



HILTON HOTELS CORPORATION



HILTON HOTELS CORPORATION ANNUAL REPORT 2000



ANNUAL REPORT 2000



THE HILTON FAMILY OF BRANDS ⁽¹⁾

Hilton Hotels Corporation is recognized internationally as a preeminent hospitality company. The company owns, manages, develops or franchises hotels, resorts and vacation ownership properties. Its portfolio includes many of the world's best known and most highly regarded lodging brands, including Hilton, Conrad, Doubletree, Embassy Suites, Hampton Inn, Hampton Inn & Suites, Harrison Conference Centers, Hilton Garden Inn, Hilton Grand Vacations, Homewood Suites by Hilton and Red Lion Hotels & Inns, as well as many of the most famous hotels to be found anywhere, such as New York's Waldorf=Astoria, Waikiki's Hilton Hawaiian Village Beach Resort & Spa and Chicago's Palmer House Hilton. Our family of brands and 1,900 hotels offer guests and customers the finest accommodations, services, amenities and value for business or leisure.

The following trademarks used in this annual report are owned by Hilton Hospitality, Inc.: Hilton®, Hilton Garden Inn®, Doubletree®, Embassy Suites Hotels®, Hampton™, Hampton Inn®, Hampton Inn & Suites®, Homewood Suites® by Hilton, Conrad™, Red Lion Hotels & Inns®, Harrison Conference Centers® and Hilton Grand Vacations Company®. HHonors®, Double Dip®, and Points & Miles™ are owned by Hilton HHonors Worldwide L.L.C.

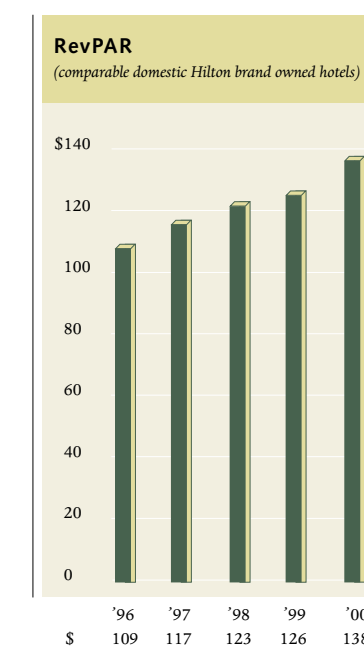
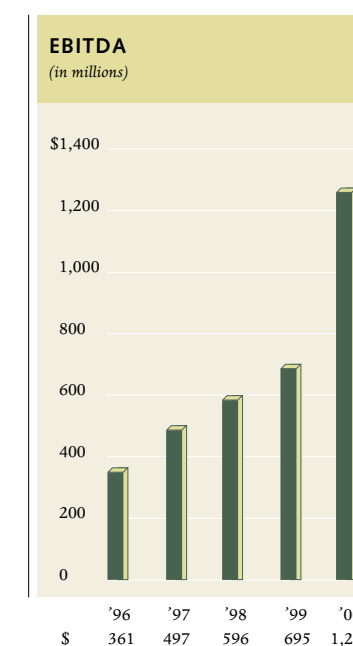
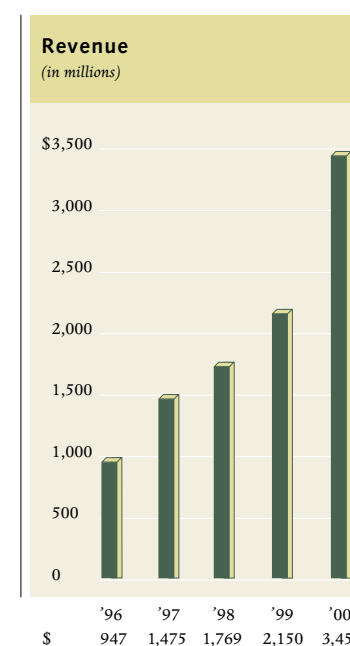
FINANCIAL SUMMARY ⁽¹⁾

(in millions, except per share amounts)	1999	2000	Percent Change
Revenue	\$2,150	3,451	61%
EBITDA ⁽²⁾	695	1,271	83
Operating income	495	830	68
Income from continuing operations	176	272	55
Income from continuing operations per share — diluted	.66	.73	11
Cash earnings per share ⁽³⁾	.81	1.32	63

⁽¹⁾ Results in 2000 reflect a full year of combined operations with Promus Hotel Corporation, which was acquired on November 30, 1999. Results in 1999 include Promus only from the date of acquisition.

⁽²⁾ Earnings before interest, taxes, depreciation, amortization, pre-opening expense and non-cash items.

⁽³⁾ Net income, adjusted for the effect of dilutive convertible securities, plus depreciation and amortization less maintenance capital expenditures, divided by diluted shares outstanding.



YEAR IN REVIEW

- January* Homewood Suites by Hilton re-launched with new brand identity and prototype design. ¹
- February* Groundbreaking for 264-unit vacation ownership facility at the Hilton Hawaiian Village Beach Resort & Spa.
- March* Hilton Garden Inn Los Angeles Airport opens; prototype hotel features “test rooms” for technology, design and new ideas for Hilton’s family of brands. ¹
- April* Hilton HHonors introduced to newly acquired brands; guests can now earn both Points & Miles at more than 2,100 participating hotels worldwide; membership now exceeds 11 million. ²
- Hampton Inn opens 1,000th property in Hayward, California. ³
- May* Hilton receives top grade in hotel industry for Customer Satisfaction from the American Customer Satisfaction Index (ACSI).
- June* The 444-room Hilton Times Square and 463-suite Embassy Suites Hotel Battery Park open in New York City.
- Hilton’s acquisition of Promus wins “Deal of the Year” Award at the annual New York University Hospitality Conference. ⁴
- July* Hilton named by *Fortune* magazine as one of “America’s Top 50 Companies for Minorities.”
- August* Embassy Suites and Hampton rank highest in guest satisfaction by J.D. Power & Associates for second straight year. ⁵
- September* Company closes \$500 million collateralized borrowing.
- October* Doubletree launches multi-million dollar, nationwide brand-positioning advertising campaign.
- November* Hilton Group plc and Hilton Hotels Corporation form joint venture company to expand Conrad luxury hotels on a worldwide basis.
- December* Company sells seven Homewood Suites by Hilton properties for approximately \$95 million; retains management and franchise contracts for all seven.
- Reservation office in Hemet, California, expands; new “Horizon” reservation system links all brands, enhancing cross-selling efforts.

DEAR FELLOW SHAREHOLDERS

In 2000, our company was presented with new opportunities, faced new challenges and focused on a new set of priorities for growth. We are pleased to report that we took full advantage of those opportunities, successfully met the challenges and turned in A+ work against our three main growth priorities.

First and foremost, we took on the integration of the former Promus organization into our company. It’s a fact that hotel industry mergers had, in recent years, over-promised and under-delivered. Not this one.

By getting a head start on the integration process, putting the right people in the right places regardless of which company they came from, and exceeding our cost-saving and revenue-enhancing synergy targets, we are able to call the integration a complete and unqualified success. To quote a respected lodging industry analyst, J. Cogan of Bank of America Securities, “Hilton’s integration of Promus will continue to be a significant driver of the stock’s near- and long-term performance.”

This fabulous achievement is testimony to the enthusiasm with which this combination has been embraced, and to the commitment, talents and professionalism of our 77,000 team members.

Our success in 2000 confirmed our belief at the outset in the logic and benefits of this deal. We had what Promus needed, including large hotels in gateway cities, leading marketing programs such as our Hilton HHonors loyalty program and a global sales network. Conversely, Promus had what we needed to solidify our growth prospects: a well respected group of brands, hotel products at varying price points, unit distribution and an excellent franchising system.

While the integration was proceeding, we focused on three priorities for 2000 to grow our profits:

- Maximizing the return on the assets we own
- Growing and expanding our franchising and brand development business, and
- Fully realizing the cost saving and revenue enhancement synergies from the Promus acquisition.

Our ability to achieve measurable results against each of these objectives was the barometer for our performance in 2000, and the report card is excellent. In short, it was a very good year.



