

EMPIRE ROOM

ANNUAL REPORT 1958

HILTON HOTELS CORPORATION





The Gateway Center of Pittsburgh's famous Golden Triangle is the setting for the 22-story, 800-room Pittsburgh Hilton, scheduled to open late this year.

1958 *Report to Shareholders*

HILTON HOTELS CORPORATION

720 SOUTH MICHIGAN AVENUE • CHICAGO 5, ILLINOIS

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DIRECTORS AND OFFICERS

BOARD OF DIRECTORS:

BENNO M. BECHHOLD, *President*
Cockshutt Farm Equipment Limited
JOSEPH P. BINNS, *Vice President*
HENRY CROWN, *Chairman*
Material Service Corporation, Chicago
SPEARL ELLISON, *Vice President*
HORACE C. FLANIGAN, *Chairman*
Manufacturers Trust Company, New York
Y. FRANK FREEMAN, *Vice President*
Paramount Pictures Corporation, Hollywood

CONRAD N. HILTON, *President*
WILLARD W. KEITH, *President*
Marsh & McLennan-Cosgrove & Company of Los Angeles
LAWRENCE STERN, *Chairman*
American National Bank & Trust Company of Chicago
ROBERT P. WILLIFORD, *Executive Vice President*
SAM D. YOUNG, *President*
El Paso National Bank, El Paso

OFFICERS:

CONRAD N. HILTON, *President*
ROBERT P. WILLIFORD, *Executive Vice President*
JOSEPH P. BINNS, *Vice President*
ROBERT J. CAVERLY, *Vice President*
HENRY CROWN, *Vice President*
SPEARL ELLISON, *Vice President*
CHARLES L. FLETCHER, *Vice President and Treasurer*
WILLIAM J. FRIEDMAN, *Vice President and Secretary*

VERNON HERNDON, *Vice President*
BARRON HILTON, *Vice President*
CONRAD N. HILTON, JR., *Vice President*
JAMES H. MCCABE, *Vice President*
LYNN H. MONTJOY, *Vice President*
ROBERT F. QUAIN, *Vice President*
FRANK G. WANGEMAN, *Vice President*

TRANSFER AGENTS COMMON STOCK

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

5% FIRST PREFERRED STOCK, SERIES A

Manufacturers Trust Company, New York

5½% CUMULATIVE VOTING PREFERRED STOCK, SERIES A

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

REGISTRARS

American National Bank and Trust Company of Chicago
Chemical Corn Exchange Bank, New York
California Bank, Los Angeles

Chemical Corn Exchange Bank, New York

American National Bank and Trust Company of Chicago
Chemical Corn Exchange Bank, New York

EXECUTIVE OFFICES

Hilton Hotels Corporation, 720 South Michigan Avenue, Chicago 5, Illinois

Your Corporation is Growing in Size, Strength and Service...

Hilton Hotels Corporation made significant progress in 1958. Revenues surged to a new peak as the effects of the business recession were overcome. Perhaps even more gratifying than the revenue increase under the adverse circumstances, net profit exceeded that for 1957 and was the second highest in the history of the Corporation.

Management demonstrated its faith in the economic future of the Corporation by proceeding with a number of hotel projects, and by broadening the base of operations through new avenues of expansion.

It is anticipated that the establishment of Hilton

Inns, and the introduction of Hilton Carte Blanche, the new universal credit card, will provide sources of substantial future revenues and earnings for the Company. On the international front, the greatest growth in the history of the Corporation occurred. Three hotels were opened in as many countries—The Queen Elizabeth, in Montreal, Canada; The Habana Hilton, in Havana, Cuba; and The Berlin Hilton, in West Berlin, Germany.

During 1958, revenues exhibited an encouraging stability through the worst of the recession, and then responded readily to improved conditions



later in the year. Operating profits, when compared with those for the like periods of 1957, recovered sharply in the second half, more than overcoming the decline registered in the first half of the year.

The gain in operating earnings was achieved despite substantial losses experienced by The Habana Hilton, which were caused by the extensive political unrest in Cuba throughout the year. The restoration of peace in that country should improve the Havana operations this year.

Two Hilton Inns are nearing completion; construction will begin this spring on a third, and plans are being drawn for a fourth. Many other Hilton Inns are in the offing across the country.

Carte Blanche was introduced late in 1958, offering new concepts in a credit credential. An affiliate, Hilton Credit Corporation, was established to handle this operation. Early in 1959, our stockholders received rights to purchase stock of that company.

The opening of the Pittsburgh and Denver Hilton hotels, and the San Francisco and New Orleans Hilton Inns, will highlight the domestic expansion program for the current year. The Nile Hilton, in Cairo, Egypt, opened its doors on February 22. Construction is under way, or is anticipated to commence during the year, in Athens, Amsterdam, Rotterdam, and Port-of-Spain, Trinidad.

The tremendous acceleration in world travel has increased the great demand for hotels built and operated according to fine international standards. Hilton Hotels Corporation has set the pace in the operation of such hotels. As the jet age dawns, travel will increase even faster than the rapidly expanding population. Accordingly, your Corporation, as the world's leading host, will continue the high standards of operation, not only of its existing facilities, but will expand further to meet the growing and changing demands of the industry.

Conrad Hilton

PRESIDENT

March 10, 1959

How We Have

YEARS ENDED DECEMBER 31

GROSS REVENUE.....

NET PROFIT OR (LOSS)
(excluding minority interest)

From Operations.....
From Sale of Properties.....

TOTAL.....

EARNINGS
PER COMMON SHARE*

From Operations.....
From Sale of Properties.....

TOTAL.....

WORKING CAPITAL
AT DECEMBER 31.....

EARNED SURPLUS
AT DECEMBER 31
(excluding surplus reserves).....

OUTSTANDING STOCK
AT DECEMBER 31
(number of shares)

First Preferred—Series A.....
First Preferred—Series B
(Convertible).....
Cumulative Voting Preferred Stock—
Series A.....
Convertible Preference.....
Common*.....

*Adjusted for the two-for-one stock split in 1956

Progressed Over a Ten Year Period...

1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	
\$215,092,441	\$205,311,024	\$198,865,196	\$189,456,563	\$120,984,467	\$97,693,990	\$87,218,524	\$80,222,215	\$71,795,761	\$47,805,394	
\$ 8,703,766	\$ 8,609,064	\$ 9,587,214	\$ 8,002,259	\$ 4,822,070	\$ 4,135,290	\$ 4,251,170	\$ 3,940,815	\$ 4,855,333	\$ 4,315,026	
1,399,424	1,454,554	7,165,155	1,102,501	916,003	2,278,710	270,245	—	—	(183,353)	
<u>\$ 10,103,190</u>	<u>\$ 10,063,618</u>	<u>\$ 16,752,369</u>	<u>\$ 9,104,760</u>	<u>\$ 5,738,073</u>	<u>\$ 6,414,000</u>	<u>\$ 4,521,415</u>	<u>\$ 3,940,815</u>	<u>\$ 4,855,333</u>	<u>\$ 4,131,673</u>	
\$ 2.11	\$ 2.05	\$ 2.53	\$ 2.20	\$ 1.35	\$ 1.26	\$ 1.29	\$ 1.19	\$ 1.55	\$ 1.38	
.36	.37	1.95	.32	.28	.70	.08	—	—	(.06)	
<u>\$ 2.47</u>	<u>\$ 2.42</u>	<u>\$ 4.48</u>	<u>\$ 2.52</u>	<u>\$ 1.63</u>	<u>\$ 1.96</u>	<u>\$ 1.37</u>	<u>\$ 1.19</u>	<u>\$ 1.55</u>	<u>\$ 1.32</u>	
\$ 20,917,237	\$ 15,106,748	\$ 15,822,973	\$ 10,146,953	\$ 16,736,838	\$10,797,942	\$ 8,289,896	\$ 7,154,309	\$ 6,021,555	\$ 4,200,894	
\$ 52,060,569	\$ 47,254,200	\$ 42,423,576	\$ 29,966,364	\$ 24,697,177	\$21,647,725	\$17,187,648	\$14,447,174	\$12,664,299	\$ 9,614,750	
52,900	52,900	52,900	52,900	52,900	61,960	—	—	—	—	
—	—	—	25,340	38,000	—	—	—	—	—	
241,419	233,214	—	—	—	—	—	—	—	—	
—	—	—	—	—	24,290	43,513	79,889	98,077	116,265	
3,856,166	3,938,671	3,671,602	3,440,478	3,297,520	3,227,280	3,241,688	3,185,756	2,996,434	2,961,184	

Gross Revenues and Earnings Increased...

REVENUES: The dynamic character of Hilton Hotels Corporation is evidenced by the fact that, despite the recession, gross revenues continued their unbroken climb, which dates back to the founding of the Company. Gross revenues rose to \$215,092,441 from \$205,311,024 in 1957, a five per cent increase.

During the first six months of 1958, the hotel industry, in common with United States industry in general, felt acutely the effects of the sharpest post-war recession yet experienced. The industry's average room occupancy for this period dropped five percentage points below that for the corresponding period of the preceding year.

In the final six months of the year, as the resilient United States economy recovered from its temporary set-back, the sharp downward trend of room occupancy eased somewhat. For the year as a whole, room occupancy for the industry averaged 67 per cent, compared with 70 per cent in 1957.

While your Company could not escape the effects of the business readjustment in 1958, it experienced higher occupancy than the industry as a whole. The average room occupancy for the 33 hotels in the organization last year was 69 per cent, or two percentage points above the average of the industry.

Revenues accounted for by the Company's various operating departments, together with the previous year's comparative figures, were as follows:

	1958	1957
Rooms.....	\$ 91,337,695	\$ 87,637,170
Food and Beverage.....	97,716,369	92,342,835
Other Operated Departments..	15,981,552	15,546,591
Store Rentals.....	3,226,803	3,043,641
Office Building Rentals.....	1,051,240	1,038,372
Interest on Investments.....	986,424	1,028,392
Other Income.....	4,792,358	4,674,023
TOTAL.....	\$215,092,441	\$205,311,024

EARNINGS: Earnings improved modestly over 1957, a significant achievement in view of the lower occu-

pancy attributable to the year's economic uncertainties. Consolidated net profit amounted to \$10,103,190 in 1958. This was equal, after preferred dividends, to \$2.47 per share on the 3,856,166 shares of common stock outstanding at December 31, 1958. In 1957, consolidated net profit was \$10,063,618, or \$2.42 per share on the 3,938,671 shares of common stock then outstanding.

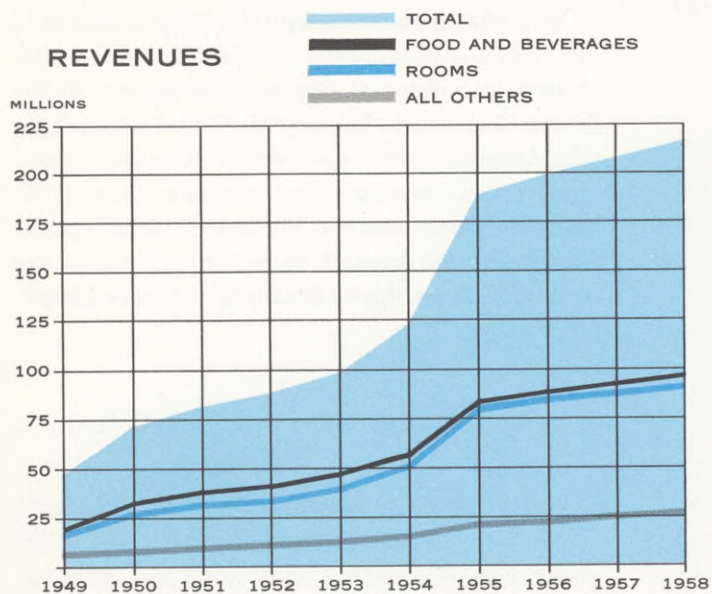
Both periods include substantially equal profits from the sale of properties in prior years. The gain from this source included in the 1958 net profit was \$1,399,424, equal to 36 cents per common share. In 1957, the figure was \$1,454,554, or 37 cents per share. Both figures are after provision for income taxes at the capital gains rate.

