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1947

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The Stevens, Chicago, is the world's largest hotel and location of the executive headquarters of the Hilton Hotels Corporation.



HILTON HOTEL PROPERTIES

Hotels Owned



The Stevens	Chicago, Illinois	2700 Rooms
Palmer House	Chicago, Illinois	2245 "
The Plaza	New York City, New York	1035 "
The Town House	Los Angeles, California	280 "
Hilton Hotel	Lubbock, Texas	200 "

Hotels Held on Long Term Lease



Dayton Biltmore	Dayton, Ohio	475 Rooms
Hilton Hotel	El Paso, Texas	295 "
Hilton Hotel	Albuquerque, New Mexico	170 "

Controlled and Operated Hotels



The Mayflower	Washington, D. C.	869 Rooms
<i>(68.75% of common stock of Mayflower Hotel Corporation owned)</i>		
The Neil House	Columbus, Ohio	640 "
<i>(50% of common stock of Neil House Company owned)</i>		
Palm Beach Biltmore	Palm Beach, Florida	537 "
<i>(50% of preferred and common stocks of Palm Beach Biltmore Company owned)</i>		

Hotels Operated Under Management Contract



The Roosevelt	New York City, New York	1030 Rooms
Bermudiana	Hamilton, Bermuda	233 "
Castle Harbour	Tucker's Town, Bermuda	289 "
St. George	St. George's, Bermuda	107 "
Palacio Hilton	Chihuahua, Mexico	100 "

DIRECTORS AND OFFICERS

HILTON HOTELS CORPORATION

Executive Offices: The Stevens Hotel, Chicago 5, Illinois

Corporate Offices: 19-22 Dover Green, Dover, Delaware

BOARD OF DIRECTORS

HENRY CROWN

Chairman, Material Service Corporation, Chicago

ROBERT W. DOWLING

President, City Investing Company, New York City

Y. FRANK FREEMAN

Executive Vice-President, Paramount Pictures, Inc., Hollywood

L. BOYD HATCH

Executive Vice-President, Atlas Corporation, New York City

CONRAD N. HILTON

President

WILLARD W. KEITH

President, Cosgrove and Company, Los Angeles

LAWRENCE STERN

President, American National Bank & Trust Company of Chicago

SAM D. YOUNG

President, El Paso National Bank, El Paso

OFFICERS

CONRAD N. HILTON

President

JOSEPH P. BINNS
Vice-President

HENRY CROWN
Vice-President

SPEARL ELLISON
Vice-President

JAMES B. HERNDON, JR.
Vice-President and Treasurer

WILLIAM J. FRIEDMAN
Secretary

LYNN H. MONTJOY
Vice-President

SERGE OBOLENSKY
Vice-President

ROBERT P. WILLIFORD
Vice-President

H. E. HOLT
Assistant Treasurer

COMMON STOCK

TRANSFER AGENTS

The First National Bank of Chicago
Manufacturers Trust Company of New York
Bank of America N T & S A, Los Angeles

REGISTRARS

American National Bank and Trust Company of Chicago
Title Guaranty & Trust Company of New York
California Trust Company, Los Angeles

PREFERRED STOCK

TRANSFER AGENTS

Manufacturers Trust Company of New York
The First National Bank of Chicago

REGISTRARS

The Marine Midland Trust Company of New York
American National Bank and Trust Company of Chicago

1947 IN BRIEF

	YEARS ENDED DECEMBER 31	
	1947	1946*
<u>GROSS REVENUE</u>	\$42,534,238	\$39,483,266
<u>TOTAL EXPENSES</u>	\$37,974,706	\$35,943,344
<u>NET PROFIT</u>		
EXCLUDING NON-RECURRING ITEMS	\$ 4,559,532	\$ 3,539,922
INCLUDING NON-RECURRING ITEMS	\$ 5,509,040	\$ 3,550,547
<u>EARNINGS PER COMMON SHARE</u>		
EXCLUDING NON-RECURRING ITEMS	\$ 2.54	\$ 1.89
INCLUDING NON-RECURRING ITEMS	\$ 3.13	\$ 1.90
<u>NET WORKING CAPITAL DECEMBER 31</u>	\$ 4,651,619	\$ 2,367,675
<u>EARNED SURPLUS DECEMBER 31</u>	\$ 4,903,650	\$ 1,461,414
<u>OUTSTANDING STOCK DECEMBER 31</u>		
CONVERTIBLE PREFERENCE (Shares)	197,401.35	237,012.54
COMMON (Shares)	1,618,578.	1,618,377.

* Hilton Hotels Corporation was created by consolidation May 31, 1946. Operations for the year 1946 include seven months operation by the corporation and five months operation by the consolidating companies and their predecessors.

PRESIDENT'S LETTER



TO THE SHAREHOLDERS OF
HILTON HOTELS CORPORATION:

This annual report to the 2,654 shareholders of Hilton Hotels Corporation is the first to cover operations for a full calendar year, since the present corporation was created by consolidation May 31, 1946. It is a pleasure to report that 1947 business volume and earnings exceeded those experienced in any previous year by the individual properties which now comprise Hilton Hotels Corporation. Precise comparisons cannot be made because of changes in corporate structure, but charts and tables accompanying this letter, pages 8, 9 and 26, show the business trends of recent years.

The 1947 results reflect in part the continuation of widespread travelling by the public. They also are the product of our efforts to operate the hotels in a manner which will best serve the interests of our guests, stockholders, and employees. Accompanying this letter are the financial statements of Hilton Hotels Corporation certified by Harris, Kerr, Forster & Company.

EARNINGS

Gross revenue including dividends and interest on securities in the year ended December 31, 1947, was \$42,534,238. Combining the figures of the predecessor companies for the first five months of 1946 with the actual results of your corporation for the last seven months, gross revenue for the year 1946 was approximately \$39,483,266.

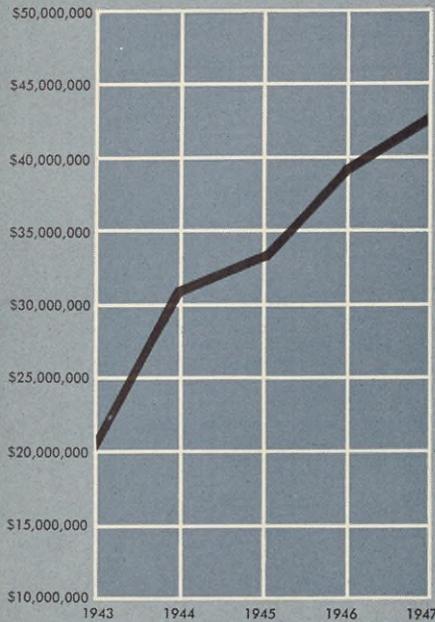
Net profit after all charges in 1947 totalled \$5,509,040 including non-recurring net profit of \$949,508. This compared with approximately \$3,550,547 for your corporation and predecessor companies in 1946. After providing for payment of dividends on convertible preference stock, 1947 net profit was equal to \$3.13 a share on the 1,618,578 common shares outstanding on December 31st, last. Net profit of the combined operation in 1946 was equal, after providing for a full year's dividends on convertible preference stock outstanding December 31, 1946, to approximately \$1.90 a share on the 1,618,377 common shares then outstanding.

NON-RECURRING ITEMS

Hotel operations in 1947 accounted for net profit of \$4,559,532, or \$2.54 per common share, after convertible preference dividends paid.

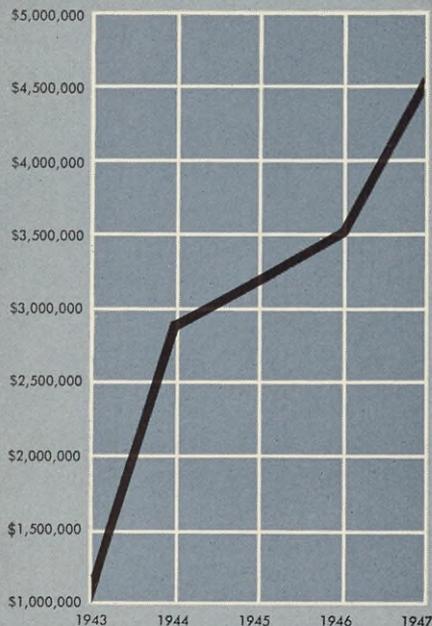
Non-recurring profits arose from the sale of the Palmer House Garage, Palmer House laundry building and equipment, Ambassador Hotel securities and the Hilton Long Beach Hotel. There also were non-recurring expenses caused chiefly by prepayment premiums incident to your corporation's refinancing program. The net result of these transactions after provision for applicable taxes was a non-recurring profit of \$949,508, or 59 cents per common share.