1



2



3



4



5

3

MAXIMIZE RETURN ON ASSETS

Our company's portfolio of owned hotels is the finest in the industry, with irreplaceable properties in bulls-eye locations in the nation's most vibrant and in demand destinations: New York, Honolulu, San Francisco, Chicago, Boston, Washington, D.C., New Orleans, San Diego and others. These are high-barrier-to-entry markets, where the possibility of new competitive supply being introduced is limited. These favorable dynamics converged to generate knockout results at our owned hotels.

Maximizing the return on these assets requires that we continue to grow revenue per available room (RevPAR) and operate at high margins. We did both in 2000, and in a big way.

Simply put, it was a banner year. RevPAR at our owned hotels – across all brands – increased more than 9 percent in 2000, spearheaded by high demand and limited new competitive supply in all of the aforementioned markets. We also saw a market turnaround in Hawaii, the benefits of our major renovation at the Hilton New York, and a full year of operations at our new property at Boston's Logan Airport.

Watching costs and operating efficiently continue to be hallmarks of our company and our hotels. In 2000, our owned hotels operated at more than a 35 percent EBITDA margin, which once again led the industry. We consistently run at margins that are some 300 basis points higher than those of our competitors.

With an extraordinary 2000 behind us, we do not expect similar RevPAR growth in 2001. Indications of a slowing economy and difficult year-over-year comparisons will likely bring a return to more normal RevPAR growth levels, but still in excess of the anticipated rate of inflation in our economy.

GROW FRANCHISING AND BRAND DEVELOPMENT

Management and franchise fees now account for approximately 30 percent of our total cash flow, compared to less than 15 percent before the Promus acquisition. Our strategy is to be the franchisor of choice and to manage hotels in markets where demand for our brands is strong. The important yardstick for success in the franchising business is unit growth. And on this score, too, we earn high marks: our franchisees opened 20,500 hotel rooms in 2000. In total, including hotels we own or manage, 23,500 hotel rooms were added in 2000, with another 25,000–27,000 targeted for 2001.

Strong brands win, and ours are the strongest in the business, serving customers and franchisees in all of the important market segments: Hilton, Doubletree, Embassy Suites, Hampton, Hilton Garden Inn, Homewood Suites by Hilton, Red Lion and Conrad hotels. Our ability to generate outstanding results for our owners – due to the Hilton HHonors program, cross-selling and global sales initiatives, our worldwide reservation system and the esteem in which our family of brands is held among customers (Embassy Suites and Hampton are both J.D. Power Award winners) – has made our brands the brands of choice, and enabled us to increase market share across the board.

Brand development activity is moving ahead in another important area of our business: vacation ownership.

Our timeshare brand, Hilton Grand Vacations Company, opened its newest resort in January 2001 at the Hilton Hawaiian Village Beach Resort & Spa. We have also just embarked on new projects in Las Vegas and Orlando, where we currently have very successful properties. We are continuing to explore additional opportunities to expand our timeshare operations in attractive resort and urban locations.

ACHIEVE PROMUS SYNERGIES

The success of our Promus acquisition is easily quantifiable. At the time we closed the transaction, we estimated cost-saving and revenue-enhancement synergies of \$55 million in 2000 and \$90 million annually beginning in 2001. We exceeded our target for 2000 by generating approximately \$72 million of synergies, and expect to achieve \$100 million per year on a run-rate basis beginning this year.

Our message on the realization of synergies has gotten through. Other key analysts have summed it up well: "The Promus acquisition is beginning to bear fruit and is exceeding initial synergy expectations." "Indications are that the Promus integration is complete and is providing meaningful, positive contributions to Hilton's results."

The revenue synergies warrant particular attention, and come generally from three programs:

Global sales The Hilton sales team of 300 professionals around the world (compared to the 35 in the old Promus organization) are hard at work booking business for all of our brands. As an example of the impact this effort is having, group bookings in 2000 into the former Promus brands more than doubled over 1999.



Cross-selling With the “shelf space” we now command in many U.S. cities, and the broad range of products we offer, cross-selling among our brands is an important driver of revenues and resulted in incremental system-wide booked revenue of more than \$100 million in 2000. We expect this number to increase in 2001, as a new system, providing reservation agents with information and availability for all brands with the push of a button, was introduced in late 2000.

HHonors The positive impact of introducing Hilton HHonors to the former Promus brands has exceeded even our high expectations. Since April 3, 2000 (when the program went into place at these hotels), a combined 20 percent of the occupied room nights at the four brands — Doubletree, Embassy Suites, Hampton, and Homewood Suites by Hilton — are HHonors-related. We look forward to a full year of benefits from HHonors. With 11 million members, the unique ability for members to earn and redeem hotel points *and* airline miles, and more than 2,100 hotels around the world, HHonors has solidified its position as the industry’s pre-eminent loyalty program.

In addition to the great results on these three strategic initiatives, we had notable accomplishments in the following areas:

- Since closing the Promus transaction, we have sold approximately \$270 million of non-strategic assets for pre-tax gains of more than \$30 million. We used those proceeds to reduce debt.
- We signed a joint venture agreement with Hilton Group plc to expand the Conrad brand of luxury hotels around the world, including the United States, through management contracts. Conrad Hotels have earned a reputation for unsurpassed quality and style in such locations as Hong Kong, London, Singapore, Dublin, Cairo and Brussels. This agreement with Hilton Group will enable us to enhance the scope and distribution of this wonderful, but previously under-represented, luxury brand.
- We applied technology initiatives in areas that will benefit our owners and customers.
- In January 2001, we signed an agreement to affiliate the prestigious Camino Real group of hotels in Mexico into our family of brands, bringing us a total of 13 hotels throughout Mexico and one in Texas. We anticipate that the hotels will be re-branded as Hiltons or another of our hotel brands.

Despite a year of record profits for the hotel business in general, the industry in 2000 continued to trade at multiples that do not reflect the fundamental strength of the business. We remain cautiously optimistic that, by continuing to deliver good results and achieve our growth objectives, valuations will improve across the board for our industry.

In the midst of an extraordinary year for our company, we lost a friend and colleague in Arthur Goldberg, president and chief executive officer of Park Place Entertainment Corporation, and a director of Hilton Hotels Corporation. We were saddened by his premature death, and he will be greatly missed.

We are pleased to welcome to our Board of Directors David Michels, group chief executive of Hilton Group plc, and look forward to his insights as a leader in the worldwide lodging hospitality business.

Taking advantage of new opportunities to grow our company, delivering strong financial results and successfully meeting the challenge of creating and operating a much larger, broader, diverse and complex organization, brought us a year of great accomplishments. With your continued support, and that of our franchisees, hotel owners, business partners and 77,000 team members, we look to build upon these accomplishments in 2001 and beyond.

Respectfully,

Barron Hilton
Chairman

Stephen F. Bollenbach
President and Chief Executive Officer

March 14, 2001

HILTON HOTELS

“Every day, we can be proud of the efforts of more than 50,000 dedicated team members throughout our 228 Hiltons in North America who provide the very best in customer service, the utmost in professionalism and a true sense of pride that continues to make the Hilton brand the premier hotel choice for the world’s travelers.”

Steve Bollenbach
 President and Chief
 Executive Officer

For more than 80 years, Hilton has been the first choice of world travelers. Hilton’s portfolio of city center hotels, resort destinations and airport locations personifies a firmly rooted culture of service, friendliness, caring, high quality and convenience. Such prestigious and renowned properties as The Waldorf=Astoria, the Hilton Hawaiian Village Beach Resort & Spa, the Hilton New York, Chicago’s Palmer House Hilton and the Hilton Washington are just a few of the magnificent hotels in the Hilton portfolio. Hilton...A name that is synonymous with the word “hotel”.



Hilton Times Square, New York



Children at the 118th Street School in Los Angeles receive books donated by Hilton during the holiday season.



Hilton Sedona Resort, Sedona, Arizona

Hilton Hawaiian Village Beach Resort & Spa, Honolulu, Hawaii



- At year end, there were 228 full-service Hilton hotels in the United States.
- In 2000, Hilton opened or converted 15 new full-service hotels, with a total of 4,640 rooms.
- There are six full-service franchised Hiltons, with 2,204 rooms, under construction in 2001.

DOUBLETREE

"I like it because it's an all-occasion hotel. There are so many chains that are so segmented. The Doubletree can meet any need that you have, whether it is family, business or a gathering of a group of friends. It's a great anytime hotel."