Operations in 1958 produced net profit of \$8,703,766, which was equal to \$2.11 per share on the common stock. In 1957, net profit from operations was \$8,609,064, or \$2.05 per common share. The increase in per share earnings from operations amounted to three per cent.

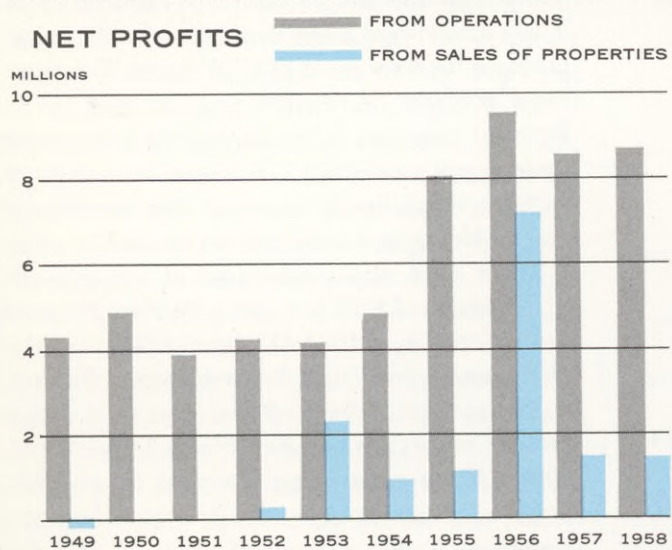
Percentage-wise, earnings did not increase as much as revenues. Repairs and maintenance expenditures, aimed at keeping the Company's properties in their traditional excellence, continued at a high level but were below those of 1957, reflecting the completion of major modernization projects. However, the savings were more than offset by losses experienced at The Habana Hilton, resulting from the political turbulence in Cuba. Because of these losses, Hilton Hotels International made no contribution to 1958 earnings, whereas it contributed \$376,232 to earnings in 1957.

The 250,000 shares of common stock of Hotel Corporation of America held by the Company were sold at \$6.00 per share, at which amount the shares were carried on the books of the Company.

REVENUES



NET PROFITS



Unbroken Record of Quarterly

The 50th consecutive quarterly dividend was paid to common stockholders on March 2, 1959. This was the regular quarterly dividend of 30 cents per share, declared on January 23, 1959. Dividends on the common stock were paid at the regular quarterly rate of 30 cents per share throughout 1958. Payments were made on March 1, June 2, September 2, and December 1, bringing the total for the year to \$1.20 per share, the same as the previous year.

Capital Changes...

The number of common shares of Hilton Hotels Corporation outstanding at December 31, 1958, was 3,856,166, compared with 3,938,671 outstanding a year earlier. The number outstanding was increased by the conversion, on January 2, 1958 (the date of expiration of the conversion privilege) of \$488,300 principal amount of 4½% convertible debentures into 21,929 shares of common stock. This increase was more than offset by the repurchase for the treasury of 112,700 shares. The repurchase program, authorized early in 1958 by the Board of Directors, is for the purpose of acquiring those shares which had been issued in connection with the acquisition of properties subsequently sold and no longer providing income to the Company.

There were also outstanding at the year-end 52,900 shares of \$100 par value, 5% First Preferred Stock, Series A, and 241,419 shares of \$25 par value 5½% Cumulative Voting Preferred Stock, Series A.

The merger of Savoy-Plaza, Inc., and Hilton Hotels Corporation became effective December 31, 1958. Of the outstanding shares of Savoy-Plaza, Inc., 83.73% had been previously acquired by your Company. Two and one-half shares of 5½% Cumulative Voting Preferred Stock, Series A, and two shares of common stock of this Company were offered to the holders of each share of Class A and



Dividends Maintained

Regular quarterly dividends were paid also on the 5% First Preferred Stock, Series A, and on the 5½% Cumulative Voting Preferred Stock, Series A.

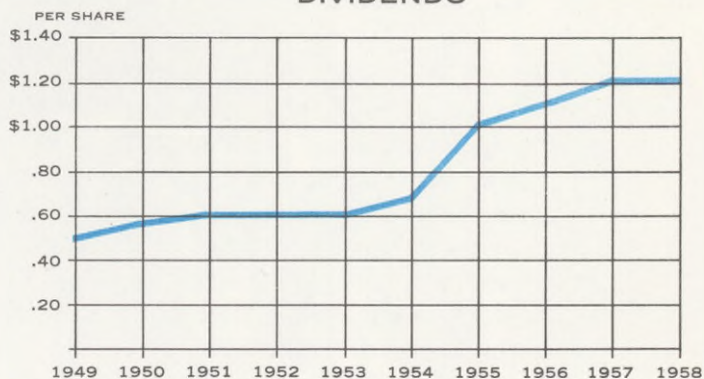
Dividend payments totaled \$5,296,820 on all classes of capital stock in 1958, compared with \$5,232,995 the year before. After dividend payments, \$4,806,370 of the year's net profit remained to provide for the continued growth of the Company, compared with \$4,830,623 for the previous year.

Class B common stock of Savoy-Plaza, Inc., not owned by this Company. Accordingly, 8,022 shares of 5½% Cumulative Voting Preferred Stock, Series A, and 6,418 shares of common stock of this Company were issued. Certain holders of the stock of Savoy-Plaza, Inc., dissented and have subsequently perfected their legal rights, and appraisal proceedings are pending to determine the fair cash value of their stock. As a result of this merger, the corporate structure of your Company was further simplified.

The book value per share of common stock of Hilton Hotels Corporation on December 31, 1958, was \$21.64, compared with \$20.35 a share at the close of the previous year. Book value, of course, reflects, among other things, the original cost to the Company of its assets, less accumulated depreciation. It does not reflect the rise in recent years in the fair market value for such assets. To illustrate this, The Conrad Hilton is now carried on our books at \$8,661,193, but could be sold for several times this amount in today's market.

Common stocks of major hotel companies are currently being accepted by private and institutional investors as attractive vehicles for income and capital growth. Over 500,000 shares, or 13 per cent, of Hilton common stock are presently held by investment trusts, banks, and pension funds.

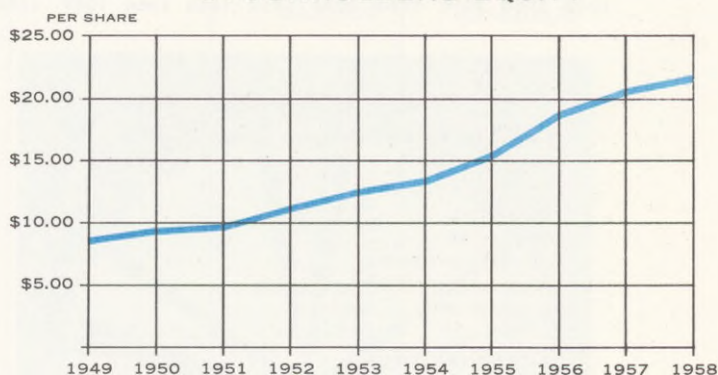
DIVIDENDS



EARNINGS



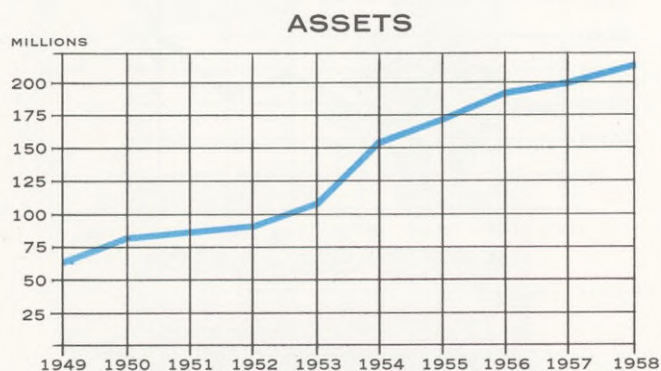
STOCKHOLDERS EQUITY



Our Financial Condition is Stronger than Ever...

The financial strength of Hilton Hotels Corporation was further increased in 1958. Working capital at the year-end amounted to \$20,917,237, or \$5.42 per share of common stock, compared with \$15,106,748, or \$3.84 per share a year earlier. Current assets totaled \$55,032,244, of which cash amounted to \$31,392,070. The 1957 year-end balance sheet showed current assets of \$44,746,273, including cash of \$22,178,587.

Unrealized profits from the sale of properties amounted to \$15,327,204 at the 1958 year-end. This is equal, after provision for taxes at the current capital gains rate, to \$2.98 per share, based on the common shares outstanding at December 31, 1958. This profit will be taken into the Corporation's income as realized over the ensuing eight years.



THE HILTON DOLLAR

INCOME FROM OPERATIONS

Rooms.....	42.5¢
Food.....	33.0
Beverages.....	12.4
Telephone.....	3.0
Other Departments.....	4.4
Store & Office Building Rentals.....	2.0
Other Income.....	2.7
	<u>\$1.00</u>

EXPENDITURES

Payroll & Related Expenses.....	40.0¢
Cost of Goods Sold.....	17.3
Other Expenses.....	14.2
Repairs and Maintenance (excluding payroll).....	3.0
Property Taxes.....	3.4
Lease Rentals.....	8.2
Interest on Borrowed Money.....	1.4
Income Taxes.....	4.5
Dividends.....	2.4
Depreciation.....	4.0
Reinvested in the Business.....	1.6
	<u>\$1.00</u>

Long Range Financing

Regular installments on the Company's funded and long term debt were paid in 1958 in the total amount of \$7,416,697, in addition to the conversion into common stock of \$488,300 of 4½% fifteen-year convertible debentures. These reductions are detailed in the accompanying analysis.

The long term debt was increased by three transactions. One was a \$13,000,000, five-year, 5% term loan from a group of banks headed by The First National Bank of Boston. Repayments on this loan are being made from the proceeds the Company receives from certain property sales made in prior years. Hilton Hotels International, Inc., drew down \$500,000 pursuant to the provisions of a loan agreement with The First National Bank of Boston, represented by a three-year 5% promissory note. The debentures of Metropolitan Hotel Corporation, of which \$2,750,000 are outstanding in the hands of the public, were issued in connection with the financing of the Hilton Hotel in Portland, Oregon.





Bolsters Our Growth...