GROSS REVENUE



Compiled from figures on page 26.

NET PROFIT*



Compiled from figures on page 26. *Excluding non-recurring profit of \$10,625 in 1946 and \$949,508 in 1947.

OTHER COMPANIES

Your corporation purchased additional shares of Mayflower Hotel Corporation, Washington, D. C. during the past year, and at the end of the year held 68.75 per cent of the total stock outstanding. Hilton Hotels Corporation also owns a 50 per cent interest in The Neil House Company, Columbus, Ohio, and the Palm Beach Biltmore Company.

Your corporation received dividends of \$80,351 from the Mayflower Hotel Corporation. The undistributed earnings equity of these three companies has not been included in the income account for the year ended December 31, 1947. Hilton Hotels' share in the undistributed earnings amounted to \$249,056.02, or 15 cents a share on the common stock.

DIVIDEND PAYMENTS

Regular quarterly dividend distributions of 50 cents a share were made on convertible preference stock in 1947. Common dividend payments of 25 cents each also were made at quarterly intervals.

Last year's dividend distributions, totalling \$2,039,193 in amount, represented 37 per cent of the net profit accumulated during the year. The remaining \$3,469,842, or 63 per cent of net profit, was reinvested in the business.

Regular quarterly payments of 50 cents a share on convertible preference stock and 25 cents a share on common stock were made March 1, 1948. Directors on March 6 also ordered regular quarterly distributions of 50 cents a share on convertible preference stock and 25 cents a share on common stock, both payable June 1, 1948, to shareholders of record May 20, 1948.

CAPITAL STRUCTURE STRENGTHENED

One of the objectives of Hilton Hotels Corporation has been to consolidate funded debt and reduce the fixed charges. This policy is not only beneficial to the current position, but it will enable the corporation to meet in better fashion whatever economic conditions may be ahead.

In pursuit of this objective a major step was taken in 1947 to simplify and strengthen your corporation's capital structure. Last May \$16,000,000 of 3½% First Mortgage Palmer House Bonds maturing in 1972 were sold to The Equitable Life Assurance Society of the United States. The proceeds were used chiefly to pay off the following bonds and mortgages:

HOTEL	AMOUNT
Palmer House	\$10,200,000.00
Stevens	4,221,791.46
Long Beach Hilton	335,790.12
Lubbock Hilton	301,986.25
Town House	207,750.00
	<u>\$15,267,317.83</u>

The new bonds have a sinking fund requirement calling for retirement of 80 per cent of the issue by maturity. However, Hilton Hotels has the privilege of prepaying up to \$1,000,000 a year. This will permit

reduction of the outstanding issue in times of prosperity with resulting lower interest charges at other times.

Interest charges on the new bonds amount to \$560,000 annually, while minimum sinking fund requirements during the first five years are \$320,000 per annum, a total of \$880,000 annually, as against requirements of \$1,204,300 under indebtedness which has been retired. Last year store and lobby rentals at the Palmer House produced \$1,014,923, or more than enough to service the interest and principal requirements of the new bonds.

PRESENT CAPITAL STRUCTURE

Your corporation in 1947 purchased in the open market 39,611-19/100 shares of convertible preference stock, having an aggregate par value of \$1,980,559.50, at a cost of \$1,557,036. This stock will be held in the treasury for application against future sinking fund requirements. It will be the policy of the corporation to continue to buy preference stock at advantageous terms to the extent funds are available. As of December 31, 1947, outstanding capitalization consisted of:

Funded and long-term indebtedness	\$22,758,750
Convertible preference stock	
(4 per cent \$50 par value)	197,401-35/100 shares
Common stock (\$5 par value)	1,618,578 shares

Working capital position was strengthened during 1947. As of December 31st last, working capital amounted to \$4,651,619 against \$2,367,675 at the beginning of the year. Current assets totalled \$9,405,880 at the end of 1947, of which \$5,800,264 consisted of cash and equivalent. Current liabilities amounted to \$4,754,261.

The common stock was listed on the New York Stock Exchange in June and on the Los Angeles Stock Exchange in August.

ACQUISITIONS AND SALES

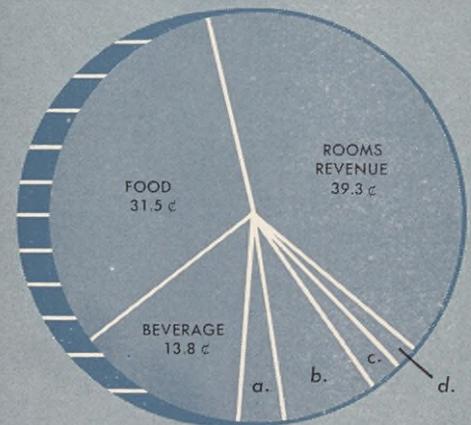
Hilton Hotels Corporation in August, 1947, paid \$265,832 for an interest in Bermuda Development Company, Ltd. common stock. Properties of that concern are the Castle Harbour Hotel, the Bermudiana, the St. George and the Mid-Ocean Club. The Castle Harbour, the most modern hotel in Bermuda, is being rehabilitated and will be opened in 1949. The other two hotels are in operation and are enjoying good business. Your corporation will operate all three hotels and will receive 20 per cent of their gross operating profit under the management contract.

The Hilton Long Beach Hotel was sold in September at a net profit of \$743,558 after provision for applicable taxes. During the war years the hotel returned high profits, aided by the influx of war industry workers and naval personnel into that section of California. However, peacetime conditions do not lend themselves to operation of the property on the earnings level of recent years.

The Palmer House Garage and equipment were sold for a profit of \$261,731, after provision for applicable taxes. Satisfactory arrangements were made for garage facilities for Palmer House guests. The Palmer House laundry was sold for the approximate book value.

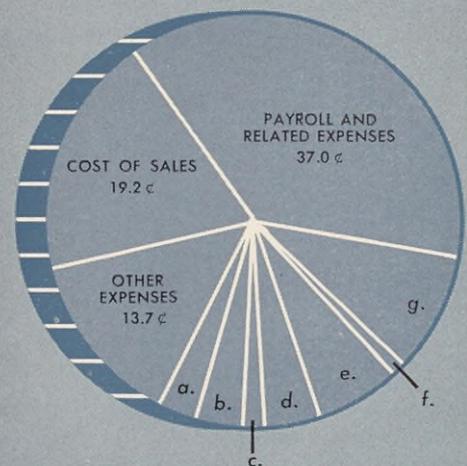
THE HILTON DOLLAR

Where it came from . . .

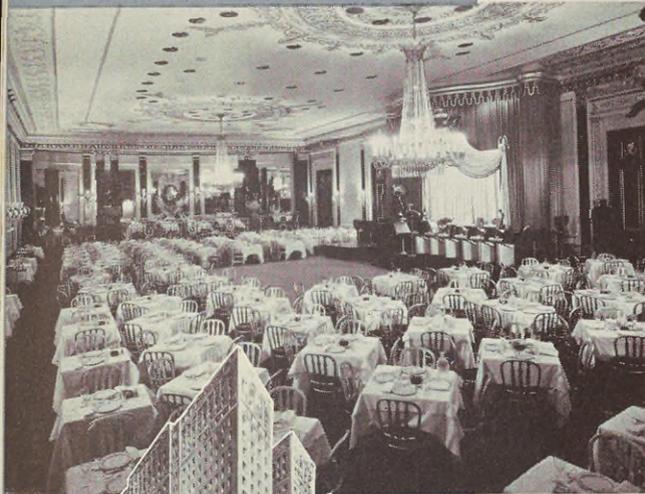


a. TELEPHONE	3.5 ¢
b. OTHER DEPARTMENTS	7.6 ¢
c. STORE RENTALS	2.4 ¢
d. OTHER INCOME	1.9 ¢

. . . where it went



a. REPAIRS & MAINTENANCE (EXCLUSIVE OF PAYROLL)	2.7 ¢
b. REAL ESTATE AND PERSONAL PROPERTY TAXES — AND SUNDRY CAPITAL CHARGES	3.8 ¢
c. INTEREST ON BORROWED MONEY	1.9 ¢
d. DEPRECIATION & AMORTIZATION	4.6 ¢
e. FEDERAL INCOME TAXES	6.5 ¢
f. CONVERTIBLE PREFERENCE STOCK DIVIDENDS	1.1 ¢
g. AVAILABLE FOR INVESTMENT, EXPANSION & COMMON STOCK DIVIDENDS	9.5 ¢



Chicago's famous Palmer House and one of its many famous restaurants, the Empire Room.



This display in the main elevator lobby of The Stevens guides the guest to other Hilton Hotels.