Barb Spiker
Doubletree Guest



Doubletree donated more than 150,000 individual pieces of personal care product to charitable organizations in 2000.

The year 2000 marked a turning point for the Doubletree brand as a result of the merger with Hilton. Our most significant initiative, the launch of Hilton HHonors, contributed over 1 million room nights and \$153 million in revenue for Doubletree since its launch in April 2000. This initiative has not only brought in new customers, but also supports our focus toward recognizing and retaining our best customers. Other noteworthy achievements include the performance of our new national sales organization that produced over 332,000 confirmed group room nights and a 335 percent increase in central reservation cross-sell revenue into the brand this year.

Doubletree, Paradise Valley, Phoenix, Arizona



- Seven new properties opened in 2000.
- Comparable system-wide RevPAR increased 6.1 percent.
- New national brand advertising campaign launched.

EMBASSY SUITES



Embassy Suites Hotel, Battery Park, New York

Since opening its first hotel in 1984, Embassy Suites has dominated the upscale all-suite market in both distribution and consumer awareness and satisfaction. Featuring spacious two-room suites, a complimentary, full cooked-to-order breakfast, a complimentary manager's evening reception, and a signature tropical atrium, Embassy Suites has become the hotel brand of choice for business travelers and families alike. Guests can count on Embassy Suites to bring them a comfortable, welcome feeling.

- Nine new hotels opened in 2000; 158 hotels open throughout the United States, Canada, Puerto Rico and Latin America at year end.
- For the second consecutive year, winner of the prestigious J.D. Power Award for Overall Hotel Guest Satisfaction, All-Suite Hotel category.
- Official hotel sponsor of The Starlight Children's Foundation.
- Exclusive hotel promotional partner with Nickelodeon Network.

"I thoroughly enjoyed my recent stay at the Embassy Suites Hotel. I was particularly impressed by the ambiance of the hotel. How beautiful it was to have an atrium, complete with foliage and a babbling brook! The atmosphere made me feel that I was someplace extraordinary, and I am grateful to have had the pleasure of being a guest at Embassy Suites."

Denedriane Dean
Embassy Suites Guest



Embassy Suites Hotels are proud to support The Starlight Children's Foundation.

HAMPTON

“Our hearts belong to Hampton Inn! The personnel are courteous, helpful and considerate. And the in-room coffee and free breakfast bar are icing on the cake.”

John and Diane Williams
Hampton Inn Guests

Simple... strong... satisfying. These qualities are important ingredients in Hampton’s success story. Hampton began 2000 by opening its 1,000th U.S. property. By summer, market share reached strong highs supported by Hilton HHonors, reservations, cross-selling, and a new national advertising campaign. Most importantly, it is Hampton team members, giving back through volunteerism and delivering the best in guest service, who continue to keep Hampton’s recognition as number one in the mid-scale segment.



- Opened 94 new hotels in 2000.
- Achieved significant gains in market share.
- Received J.D. Power & Associates “Highest Guest Satisfaction Among Mid-Price Hotel Chains with Limited Service” Award for second year in a row.
- Launched “We’re with You All the Way” ad campaign.

Hampton Inn & Suites, Scottsdale, Arizona



Hampton team members restored mission bell markers in California. The effort is part of Hampton’s “Explore the Highway” roadside landmark restoration program.



HOMWOOD SUITES BY HILTON



Homewood Suites by Hilton, Bedford, Texas

During the year 2000 we ushered in a whirlwind of exciting initiatives for our upscale extended-stay brand, which was re-launched as Homewood Suites by Hilton. Powerful programs such as Hilton HHonors, cross-selling and a dedicated national sales force propelled Homewood’s performance. Aggressive brand initiatives, including our cost-effective prototype, financing program and franchisee incentive package, fueled distribution growth. The brand expects to double its distribution by 2003.

- Re-launched the brand with new name and prototype design.
- Increased comparable occupancy system-wide by 1.9 points, RevPAR by 5.4 percent, and market share by nearly three points.
- Ranked Number One in Overall Price/Value Relation in the Upscale Extended Stay Category in the *Business Traveler News 2000 U.S. Hotel Chain Report*.

“As one of the largest private owners of Homewood Suites, we are proud to be associated with Hilton Hotels Corporation. We believe that the Homewood Suites brand is the strongest and best of the upscale extended-stay hotel products. We own extended-stay hotels franchised by other major franchisors and believe that the Homewood Suites product is the best.”

Sam J. Friedman
Owner, Homewood Suites by Hilton



Team members at the Homewood Suites by Hilton in Plano, Texas at the Adopt-A-Highway dedication ceremony.

HILTON GARDEN INN

“Our group of investors is attracted to the Hilton Garden Inn brand because it represents an innovative concept in hospitality. By bundling amenities and services, travelers find the hotels attractive no matter the reason for their travel. Customer response, as demonstrated quantitatively by market penetration and RevPAR growth, prove that Hilton has hit a home run with the Hilton Garden Inn brand.”

Thomas Arnot, Owner
Hilton Garden Inn, Green Bay, Appleton/Kimberly & Oshkosh, Wisconsin



Hilton Garden Inn team members and happy guests participate in Hilton’s Vacation Station program.

Travelers can now choose from nearly 95 Hilton Garden Inn hotels open in the United States, Canada and Mexico. The signature glass-walled pavilion structure, high ceilings and upscale landscaping have contributed to the welcoming sense of arrival unparalleled in the mid-priced market segment. Hilton Garden Inn launched brand-specific advertising in June and is leveraging the competitive advantage of Hilton HHonors Points & Miles. Hotel performance continues to improve with double-digit RevPAR growth in comparable units.

Hilton Garden Inn, San Mateo, California



- 28 new hotels were opened in 2000.
- At year-end, 89 hotels with 12,575 rooms were in operation.
- System-wide comparable RevPAR grew by 12.3 percent.
- The first brand-specific advertising campaign was launched in June.

HILTON GRAND VACATIONS COMPANY



Hilton Grand Vacations, Honolulu, Hawaii

Hilton Grand Vacations Company develops, markets and operates a system of 22 high-quality vacation ownership resorts in premier destinations. The year 2000 was distinguished with solid earnings growth, and a 25 percent increase in the Hilton Grand Vacations Club membership base. January 2001 also marked the successful opening of the 264-unit property in Honolulu at the Hilton Hawaiian Village Beach Resort & Spa. Targeted expansion plans have been established to continue growth of Hilton’s leadership presence in the vacation ownership industry, including the development of a third Las Vegas, Nevada project and a second Orlando, Florida project.

- Resort portfolio expanded to include 22 vacation ownership properties.
- Approved projects call for the addition of more than 1,700 units at resort locations nationwide.
- Hilton Grand Vacations Club currently has more than 34,000 members.

“We joined Hilton Grand Vacations Club to be able to travel and stay at first class resorts. The Hilton name and reputation had a tremendous influence on our decision. We love to travel and the vacation club enables us to travel with ease and affordability.”

Melinda Howell
Hilton Grand Vacations Club Member



Hilton Grand Vacations Company team members set a fundraising record in the 2000 Wishbone Battle to benefit the Make-A-Wish Foundation of Central Florida.

HARRISON CONFERENCE CENTERS

“The Harrison family of facilities gives Lotus the regional variety it prizes under a common corporate banner, and combines all the basic logistics into a common workflow. That simplifies planning and assures that Lotus’s small groups will get the time, attention and support they need when they’re on-site.”

Linda Bolle
 Manager, Lotus
 (Professional Services
 Enablement Group)

Harrison Conference Centers is the nation’s leading conference center management company, with 14 collegiate hotels and conference centers in the portfolio. A member of the International Association of Conference Centers (IACC), our properties serve as resource centers for business. Each is an effective learning environment created for comfort and control, equipped with the latest technology tools and staffed with specialists who can free clients of the planning and logistical worries that disrupt effective learning, communication and business goals.



- Hosted some 7,000 meetings with more than 300,000 participants in 2000.
- Opened two new conference centers in 2000, one in North Carolina and one in Florida.
- Started construction on a conference resort in Virginia.
- Awards of excellence in 2000 included the Planner’s Choice Award from *Meeting News*, and the Pinnacle Award from *Successful Meetings*.