ANALYSIS OF CONSOLIDATED LONG TERM DEBT

	BALANCE DECEMBER 31, 1957	ADDITIONS DURING 1958	REDUCTIONS DURING 1958	BALANCE DECEMBER 31, 1958
MORTGAGE BONDS AND NOTES				
The Palmer House.....	\$12,000,000.00	\$ —	\$ 560,000.00	\$11,440,000.00
The Conrad Hilton.....	5,200,000.00	—	300,000.00	4,900,000.00
Waldorf-Astoria Laundry.....	210,242.58	—	18,456.68	191,785.90
The Shamrock Hilton.....	12,267,000.00	—	308,000.00	11,959,000.00
Hilton Hotel, San Antonio.....	362,500.00	—	50,000.00	312,500.00
The Terrace Hilton.....	7,711,722.46	—	260,107.74	7,451,614.72
The Savoy Hilton.....	2,368,759.01	—	134,219.73	2,234,539.28
DEBENTURES				
2% Hilton Due 11/1/64.....	1,500,000.00	—	—	1,500,000.00
4% Hilton Due 7/1/77.....	4,669,000.00	—	152,000.00	4,517,000.00
4½% Hilton Due 1/1/70.....	2,723,300.00	—	488,300.00	2,235,000.00
4% Metropolitan Hotel Corporation.....	—	2,750,000.00	—	2,750,000.00
OTHER NOTES				
Installment Purchase Contract.....	2,250,000.00	—	100,000.00	2,150,000.00
Waldorf-Astoria Laundry.....	559,900.00	—	40,720.00	519,180.00
The Waldorf-Astoria.....	400,000.00	—	400,000.00	—
Hilton Hotels International.....	296,712.25	—	50,000.00	246,712.25
The Statler Hilton, New York.....	1,900,000.00	—	400,000.00	1,500,000.00
Hilton Hotels Corporation.....	8,000,000.00	—	2,000,000.00	6,000,000.00
Hilton Hotels International.....	300,000.00	—	25,000.00	275,000.00
Hilton Hotels Corporation.....	—	13,000,000.00	2,556,192.96	10,443,807.04
Hilton Hotels International.....	—	500,000.00	—	500,000.00
Sundry.....	216,500.00	—	62,000.00	154,500.00
TOTAL.....	\$62,935,636.30	\$16,250,000.00	\$7,904,997.11	\$71,280,639.19



Enhancing Your Investment...

Expenditures for modernization in 1958 amounted to \$4,829,073, down sharply from the \$7,644,055 expended the previous year. The decline was occasioned by the completion, in 1957, of several major capital programs, such as installation of air conditioning in a number of the larger Hilton hotels.

However, improvement to Hilton properties is a never-ending process. Thus, programs of varying degrees of complexity were completed, or undertaken, at a large number of hotels during 1958.

The improvements ranged from the building of a new marquee and canopy at The Shamrock Hilton in Houston to the completion, at The Beverly Hilton, of the spectacular new International Ballroom, the largest in the West, with a seating capacity accommodating 1,700 guests.

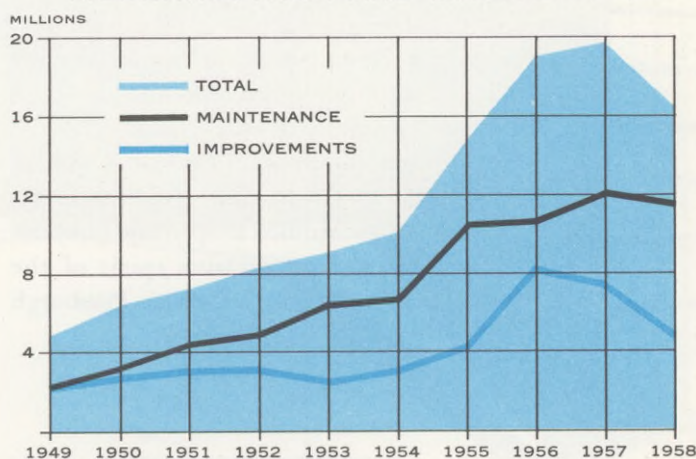
A contract was signed to install an automatic dial telephone system in all 2,230 Palmer House guest rooms. The system is patterned after that in service at The Waldorf-Astoria and at The Queen Elizabeth. It will enable guests to dial direct to all other Palmer House phones, all local Chicago phones, and about 100 suburban communities, without going through the hotel switch board. Electronic counters will automatically record these calls for billing. Another feature of the system is a light on the instrument to indicate if any messages have been received during a guest's absence.

The San Antonio Hilton Hotel completed alterations and revisions to its ground floor in 1958, and in January, 1959, opened a ballroom with banquet and luncheon facilities for 1,500 persons. The first floor area includes, in addition to a fresh new lobby, the private membership Alamo Club and the adjoining Grill Room, which seats 308 guests. The new Hilton Steak House overlooks the recently-completed swimming pool. Two other restaurants, The Coffee House and The Night Owl, were also remodeled. The latter is open twenty-four hours daily for guest convenience.

A fourth "Trader Vic's" restaurant was opened in The Savoy Hilton in April. It is similar to those already in operation in The Beverly Hilton, The Palmer House, and The Habana Hilton. This outstandingly successful restaurant comfortably seats over 500, and boasts two private dining rooms—The Admiral's Cabin, and The Pukka.

Other noteworthy improvements made during the year included the opening, by the Albuquerque Hilton Hotel, of "El Seville," a smart new restaurant, and the completion of a luxurious new presidential suite at The Savoy Hilton. The King's Bar, and a new coffee-and-snack room, replaced two shops in the Los Angeles Statler Hilton, providing a substantial increase over revenues formerly received from this space. The Beverly Hilton, in addition to the spacious new International Ballroom, added the Town and Country restaurant, which was constructed in space made available under the ballroom.

MODERNIZATION AND MAINTENANCE



New Domestic Hotel Openings Scheduled...

While international expansion drew the spotlight because of three openings, the Company also moved ahead rapidly to meet the increasing demand for hotel space within the United States. Work was commenced on plans during 1958 for new Hilton hotels in San Francisco, California, and Portland, Oregon, and construction proceeded on The Pittsburgh Hilton and The Denver Hilton.

Consideration is being given to a \$25 million, 1200-room hotel to be erected on a site in downtown San Francisco, bounded by O'Farrell, Mason, Taylor, and Ellis Streets, adjoining the new air terminal building. This site was acquired, at a cost of \$3,184,090, by King Management Company, a wholly owned subsidiary of this Company. Plans being prepared will emphasize landscaping, outstanding public rooms, and functional layout, and will incorporate a number of advances in design.

The Portland Hilton is to be a \$10 million, 17-story, 500-room structure in the shadow of beautiful Mt. Hood. It will be landscaped in scenic plazas and gardens, and equipped with the most modern innovations in hotel construction. A cocktail lounge and dining room on the roof will overlook the city. The hotel will be owned by Metropolitan Hotel Corporation, which was organized for this purpose by a group of leading Portland citizens. Metropolitan Hotel Corporation is now a wholly owned subsidiary of your Company.

The Pittsburgh Hilton, a 22-story, \$15 million hotel in the Gateway Center district of Pittsburgh's Golden Triangle, is scheduled to open late this year. In keeping with the progressive spirit of the Gateway development, the 800-room Pittsburgh

Hilton will be as modern as technology and the science of hotel operations will permit.

In September, Hilton Hotels Corporation signed an agreement with Webb & Knapp, Inc., to operate an 843-room hotel currently under construction in its Courthouse Square development in Denver. Under the terms of the agreement, Hilton Hotels Corporation will lease the hotel from Webb & Knapp, Inc., for 35 years, with options for three extensions of 25 years each. Rental above a fixed minimum is based on a percentage of profits. The 21-story Denver Hilton will have the largest convention facilities in the Rocky Mountain area. Its opening is scheduled for early next year.

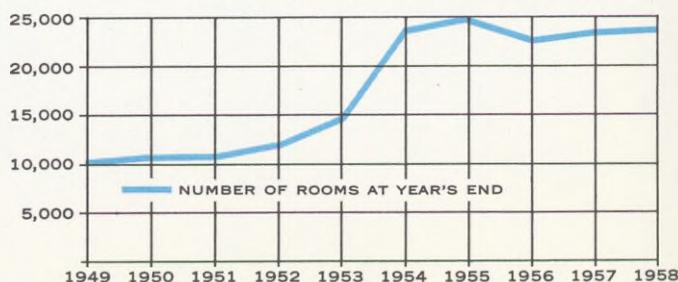
Facilities in the Courthouse Square development which will not be operated by your Corporation include a department store, specialty shops, an underground parking facility for 2,000 cars, and a plaza area with an ice skating rink. The entire project totals more than 2 million square feet.

The Denver Hilton has four underground levels, including a concourse connecting the hotel and the department store. A tea room in the concourse will be operated by the hotel. A bridge over Court Place will also connect the hotel and department store. The lobby will have direct access to private dining rooms, assembly rooms, cocktail lounge, and ballroom. The ballroom, one of the largest in the nation, will accommodate 2,500 persons.

In July, 1958, the San Antonio Hilton Hotel completed the addition of 50 guest rooms in a separate building located across the street from the hotel. The San Antonio Hilton Inn features a swimming pool and garden area lined with palm trees.



DOMESTIC EXPANSION





The luxurious 21-story, 843-room Denver Hilton will have four underground levels, one of the nation's largest ballrooms, and the best convention facilities in the Rocky Mountain area.

Hilton Inns...for the Traveler

The groundbreaking in June for the \$2½ million San Francisco Hilton Inn inaugurated a major new type of expansion. The Inn is located on a ten acre site a half mile west of the terminal building of the San Francisco International Airport. This is the first step in a program which may well become the fastest area of growth for the Corporation's revenues and earnings over the next few years.

The 300 guest rooms will be arranged in a pair of two-story buildings facing each other across a 100 foot wide garden and patio, which will contain two swimming pools. The buildings will be connected by covered passageways. Floor-to-ceiling sliding glass doors in each room will open onto an enclosed balcony. Television, broadcast FM music, and hi-fi radio, individually controlled air conditioning, automatic dial telephones, and sound proofing will be standard. A separate circular building will house two restaurants, private dining rooms, a kitchen, a cocktail lounge, and administrative offices. Parking areas will accommodate 500 cars. The Inn is expected to open on or about May 1, 1959.

A private club, to be known as The International Club, will be an outstanding feature of the San Francisco Hilton Inn. It will have separate facilities, including a dining room and cocktail lounge with orchestra and nightly dancing, swimming pool with lockers, steam baths and massage. It is contemplated that each Hilton Inn to be constructed will have a similar club and a membership card in

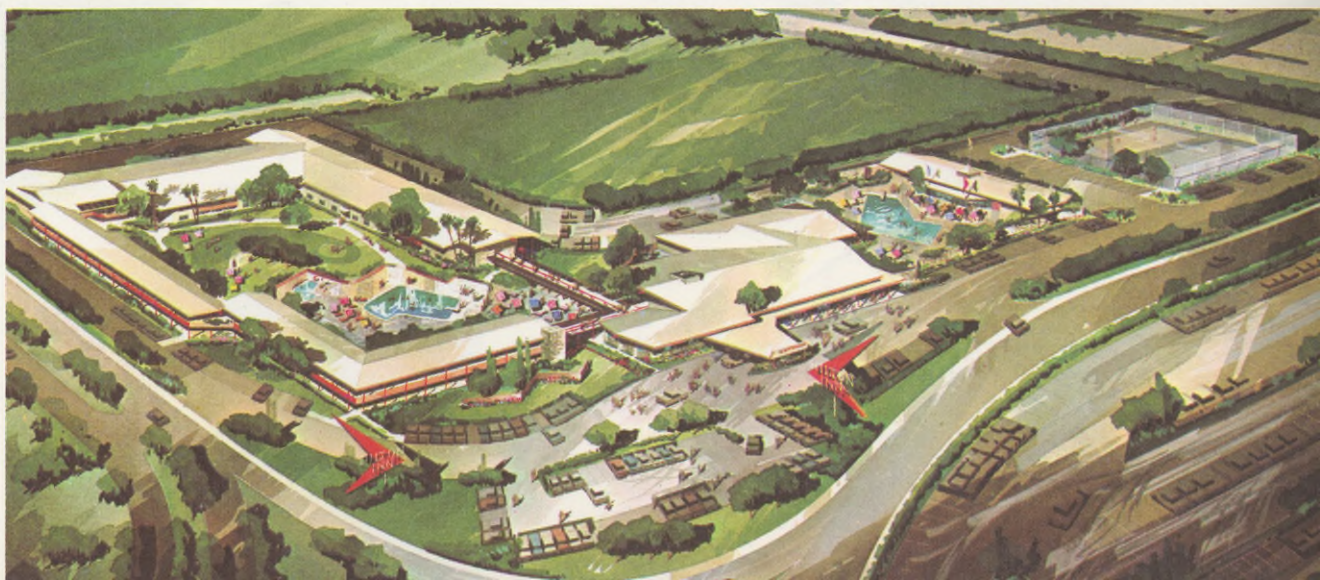
one club will be honored in all the others.