ROOM OCCUPANCY

The Hilton management, in purchasing hotels and assuming management contracts, has made selections carefully in order to attain diversification. Properties include luxury and commercial hotels; large and small hotels. Units with the greatest number of rooms are in the country's two largest cities, New York and Chicago.

By means of type diversification we are able to cater to a broad range of customers on varying economic levels, while group operation permits us to direct business from one Hilton Hotel to another. These advantages helped in maintaining the percentage of room occupancy in the most important properties at close of peak levels in 1947. Percentages of occupancy and average daily room rates of wholly owned and leased hotels for the past three years were as follows:

HOTEL	PERCENTAGE OF OCCUPANCY			AVERAGE DAILY ROOM RATE		
	1947	1946	1945	1947	1946	1945
Stevens	91.7	94.6	88.2	\$5.98	\$5.01	\$4.73
Palmer House	91.5	92.0	85.0	7.52	6.59	6.18
Plaza	89.6	92.3	89.6	8.38	7.04	6.57
Dayton Biltmore	85.8	89.8	94.6	4.29	3.63	3.51
El Paso Hilton	94.2	95.7	97.2	4.48	3.78	3.59
Town House	94.5	96.9	97.0	7.87	6.44	6.17
Lubbock Hilton	93.2	94.9	95.0	3.89	3.15	3.05
Albuquerque Hilton	94.5	94.9	101.9	4.87	4.24	3.64

While operating costs continued to rise in 1947, they were offset partly through greater efficiency and partly through upward adjustments in the prices of rooms and food. The latter revisions, reasonable in amount, were made possible by removal of the price controls on rooms and food. These controls previously had prevented price advances, regardless of increased operating costs.

DEPARTMENTAL RESULTS

Rooms departments contribute the largest revenues and profits to typical hotels. Last year room sales of wholly-owned and leased Hilton Hotels totalled \$16,735,223, an increase of \$2,047,949 or 13.9 percent over the \$14,687,274 aggregate for 1946. The gain was accounted for by higher room rates. Salaries, wages and other expenses chargeable to the rooms department advanced approximately \$550,024. However, the departmental operating profit in 1947 was \$11,774,918, an increase of \$1,497,925 or 14.6 percent over the 1946 total of \$10,276,993.

Food and beverage sales, the second largest source of hotel revenues, were \$19,296,056 in 1947. This was an increase of \$945,468 or 5.2 percent over the 1946 total of \$18,350,588. This gain reflected to an important degree conversion of less productive space to food and beverage dispensing areas. Operating profit of the food and beverage department in 1947 was \$4,738,404, an increase of \$118,043, or

2.6 per cent over 1946. While labor expenses were up \$514,924, they were more than offset by greater sales volume and higher prices.

The operating profit from minor departments increased \$152,845 last year; while other income comprising commissions, concessions, purchase discounts, waste sales and similar items, was \$110,907 above the 1946 level.

NEW PRODUCTIVE SPACE

One key to profitable hotel operation is maximum use of space for purposes which will bring the greatest returns. Further progress was made last year by Hilton Hotels in converting non-productive areas into revenue producing space.

The Plaza Rendez-Vous was opened on October 31st as a theatre dinner and supper club. It is in space occupied by the old Plaza Grill until 1929, and which was used after that time for storage. The cost of rehabilitation, decoration and air-conditioning was \$85,000. Immediately the Rendez-Vous became one of the most popular supper rooms in New York. Its total revenues for November and December were \$102,000. Since the room is expected to be open six months of the year, revenues are running in excess of \$300,000 annually.

The Town and Country room at the Palmer House operated for its first full year in 1947, with sales of food and beverages amounting to \$490,000. Prior to the conversion of this space into a cocktail lounge, it rented as a book store for \$250 a month.

Similar action to increase revenues from available space was taken at other properties last year. This conformed to a basic policy which has been followed by Hilton Hotels for years.

MAINTENANCE OF PROPERTIES

The best insurance for the preservation of value in a hotel lies in constant maintenance and repair work. During the war years and for some time thereafter, scarcity of materials and equipment, coupled with the unprecedented demand for rooms, made it necessary to defer maintenance and rehabilitation. Last year, however, we made vigorous strides in our program to take care of deferred projects.

During 1947 a total of \$4,367,409 was spent for repairs and maintenance, purchase of new equipment and alterations on the properties. Of this amount, \$2,081,633 was for maintenance and repairs, and \$2,285,776 for capital improvements. Of the 7,400 guest rooms in the wholly-owned and leased properties, approximately 3,700 were redecorated last year. In addition, public space was redecorated, bathrooms retiled, furniture replaced, kitchens rehabilitated, new public rooms installed and old ones improved. New equipment of various kinds also was installed. Some expenditures were made with a view toward increasing employee efficiency. These combined expenditures represented an average of \$590 per guest room.

Expenditures for maintenance and repairs will again be substantial in 1948. As a matter of policy they will remain at a level which will keep Hilton Hotels in such condition that they will continue to be regarded as the equal or superior of any hotel in their respective communities.



The Town and Country Room at the Palmer House, which occupies space once rented to a book shop, now brings in many times its former revenue.



The Plaza Rendez-Vous, opened late in 1947, is already one of New York's most popular and successful theater dinner and supper clubs.

OPERATING METHODS

The Hilton Hotel group, with its total of 11,200 rooms, is the largest in the country. The individual units range from 100 rooms to 2,700 rooms. No attempt is being made to standardize the hotels, each maintaining its own individuality and tradition. The best features of every hotel acquired have been retained. However, new operating methods and features have been introduced in order to provide maximum service for the guest as well as an adequate return on the investment. In short, while avoiding the limitations on patronage which go with a standardized system, your hotels do enjoy economies which accompany a large scale operation.

Labor expense is relatively high in hotels because it is a personal service business. However, new approaches to our operations are constantly being sought, with the objective of promoting efficiency. Research now in progress is expected to produce new methods which will benefit future operations. Whenever possible, duplication of functions is being eliminated. For example, ownership of both The Stevens and Palmer House in Chicago made it feasible to consolidate laundering in one place. Originally, 250 people were employed in the two laundries. Today, the number is 186 and when additional equipment is installed the total will be cut to approximately 100. When the changeover is completed it is expected that a savings of around \$230,000 annually will have been effected.

In December, 1947, an arrangement was made with Marshall Field & Company of Chicago, Illinois, whereby that concern now acts as national purchasing agent for Hilton Hotels Corporation on a percentage basis for the purchase of a substantial portion of certain types of hotel operating equipment and supplies. Your management believes that the experience and buying knowledge of this outstanding merchandising organization will result in substantial economies in the purchase of equipment and supplies.

PERSONNEL

A successful hotel operation requires efficient, courteous, and tactful job performance by its personnel. The Hilton management makes every effort to secure such performance, while at the same time providing each employee with a good standard of living, and an opportunity for advancement.

At the close of the year, your corporation had approximately 7,540 employees, while the partially owned and managed hotels had 1,857. Payroll and related expense of the former amounted to \$15,768,440, and of the latter to \$3,244,244. These expenses constitute a substantial portion of the cost of operation.

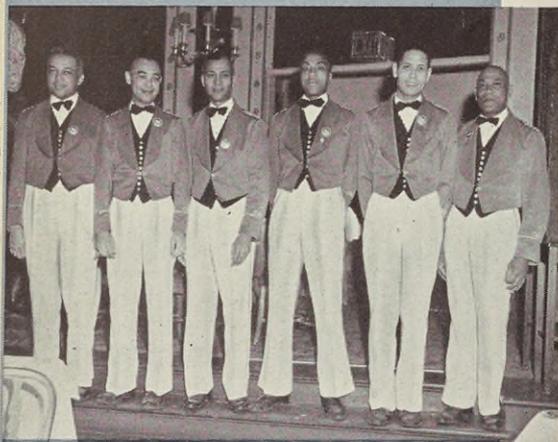
Relations between employees and management were harmonious during the year. All of your corporation's existing labor contracts were revised or extended by negotiations with employees or their bargaining agencies, with upward adjustments made. A comprehensive job analysis program was inaugurated in the Chicago properties during 1947. This will result in better procedures in employee hiring, training and job relationships. Through this job analysis program, we are laying the groundwork for improving the methods of doing a par-



This bedroom at the Hilton Hotel in Lubbock is an example of the attractive accommodations available at our Texas hotels.



This glass room employee operates a machine that feeds cellophane with which sterilized glasses are wrapped.



Among the employees recently honored for their long service are these waiters. Two have been with the Palmer House as long as 35 years.

ticular job. The final result will be more efficient performance at lower cost with the possibility of stabilizing employee earnings at present high levels.