Hotel Roanoke & Conference Center, Roanoke, Virginia



RED LION



Red Lion, Vancouver, Washington

Solid franchisee interest will facilitate the continued expansion of Red Lion Hotels & Inns in the mid-scale, full-service segment. The increased hotel revenue performance, resulting from our re-launch of the brand, demonstrates the potential for even greater future improvements. Maximizing the Hilton relationship for attracting guests, motivating employees, building revenues and driving profits are the cornerstones for adding new franchises and growing the brand.

- There are now 34 Red Lion hotels with a total of 5,681 rooms open.
- Advertising was expanded with four regional cooperative campaigns.
- Red Lion Club adds Hilton HHonors and Alaska Airlines as travel partners.

“The synergy of the Red Lion brand with Hilton Hotels Corporation’s global sales and marketing reach was a compelling reason to convert the 416-room Hanalei into a Red Lion Hotel.”

Jack Giacomini
 Managing Director of both the Hilton San Diego Mission Valley and the new Red Lion Hanalei Hotel



Off to a “roaring start,” — the use of real lions in advertising materials helps graphically denote the uniqueness of Red Lion hotels.

CONRAD HOTELS



Superior levels of service and luxury accommodations are the hallmarks of Conrad Hotels. From the fundamental principles of guest service to the boundaries of architectural expression, Conrad Hotels design excellence into the smallest detail, creating an unparalleled feeling of luxury. Conrad Hotels are currently located in such major world centers as Hong Kong, London, Singapore, Cairo, Brussels and Dublin. Our recently signed agreement with Hilton Group plc is expected to further expand this luxury brand to city-center and resort destinations throughout the world.

Conrad Hotel, Brussels, Belgium



HILTON INTERNATIONAL



Hilton International, London Metropole, United Kingdom

One of our company's most powerful initiatives is the worldwide strategic alliance we have in place with Hilton International, a subsidiary of Hilton Group plc. Shared reservations systems, brand logos, our Hilton HHonors guest loyalty program, global sales efforts and joint advertising programs present to our guests and customers a single, seamless network of Hilton hotels in more than 50 countries around the world. Together, we offer our guests and customers more than 2,100 hotels with some 380,000 guest rooms.



EFFECTIVE USE OF TECHNOLOGY

While many in our industry in 2000 looked at technology in and of itself as a source of financial prosperity (an expectation that never materialized), our company preferred to consider technology as a means to an end; i.e. applying appropriate technology initiatives to run our core business more effectively and efficiently for the benefit of our owners and customers.

Some of our major technology accomplishments in 2000 included:

HILTON HHONORS

Our industry-leading guest loyalty program was introduced to the Hampton, Embassy Suites, Doubletree and Homewood Suites by Hilton brands within four months of our acquisition of Promus...a remarkable achievement in view of the myriad of technological components required to deploy the program in 1,400 new hotels. Since the expansion of the program in April 2000, approximately 20 percent of the occupancy at the former Promus brands was HHonors-related.

RESERVATIONS/CROSS-SELLING

The ability to cross-sell among the Hilton family of brands was provided to our 1,500 reservation agents in our five domestic call centers through the introduction of an automated system providing a single point of access to room inventory within all brands. Our new software, "Horizon," was fully in place by year-end 2000, and now allows all domestic Hilton Reservations Worldwide agents to automatically



cross-sell among all brands. In 2000, even without the benefit of "Horizon" for most of the year, cross-selling through manual call transferring accounted for more than \$100 million in incremental system-wide booked revenue, more than double our forecast. With "Horizon" in place, we expect this number to increase by approximately 25 percent in 2001.

WEBSITES

In 2000, the number of visits to our various brand websites more than doubled to over 30 million, an all-time record high. Online gross reservations also increased to more than one million, representing approximately \$300 million in system-wide booked revenue. Hilton.com continues to be widely recognized as the industry's best, most informative and user-friendly website, earning accolades from *Gomez Advisors' Hotel Industry Internet Scorecard* and *Top10Links.com*, an award winning internet directory. The site was also named Top e-Business in the travel and hospitality industries by *Internet Week* magazine.

BUSINESS-TO-BUSINESS

Hilton launched its business-to-business e-procurement program with PurchasePro.com. Already experienced in the use of e-procurement to maximize purchasing efficiencies, Hilton entered into the relationship with PurchasePro to further enhance the management of procurement contracts, and to further leverage Hilton's annual \$1.3 billion of spending on commodities and services. Hilton's initial participating 291 company-operated and select franchise hotels, coupled with 630 regional and national suppliers, will provide the nucleus for the company's Virtual Private Marketplace. As the company continues deployment of this business-to-business protocol, the number of participating hotels, and the transaction value, is expected to increase...resulting in further efficiencies that will ultimately benefit our owners and shareholders.

SYSTEMS CONSOLIDATION

While "back-of-the-house" improvements are invisible to our customers, such programs bring value to our guests, owners and shareholders. To that end, savings from the consolidation of technology systems, infrastructure and operations added, and will continue to add, to the synergies from the Promus acquisition.



FINANCIAL REVIEW

OVERVIEW

Hilton's primary financial goal is to optimize long-term shareholder value. We believe this is best accomplished by:

- Maximizing the earnings and cash flow from our existing businesses, and,
- Allocating capital to our existing businesses and to new opportunities that will provide superior risk adjusted returns.

2000 RESULTS

The financial statements for 2000 in this annual report reflect a full year of combined operations with Promus Hotel Corporation, which was acquired on November 30, 1999. In accordance with generally accepted accounting principles, the financial statements for 1999 include Promus only from the date of acquisition, representing one month of combined operations. Within this financial review section, we are presenting 1999 information on a pro forma basis, thereby providing a different perspective for comparing the Company's performance from the historical results required elsewhere in the annual report. The pro forma results in this financial review are presented as if the acquisition of Promus had been completed as of January 1, 1999.

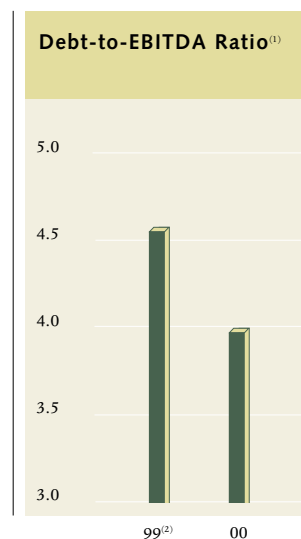
Our financial results for 2000 were highlighted by strong growth in revenues, EBITDA (earnings before interest, taxes, depreciation, amortization, pre-opening expense and non-cash items) and net income. These gains were accomplished through significant increases in revenue per available room (RevPAR) at our owned hotels, industry leading margins, expansion of our franchise business and the attainment of cost savings and revenue enhancements from the Promus acquisition.

Revenue for the year improved nine percent to \$3.45 billion, and total EBITDA increased 16 percent to \$1.27 billion. Before nonrecurring items, total EBITDA increased 12 percent.

Fiscal 2000 net income increased 26 percent to \$272 million, with diluted net income per share increasing 26 percent to \$.73. Before nonrecurring items, both net income and net income per share increased 12 percent to \$249 million and \$.67, respectively.

Comparable RevPAR at our U.S. owned or operated hotels increased 7.8 percent. At our owned hotels only, RevPAR from comparable properties improved 9.2 percent for the year and the EBITDA margin improved 160 basis points to 35.3 percent.

During the year, we added 170 new hotels that helped increase our income from franchise and management fees by nine percent to \$350 million. The synergies from the Promus acquisition contributed \$72 million to our 2000 EBITDA.



⁽¹⁾ Net of debt assumed by Park Place Entertainment

⁽²⁾ Pro forma

DEBT BALANCES

At the end of 2000, Hilton had net long-term debt of \$5.1 billion (net of the \$625 million of debt assumed by Park Place), and a debt-to-EBITDA ratio of 4.0 times. This is a significant improvement from the 4.6 times pro forma debt-to-EBITDA ratio we had at year-end 1999, resulting from a combination of a reduction in debt and increase in EBITDA. Our debt service coverage (EBITDA/net interest expense) was a healthy 3.4 times.