A 310-room Hilton Inn is scheduled for opening about May 15, 1959, opposite Moisant International Airport, serving New Orleans. This Inn will combine the best features of a resort, private club, fine restaurant, and convention center, and will be fully air conditioned. It will have three restaurants, two cocktail lounges, two swimming pools, a wading pool, and parking for 500 cars.

Another Hilton Inn is planned for Tarrytown, New York, on a ten acre tract on the New York Thruway near the Tappan Zee Bridge. The site is 20 miles from midtown Manhattan, and is easily accessible by the New York and New England Thruways, the Cross Westchester Expressway, Saw Mill River Parkway, and other main thoroughfares. This Inn, according to present plans, will contain 200 Rooms, cost \$2 million, and will be completely air conditioned. A central building, patterned after the San Francisco Hilton Inn, is planned to contain public areas, restaurants, and a cocktail lounge. Architecturally, the design will be patterned after the Dutch and Colonial themes reminiscent of the Washington Irving country in which it is to be located. Interior decor will follow the same pattern. The Inn should open in 1960.

Agreements were recently reached for the construction of a 150-room Hilton Inn adjacent to the El Paso (Texas) Airport. Plans are now being drawn, and actual construction will soon begin.

Plans are being drawn for an ultra-modern 150-room Hilton Inn, to be situated adjacent to the airport at El Paso, Texas.



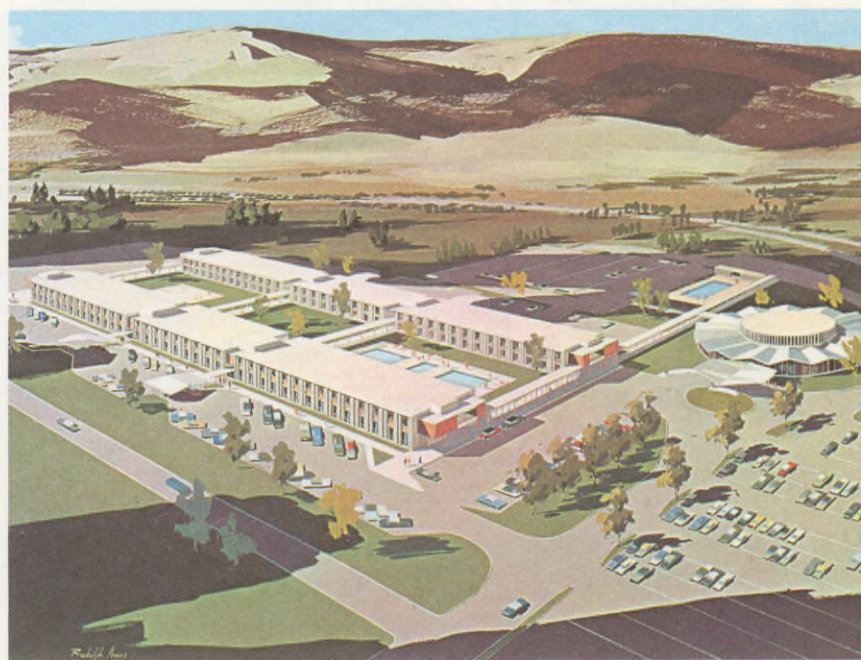


Tarrytown, New York will be the site of this air-conditioned 200-room Hilton Inn, just 20 miles from midtown Manhattan.

The San Francisco Hilton Inn is located on a ten-acre site just west of the International Airport terminal building.

These inns will supplement Hilton's downtown facilities. Many other possible sites have been suggested by civic leaders desirous of adding attractive Hilton establishments to their communities.

It was deemed advisable to organize a wholly owned subsidiary known as Hilton Inns, Inc. It is contemplated that, in those instances in which agreements have been entered into by this Company for the construction and operation of Hilton Inns, the obligations under these agreements, and the operation of the Hilton Inns, will be transferred to this new subsidiary. In New Orleans, although the lease was entered into by Hilton Inns, Inc., your Company is guaranteeing the minimum rental for a period of years. It is hoped that Hilton Inns, Inc., will be able to negotiate new deals in the future, and to arrange for financing, without further financial assistance from this Company.

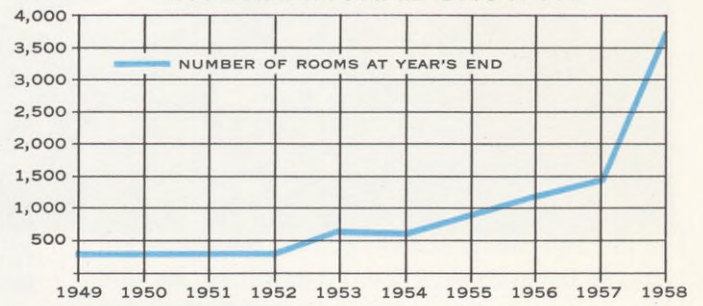


Tropical gardens are a feature of this 310-room Hilton Inn, opposite Moisant International Airport, serving New Orleans.





INTERNATIONAL GROWTH



Towering above the banks of the Nile, the 400-room Nile Hilton occupies the finest site in age-old Cairo, and rivals the Pyramids and Sphinx as a tourist attraction.



We Broaden Our International Scope...

The opening of three hotels, and the final preparation for a fourth, made 1958 the biggest year in the history of Hilton Hotels International. The addition of The Habana Hilton, The Queen Elizabeth, and The Berlin Hilton brought the number of Hilton Hotels in operation outside the continental limits of the United States to eight. It more than doubled the size of the International operation, bringing the total number of available guest rooms to 3,759, from a total of 1,427 at the close of 1957.

The Habana Hilton, a 630-room, 30-story skyscraper, is the tallest building in Latin America. Each of the beautifully decorated rooms and suites has a spacious private balcony offering a panoramic view of either historic Morro Castle, the city of Havana, or its famous harbor. It was built at a cost of \$24,000,000, and is owned by the Retirement Fund of the Catering Workers Union, many of whose members are employed in the hotel.

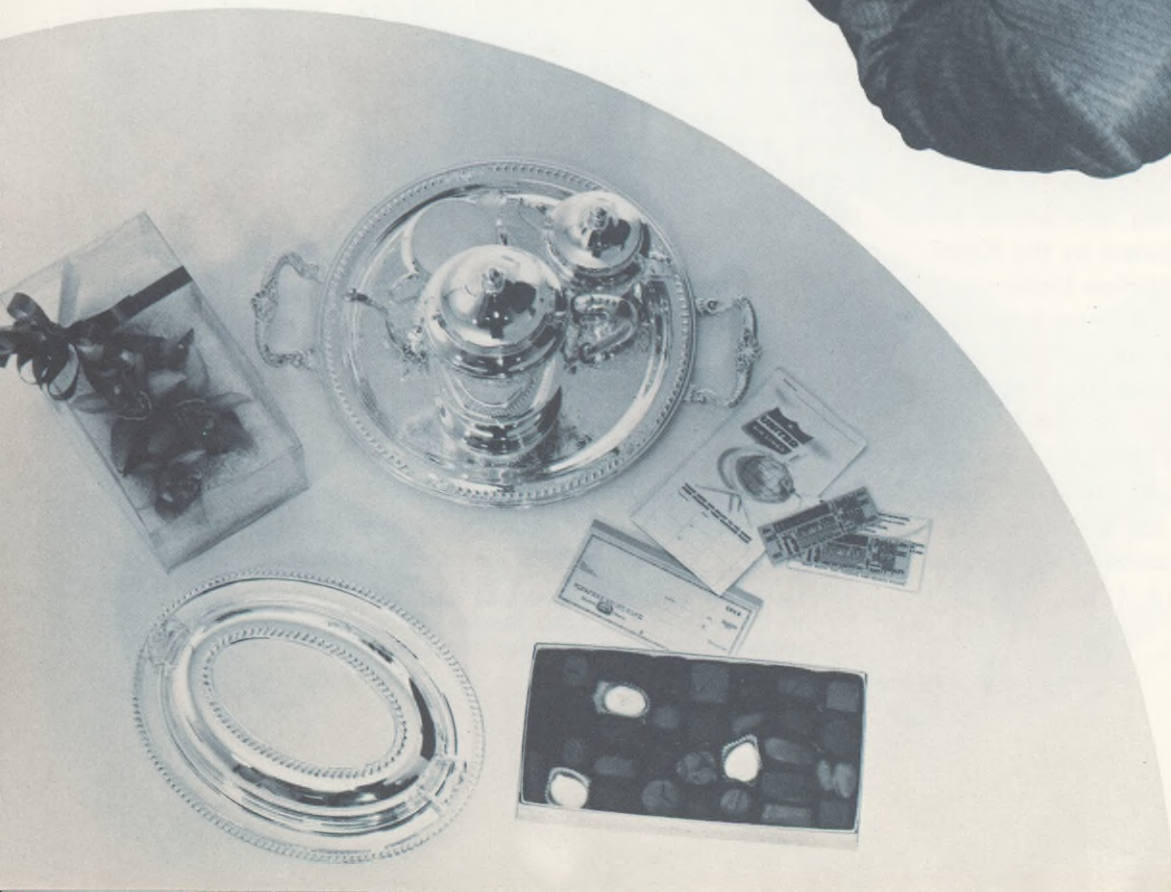
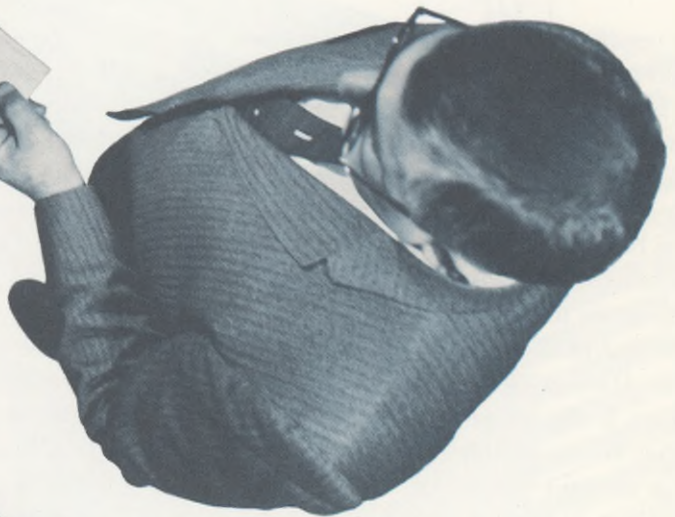
Canada's newest and most cosmopolitan hotel, The Queen Elizabeth, was opened in Montreal on April 15. Owned by the Canadian National Railways, and operated by Hilton Hotels International, this 1,200-room hotel is the most modern in the entire British Commonwealth, and the largest property in the Hilton Hotels International operation.