A new uniform Employees Group Insurance Plan has been placed in effect throughout the Hilton system. This provides life insurance for every regular employee after six months of service. Those earning \$3,000 or more annually may increase the insurance to a maximum of \$7,500 in proportion to their earnings. The corporation pays the entire premium on the first \$1,000 of insurance, with the employees paying part of the premiums on insurance in excess of that amount. Group Hospitalization Policies also are available at low cost to all employees who wish this form of protection for themselves and their families.

EXECUTIVE CHANGES

Colonel Henry Crown, chairman of the Board of Directors of Material Service Corporation of Chicago, was elected a vice president of your corporation on December 5, 1947. He has been a member of the Hilton Hotels executive committee and board of directors since their inception.

Mr. Harry L. Ludwig resigned as vice president and treasurer as of December 31 to establish his own office as a business consultant. He has been retained by your corporation in this capacity.

Mr. J. B. Herndon, Jr. was elected vice president and treasurer, effective January 1, 1948. Mr. Herndon has been a vice president since the corporation's inception, and has been associated with C. N. Hilton for many years.

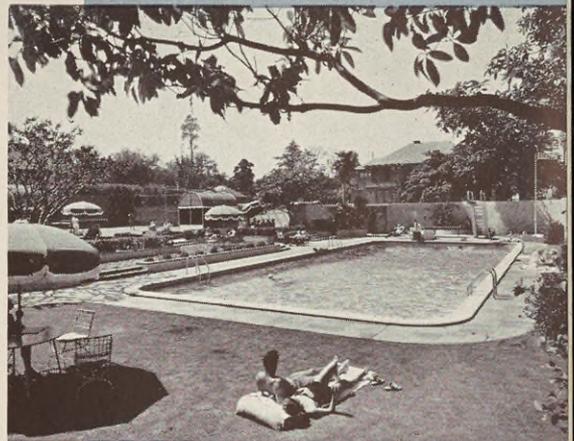
Mr. Herbert E. Holt, formerly comptroller of Hilton Hotels Corporation, was elected assistant treasurer, effective January 1, 1948.

THE HOTEL INDUSTRY

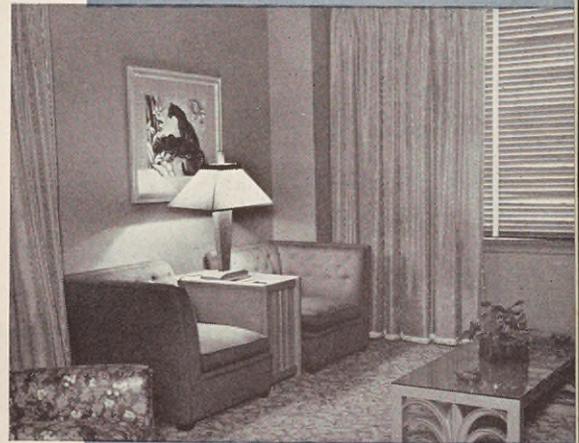
Because the hotel business was greatly overbuilt at high cost levels between 1920 and 1929, there were wholesale failures during the deflation of the 1930's. This period was characterized by low room occupancy. In addition, competitive price cutting, combined with high fixed charges on funded debt, erased the earnings of most hotels.

Fortunately, the causes of this situation have been corrected. Low earning power prevented hotel expansion between 1930 and 1940, when practically no new hotels were constructed. The war years brought an unprecedented demand for hotel rooms. However, the need for conserving building materials for the war effort prevented the hotel expansion which otherwise would have occurred. Since the end of the war there has been practically no new hotel construction by virtue of the fact that at present building cost levels it would require unusual circumstances to permit a new hotel to compete on a price basis with existing facilities.

Not only has surplus capacity, the basic cause of lost earning power, been removed, but there is slight prospect it will recur in the foreseeable future. Demand for hotel services is running at a rate close to



In the heart of Los Angeles, The Town House offers such resort facilities in its gardens as swimming, tennis, badminton and other sports.



This attractive living room gives an idea of suites available at the El Paso Hilton Hotel.



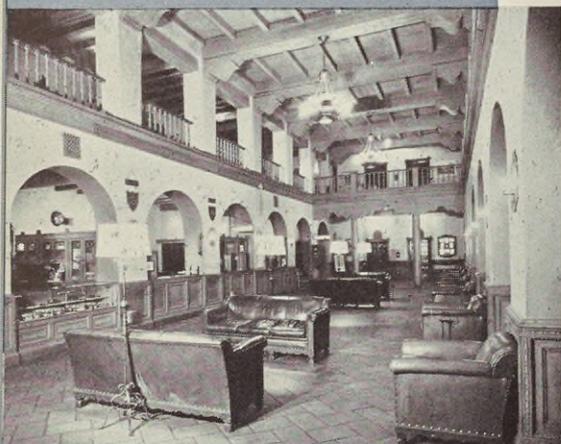
The grand ballroom of The Stevens, the largest banquet room in the world, is only a part of the hotel's exceptional convention facilities.



The Mayflower is the scene of many of Washington's most important functions. This is a typical banquet setting for the Department of State.



The Roosevelt Grill is the perennial favorite of New Yorkers and visitors to their city.



The Albuquerque Hilton is an outstanding example of native New Mexican architecture and decor.

capacity, funded debt of most first class hotels now is on a sound basis, and the reinvested profits of recent years have strengthened their current positions. Meanwhile, in the past 17 years, during which there has been so little hotel construction, the nation's population has increased substantially.

The current rate of activity in the hotel business will not, of course, continue forever. However, your management is of the opinion that when a slackening in general business takes place, the earnings of well operated hotels will not recede to the level of the 1930's.

LOOKING AHEAD

Your corporation is engaged primarily in operating its own hotels. It also manages other hotels under contracts which return a percentage of profits to Hilton Hotels Corporation.

Since the business is not static, hotel values are subject to change. The corporation's position has been strengthened through increases in the value of its properties, caused by rising earnings and higher real estate prices. At the present level of real estate, however, it is the management's opinion that a conservative attitude should be taken toward acquisitions. Hotels will be bought only when they have good earnings prospects and can be obtained on favorable terms. Properties will be disposed of when long-term earning prospects are unsatisfactory. Managerial contracts will be made when it is indicated that type of operation will be desirable.

An example of the latter is the agreement with Puerto Rico Industrial Development Company, a corporation organized by the Government of Puerto Rico. The Development Company is building a 300 room hotel in San Juan, at an estimated cost of \$4,500,000 which will be leased to your corporation for a term of 20 years. Hilton Hotels Corporation will provide operating equipment, inventories and working capital for the hotel, and will pay as rent two-thirds of the hotel's gross operating profits plus an amount not to exceed five per cent per annum of the installed cost of furniture and fixtures.

While statistics indicate that earnings of the hotel industry have receded since 1944, Hilton Hotels' results have moved counter to the industry trend. This should not be construed to mean there is no ceiling on profits, however, since operating expenses are continuing to rise. From this point on our earnings may reflect to a greater degree the course of general business.

Meanwhile, the present overall demand for Hilton Hotel services remains near capacity levels and our important Chicago properties are solidly booked with convention business through 1948 and 1949. Under the circumstances it is a logical assumption that your corporation will continue to receive its full share of the available hotel business.

By order of the Board of Directors.

Chicago, Illinois
March 15, 1948

President

THE HILTON GUEST

To a degree not approached in most industries, the hotel business must have cordial relations with the customer. Every effort has been made under the difficult conditions prevailing in recent years to provide the best possible service for the Hilton guest. Hilton Hotels have been trying to serve the public in such a manner that they will deserve and retain popularity.

While placing emphasis on service, the management also has been making plans for the corporation's future. In 1947 steps were taken toward forming a comprehensive sales promotion program.

Our advertising, primarily institutional in nature, was aimed at creating a program which would maintain and add to the prestige of Hilton Hotels. The campaign's objectives were to familiarize the public with the name "Hilton Hotels Corporation" and with the identity of the various hotels which comprise the group. To this end, advertising stressed the fact that the Hilton Hotels are a group of individually famous hotels rather than a standardized chain. The scope and character of operations were exemplified by the repeated use of slogans such as "Across the Nation" and "Hilton Hospitality."

To dramatize these ideas, a series of layouts was created, featuring various symbols characteristic of hotel operation. These included key tags, match covers, letterheads, crested glasses, etc. This series of advertisements placed exceptionally high in numerous readership surveys and your corporation received many compliments on the program. In addition, several national manufacturers used these Hilton advertising layouts as "tie-ins" in their own advertising. The Hilton Hotels campaign included full page advertising in Time, Newsweek, United States News, the New Yorker and insertions in Fortune.