As of year-end 1999, approximately 65 percent of our debt (excluding the Park Place allocated debt) was floating rate. During 2000, we took steps to reduce this exposure. We completed a \$500 million mortgage loan with a term of 10 years and a fixed interest rate of 7.95 percent per annum. Secured by first mortgage interests in five Hilton properties, the loan proceeds were used to pay down our floating rate bank debt. At year-end 2000, approximately 53 percent of our debt had floating rates. In February 2001, we issued \$300 million of 10-year bonds at a fixed rate of 8.25 percent and used the proceeds to further reduce our bank debt. With this issuance, the percentage of floating rate debt was reduced to 47 percent. Depending on market conditions, our target is to get to a fixed/floating rate ratio of 65/35.

CASH FLOW

We monitor our cash flow and investing activities with an objective of maintaining an investment-grade credit rating. We ended 2000 with approximately \$780 million of unused borrowing capacity and expect to generate free cash flow in excess of \$300 million in 2001.

In 2000, we sold approximately \$175 million of non-strategic assets and used the proceeds to reduce debt. In early 2001, we sold an additional \$95 million of non-strategic assets and applied the proceeds to further reduce debt. We continue to review our portfolio of owned assets and seek to maximize their value for our shareholders. This may take the form of either sales of non-strategic assets or additional investment in the properties that we own.

In addition to spending approximately \$200 million on maintenance capital in our owned properties during the year, we spent approximately \$300 million on projects designed to enhance the value of our owned portfolio. Some of these projects include the complete renovation of the Hilton Seattle Airport, a major refurbishment of the Hilton New York, and expansion of our vacation ownership business. These are all projects that provide the opportunity for excellent returns on our invested capital.

VALUATION

We expect to generate significant free cash flow in 2001 and beyond. Our plan is to use our free cash flow first to reduce our debt to strengthen our investment grade rating, thereby facilitating continuing access to the capital markets at the best available rates.

Once this is accomplished, we will be in a position to use our free cash flow to either repurchase shares, acquire new properties, and/or supplement our existing lines of business. Our first choice for the use of this cash would generally be to expand the company through the acquisition of strategic new properties or business lines. However, should our shares be undervalued – trading at what we believe to be low relative multiples of EBITDA and earnings – share repurchase would represent a compelling option. The options that we ultimately choose will be dependent on market fundamentals at the time, and consistent with our objective of optimizing long term shareholder value.

FINANCIAL INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Consolidated Statements of Income	39
Consolidated Balance Sheets	40
Consolidated Statements of Cash Flow	41
Consolidated Statements of Stockholders' Equity	42
Notes to Consolidated Financial Statements	43
Report of Independent Public Accountants	58
Supplementary Financial Information	59
Five Year Summary	61

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****THE COMPANY**

On November 30, 1999, Hilton Hotels Corporation ("Hilton" or the "Company") completed the acquisition of Promus Hotel Corporation ("Promus"). As a result of the Promus acquisition, the Company expanded its hotel count by over 1,450 properties representing more than 200,000 rooms. The discussion and analysis of results of operations include the results of Promus from the date of acquisition.

On December 31, 1998, Hilton completed a spin-off that split the Company's operations into two independent public corporations, one for conducting its hotel business and one for conducting its gaming business. Hilton retained ownership of the hotel business. The Company transferred the gaming business to a new corporation named Park Place Entertainment Corporation ("Park Place"), and distributed the stock of Park Place tax-free to Hilton stockholders on a one-for-one basis. As a result of the spin-off, Hilton's historical financial statements reflect the gaming business as discontinued operations. The following discussion and analysis of results of operations is that of Hilton's continuing operations.

Hilton's operations include the consolidated results of the Company's owned, partially owned and leased hotel assets, management and franchise fees, equity income from unconsolidated affiliates and earnings from vacation ownership and conference center operations. At December 31, 2000, the Company's hotel system contained 1,895 properties totaling approximately 318,000 rooms worldwide. The Company's brands include Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Hampton, Homewood Suites by Hilton, Red Lion, Conrad and Harrison Conference Centers. The Company's hotel system also includes certain properties that are not Company-branded. In addition, the Company develops and operates vacation ownership resorts through Hilton Grand Vacations Company and its related entities, which are wholly owned by the Company. The Company is also engaged in various other activities incidental or related to the operation of hotels.

Properties by brand at December 31, 2000 are as follows:

<i>Brand</i>	<i>Hotels</i>	<i>Rooms</i>
Hilton	228	85,243
Hilton Garden Inn	89	12,575
Doubletree	159	42,548
Embassy Suites	158	38,510
Homewood Suites by Hilton	94	10,474
Hampton	1,073	111,231
Other	94	17,242
Total	1,895	317,823

Of the 1,895 total hotels at December 31, 2000, 1,492 are owned and operated by franchisees and 403 are operated by the Company. Depending on the brand, the Company charges franchise royalty fees of up to five percent of rooms revenue in exchange for the use of one of its brand names and franchise related services. Company operated properties include 139 owned or partially owned hotels, 73 leased hotels and 191 hotels managed for third parties. As a manager of hotels, the Company is typically responsible for supervising or operating the hotel in exchange for fees based on a percentage of the hotel's gross revenues, operating profits, cash flow, or a combination thereof.

DEVELOPMENT

Overview Hilton intends to grow its brands primarily through franchising and the addition of management contracts. In addition, the Company will continue to review its hotel portfolio for potential repositioning or re-branding opportunities and may seek to sell certain owned assets. The Company did not purchase any hotel properties during 2000 and acquisition spending is not expected to be significant in 2001.

During 2000, the Company added a total of 170 hotels or approximately 23,500 rooms to its portfolio, including an increase of 157 franchise properties and seven managed properties owned by third parties. A total of 27 properties or approximately 6,000 rooms were removed from the Company's system during the same period. Most of these removals occurred in the first six months of 2000 and related to former Promus brand franchise hotels which did not meet the Company's quality standards; only eight properties were removed in the second half of 2000. During 2000, the Company continued to enhance its development pipeline by approving 223 new hotels, primarily franchises, representing approximately 32,000 rooms.

In the fourth quarter of 2000, Hilton announced a joint venture agreement with Hilton Group plc to develop, through management contracts, the Conrad brand of luxury hotels throughout the world. The Company currently operates nine Conrad luxury properties in Europe, the Middle East and Asia. In January 2001, the Company entered into an agreement to affiliate 13 Camino Real hotels and resorts located in Mexico, and one Camino Real hotel in Texas, with the Company's family of brands. Effective April 1, 2001, the Camino Real hotels will participate in the Company's loyalty program, the Hilton Reservations Worldwide reservation system and our sales and marketing programs. Following the completion of a \$40 million rehabilitation program funded by the owners, the Company anticipates that these properties will be rebranded either as Hilton hotels or another of our hotel brands. Also in January 2001, the Company announced an agreement to manage 16 hotels owned by Equity Inns, Inc. The two-year management agreement includes 15 Hampton Inn and one Homewood Suites by Hilton hotels.

The Company anticipates that its hotel owners will open approximately 180 properties during 2001, with Hampton Inn, Hilton Garden Inn and Homewood Suites by Hilton accounting for most of the new development. Our ability to grow the number of franchised and managed hotels is affected by, among other things, national and regional economic conditions, capital markets, credit availability, relationships with franchisees and owners as well as competition from other hotel franchisors and managers.

Alliances In 1997, the Company entered into agreements with Hilton Group plc, whose wholly owned subsidiary Hilton International Co. ("HI") owns the rights to the Hilton name outside the United States. The agreements provide for the reunification of the Hilton brand worldwide through a strategic alliance between the companies, including cooperation on sales and marketing, loyalty programs and other operational matters. Pursuant to these agreements, the Company and HI re-launched the Hilton HHonors ("HHonors") loyalty program on a worldwide basis. In April 2000, HHonors was further expanded to include the Hampton, Doubletree, Embassy Suites and Homewood Suites by Hilton brands. HHonors related stays have accounted for over 20 percent of total stays at these four brands since the program expansion. HHonors is now featured in more than 2,100 hotels worldwide and continues to experience solid enrollment activity, with approximately 11 million travelers enrolled since the program was introduced, including nearly 3 million enrolled during 2000. Since the expansion of HHonors in April 2000, over 25 percent of the enrollment activity has been completed through the Hilton.com website. The Company expects the expansion of HHonors to continue to have a positive impact on the brands that participate in the program.