The Berlin Hilton was dedicated on November 29, to the tune of ominous warnings from Russia for Westerners to vacate the city. Our clear affirmation, in the hotel's dedication ceremonies, that Hilton hotels are not built where there is no future for them, proved a memorable and stirring occasion for all citizens of West Berlin. The 347-room Berlin Hilton is the first major new hotel built in West Berlin since the War, and combines modern and functional design with the finest of German art, decorations, and furnishings. It is a 13-story structure overlooking Berlin's famed Zoological Gardens, and was built at a cost of \$6,000,000. The Berlin Hilton features facilities for social functions, public meetings and exhibitions, professional and business conventions, and cultural activities.

The newest hotel in the International operation, and the 34th Hilton hotel, was formally dedicated in Cairo, Egypt, on February 22, 1959. The Nile Hilton, a luxurious 400-room hotel, occupies the finest site in the age-old city on the banks of the world's longest and most famous river.

Hilton hotels will be under construction in Amsterdam, Rotterdam, Athens, and Port-of-Spain, Trinidad, in 1959. Other hotels have been contracted for in Tokyo, Bangkok, Rome, and London.

Carte Blanche
Your Key to the World...



The ultimate in credit credentials, "Hilton Carte Blanche," the new, all-purpose credit card, was created in October. An affiliate, Hilton Credit Corporation, has been formed, and will commence operations about April 1, 1959. This new company currently has 2,927,383 shares of \$1 par value common stock, issued and outstanding, of its authorized 5,000,000 shares. Hilton Hotels Corporation owns 1,000,000 of the shares, or 34 per cent, which it received in return for transferring the established credit card list, numbering almost one million, and other assets of Hilton Hotels' Central Credit Card Department. The other 66 per cent of the shares were issued pursuant to an offering of rights to Hilton stockholders, by which they could purchase, at a subscription price of \$3.25, one share of Hilton Credit for each two shares of Hilton Hotels common stock held by them. In addition to the approximately \$6,000,000 equity capital raised through the offering, the credit card company has arranged for banking lines of credit aggregating \$22,000,000.

The holders of the established Hilton card formed the nucleus for Carte Blanche, but the list is being expanded daily. The card will be honored for Hilton Hotels' goods and services, as well as at other carefully selected establishments now being signed, which are known as Associates. These include such businesses as other hotels, transportation lines, restaurants, gasoline stations, gift shops, ticket agencies, and automobile rental agencies. Hilton Credit Corporation has worked out a comprehensive plan which has distinct advantages for an Associate, namely, immediate payment for charge accounts, elimination of bookkeeping, and lower rates. Hilton Credit Corporation will derive its revenue from the discounting of charge accounts, and from an annual membership fee of \$6 for the use of Carte Blanche outside of Hilton Hotel properties.

Over 32,000 Mobil service stations in 43 states will become Associates under an agreement reached in February with Socony Mobil Oil Company. This is the first agreement between a national oil marketer and an all-purpose credit card company.

Carte Blanche was created in response to requests

from Hilton credit card holders who felt the need for a more widely-recognized credit credential. After discussions with other credit card organizations, it was decided that operation by a Hilton affiliate would provide maximum assurance that Hilton's high standards would be maintained.

It is intended that Carte Blanche will be more useful in more places, and in more ways, than any other credit card in existence. This added convenience to the traveling public should stimulate increased business at Hilton hotels.

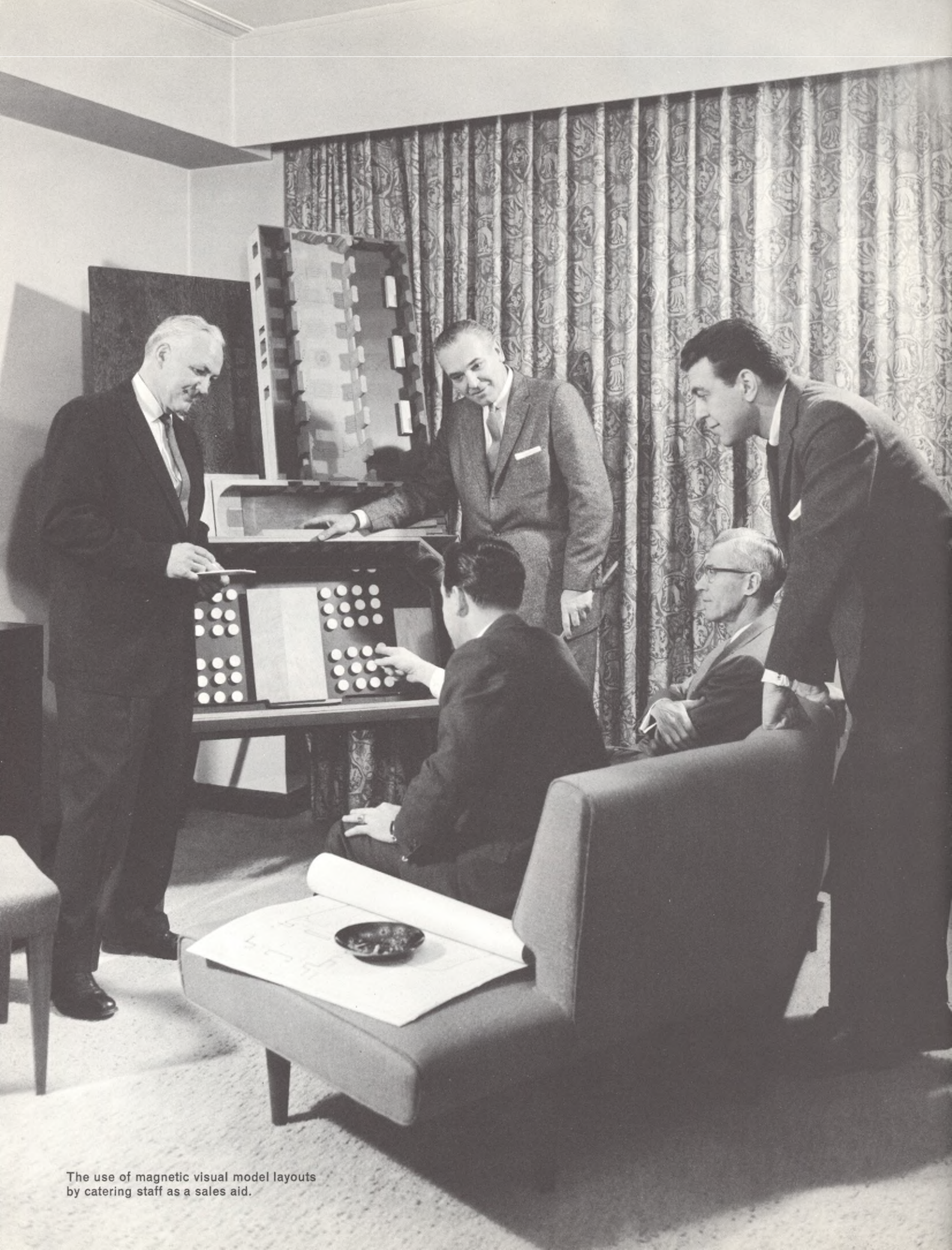
The history of the term *carte blanche* is unusually colorful. In 1461, *carte blanche* meant a hand without picture cards, in a game called Piquet. A player received a ten-point bonus for holding such a hand. The words *carte blanche* symbolized extra power, and gradually became associated with any white paper which gave the owner unlimited authority to act as he pleased. The first political use of the words concerned Charles II of England. In 1649, in a maneuver to save his father's life, he sent Parliament *carte blanche*, to be filled in with whatever terms it suggested. Parliament ignored the offer, and Charles I was executed.

In the early eighteenth century, Louis XIV did much to both popularize the phrase and make it unpopular at the same time. He used *carte blanche* indiscriminately to break his enemies. The term soon spread to the military, with whom it became a synonym for "unconditional surrender."

In Addison's *Spectator*, a popular publication of the day, the phrase retained a military meaning, but now concerned the War of the Sexes. Quoting the *Spectator*: "I threw her *carte blanche* . . . desiring her to write upon it her own terms."

In 1766, Prime Minister William Pitt made an official list of all the occasions upon which he had used *carte blanche* during his lengthy and distinguished tenure of office. Among the populace, reports the Oxford English Dictionary, the term had come to mean "full discretionary power."

And . . . there the phrase rested, much used but infrequently held, until the Hilton Hotels Corporation infused it with fresh new meaning.



The use of magnetic visual model layouts by catering staff as a sales aid.

Your Executive Staff Strengthened by New Members

Robert P. Williford was elected to the Executive Committee of the Board of Directors on July 25. Mr. Williford is executive vice president and a director of Hilton Hotels Corporation, and is also vice president and director of Hilton Hotels International, Inc., Statler Hotels Delaware Corporation, and Hilton Credit Corporation.

On April 25, William J. Friedman, and Conrad N. Hilton, Jr., were elected vice presidents. Mr. Friedman has been secretary and general counsel of the Company since its organization in 1946. He is senior partner of the Chicago law firm of Friedman, Zoline and Rosenfield. Mr. Hilton is a vice president of Hilton Center, Inc., which operates The Shamrock Hilton and The Deshler Hilton, and has been active in real estate negotiations for new hotels.

During the year, Mr. Williford, as well as Benno

M. Bechhold, Robert J. Caverly, and Arthur Elmiger, were elected directors of Hilton Hotels International, Inc. Mr. Elmiger also was elected senior vice president of the International company, and Mr. Caverly was elected vice president and general manager of that company. Mr. Elmiger is in charge of Caribbean and Latin American operations. Mr. Bechhold is a director, and Mr. Caverly is a vice president, of Hilton Hotels Corporation.

Donald M. Mumford and Sidney H. Willner were elected vice presidents of Hilton Hotels International, Inc. Mr. Mumford is general manager of The Queen Elizabeth, while Mr. Willner is house counsel for the International Company.

John W. Houser tendered his resignation in December as executive vice president and director of Hilton Hotels International.

Employee relations...Harmony and Progress

The more than 25,000 men and women who administer, staff, and service the 34-hotel Hilton system, continued to set new standards of excellence in 1958. Since your Company has only service to sell, it is imperative that all employees demonstrate a personal interest in patrons' welfare at all times.

Your Company's employee relations have reflected recognition of mutual responsibilities on the part of management and employees. The company makes available group insurance plans under which it pays the entire cost of life insurance, hospital, surgical, and medical benefits. The Company in addition shares the cost of supplementary life insurance for qualifying employees.

A pension plan is provided for retired employees. Contributions by the Company, its subsidiaries, and affiliates for 1958 totaled \$1,052,285.16.

In the belief that large corporations must share the responsibilities for providing educational opportunities for deserving students, Hilton Hotels Corporation sponsors scholarships at such well-known institutions as Cornell University's School of Hotel Administration. Hilton Hotels International sponsored Cornell's first such scholarship for assistance to foreign students. Additional educational sponsorship is provided Hilton employees interested in furthering their careers by undertaking specific academic courses related to the hotel industry.

To help provide the two-way communication essential in the far-flung Hilton organization, the monthly employee publication, "Hiltonitems," serves as a valuable tool. While devoted primarily to news of employee activities, the magazine also keeps its readers abreast of management policies.