Over the coming months institutional advertising will be supplemented by a direct appeal for week-end and summer patronage. While our hotels still are crowded, there always is a tendency for business to recede on week-ends and during the summer months.

Fully coordinated with advertising schedules, our publicity was aimed at wider recognition of Hilton Hotels on the national scene as well as in their respective communities. The publicity program also stressed the development of additional restaurant, beverage, social and group business. Results are exemplified by the unusual success of the newly-established supper rooms and cocktail lounges in several of the hotels, as well as by the many outstanding events of both business and social importance which were held at Hilton Hotels during the past year.

Because public good will and acceptance are essential to successful hotel operations, the groundwork for an overall program of public relations was laid in 1947. Not only must your corporation continue to give superior service to the American public, but each individual hotel must maintain a reputation as an efficient, well-managed business in its local community. Emphasis will be placed on those objectives in the future.



These are typical full page Hilton Hotels advertisements which appeared in national magazines during 1947.



HILTON HOTELS A

1. THE STEVENS

Chicago, Illinois

2. PALMER HOUSE

Chicago, Illinois

3. THE PLAZA

New York City, New York

4. THE TOWN HOUSE

Los Angeles, California

5. DAYTON BILTMORE

Dayton, Ohio

6. HILTON HOTEL

Lubbock, Texas

7. HILTON HOTEL

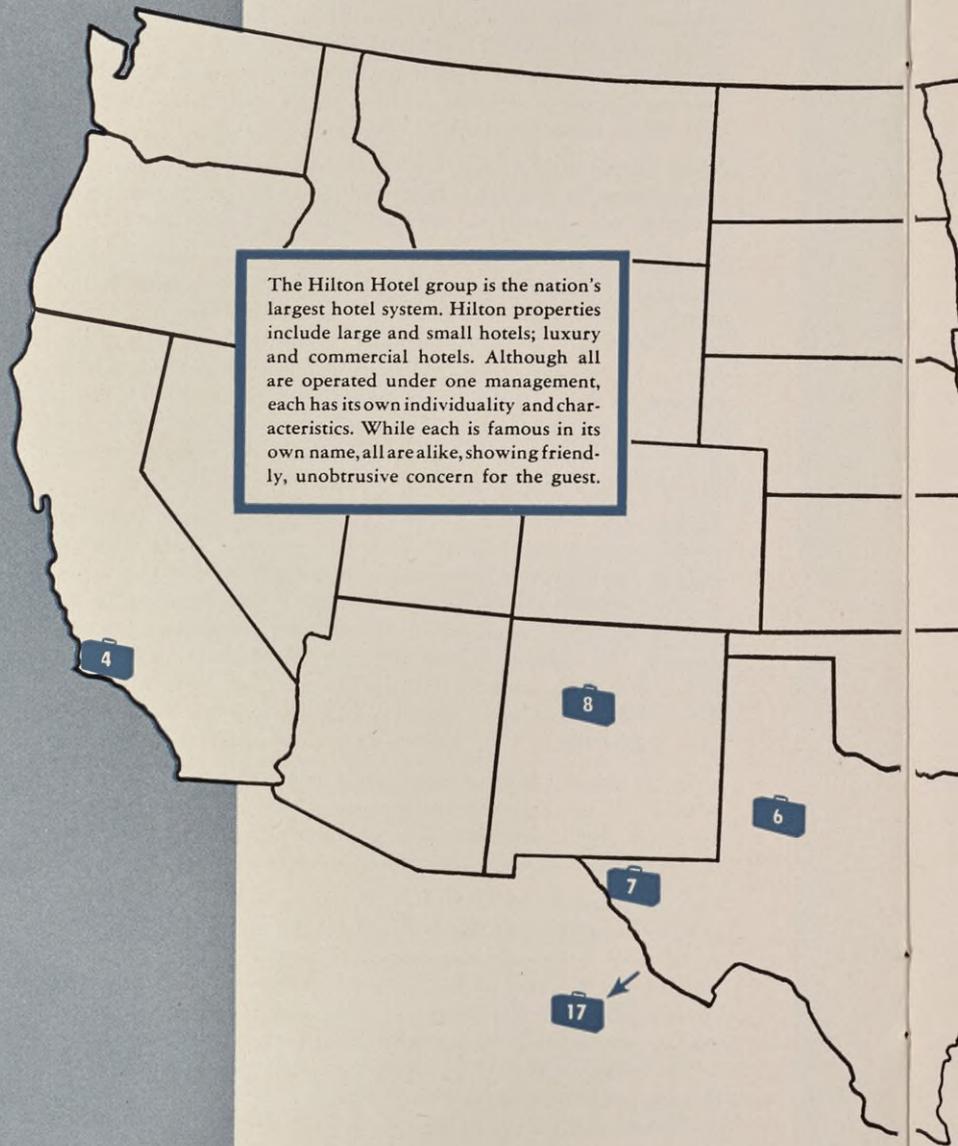
El Paso, Texas

8. HILTON HOTEL

Albuquerque, New Mexico

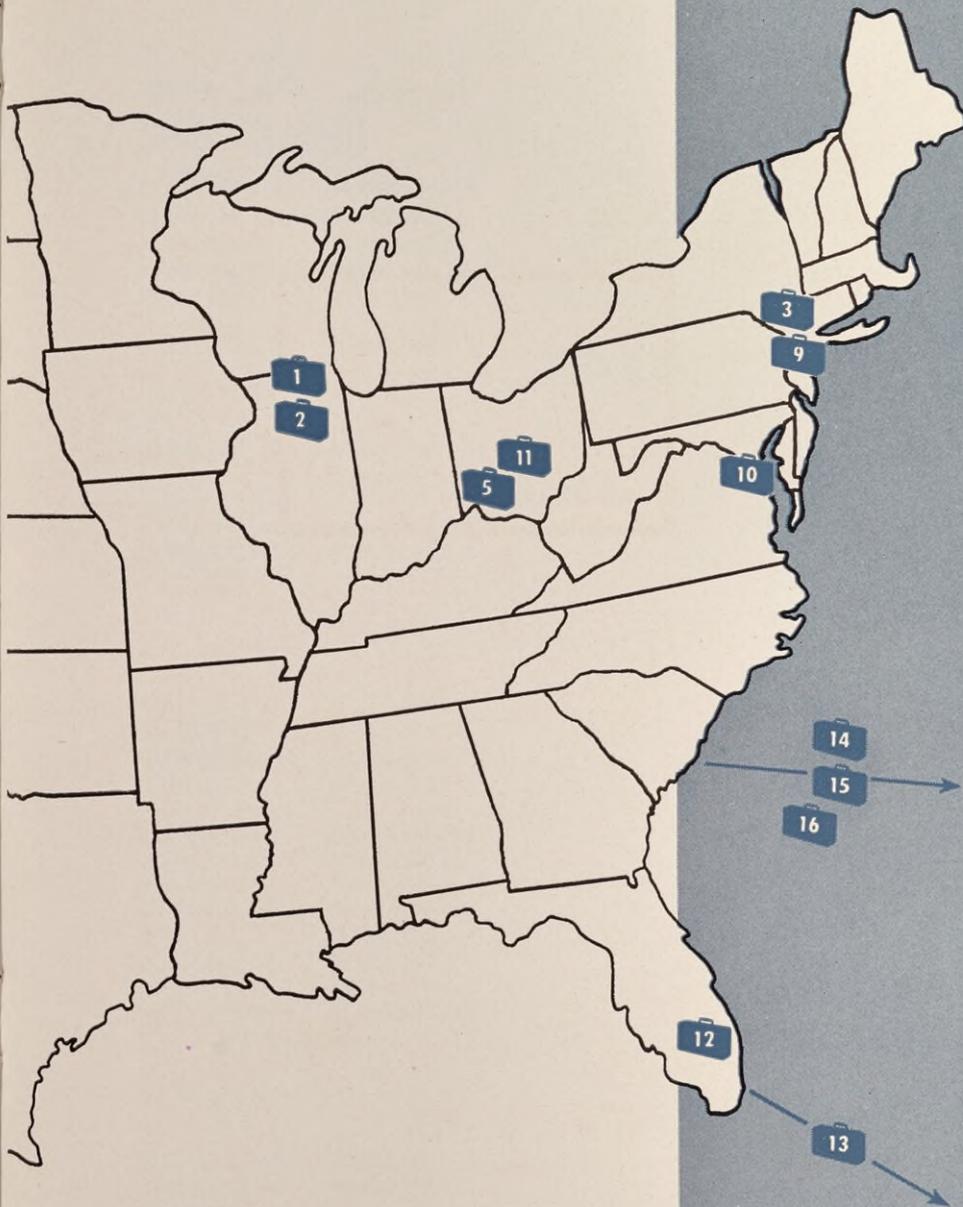
9. THE ROOSEVELT

New York City, New York



The Hilton Hotel group is the nation's largest hotel system. Hilton properties include large and small hotels; luxury and commercial hotels. Although all are operated under one management, each has its own individuality and characteristics. While each is famous in its own name, all are alike, showing friendly, unobtrusive concern for the guest.