As of December 31, 2000, Hilton owned approximately 1.5 million shares of FelCor Lodging Trust Inc. ("FelCor") common stock, representing approximately three percent of FelCor's outstanding shares. FelCor owned or had an interest in 84 Company brand hotels as of December 31, 2000. In addition, the Company has guaranteed repayment of a third party loan to FelCor of up to \$25 million.

At December 31, 2000, the Company owned approximately 2.6 million shares of Candlewood Hotel Company ("Candlewood") common stock, representing approximately 29 percent of Candlewood's outstanding shares. The Company also has a note receivable from Candlewood with a balance at December 31, 2000 of \$15 million.

Development Financing In order to assist prospective owners in obtaining financing for hotel projects, the Company has initiated programs to provide alternative capital sources to owners.

Hilton Acceptance Corp. ("HilMAC"), a third party lending entity, provides first mortgage construction financing to franchisees for select Hilton Garden Inn, Homewood Suites by Hilton, Hampton and Embassy Suites hotels. The Company has guaranteed \$33 million of loans outstanding under the HilMAC program. The Company also has provided secondary financing to franchisees under a mezzanine financing program. Loans outstanding under this program at December 31, 2000 totaled approximately \$51 million.

The Company has provided credit support for a loan facility utilized by Candlewood to provide construction and permanent financing to Candlewood and its franchisees. The Company's aggregate maximum exposure for such credit support is capped at \$30 million. As of December 31, 2000, the Company has guaranteed \$10 million of such financing.

Acquisitions and Capital Spending Aggregate consideration in the November 30, 1999 acquisition of Promus consisted of approximately 113 million shares of the Company's common stock and \$1.7 billion in cash, for a combined equity value of approximately \$2.8 billion, transaction costs of \$175 million, and the assumption of debt totaling \$750 million. The Promus acquisition has created a more diversified and balanced income stream by increasing the percentage of revenue that the Company derives from management and franchise fees, both of which require little or no ongoing capital investment by the Company.

The integration of Promus was substantially completed during the first quarter of 2000. The Company believes the Promus acquisition has and will continue to yield significant synergies, economies of scale and revenue enhancements by providing greater opportunity for expansion with multiple brands and market segments; spreading overhead over a wider base of properties; and including the Promus brands in Hilton's HHonors program, its central reservation system and its sales and marketing initiatives.

In September 2000, the Company completed a transaction with Boykin Lodging Company ("Boykin") in which the two companies exchanged hotel properties that were of equal value, but which would have more strategic value in each other's portfolios. In the transaction, Hilton transferred ownership of the Doubletree San Antonio Airport and the Doubletree Guest Suites in Southfield, Michigan to Boykin in exchange for the Cleveland Marriott East in Beachwood, Ohio, which has been renamed the Hilton Cleveland. The Company retained franchise agreements on the properties transferred to Boykin.

Capital expenditures at owned properties during 2000 totaled \$458 million, representing maintenance capital expenditures and several significant renovation and construction projects. These projects include construction of the 453-room Kalia Tower at the Hilton Hawaiian Village Beach Resort & Spa, which will feature a world class health club and wellness spa, exciting retail shops and an interactive Hawaiian cultural center. The project is scheduled to be completed in May 2001. Significant 2000 construction projects also include the construction of a 319-room tower addition at the Hilton Portland, which is scheduled for completion in the second quarter of 2002, and the renovation of existing rooms and construction of a 222-room addition at the Hilton Seattle Airport. The renovation portion of the Seattle project was completed in October 2000 and the room addition was completed in February 2001. The Company is also currently completing construction of two Homewood Suites by Hilton properties.

Construction was completed on a 264-unit vacation ownership resort at the Hilton Hawaiian Village Beach Resort & Spa which opened in January 2001. Interval sales, which commenced during the first quarter of 2000, are well ahead of forecast and the Company began to recognize the income from these sales in the first quarter of 2001. Construction costs associated with the Company's vacation ownership (timeshare) operations during 2000 totaled approximately \$60 million. These costs are reflected as inventory until the intervals are sold. In January 2001, the Company announced the development of a new 1,500-unit timeshare property in Las Vegas, the Company's third timeshare development in that market, along with its successful timeshare properties at the Las Vegas Hilton and Flamingo hotels. In February 2001, the Company announced the development of a 384-unit timeshare property in Orlando, Florida, the Company's second timeshare development in that market. The Company provides financing to the buyers of its timeshare units. During 2000, new investments totaled \$140 million, which consists primarily of loans related to such financing.

In January 2001, the Hilton New Orleans Riverside started the most extensive renovation in the history of the hotel. 1,150 guest rooms and suites will be completely renovated with new furniture, fixtures and equipment, with completion scheduled for Fall of 2002. Construction also began in January 2001 on the refurbishment of the Waldorf=Astoria's Starlight Roof Ballroom and construction of 13 new executive meeting rooms. The Starlight Roof portion is scheduled for completion in May 2001, while the meeting room construction is expected to run through October 2001. In May 2001, renovation will begin

at the Hilton San Francisco encompassing 568 suites and guest rooms, along with construction of a new two story world class health spa and spectacular 44th floor executive lounge, with completion scheduled for Spring of 2002. During 2001, the Company anticipates spending approximately \$160 million on renovation and construction projects (including timeshare), as well as approximately \$290 million on normal capital replacements, upgrades and technology. Expenditures required to complete capital spending programs in 2001 will be financed through available cash flow and general corporate borrowings.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled \$390 million, \$279 million and \$589 million for the years ended December 31, 1998, 1999 and 2000, respectively. The increase in 2000 was primarily attributable to continued strength at many of the Company's owned full-service hotels and the benefit of cash flow from the hotel properties acquired in the Promus acquisition. The decrease in 1999 compared to 1998 was primarily attributable to working capital variances.

Net cash used in investing activities was \$2.3 billion in 1999 compared to \$243 million in 2000. 1999 investments included \$1.7 billion for the Promus acquisition as well as hotel acquisition spending. Increased capital expenditures and additional investments in the 2000 period were offset by proceeds received from the sale of securities and the collection of notes receivable related to Homewood Suites by Hilton properties sold in 1999. Net cash used in investing activities increased \$1.2 billion from 1998 to 1999 due primarily to the Promus acquisition, partially offset by a lower level of hotel acquisition spending in 1999 compared to 1998.

Net cash provided by financing activities totaled \$2.1 billion in 1999 and net cash used in financing activities totaled \$403 million in 2000. The decrease in cash provided by financing activities is primarily attributable to additional revolving debt borrowings in 1999 to fund the cash portion of the Promus acquisition compared to the repayment of commercial paper borrowings and revolving loans in excess of additional long-term fixed rate borrowings in 2000. Net cash provided by financing activities in 1999 increased approximately \$1.7 billion in comparison to 1998, primarily representing financing of the cash portion of the Promus acquisition.

Cash and equivalents totaled \$47 million at December 31, 2000, a decrease of \$57 million from December 31, 1999. Hilton believes that its operating cash flow, available borrowings under its revolving credit facilities, and the Company's ability to obtain additional financing through various financial markets are sufficient to meet its liquidity needs.

Financing In September 2000, the Company entered into a financing agreement pursuant to which it borrowed \$500 million for ten years at a fixed rate of 7.95 percent. Five of the Company's hotels serve as collateral for the agreement, the proceeds of which were used to pay down the Company's floating rate revolving debt. In August 2000, the Company and its partners refinanced the debt on the Hilton New Orleans Riverside, of which Hilton owns 67.4 percent. The new \$155 million mortgage has a term of ten years at a fixed rate of 8.62 percent.

The Company has three revolving credit facilities. In October 1996, Hilton entered into a \$1.75 billion five-year revolving credit facility (the "1996 facility"). In October 2000, the Company extended the term of the 1996 facility from 2001 to 2003 and reduced the commitment under the facility to \$1.145 billion, which was the amount outstanding under the facility at the

time of the reduction. As of December 31, 2000, the 1996 facility had been reduced to \$1.084 billion through the repayment of outstanding balances. In November 1999, Hilton entered into a \$1.8 billion revolving credit facility consisting of a \$1.4 billion revolver which expires in 2004 and a \$400 million 364-day revolver which expires in November 2001. As of December 31, 2000, \$850 million of borrowings were outstanding under the \$1.4 billion revolver and \$235 million of the \$1.4 billion revolver supported the issuance of commercial paper. The 364-day revolver was undrawn at December 31, 2000. In June 1998, Hilton entered into a five-year \$500 million revolving credit facility to acquire the remaining 50% interest in the Hilton Hawaiian Village Beach Resort & Spa. As of December 31, 2000, \$438 million of borrowings were outstanding under the \$500 million revolver. Total revolving debt capacity of approximately \$780 million was available to the Company at December 31, 2000.