CONSOLIDATED

ASSETS

	DEC. 31, 1958	DEC. 31, 1957
CURRENT ASSETS		
Cash	\$ 31,392,070.17	\$ 22,178,587.59
Accounts and Notes Receivable	\$ 15,053,106.79	\$ 14,513,819.29
Less: Reserve for Doubtful Accounts	423,115.77	397,587.53
	<u>\$ 14,629,991.02</u>	<u>\$ 14,116,231.76</u>
Inventories of Merchandise and Supplies—(At Cost)	\$ 4,130,490.73	\$ 3,723,125.19
Other Current Assets		
Installment Sales Contract and Other Notes—		
Payments Receivable within One Year—(Note 2)	\$ 2,710,988.62	\$ 2,687,363.46
Prepaid Expenses	1,668,930.75	1,463,987.47
Sundry—Other	499,772.99	576,977.84
<i>Total</i>	<u>\$ 4,879,692.36</u>	<u>\$ 4,728,328.77</u>
<i>Total Current Assets</i>	<u>\$ 55,032,244.28</u>	<u>\$ 44,746,273.31</u>
 INVESTMENTS—(Note 2)		
Capital Stocks	\$ 439,662.72	\$ 2,169,850.00
Installment Sales Contract and Other Notes	21,823,008.68	24,916,846.83
Securities and Indebtedness of Affiliate—Not Current	4,500,000.00	4,500,000.00
Other Investments	800,556.97	823,815.21
	<u>\$ 27,563,228.37</u>	<u>\$ 32,410,512.04</u>
Less: Amounts Due within One Year—(Above)	2,710,988.62	2,687,363.46
<i>Total</i>	<u>\$ 24,852,239.75</u>	<u>\$ 29,723,148.58</u>
 FIXED ASSETS—(Note 3)		
Land	\$ 24,141,919.47	\$ 20,019,401.98
Buildings	86,357,528.97	78,740,110.65
Furniture and Equipment	40,622,756.97	39,874,332.45
Leaseholds and Improvements	26,548,407.75	21,791,472.68
	<u>\$177,670,613.16</u>	<u>\$160,425,317.76</u>
Less: Reserve for Depreciation and Amortization	64,967,567.03	52,813,344.82
	<u>\$112,703,046.13</u>	<u>\$107,611,972.94</u>
Revisions and Alterations	7,524,608.59	7,346,356.05
Operating Equipment	4,748,933.84	4,487,488.38
<i>Total</i>	<u>\$124,976,588.56</u>	<u>\$119,445,817.37</u>
 OTHER ASSETS AND DEFERRED CHARGES		
Non-Operating Property—Land	\$ 324,416.27	\$ 324,416.27
Land Options	—	149,166.66
Pre-Opening and Preliminary Investigation Expenses	1,801,765.71	1,590,984.96
Organization Expenses	374,569.98	379,259.09
Unamortized Mortgage and Loan Expenses	244,859.97	293,805.87
Other Assets and Deferred Charges	1,465,134.21	865,765.89
<i>Total</i>	<u>\$ 4,210,746.14</u>	<u>\$ 3,603,398.74</u>
 TOTAL ASSETS	<u>\$209,071,818.73</u>	<u>\$197,518,638.00</u>

Notes to Financial Statements form an integral part of this statement and should be considered in connection therewith.

BALANCE SHEET

LIABILITIES

	DEC. 31, 1958	DEC. 31, 1957
CURRENT LIABILITIES		
Accounts Payable.....	\$ 9,163,423.79	\$ 6,142,007.80
Accrued Expenses and Charges.....	10,215,064.20	9,538,542.75
Long-Term Debt Due within One Year.....	7,055,288.19	5,505,312.68
Estimated Federal, State, City, District and Foreign Taxes on Income—(Based on Separate Returns of the Consolidated Companies)—(Note 4).....	6,532,538.75	7,429,438.66
Sundry—Other.....	1,148,691.88	1,024,223.10
<i>Total Current Liabilities.....</i>	<u>\$ 34,115,006.81</u>	<u>\$ 29,639,524.99</u>
LONG-TERM DEBT—(Notes 5, 7 and 9)		
Mortgage Bonds and Notes.....	\$ 38,489,439.90	\$ 40,120,224.05
4% Debentures.....	4,517,000.00	4,669,000.00
2% Debentures.....	1,500,000.00	1,500,000.00
4½% Fifteen-Year Convertible Debentures.....	2,235,000.00	2,723,300.00
4% Twenty-Five Year Sinking Fund Debentures.....	2,750,000.00	—
Bank Loans and Other Notes Payable.....	21,634,699.29	13,706,612.25
Sundry—Other.....	154,500.00	216,500.00
	<u>\$ 71,280,639.19</u>	<u>\$ 62,935,636.30</u>
Less: Amounts Due within One Year—(Above).....	7,055,288.19	5,505,312.68
<i>Total Long-Term Debt.....</i>	<u>\$ 64,225,351.00</u>	<u>\$ 57,430,323.62</u>
DEFERRED INCOME		
Unrealized Profit on Sale of Properties—(Note 2).....	\$ 15,327,204.00	\$ 17,150,348.46
Sundry—Other.....	105,759.64	109,828.53
<i>Total Deferred Income.....</i>	<u>\$ 15,432,963.64</u>	<u>\$ 17,260,176.99</u>
RESERVES—SUNDRY	<u>\$ 517,093.08</u>	<u>\$ 532,940.45</u>
MINORITY INTEREST	<u>\$ —</u>	<u>\$ 1,399,792.43</u>
CAPITAL STOCK AND SURPLUS		
Capital Stock—(Notes 6 and 9)		
Cumulative First Preferred, Issuable in Series, Par \$100.00. Authorized, 57,000 Shares, Issued and Outstanding—5% Series "A"—52,900 Shares.....	\$ 5,290,000.00	\$ 5,290,000.00
Cumulative Preferred, Issuable in Series, Par \$25.00, Authorized 500,000 Shares. 5½% Series "A" Authorized 278,733 Shares, Issued and Outstanding 241,419 Shares at December 31, 1958 and 233,214 Shares at December 31, 1957.....	6,035,475.00	5,830,350.00
Common, Par \$2.50, Authorized 8,000,000 Shares, Issued 4,464,283 Shares at December 31, 1958 and 4,435,721 Shares at December 31, 1957 (Including 608,117 and 497,050 Shares in Treasury—See Below).....	11,160,707.50	11,089,302.50
Scrip.....	51.50	76.31
<i>Total Capital Stock.....</i>	<u>\$ 22,486,234.00</u>	<u>\$ 22,209,728.81</u>
Surplus		
Capital Surplus.....	\$ 27,853,327.48	\$ 26,505,819.84
Earned Surplus—(Note 9).....	52,060,569.06	47,254,199.63
Reserve for Contingencies.....	500,000.00	500,000.00
<i>Total Surplus.....</i>	<u>\$ 80,413,896.54</u>	<u>\$ 74,260,019.47</u>
<i>Total Capital Stock and Surplus.....</i>	<u>\$102,900,130.54</u>	<u>\$ 96,469,748.28</u>
Deduct: Common Stock in Treasury—(At Cost)		
608,117 Shares at December 31, 1958 and 497,050 Shares at December 31, 1957..	8,118,726.34	5,213,868.76
	<u>\$ 94,781,404.20</u>	<u>\$ 91,255,879.52</u>
COMMITMENTS AND CONTINGENT LIABILITIES—(Notes 7 and 8)		
TOTAL LIABILITIES.....	<u>\$209,071,818.73</u>	<u>\$197,518,638.00</u>



Comparative Statement of Consolidated Income

	YEAR ENDED	
	DEC. 31, 1958	DEC. 31, 1957
GROSS OPERATING REVENUE		
Rooms Department.....	\$ 91,337,695.29	\$ 87,637,170.30
Food and Beverage Department.....	97,716,369.40	92,342,835.12
Other Operated Departments.....	15,981,551.96	15,546,591.14
Other Income.....	4,792,357.51	4,674,022.69
Store Rentals.....	3,226,802.94	3,043,640.76
	<u>\$213,054,777.10</u>	<u>\$203,244,260.01</u>
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses.....	\$117,152,633.50	\$104,240,789.52
Administrative and General Expenses.....	13,430,673.38	20,948,950.65
Advertising and Business Promotion.....	5,517,630.77	4,959,185.04
Heat, Light and Power.....	8,640,889.09	7,533,431.11
Maintenance and Repairs.....	11,481,566.38	12,071,379.80
Lease Rentals.....	17,692,714.54	16,356,813.60
Real Estate and Personal Property Taxes.....	7,352,706.47	6,853,605.75
Interest.....	2,943,520.76	2,631,683.27
Depreciation and Amortization.....	8,664,489.77	8,158,930.91
Corporate Expenses and Sundry Capital Charges.....	2,679,890.79	2,860,896.78
	<u>\$195,556,715.45</u>	<u>\$186,615,666.43</u>
NET OPERATING PROFIT.....	<u>\$ 17,498,061.65</u>	<u>\$ 16,628,593.58</u>
ADDITIONS TO OR (DEDUCTIONS) FROM INCOME		
Interest on Investment Securities.....	\$ 986,424.09	\$ 1,028,391.94
Profit from Office Buildings and Other Real Estate Operations.....	1,051,240.13	1,038,372.49
Contribution to Pension Trust.....	(1,051,475.04)	(1,061,866.27)
Property Tax Refunds.....	115,111.25	54,886.16
Income from Royalties.....	89,933.38	99,205.03
Sundry—Other.....	(267,463.20)	(174,776.00)
	<u>\$ 923,770.61</u>	<u>\$ 984,213.35</u>
PROFIT BEFORE INCOME TAXES.....	<u>\$ 18,421,832.26</u>	<u>\$ 17,612,806.93</u>
PROVISION FOR INCOME TAXES		
Federal Taxes.....	\$ 9,231,950.31	\$ 8,582,204.52
State, City, District and Foreign Taxes.....	385,105.97	301,127.46
	<u>\$ 9,617,056.28</u>	<u>\$ 8,883,331.98</u>
NET PROFIT BEFORE MINORITY INTEREST.....	<u>\$ 8,804,775.98</u>	<u>\$ 8,729,474.95</u>
MINORITY INTEREST.....	<u>101,010.24</u>	<u>120,410.35</u>
NET INCOME.....	<u>\$ 8,703,765.74</u>	<u>\$ 8,609,064.60</u>
REALIZED PROFIT ON SALE OF PROPERTIES.....	<u>\$ 1,865,898.74</u>	<u>\$ 1,939,404.82</u>
LESS:		
Taxes Applicable Thereto.....	466,474.69	484,851.20
	<u>\$ 1,399,424.05</u>	<u>\$ 1,454,553.62</u>
TOTAL NET INCOME AND PROFITS.....	<u>\$ 10,103,189.79</u>	<u>\$ 10,063,618.22</u>

Notes to Financial Statements form an integral part of this statement and should be considered in connection therewith.