ACROSS THE NATION



10. THE MAYFLOWER

Washington, D. C.

11. THE NEIL HOUSE

Columbus, Ohio

12. PALM BEACH BILTMORE

Palm Beach, Florida

13. CARIBE HILTON

San Juan, Puerto Rico

14. BERMUDIANA

Hamilton, Bermuda

15. CASTLE HARBOUR

Tucker's Town, Bermuda

16. ST. GEORGE

St. George's, Bermuda

17. PALACIO HILTON

Chihuahua, Mexico

CONSOLIDATED BALANCE SHEET.....

ASSETS

	<u>Dec. 31, 1947</u>	<u>Dec. 31, 1946</u>
CURRENT AND WORKING ASSETS		
Cash	\$ 5,750,964.47	\$ 5,593,250.71
Government Bonds, Notes and Certificates	49,299.15	141,107.28
Accounts Receivable—Less: Reserve	1,754,841.37	1,258,441.26
Inventories of Merchandise and Supplies (Note 2)	1,359,056.38	1,449,006.94
Other Current Assets	491,718.68	364,256.24
TOTAL	<u>\$ 9,405,880.05</u>	<u>\$ 8,806,062.43</u>
DUE FROM AFFILIATED COMPANIES	<u>\$ 301,167.08</u>	<u>\$ 117,806.37</u>
INVESTMENTS	<u>\$ 5,186,312.50</u>	<u>\$ 4,859,992.47</u>
FIXED ASSETS (Note 3)		
Land	\$11,588,355.76	\$11,754,605.76
Buildings	42,123,529.73	43,080,841.19
Furniture and Equipment	9,105,869.61	8,256,983.08
Leaseholds and Improvements	613,854.58	548,052.65
	<u>\$63,431,609.68</u>	<u>\$63,640,482.68</u>
Less: Reserves for Depreciation and Amortization	23,993,813.52	22,457,155.39
	<u>\$39,437,796.16</u>	<u>\$41,183,327.29</u>
Revisions, Alterations and Rehabilitation	1,282,980.31	353,026.39
Operating Equipment	1,011,029.27	845,118.45
TOTAL	<u>\$41,731,805.74</u>	<u>\$42,381,472.13</u>
OTHER ASSETS AND DEFERRED CHARGES		
Guarantee Deposits on Leases	\$ 266,511.27	\$ 250,361.52
Due from Employees for Stock Purchases (Note 4)	415,765.00	512,135.00
Other Assets and Deferred Charges	190,169.02	169,656.44
Organization Expense	218,084.37	222,648.41
TOTAL	<u>\$ 1,090,529.66</u>	<u>\$ 1,154,801.37</u>
TOTAL ASSETS	<u><u>\$57,715,695.03</u></u>	<u><u>\$57,320,134.77</u></u>

..... HILTON HOTELS CORPORATION

LIABILITIES

	<u>Dec. 31, 1947</u>	<u>Dec. 31, 1946</u>
CURRENT LIABILITIES		
Accounts Payable.....	\$ 1,676,732.39	\$ 1,447,350.74
Accrued Expenses and Charges.....	\$ 2,285,469.29	\$ 2,109,871.79
Federal and State Income Taxes (Note 5).....	\$ 3,152,957.41	\$ 1,839,303.62
Less: U. S. Treasury Tax Notes.....	3,000,000.00	.....
	<u>\$ 152,957.41</u>	<u>\$ 1,839,303.62</u>
Funded and Long-Term Indebtedness—Due Within One Year.....	\$ 514,362.61	\$ 832,902.43
Other.....	124,739.60	208,958.45
TOTAL.....	<u>\$ 4,754,261.30</u>	<u>\$ 6,438,387.03</u>
FUNDED AND LONG-TERM INDEBTEDNESS		
First Mortgage Bonds and Notes.....	\$22,399,719.10	\$22,263,758.93
Notes Payable.....	290,724.26	419,474.22
Installment Contract Payable.....	68,306.70	100,315.24
	<u>\$22,758,750.06</u>	<u>\$22,783,548.39</u>
Less: Amounts due Within One Year (Above).....	514,362.61	832,902.43
TOTAL.....	<u>\$22,244,387.45</u>	<u>\$21,950,645.96</u>
RESERVES		
For Contingencies (Note 6).....	\$ 1,700,000.00	\$ 1,700,000.00
Other.....	13,209.34	68,928.77
TOTAL.....	<u>\$ 1,713,209.34</u>	<u>\$ 1,768,928.77</u>
CAPITAL STOCK (Notes 7 and 8)		
	SHARES	
	<u>Dec. 31, 1947</u>	<u>Dec. 31, 1946</u>
Convertible Preference—Par \$50.00		
Issued.....	259,616.54	259,616.54
Less: Treasury Stock.....	62,215.19	22,604.00
Outstanding.....	<u>197,401.35</u>	<u>237,012.54</u>
Common Stock—Par \$5.00		
Issued and Outstanding.....	1,618,578.00	1,618,377.00
TOTAL.....	<u>\$17,962,957.50</u>	<u>\$19,942,512.00</u>
SURPLUS		
Capital Surplus.....	\$ 6,137,229.68	\$ 5,758,246.80
Earned Surplus.....	4,903,649.76	1,461,414.21
TOTAL.....	<u>\$11,040,879.44</u>	<u>\$ 7,219,661.01</u>
TOTAL LIABILITIES AND CAPITAL.....	<u><u>\$57,715,695.03</u></u>	<u><u>\$57,320,134.77</u></u>

Hilton Hotels Corporation

STATEMENT OF CONSOLIDATED INCOME

	<i>Year Ended</i>	
	<u>Dec. 31, 1947</u>	<u>Dec. 31, 1946</u>
GROSS OPERATING REVENUE		
Gross Revenue Operated Departments	\$40,531,203.34	\$37,671,249.72
Other Income	821,078.78	710,171.41
Store Rentals	1,045,422.39	1,087,128.07
	<u>\$42,397,704.51</u>	<u>\$39,468,549.20</u>
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses	\$23,210,408.85	\$22,119,268.50
Administrative and General Expenses	3,194,082.94	2,897,862.04
Advertising and Business Promotion	667,798.64	574,837.86
Heat, Light and Power	1,340,804.26	1,223,091.55
Repairs and Maintenance	2,081,633.49	2,354,399.65
Lease Rentals	179,865.72	179,865.72
Real Estate and Personal Property Taxes	1,406,141.05	1,314,440.52
Depreciation and Amortization	1,974,049.92	1,779,410.79
Interest	812,971.07	989,905.87
Corporate Expenses and Sundry Capital Charges	286,584.29	276,170.92
	<u>\$35,154,340.23</u>	<u>\$33,709,253.42</u>
GROSS OPERATING PROFIT	\$ 7,243,364.28	\$ 5,759,295.78
INTEREST AND DIVIDENDS	136,533.24	14,716.61
PROFIT BEFORE NON-RECURRING INCOME AND EXPENSE	<u>\$ 7,379,897.52</u>	<u>\$ 5,774,012.39</u>
NON-RECURRING INCOME AND EXPENSE		
Profit or Loss* on Sale of Investment Securities	\$ 196,025.63	\$ 9,516.03*
Profit on Sale of Properties	1,294,999.01	19,021.88
Sundry Other	1,846.36	5,637.09
Premium on Prepayment of Mortgages and Discount on Investment Notes	263,728.91*	.....
	<u>\$ 1,229,142.09</u>	<u>\$ 15,142.94</u>
NET PROFIT BEFORE INCOME TAXES	\$ 8,609,039.61	\$ 5,789,155.33
PROVISION FOR FEDERAL AND STATE TAXES ON INCOME	3,100,000.00	2,238,608.65
NET PROFIT	<u>\$ 5,509,039.61</u>	<u>\$ 3,550,546.68</u>

See notes 1, 2 and 3 relating to consolidated income.