In October 1997, the Company filed a shelf registration statement ("Shelf") with the Securities and Exchange Commission ("SEC") registering up to \$2.5 billion in debt or equity securities. At December 31, 2000, available financing under the Shelf totaled \$2.1 billion. In February 2001, the Company issued \$300 million of 8.25% Senior Notes due 2011, leaving \$1.8 billion available under the Shelf. The net proceeds were used to pay down outstanding amounts and to further reduce the commitment under the 1996 facility. The terms of any additional securities offered pursuant to the Shelf will be determined by market conditions at the time of issuance.

The 1999 and 2000 debt balances include \$625 million of long-term debt which, although allocated to Park Place under a debt assumption agreement, remains the legal obligation of Hilton. At the time of the spin-off, Park Place assumed and agreed to pay 100% of the amount of each payment required to be made by Hilton under the terms of the indentures governing Hilton's \$300 million 7.375% Senior Notes due 2002 and its \$325 million 7% Senior Notes due 2004. These notes remain in Hilton's long-term debt balance and a long-term receivable from Park Place in an equal amount is included in the Company's 1999 and 2000 consolidated balance sheets. In the event of an increase in the interest rate on these notes as a result of certain actions taken by Hilton or in certain other limited circumstances, Hilton will be required to reimburse Park Place for any such increase. Hilton is obligated to make any payment Park Place fails to make, and in such event Park Place would be obligated to pay to Hilton the amount of such payment together with interest, at the rate per annum borne by the applicable notes plus two percent, to the date of reimbursement.

As of December 31, 2000, 53% of the Company's long-term debt (excluding the Park Place allocated debt) was floating rate debt. Including the impact of the February 2001 \$300 million Senior Note issuance, the percentage of floating rate debt was reduced to 47%. The Company will continue to pursue a balance in its exposure to changes in short-term interest rates by seeking to opportunistically refinance a portion of its floating rate debt, subject to appropriate market conditions. The Company's fixed/floating rate target ratio is currently 65/35.

Asset Dispositions During 2000, the Company sold approximately \$175 million of non-strategic assets and securities for pre-tax gains of \$32 million. Included in this total are nine Homewood Suites by Hilton properties on which Hilton has retained long-term management and franchise contracts.

In January 2000, the Company entered into an agreement with RFS Hotel Investors, Inc. ("RFS"), which gave RFS the option to terminate 52 operating leases and four management contracts on hotels owned by RFS. In November 2000, RFS notified the Company of its intention to exercise the option to terminate these agreements. In January 2001, RFS paid the Company approximately \$60 million in cash as consideration for terminating the leases and management contracts. The Company also sold 973,684 shares of RFS preferred stock to RFS for \$13 million in cash. The values of these leases, management contracts and shares of preferred stock are reflected as assets held for sale in the Company's December 31, 2000 consolidated balance sheet.

In January 2001, the Company sold the Red Lion Houston for approximately \$20 million, resulting in a pre-tax gain of approximately \$1 million.

Stockholders' Equity Dividends paid on common shares were \$.32 per share in 1998, and \$.08 per share in 1999 and 2000.

The Company's Board of Directors has approved the repurchase by the Company of up to 20 million shares of its common stock pursuant to a stock repurchase program. The timing of the stock purchases are made at the discretion of the Company's management. There were no shares repurchased during 2000 as the Company sought to improve its credit position by using excess cash flow to repay outstanding debt balances. At December 31, 2000, the Company had repurchased 10.7 million shares or 54 percent of the total authorized to be repurchased. The Company may at any time repurchase up to 9.3 million of the remaining shares authorized for repurchase.

RESULTS OF OPERATIONS

The following discussion presents an analysis of the Company's results of operations for the three years ended December 31, 2000. EBITDA (earnings before interest, taxes, depreciation, amortization, pre-opening expense and non-cash items) is presented supplementally in the tables below and in the discussion of operating results because management believes it allows for a more complete analysis of results of operations. Non-cash items, such as asset write-downs and impairment losses, are excluded from EBITDA as these items do not impact operating results on a recurring basis. EBITDA can be computed by adding depreciation, amortization, pre-opening expense, interest and dividend income from investments related to operating activities and non-cash items to operating income. This information should not be considered as an alternative to any measure of performance as promulgated under generally accepted accounting principles (such as operating income or net income), nor should it be considered as an indicator of the overall financial performance of the Company. The Company's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

The Company operates in one business segment, hospitality and leisure. The Company's results are significantly affected by growth in the number of available rooms through acquisition and development, occupancy and room rates achieved by hotels, the Company's ability to manage costs and the relative mix of owned, leased, managed and franchised hotels. Although the supply-demand balance in the Company's major markets generally remains favorable, future operating results could be adversely impacted by increased capacity and weak demand. These

conditions could limit the Company's ability to pass through inflationary increases in operating costs in the form of higher room rates. The Company's ability to manage costs could be adversely impacted by significant increases in energy costs and other operating expenses, resulting in lower operating margins. Increases in transportation and fuel costs or sustained recessionary periods in the U.S. (affecting domestic travel) and internationally (affecting inbound travel from abroad) could also unfavorably impact future results. However, the Company believes that its financial strength and diverse market presence will enable it to remain competitive.

FISCAL 2000 COMPARED WITH FISCAL 1999

Overview A summary of the Company's consolidated results for the years ended December 31, 1999 and 2000 is as follows:

<i>(in millions, except per share amounts)</i>	1999	2000	% Change
Summary of Results			
Revenue	\$2,150	3,451	61%
Operating income	495	830	68
Income from continuing operations	176	272	55
Income from continuing operations per share:			
Basic	.66	.74	12
Diluted	.66	.73	11
Other Operating Data			
Reconciliation of Net Income to EBITDA:			
Net Income	\$ 174	272	56%
Cumulative effect of accounting change	2	—	
Minority interest, net	7	7	
Provision for income taxes	130	200	
Net gain on asset dispositions	—	(32)	
Interest expense, net, from unconsolidated affiliates	2	16	
Interest expense	237	453	
Interest and dividend income	(57)	(86)	
Operating Income	495	830	68
Pre-opening expense	2	4	
Operating interest and dividend income	3	32	
Depreciation and amortization ⁽¹⁾	195	405	
Total EBITDA	\$ 695	1,271	83%

⁽¹⁾ Includes proportionate share of unconsolidated affiliates.

Total revenue for 2000 was \$3.45 billion, an increase of \$1.3 billion over 1999. Total EBITDA was \$1.3 billion for 2000, an 83 percent increase from \$695 million in 1999. The Company's consolidated EBITDA margin increased 4.5 points to 36.8 percent in 2000 from 32.3 percent in 1999. Total operating income increased \$335 million to \$830 million. The 2000 results benefited from the Promus acquisition, which was completed on November 30, 1999, and from other 1999 acquisition and development activity. Results were also positively impacted by significant increases in revenue per available room ("RevPAR") at most of the Company's major market owned hotels and increases in management and franchise fee revenue due to unit growth and system-wide RevPAR gains across all brands. Continued high demand for

hotel rooms in many major U.S. cities and limited new competitive supply in markets where Hilton has a major ownership presence contributed to the Company's strong RevPAR increases. Overall operating results also reflect the benefit of the April 2000 introduction of the HHonors loyalty program to the former Promus brands as well as the Company's cross-selling and other marketing initiatives.

The Company's domestic owned hotels contributed \$858 million of EBITDA in 2000, compared to \$618 million in the prior year. The 2000 results benefited from the Promus acquisition, the 1999 acquisition of the Pointe Hilton Squaw Peak Resort and the Hilton Minneapolis, and the September 1999 opening of the Hilton Boston Logan Airport. In total, acquisition and development activity provided \$162 million of incremental domestic owned EBITDA in the 2000 period, of which \$130 million related to the Promus acquisition.