Statement of Consolidated Surplus

CAPITAL SURPLUS

BALANCE—DECEMBER 31, 1957.....		\$26,505,819.84
ADD:		
Surplus Arising from Conversion of 4½% Fifteen-Year Convertible Debentures into Common Stock in Accordance with Conversion Privileges.....	\$ 433,434.81	
Surplus Arising from Exchange of \$25.00 Par Value 5½% Series "A" Preferred Stock and \$2.50 Par Value Common Stock for Common Stock of Savoy-Plaza, Inc., in Accordance with Terms of Exchange and Merger Agreements.....	197,282.71	
Surplus Arising from Adjustment of Fixed Assets and Related Depreciation Reserves of Savoy-Plaza, Inc. to Tax Basis.....	716,790.12	
		<u>1,347,507.64</u>
BALANCE—DECEMBER 31, 1958.....		<u>\$27,853,327.48</u>

EARNED SURPLUS

BALANCE—DECEMBER 31, 1957.....		\$47,254,199.63
ADD:		
Net Income and Profits for the Year Ended December 31, 1958.....		<u>10,103,189.79</u>
		\$57,357,389.42
DEDUCT:		
Dividends:		
Cumulative First Preferred Stock, 5% Series "A".....	\$ 264,500.00	
Cumulative Preferred Stock, 5½% Series "A".....	320,877.96	
Common Stock.....	4,711,442.40	
		<u>5,296,820.36</u>
BALANCE—DECEMBER 31, 1958.....		<u>\$52,060,569.06</u>

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Board of Directors and Shareholders of
Hilton Hotels Corporation

We have examined the consolidated balance sheet of Hilton Hotels Corporation and its Subsidiaries at December 31, 1958 and the related consolidated surplus and income statements for the year then ended.

These consolidated statements have been prepared from financial statements of the operating units of Hilton Hotels Corporation and its Subsidiaries which were either audited by us or by another firm of independent accountants, which firm has submitted to us a certificate concerning the underlying statements examined by them.

Our examination was 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, based upon our examination and upon the opinion expressed in the certificate of another firm of independent accountants pertaining to the operating units and companies examined by them, the accompanying consolidated balance sheet and related statements of consolidated surplus and income, together with explanatory notes thereto, present fairly the financial position of Hilton Hotels Corporation and its Subsidiaries at December 31, 1958 and the results of operations for the year then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois
March 4, 1959

HARRIS, KERR, FORSTER & COMPANY

Notes to Financial Statements

1—BASIS OF CONSOLIDATION

The consolidated statements include all subsidiaries with the exception of Hilton Credit Corporation which was carried as an investment inasmuch as this company ceased to be a subsidiary shortly after the balance sheet date. Consolidated earned surplus at December 31, 1958 included \$6,553,407, representing the combined undistributed net earnings of consolidated subsidiaries.

2—INVESTMENTS

Installment sales contract and other notes received in connection with sales of various properties since 1952 were, with the exception of a \$478,943 promissory note at December 31, 1958, secured by either first, second, chattel or real estate leasehold mortgages. These notes require various periodic payments and their maturities range from March 1, 1960 to July 1, 1976. The required payments receivable for the next five years approximated \$2,610,989, 1959; \$2,975,627, 1960; \$1,735,938, 1961; \$1,757,125, 1962; and \$2,228,828, 1963.

It is the policy to defer the profit on those sales that qualify as installment sales under Treasury regulations, taking into income that portion of the profit as applies to payments on the installment sales contract in the year in which such payments are received. At December 31, 1958, \$15,327,204 of such profit was deferred, and, accordingly, during the next five years as the aforementioned payments are received, there will be included in income (taxable at the then effective long-term capital gains rate) the following: \$1,625,542, 1959; \$1,955,214, 1960; \$1,271,180, 1961; \$1,282,401, 1962; and \$1,776,399, 1963.

On March 1, 1958 the Company entered into a 5%, \$13,000,000 bank loan agreement maturing April 2, 1963 with right to extend maturity to October 1, 1963. Payments against this loan are to equal payments received from installment sales contracts and other notes which were deposited with the lender for purposes of collection and application of proceeds from such notes under the terms of the loan agreement.

3—FIXED ASSETS

A major portion of these assets are pledged to secure mortgages or other long-term debt of the consolidated companies. Furniture, furnishings and equipment owned by the Company in "Statler Hilton Hotels" under lease from an affiliate, Statler Hotels Delaware Corporation, are pledged as additional security under a mortgage of that company. Fixed assets were carried at cost, or were carried over from predecessor companies together with

related depreciation reserves at predecessors' basis, plus additions at cost. With one minor exception, depreciation of fixed assets has been computed on the basis of the straight-line method.

4—FEDERAL TAXES ON INCOME

Federal income tax returns of the Company for the years 1951, 1952 and 1953 were examined by the Internal Revenue Service and proposed additional assessments totaling \$1,346,075 have been made which are being protested. Returns of the Company for years subsequent to 1953 and returns of subsidiaries and predecessor companies for 1953 and subsequent years are either under or subject to examination.

5—LONG-TERM DEBT

The trust indenture securing the 4½% fifteen-year convertible debentures of the Company (conversion privileges expired January 2, 1958) requires annual sinking fund payments on January 15 of each year in an amount sufficient to redeem at the principal amount without premium, 3% for each of the years through 1962 and 4% for each of the years thereafter. The Company has complied with this provision.

The 4% twenty-five year sinking fund debentures of a subsidiary are entitled to the benefit of an annual sinking fund, beginning July 1, 1962, in an amount sufficient to redeem, at their principal amount, without premium, in each year 2% of the highest principal amount at any time outstanding.

The aggregate annual sinking fund and maturity requirements on the total long-term debt at December 31, 1958 for each of the next five years ending December 31, follows: 1959, \$7,055,288; 1960, \$7,862,928, 1961, \$6,303,250; 1962, \$4,227,029; and, 1963, \$3,587,663.

6—CAPITAL STOCK

The 5% cumulative first preferred, Series "A" shares are subject to redemption, without premium, out of sinking fund payments, made on or before January 1st in each year in an amount sufficient to redeem 2% of the maximum number of such shares theretofore issued and outstanding. The Company has complied with this sinking fund provision.

The 5½% Series "A" preferred shares were issued during 1957 and 1958 in connection with an exchange of shares with stockholders of Savoy-Plaza, Inc., which Company was merged into Hilton Hotels Corporation on

December 31, 1958. These shares will be convertible into common stock of the Company at the rate of one share of common for each one and one-half shares of this series, and, at the option of the Company, such Series "A" shares will be redeemable at \$26.25 plus accrued dividends on and after January 1, 1961 to the date fixed for redemption.

7—COMMITMENTS AND CONTINGENT LIABILITIES

Contract commitments in connection with the construction of new hotel projects approximated \$8,732,116 at December 31, 1958.

The Company has subscribed for and agreed to purchase from its wholly-owned subsidiary Hilton Hotels International, Inc., at par, \$2,000,000 aggregate principal amount of 5% subordinated (sinking fund) debentures and 400,000 shares of \$5.00 par value common stock to be issued from time to time at the option of the subsidiary. The commitment is irrevocable for a period of four years from November 27, 1956, but shall expire prior thereto if and when such securities in these amounts have been purchased by the Company. At December 31, 1958, Hilton Hotels Corporation, in connection with the subscription commitment, had purchased, 320,000 shares of common stock and \$200,000 face amount of debentures.

During 1957 the Company, in connection with a lease and the construction of a hotel in Pittsburgh, Pennsylvania, entered into an Indenture of Mortgage and Deed of Trust pertaining to a \$12,000,000 issue of Leasehold Mortgage 4-4½% Sinking Fund Bonds due June 1, 1987. The Company has not issued any bonds nor drawn down any of the funds available under the mortgage at December 31, 1958.

A subsidiary entered into an agreement providing for a first mortgage construction loan in the amount of \$5,000,000 of which \$1,666,667 is to be guaranteed by the Company. At December 31, 1958 the subsidiary had not drawn any of the funds available under this agreement.

The Company is guarantor to the extent of \$1,000,000 under a \$3,000,000 long-term obligation of a subsidiary.

The Company has agreed to purchase all of the authorized capital stock of Hilton Inns, Inc., in the amount of \$5,000,000.

The Company was contingently liable to the extent of approximately \$5,000,000 as it did not receive releases from mortgagees under certain mortgages assumed by buyers of properties who, however, agreed to hold the Company harmless against any liability thereon.

8—LONG-TERM LEASES

The Company and its subsidiaries operate or will operate certain properties under leases ranging from one year and three months to forty years from December 31, 1958,

with option to renew for various periods in some instances. The total minimum annual fixed or basic rentals payable (exclusive of real estate taxes, insurance and other occupancy charges) under such leases for each of the next five years ending December 31, follows: 1959, \$11,076,600; 1960, \$9,905,100; 1961, \$9,268,700; 1962, \$8,868,700; and 1963, \$8,535,300.

The wholly-owned Subsidiary, Hilton Hotels International, Inc., has entered into leases and contracts ranging from fifteen to twenty-one years, subject to certain conditions, for the operation of hotels under construction or to be constructed in eight cities outside the continental United States. In general, "International" or its Subsidiaries is required to furnish initial inventories and to maintain sufficient working capital, except in the case of one lease, which specifies that not less than \$250,000 shall be furnished for these purposes, to be maintained for the first five years of the lease. In connection with the hotels to be constructed in the Netherlands, "International" is required to subscribe to 5% of the total cost or approximately \$500,000, and is committed to invest 500,000 pounds in an English Company to be formed for purposes of constructing a hotel in London. The terms of the leases commence either on actual occupancy or within ten days of receipt of architect's certificate of occupancy. The leases basically provide for a rental based on a percentage of gross operating profit, with certain specific rental obligations.

9—LIMITATIONS AND RESTRICTIONS

Under the most restrictive covenants of certain indentures relating to long-term debt of the Company and an affiliate as of December 31, 1958, the Company and certain Subsidiaries on a consolidated basis was (a) required to maintain working capital of not less than \$7,000,000 and a ratio of current assets to current liabilities of not less than 125%; and, (b) prohibited from declaring cash dividends on its capital stock, purchasing, redeeming or otherwise retiring any shares of its capital stock unless the sum of \$2,500,000 and 80% of the consolidated net income from January 1, 1957 to date of declaration shall be greater than the aggregate of all such dividends and payments. The maximum amount of earned surplus so restricted was \$50,292,529 at December 31, 1958.

Under the most restrictive covenants of certain long-term obligations of the wholly-owned Subsidiary, Hilton Hotels International, Inc., the Subsidiary is obligated to (a) maintain consolidated working capital of not less than \$1,250,000, one-half thereof to be represented by assets located in the United States, its territories and possessions, or in countries whose currencies are readily and favorably convertible into dollars; and, (b) prohibited from declaring dividends, other than in its own stock, and from reacquiring its own stock for consideration.