* Denotes Red Figure

Hilton Hotels Corporation
STATEMENT OF CONSOLIDATED SURPLUS

CAPITAL SURPLUS

BALANCE—BEGINNING OF YEAR.....		\$ 5,758,246.80	
ADD:			
Refunds of Property Taxes—Periods Prior to Consolidation	\$ 28,803.13		
Other Adjustments.....	11,592.91		
Discount on Convertible Preference Stock Purchased by the Corporation .	423,523.14		
		463,919.18	
		\$ 6,222,165.98	
DEDUCT:			
Adjustments—Expenses Prior to Consolidation.....	\$ 14,011.30		
Cancellation Employees' Subscriptions to Capital Stock— Subscription Price \$94,920.00—Par Value \$27,120.00.....	67,800.00		
Exchange of Convertible Debenture Bonds for Stock— Par of Stock issued \$28,125.00—Par of Bonds Converted \$25,000.00..	3,125.00		
		84,936.30	
BALANCE—END OF YEAR.....		\$ 6,137,229.68	

EARNED SURPLUS

BALANCE—BEGINNING OF YEAR.....		\$ 1,433,808.01	
ADD:			
Net Income for the Year Ended December 31, 1947.....		5,509,039.61	
		\$ 6,942,847.62	
DEDUCT:			
Dividends—Convertible Preference Stock.....	\$ 444,625.00		
Dividends—Common Stock.....	1,594,572.86		
		2,039,197.86	
BALANCE—END OF YEAR.....		\$ 4,903,649.76	

NOTES TO FINANCIAL STATEMENTS

BALANCE SHEET

(1) BASIS OF CONSOLIDATION

Included in the Consolidated Balance Sheet is the wholly-owned subsidiary State-Monroe Equipment Corporation, a non-operating unit which holds title to the furnishings and equipment of the Palmer House, Chicago. The corporation has adopted the policy of non-consolidation of companies which are not wholly owned subsidiaries. Holdings in such companies are carried on the accompanying balance sheet as investments at cost, which cost was \$1,033,445.18 greater than the book value of such investments as shown by the balance sheets of these companies. Such controlled but non-consolidated companies are the Palm Beach Biltmore Company (50%), Mayflower Hotel Corporation (68.75%) and Neil House Company (50%).

Holdings in the Bermuda Development Company, Ltd., represent approximately 7% of the capital common stock. At quoted official exchange rates, the par value in dollars at December 31, 1947 amounted to \$294,410.25 against a cost of \$265,832.00.

(2) INVENTORIES

Inventories of saleable merchandise and operating supplies were ascertained by physical count and were priced at cost, which basis has been consistently followed by the various operating units of the company. Stocks of saleable merchandise representing primarily food and beverages, comprising the major part of the inventories represent normal turnover needs of current business.

(3) FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Fixed asset values and depreciation reserves have been carried over from the predecessor companies. The fixed asset values represent cost to predecessor companies, plus additions.

Depreciation on buildings has been determined according to the straight line method on the basis of an estimated over-all life from date of original construction, ranging from 50 years in the case of the Plaza Hotel of New York, to 40 to 45 years in the case of the Palmer House, the Stevens Hotel and the Town House, to a 30 year life for the Lubbock Hilton Hotel.

Leaseholds and improvements are being amortized over the remaining life of the existing leases.

Furniture, furnishings and equipment are depreciated on a straight line basis at varying rates by classifications in accordance with the estimated useful life of the respective assets.

Expenditures for rehabilitation, alterations and revisions are charged to a special classification and amortized over varying periods of from three to ten years.

Current depreciation rates being applied to cost basis by individual properties appear to be reasonable and adequate and in accordance with industry-wide practice.

Operating equipment represents reserve stock inventories of linens, china, glassware and silverware at cost, and, stocks in use shown at net values after deduction of reserves covering estimated depreciation and depletion of such stocks through loss and discard.

(4) DUE FROM EMPLOYEES AND OFFICERS FOR STOCK PURCHASES

In accordance with the agreement of consolidation 50,000 Shares of Common Stock were reserved for offering to key employees at a price of \$17.50 per share, payments therefor to be made in installments over a period not exceeding four (4) years. (Since extended for the period of one (1) year by action of Board of Directors). As of December 31, 1946 a total of 44,342 shares were subscribed for by various employees. Of this total, subscriptions to 5,424 shares were cancelled during the current year, leaving a total of 38,918 shares subscribed for as of December 31, 1947 at a total cost of \$681,065.00. Of this amount \$265,300.00 has been paid on account, leaving an unpaid balance of \$415,765.00 as of the balance sheet date. This unpaid balance is secured by signed purchase agreements of the individual employees. The shares so subscribed have been issued as partially paid shares entitled to dividends only to the extent to which the purchase price therefor has been paid.

(5) PROVISION FOR FEDERAL AND STATE TAXES ON INCOME

As of December 31, 1947 this account consisted of the following:

Federal Income Tax Liability of Predecessor Companies—(Unpaid Balances)		
Palmer House Company	\$	24,833.94
New Mexico Hilton Hotel Company		28,014.45
		<hr/>
	\$	52,848.39
Federal and State Income Tax Liability of Hilton Hotels Corporation		
Seven Months Ended December 31, 1946—(Unpaid Balance)		
State of New Mexico	\$	109.02
Estimated Taxes for the Year Ended December 31, 1947		3,100,000.00
		<hr/>
		3,100,109.02
TOTAL		<hr/>
		\$3,152,957.41

The provision for Federal income taxes for the year ended December 31, 1947 has been estimated at approximately 38% of the operating profits and 25% of capital gains for that period.

With the exception of the Lubbock Hilton Hotel Company, Inc., whose tax returns have been examined through the fiscal year ended May 31, 1943, and the Palmer House Company whose tax returns have been examined through the calendar year 1944, none of the predecessor corporations' tax returns for the years 1943, 1944 and 1945 or the period to date of dissolution in 1946, nor the Hilton Hotels Corporation tax return for the seven months ended December 31, 1946 have been examined or passed upon by the United States Treasury Department.

As of the date of consolidation, the corporation set up a Reserve for Contingencies (See Note 6) to cover claims, taxes or other charges, including additional income or excess profits taxes which might be asserted or assessed against the consolidating corporations.

(6) RESERVE FOR CONTINGENCIES

The Board of Directors established as of June 1, 1946 the Reserve for Contingencies of \$1,700,000.00 to cover claims which may be asserted under various Federal statutes and regulations, including claims for Federal income and excess profits taxes of the consolidating corporations, such reserves so created being deemed by the Board of Directors to be reasonably adequate to cover all such contingencies.

(7) CONVERTIBLE PREFERENCE STOCK

Since the date of consolidation the corporation has purchased for the treasury a total of 69,529-62/100 shares of its own convertible preference stock at a total cost of \$2,718,031.17, the discount thereon being credited to capital surplus. Of the total shares so purchased 7,314-43/100 shares have been permanently retired and cancelled.

(8) COMMON STOCK

Common stock shares have been reserved for the conversion of convertible preference shares at the option of the holders thereof at the rate of two shares of common stock for each share of convertible preference stock.

(9) COMMITMENTS

Contractual obligations and commitments of the Stevens Hotel were in existence at December 31, 1947 in the aggregate amount of approximately \$320,000.00 for new laundry equipment, Boulevard Room revisions, kitchen equipment and air-conditioning equipment.

INCOME ACCOUNT

(1) CONSOLIDATED INCOME

Consolidated Income includes the wholly-owned subsidiary State-Monroe Equipment Co. but not the partly-owned Palm Beach Biltmore Co., Mayflower Hotel Corporation, Neil House Company or hotels of the Bermuda Development Co. Ltd. (See Analysis of Investments).

Other Income includes management fees and charges earned by Hilton Hotels Corporation as per contracts with non-consolidated partly-owned subsidiaries and other Hilton operated hotels.

The corporation's share for the year 1947, of net profits, less dividends received, of unconsolidated subsidiaries, which has not been reflected herein, amounted to \$249,056.02, and, for the year 1946, such share amounted to a net loss of \$67,043.99.

(2) QUALIFICATION OF 1946 INCOME INFORMATION

Results for the year ended December 31, 1946 represent combined operations of Hilton Hotels Corporation for the period June 1, 1946 to December 31, 1946, and, for the period January 1, 1946 to May 31, 1946, results of the predecessor corporations consolidated as of June 1, 1946 into Hilton Hotels Corporation. The results so combined are submitted for information and comparison purposes.

Results for the year 1946 reflect adjustments from prior published reports for additional property and income taxes in the amount of \$27,606.20.

(3) INCOME FROM DISPOSED PROPERTY—LONG BEACH HILTON HOTEL

The figures for 1946 and 1947 include operations of the Long Beach Hilton Hotel which was sold as of July 31, 1947. Net operating profit of this property, after depreciation for the seven months of 1947 amounted to \$65,811.42.