Statement of Financial Condition

	1958	1957	1956	1955	1954
CURRENT ASSETS					
Cash	\$ 31,392,070	\$ 22,178,587	\$ 24,202,722	\$ 18,532,505	\$ 21,908,857
Marketable Securities	—	—	—	100,000	100,000
Receivables (Net)	14,629,991	14,116,232	13,247,033	12,434,306	9,962,342
Inventories	4,130,491	3,723,125	3,434,699	3,382,776	3,415,258
Others	4,879,692	4,728,329	5,374,103	5,170,015	7,681,040
TOTAL CURRENT ASSETS	\$ 55,032,244	\$ 44,746,273	\$ 46,258,557	\$ 39,619,602	\$ 43,067,497
CURRENT LIABILITIES					
Accounts Payable	\$ 9,163,424	\$ 6,142,008	\$ 5,946,169	\$ 8,435,546	\$ 7,643,935
Accrued Liabilities	10,215,064	9,538,543	8,655,635	8,507,297	7,409,524
Provision for Income Taxes	6,532,539	7,429,438	10,126,592	7,624,919	6,463,149
Payment of Funded Debt and Long Term Liabilities Due within One Year	7,055,288	5,505,313	4,514,680	4,033,915	3,622,326
Others	1,148,692	1,024,223	1,192,508	870,972	1,191,725
TOTAL CURRENT LIABILITIES	\$ 34,115,007	\$ 29,639,525	\$ 30,435,584	\$ 29,472,649	\$ 26,330,659
WORKING CAPITAL	\$ 20,917,237	\$ 15,106,748	\$ 15,822,973	\$ 10,146,953	\$ 16,736,838
OTHER ASSETS					
Non-Current Receivables and Investments	24,852,240	29,723,149	32,580,125	16,353,232	19,556,978
Fixed Assets (Net)	124,976,589	119,445,817	104,745,385	110,184,920	86,327,257
Deferred Charges	4,210,746	3,603,399	3,729,844	3,751,664	1,453,892
TOTAL	\$174,956,812	\$167,879,113	\$156,878,327	\$140,436,769	\$124,074,965
OTHER LIABILITIES, DEFERRED INCOME AND RESERVES					
Funded Debt and Long Term Liabilities (less payments due within one year)	\$ 64,225,351	\$ 57,430,324	\$ 62,265,338	\$ 70,988,531	\$ 63,749,375
Deferred Income	15,432,964	17,260,177	19,160,320	8,654,615	6,583,693
Sundry Reserves	517,093	532,940	535,571	395,247	54,670
TOTAL	\$ 80,175,408	\$ 75,223,441	\$ 81,961,229	\$ 80,038,393	\$ 70,387,738
NET ASSETS	\$ 94,781,404	\$ 92,655,672	\$ 74,917,098	\$ 60,398,376	\$ 53,687,227
NET ASSETS REPRESENTED IN					
First Preferred Stock—Series A	\$ 5,290,000	\$ 5,290,000	\$ 5,290,000	\$ 5,290,000	\$ 5,290,000
First Preferred Stock—Series B	—	—	—	2,534,000	3,800,000
Cumulative Voting Preferred Stock—Series A	6,035,475	5,830,350	—	—	—
Common Stock (less treasury shares at cost)	3,042,033	5,875,510	6,119,351	6,320,876	6,200,400
Surplus Reserves	500,000	500,000	500,000	500,000	500,000
Capital Surplus	27,853,327	26,505,820	20,584,171	15,689,532	13,125,131
Earnings Retained in the Business	52,060,569	47,254,200	42,423,576	29,966,364	24,697,177
Minority Interest	—	1,399,792	—	97,604	74,519
TOTAL AS ABOVE	\$ 94,781,404	\$ 92,655,672	\$ 74,917,098	\$ 60,398,376	\$ 53,687,227
Book Value per Common Share	\$21.64	\$20.35	\$18.96	\$15.25	\$13.50

AT THE CLOSE OF YEARS 1954 TO 1958 INCLUSIVE

Five-Years Summary of Consolidated Earnings

	1958	1957	1956	1955	1954
GROSS REVENUE					
Rooms Department	\$ 91,337,695	\$ 87,637,170	\$ 85,082,755	\$ 81,566,520	\$ 50,060,666
Food and Beverage Department	97,716,369	92,342,835	89,264,241	84,832,829	55,754,805
Other Operated Departments	15,981,552	15,546,591	15,368,355	15,059,221	10,623,234
Other Income	4,792,358	4,674,023	4,880,387	4,362,857	2,373,050
Store Rentals	3,226,803	3,043,641	2,696,413	2,460,510	1,797,463
Office Building Rentals	1,051,240	1,038,372	929,189	956,194	150,401
Interest on Investments	986,424	1,028,392	643,856	218,432	224,848
TOTAL GROSS REVENUE	<u>\$215,092,441</u>	<u>\$205,311,024</u>	<u>\$198,865,196</u>	<u>\$189,456,563</u>	<u>\$120,984,467</u>
EXPENSES					
Operated Departments	\$117,152,633	\$104,240,790	\$101,203,461	\$ 97,545,612	\$ 64,529,241
Administrative and General	13,430,673	20,948,951	19,757,908	18,809,063	12,420,434
Advertising and Business Promotion	5,517,631	4,959,185	4,630,761	4,238,618	2,955,153
Heat, Light and Power	8,640,889	7,533,431	6,962,626	6,685,988	4,134,904
Maintenance and Repairs	11,481,566	12,071,380	10,715,822	10,687,111	6,833,119
Lease Rentals	17,692,715	16,356,814	15,947,004	15,603,606	8,660,280
Real Estate and Personal Property Taxes	7,237,595	6,798,719	5,943,901	6,123,974	3,249,568
Depreciation and Amortization	8,664,490	8,158,931	8,002,590	7,728,292	4,627,952
Interest	2,943,521	2,631,683	2,675,215	3,116,942	1,685,551
Other Operating Costs	—	—	—	—	47,035
Other Capital Charges	2,679,891	2,860,897	2,349,648	1,674,560	1,208,860
TOTAL EXPENSES	<u>\$195,441,604</u>	<u>\$186,560,781</u>	<u>\$178,188,936</u>	<u>\$172,213,766</u>	<u>\$110,352,097</u>
PROFIT BEFORE OTHER ADDITIONS OR DEDUCTIONS	<u>\$ 19,650,837</u>	<u>\$ 18,750,243</u>	<u>\$ 20,676,260</u>	<u>\$ 17,242,797</u>	<u>\$ 10,632,370</u>
OTHER ADDITIONS OR (DEDUCTIONS)					
Contribution to Pension Trust	\$ (1,051,475)	\$ (1,061,866)	\$ (962,900)	\$ (917,150)	\$ (603,000)
Adjustments for Prior Years	—	—	—	113,684	87,286
Sundry Others—Net	(177,530)	(75,571)	173,836	159,227	144,523
Provision for Income Taxes	(9,617,056)	(8,883,332)	(10,264,141)	(8,539,783)	(5,430,162)
TOTAL OTHER ADDITIONS OR (DEDUCTIONS)	<u>\$ (10,846,061)</u>	<u>\$ (10,020,769)</u>	<u>\$ (11,053,205)</u>	<u>\$ (9,184,022)</u>	<u>\$ (5,801,353)</u>
NET PROFITS FROM OPERATIONS	<u>\$ 8,804,776</u>	<u>\$ 8,729,474</u>	<u>\$ 9,623,055</u>	<u>\$ 8,058,775</u>	<u>\$ 4,831,017</u>
SALE OF PROPERTIES					
Gain on Sale of Properties	\$ 1,865,899	\$ 1,939,405	\$ 9,635,578	\$ 1,470,001	\$ 1,237,842
Provision for Capital Gains Tax	466,475	484,851	2,470,423	367,500	321,839
NET PROFIT ON SALE OF PROPERTIES	<u>\$ 1,399,424</u>	<u>\$ 1,454,554</u>	<u>\$ 7,165,155</u>	<u>\$ 1,102,501</u>	<u>\$ 916,003</u>
TOTAL NET PROFIT	<u>\$ 10,204,200</u>	<u>\$ 10,184,028</u>	<u>\$ 16,788,210</u>	<u>\$ 9,161,276</u>	<u>\$ 5,747,020</u>
Deduct Minority Interest	101,010	120,410	35,841	56,516	8,947
NET PROFIT	<u>\$ 10,103,190</u>	<u>\$ 10,063,618</u>	<u>\$ 16,752,369</u>	<u>\$ 9,104,760</u>	<u>\$ 5,738,073</u>

FOR THE FIVE YEARS ENDED DECEMBER 31, 1958

World Understanding through International Trade and Travel...

We already have one foot in the Jet Age, and the world is shrinking at a breathless rate. Relatively speaking, that which was once immensely large is now golfball-size. Shrinkage of physical distance, however, must be accompanied by a parallel expansion of understanding, for now we are all next-door neighbors, whatever our language, and whatever our particular cultural background.

International understanding should be more than the traditional two-way street; it should be a cloverleaf intersection of ideas. A refreshing tolerance should be nurtured for ways of life that are different from our own, whether we are American citizens or overseas nationals. We believe that international hotels are key factors in effecting such desperately needed attitudes in today's world, and we are proud of the role Hilton Hotels is playing.

It is our creed that every Hilton hotel in a foreign setting should serve as a showcase for the best of what is termed the American Way of Life. Fortunately, a hotel is not remote words on paper, or impersonal

sounds heard over a loudspeaker, but a physical edifice manned by fellow human beings with whom one comes into contact on a face-to-face basis. Our overseas hotels provide United States citizens and our foreign friends and acquaintances with an unprecedented opportunity to meet on a truly cosmopolitan basis.

The opportunity to accelerate this mutual growth of friendship on a large scale is multiplying itself daily. Stepped-up tourism is doing its share. American business abroad is doing *its* share. The worldwide movement of businessmen is increasing daily, and, through travel, men are finding new markets, new sources of supply, and profitable new ideas.

The future looks bright. 130-passenger jet planes will soon be spanning the Atlantic in six brief hours. Enormous 6,000-passenger ships, with low cost cafeteria service and \$50 trans-ocean fares, are in the drawing board stage. Increasing numbers of students go abroad each summer. Hilton hotels to help accommodate this influx are strategically rising in key locations.





Symbolic of West Berlin's growth, the 13-story, 347-room Berlin Hilton overlooks the city's famed Zoological Gardens. It was dedicated on November 29, 1958—the first major new hotel built in West Berlin since the end of World War II.

EASTERN DIVISION

THE WALDORF-ASTORIA, *New York, New York*
THE PLAZA, *New York, New York*
THE STATLER HILTON, *New York, New York*
THE SAVOY HILTON, *New York, New York*
THE STATLER HILTON, *Washington, D. C.*
THE STATLER HILTON, *Boston, Massachusetts*
THE STATLER HILTON, *Buffalo, New York*
THE STATLER HILTON, *Hartford, Connecticut*

CENTRAL DIVISION

THE CONRAD HILTON, *Chicago, Illinois*
THE PALMER HOUSE, *Chicago, Illinois*
THE STATLER HILTON, *Detroit, Michigan*
THE NETHERLAND HILTON, *Cincinnati, Ohio*
THE TERRACE HILTON, *Cincinnati, Ohio*
THE STATLER HILTON, *Cleveland, Ohio*
THE DESHLER HILTON, *Columbus, Ohio*
THE DAYTON BILTMORE, *Dayton, Ohio*
THE STATLER HILTON, *St. Louis, Missouri*

WESTERN DIVISION

THE BEVERLY HILTON, *Beverly Hills, California*
THE STATLER HILTON, *Los Angeles, California*
THE SHAMROCK HILTON, *Houston, Texas*
THE STATLER HILTON, *Dallas, Texas*
HILTON HOTEL, *Fort Worth, Texas*
HILTON HOTEL, *El Paso, Texas*
HILTON HOTEL, *San Antonio, Texas*
HILTON HOTEL, *Albuquerque, New Mexico*

INTERNATIONAL DIVISION

THE CARIBE HILTON, *San Juan, Puerto Rico*
THE CASTELLANA HILTON, *Madrid, Spain*
THE ISTANBUL HILTON, *Istanbul, Turkey*
THE CONTINENTAL HILTON, *Mexico City, Mexico*
EL PANAMA HILTON, *Panama, Republic of Panama*
THE HABANA HILTON, *Havana, Cuba*
THE QUEEN ELIZABETH, *Montreal, Canada (a C.N.R. Hotel)*
THE BERLIN HILTON, *West Berlin, Germany*
THE NILE HILTON, *Cairo, Egypt, U.A.R.*



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Conrad N. Hilton, President

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