Hilton Hotels Corporation

ANALYSIS OF INVESTMENTS

		<i>AS OF DECEMBER 31, 1947</i>	
		<i>Book Value</i>	<i>Cost</i>
PALM BEACH BILTMORE COMPANY			
BONDS AND NOTES			
50% of Total Issued of \$450,000.00—Five Year 5% Debenture Bonds		\$ 225,000.00	\$ 225,000.00
49.74% of Subordinated 6% Bonds			
Matured December 1, 1945—Principal Amount		158,441.79	. . . . .
Accrued Interest thereon		349,531.00	. . . . .
CAPITAL STOCK			
50% of the Capital Stock, represented by—			
Preferred—2,000 Shares—Par \$100.00		200,000.00	200,000.00
Common — 600 Shares—Par \$100.00		60,000.00	7,000.00
Earned Surplus Deficit*—Proportion Applicable to Hilton Hotels Corporation—			
Beginning of Year		639,348.33*	. . . . .
Loss* for Year 1947		41,926.15*	. . . . .
		\$ 311,698.31	\$ 432,000.00
MAYFLOWER HOTEL CORPORATION			
CAPITAL STOCK—			
68.75% of the Capital Stock, represented by—			
Common—267,940 Shares—Par \$1.00		\$ 267,940.00	\$3,487,980.50
Earned Surplus—Proportion Applicable to Hilton Hotels Corporation—			
At Date of Acquisition		2,217,712.39	. . . . .
Profit for the Year 1947—(Less: Dividends Received of \$80,351.40)		208,531.53	. . . . .
		\$2,694,183.92	\$3,487,980.50
NEIL HOUSE COMPANY			
BONDS			
50% of Total Issue of \$600,000.00—Five Year 4½% Debenture Bonds		\$ 300,000.00	\$ 300,000.00
CAPITAL STOCK			
50% of the Capital Stock, represented by—			
Common—21,250 Shares—Par \$10.00		212,500.00	232,500.00
Earned Surplus—Proportion Applicable to Hilton Hotels Corporation—			
Beginning of Year		214.48	. . . . .
Profit for the Year 1947		82,450.64	. . . . .
		\$ 595,165.12	\$ 532,500.00
INSTALLMENT SALES CONTRACT NOTES			
Cummy Properties, Inc.—Five Year Serial 4% Note		\$ 544,000.00	\$ 544,000.00
Charles Sachs—Ten Year 4½% Installment Note		46,000.00	46,000.00
R. L. Stevens—Ninety Day—Collateral Note		25,000.00	25,000.00
		\$ 615,000.00	\$ 615,000.00
Less: Due Within One Year—Included in Current Assets		147,000.00	147,000.00
		\$ 468,000.00	\$ 468,000.00
BERMUDA DEVELOPMENT COMPANY—LTD.			
CAPITAL STOCK			
7% of the Capital Stock, represented by—			
Common Stock—7,310 Shares—Par 10 Pounds		\$ 294,410.25	\$ 265,832.00
TOTAL INVESTMENTS		\$4,363,457.60	\$5,186,312.50

* Denotes Red Figure

AUDITORS' CERTIFICATE

To the Board of Directors of
HILTON HOTELS CORPORATION,
Chicago, Illinois

Chicago, Illinois
February 19, 1948

Gentlemen:

We have examined the consolidated balance sheet of Hilton Hotels Corporation as of December 31, 1947 and its wholly owned subsidiary, State-Monroe Equipment Corporation, and the consolidated statements of Income and Profit and Loss and Surplus for the year ended December 31, 1947, have reviewed the system of internal control and the accounting procedures of the corporation and, without making a detailed audit of the transactions, have examined or tested accounting records of the corporation and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary.

Examination of the accounts of three of the operating units, Palmer House of Chicago (and the wholly owned related subsidiary, State-Monroe Equipment Corporation) and Town House of Los Angeles, were made and separately certified to by Messrs. Horwath & Horwath, and, the Dayton Biltmore Hotel, by Messrs. Wall, Cassel and Groneweg.

The accounts of Palm Beach Biltmore Company in which Hilton Hotels Corporation acquired 50% of the outstanding shares of both common and preferred as of June 1, 1946, Mayflower Hote Corporation in which Hilton Hotels Corporation has acquired 68.75% of the outstanding shares of common stock as of December 31, 1947 and, Neil House Company in which Hilton Hotels Corporation acquired 50% of the outstanding shares of common stock as of December 23, 1946, have not been consolidated herein. The proportion of undistributed profits or losses applicable to the corporation's holding in these companies from date of acquisition to December 31, 1947 amounted to a net profit of \$182,012.03 representing the increase in the corporation's equity in these companies since acquisition to December 31, 1947.

The accounts of Palm Beach Biltmore Company, Mayflower Hotel Corporation, and Neil House Company were examined and separately certified to by us.

In our opinion, based upon our examination and upon the opinions expressed in the reports of the independent public accountants pertaining to the operating units and companies which were examined by them, the accompanying consolidated balance sheet and related consolidated statements of income and surplus, together with the notes pertaining thereto, present fairly the position of Hilton Hotels Corporation and its wholly owned subsidiary, State-Monroe Equipment Corporation as of December 31, 1947 and the results of operations for the year ended December 31, 1947, in conformity with generally accepted accounting principles.

HARRIS, KERR, FORSTER & COMPANY

Hilton Hotels Corporation - Consolidating Companies and Their Predecessors

SUMMARY OF COMBINED EARNINGS

For the Five Years Ended December 31, 1947

INCOME	1943	1944*	1945*	1946†	1947
GROSS REVENUE					
Operated Departments	\$18,927,862	\$29,772,052	\$31,600,439	\$37,671,250	\$40,531,203
Other Income	349,506	777,443	630,303	710,171	821,079
Store Rentals	788,033	1,080,037	1,028,304	1,087,128	1,045,423
Dividends and Interest on Securities				14,717	136,533
TOTAL	\$20,065,401	\$31,629,532	\$33,259,046	\$39,483,266	\$42,534,238
EXPENSES					
Operated Departments	\$10,847,183	\$17,047,257	\$18,385,427	\$22,119,269	\$23,210,409
General and Administrative	1,542,097	2,592,245	2,709,828	2,897,862	3,194,083
Advertising and Promotion	314,633	484,422	540,451	574,838	667,799
Heat, Light, and Power	793,949	1,074,106	1,071,303	1,223,091	1,340,804
Repairs and Maintenance	989,684	1,575,069	2,017,181	2,354,400	2,081,633
Depreciation and Amortization	1,326,862	1,645,081	1,744,597	1,779,411	1,974,050
Interest	795,286	1,003,909	1,211,720	989,906	812,971
Lease Rental	123,956	301,771	234,474	179,866	179,866
Real Estate and Personal Property Taxes	968,142	1,221,850	1,272,286	1,314,440	1,406,141
Provision for Federal Taxes on Income	1,248,037	1,601,868	722,317	2,234,090	2,820,366
Other Capital Expenses	107,500	156,363	124,908	276,171	286,584
TOTAL	\$19,057,329	\$28,703,941	\$30,034,492	\$35,943,344	\$37,974,706
NET PROFIT—Before Non-recurring Items	\$ 1,008,072	\$ 2,925,591	\$ 3,224,554	\$ 3,539,922	\$ 4,559,532
NON-RECURRING INCOME AND EXPENSE					
Profit from Sale of Capital Assets				\$ 19,022	\$ 1,294,999
Refinancing Expenses and Note Discount					263,729‡
Miscellaneous and Sale of Securities				3,879‡	197,872
Less Provision for Applicable Taxes				4,518‡	279,634‡
TOTAL				\$ 10,625	\$ 949,508
NET PROFIT FOR THE PERIOD	\$ 1,008,072	\$ 2,925,591	\$ 3,224,554	\$ 3,550,547	\$ 5,509,040

Note † Hilton Hotels Corporation was created by consolidation May 31, 1946. Operations for the year 1946 include seven months operation by the corporation and five months operation by the consolidating companies and their predecessors.

Note * The combined results shown above for the years 1944 and 1945 reflect (1) profits from the operation of the Roslyn Hotel for those two years, and the U. S. Grant Hotel in San Diego, California, for the period September 1, 1944, to January 1, 1945, both of which have since been disposed of; and (2) the application of a loss carry-over credit from the sale of the Stevens Hotel to the United States government in 1943, whereby the Stevens Hotel Corporation made no provision for federal income taxes or excess profits taxes on income earned by it from the properties it operated for the years 1944 and 1945.

Note‡ Denotes Red Figure

The sole purpose of this report is to give stockholders information about their corporation. This report is not a representation, prospectus or circular in respect to any stock of this corporation and is not transmitted in connection with any sale or offer to sell or to buy any stock or security to be issued now or hereafter, nor in connection with any preliminary negotiation for such sale.

The historic Plaza Hotel is a New York landmark familiar to travelers from all over the world.





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