Results in 2000 benefited from double digit EBITDA and RevPAR gains at many of the Company's owned Hilton properties. Particularly strong results were seen in major market locations, including New York, San Francisco and Honolulu. The Company's properties in both New York and San Francisco benefited from strong group business, while San Francisco also achieved strong occupancy and rate increases in the individual business traveler ("IBT") segment. Results in Honolulu reflect a strong turnaround in the market in 2000, with a year over year comparable EBITDA increase in excess of 35 percent. RevPAR for comparable owned Hilton properties improved 9.7 percent in 2000, with occupancy up 2.6 points to 77.4 percent and average daily rate ("ADR") up 6.0 percent to \$174.95.

In addition to the \$130 million of incremental EBITDA from domestic owned properties, the Promus acquisition provided incremental EBITDA of \$51 million from unconsolidated affiliates which own interests in hotels pursuant to joint venture agreements and \$34 million from properties operated by the Company under operating lease agreements. The Company did not operate properties under operating lease agreements prior to the Promus acquisition.

The Promus acquisition also generated incremental EBITDA of \$221 million from management and franchise fees. This incremental fee income includes the impact of unit growth and system-wide RevPAR gains across the former Promus brands. Including this \$221 million of incremental fee income, management and franchise fee revenue increased \$230 million in 2000 to \$350 million. Fee growth was negatively impacted by a decrease of \$9 million in fee income from Hilton brand properties included in the prior year which have left the system or were subsequently acquired by the Company. Fee revenue for all brands benefited from the expansion of the HHonors program as well as the Company's cross-selling and other marketing initiatives.

Depreciation and amortization, including the Company's proportionate share of depreciation and amortization from its unconsolidated affiliates, increased \$210 million in 2000 to \$405 million due primarily to the depreciation of fixed assets and the amortization of identifiable intangible assets and goodwill associated with the Promus acquisition.

Corporate Activity Corporate expense decreased \$11 million in 2000 to \$62 million. The 2000 expense includes an \$8 million benefit from the termination of the Company's post-retirement life insurance programs as part of the integration of the Hilton and Promus employee benefit plans. The 1999 expense includes non-recurring charges incurred by Hilton related to the Promus acquisition. These expenses totaled \$26 million in 1999, \$21 million of which are included in corporate expense. Excluding these non-recurring items, corporate expense increased \$18 million over the prior year, primarily from incremental costs as a result of the Promus acquisition.

Interest and dividend income increased \$29 million compared with the prior year, primarily due to an increase in notes receivable as the result of balances acquired in the Promus acquisition. Interest expense, net of amounts capitalized, increased \$216 million reflecting higher debt levels due to the Promus acquisition and higher interest rates on the Company's floating rate debt.

The Company realized a pre-tax gain on asset dispositions of \$32 million in 2000 from the sale of marketable securities.

The effective income tax rate for 2000 increased to 41.8% from 41.5% in 1999. The Company's effective income tax rate is determined by the level and composition of pretax income and the mix of income subject to varying foreign, state and local taxes.

Hotel Statistics RevPAR for U.S. owned-or-operated hotels and for all hotels system-wide for the year ended December 31, 2000 is as follows:

U.S. owned-or-operated hotels ⁽¹⁾	2000	Change vs. 1999	System-wide ⁽²⁾	2000	Change vs. 1999
Hilton	\$127.27	9.9%	Hilton	\$98.62	8.6%
Doubletree	79.07	6.2	Hilton Garden Inn	67.39	12.3
Embassy Suites	99.59	6.7	Doubletree	75.12	6.1
Other	64.46	4.4	Embassy Suites	93.75	5.6
Total	97.53	7.8	Homewood Suites by Hilton	72.45	5.4
			Hampton	50.42	3.6
			Other	72.96	6.9

⁽¹⁾ Statistics are for comparable U.S. hotels, and include only hotels in the system as of December 31, 2000 and owned or managed by Hilton or Promus since January 1, 1999. The change from prior year is calculated using 1999 statistics on a pro forma basis, as if the Promus acquisition had been completed as of January 1, 1999.

⁽²⁾ Statistics are for comparable hotels, and include only hotels in the system as of December 31, 2000 and owned, managed or franchised by Hilton or Promus since January 1, 1999. The change from prior year is calculated using 1999 statistics on a pro forma basis, as if the Promus acquisition had been completed as of January 1, 1999.

FISCAL 1999 COMPARED WITH FISCAL 1998

Overview A summary of the Company's consolidated results for the years ended December 31, 1998 and 1999 is as follows:

(in millions, except per share amounts)	1998	1999	% Change
Summary of Results			
Revenue	\$1,769	2,150	22%
Operating income	464	495	7
Income from continuing operations	188	176	(6)
Income from continuing operations per share:			
Basic	.71	.66	(7)
Diluted	.71	.66	(7)
Other Operating Data			
Reconciliation of Net Income to EBITDA:			
Net Income	\$ 297	174	(41)%
Cumulative effect of accounting change	—	2	
Income from discontinued operations	(109)	—	
Minority interest, net	12	7	
Provision for income taxes	136	130	
Interest expense, net, from unconsolidated affiliates	4	2	
Interest expense	137	237	
Interest and dividend income	(13)	(57)	
Operating Income	464	495	7
Pre-opening expense	—	2	
Operating interest and dividend income	—	3	
Depreciation and amortization ⁽¹⁾	132	195	
Total EBITDA	\$ 596	695	17%

⁽¹⁾ Includes proportionate share of unconsolidated affiliates.

Total revenue for 1999 was \$2.2 billion, an increase of 22 percent over 1998. Total EBITDA was \$695 million for 1999, a 17 percent increase over the prior year. Total operating income increased seven percent to \$495 million. The Promus acquisition resulted in incremental revenue and EBITDA of \$69 million and \$19 million, respectively, representing operations for the month of December 1999. The impact of the Promus acquisition was not significant to operating income in 1999. Results in 1999 were also impacted by non-recurring charges incurred by Hilton related to the Promus acquisition totaling approximately \$26 million. Excluding the one month results from the Promus acquisition, the Company's domestic owned hotels generated \$611 million of EBITDA in 1999. EBITDA margins at these hotels totaled 34 percent. Occupancy in 1999 at comparable owned hotels was essentially flat with the prior year at 75.3 percent, with the average rate increasing two percent to \$168.22, resulting in a 2.7 percent improvement in RevPAR.

Strong volume and average rate increases in the group segment drove a year over year RevPAR increase of nine percent at the Hilton New Orleans Riverside resulting in a 14 percent increase in EBITDA from 1998. EBITDA at the Hilton San Francisco increased ten percent compared to the prior year due to a significant increase in IBT volume and higher average rates in the group segment. RevPAR at this property increased seven percent. EBITDA from the

Waldorf=Astoria increased six percent over 1998. Nearly all of the increase occurred in the fourth quarter as the property benefited from higher rates, strong banquet activity and millennium related activities. Combined EBITDA from the Hilton Washington and the Capital Hilton increased eight percent on a combined RevPAR increase of five percent. Both properties benefited from occupancy growth in the higher rate IBT segment, and the Hilton Washington increased average rates nearly eight percent. Combined EBITDA from the Hilton Chicago, the Hilton Chicago O'Hare Airport and the Palmer House Hilton increased two percent from the prior year. A strong city-wide convention market in the first quarter of 1999 was offset by a softer group market and lower convention attendance experienced in subsequent quarters. Higher property tax expense in the 1999 period also impacted results. EBITDA from the Hilton New York decreased two percent from the prior year, primarily due to disruptions caused by the property's major renovation project. This project was substantially complete at the end of 1999.

On a comparable basis, EBITDA from the Hilton Hawaiian Village Beach Resort & Spa declined ten percent from the prior year. In 1999, results at the property continued to be affected by the Asian economic situation. Excluding the Hilton Hawaiian Village Beach Resort & Spa and the impact of the Promus acquisition, comparable EBITDA at the Company's domestic owned hotels increased \$15 million or three percent for the year. Occupancy for comparable domestic owned hotels (excluding the Hilton Hawaiian Village Beach Resort & Spa and Promus) was essentially flat at 75.4 percent. The average room rate increased 3.2 percent to \$168.71 in 1999 and RevPAR improved 3.6 percent.

Hotel acquisition and development activity, excluding the impact of the Promus acquisition, contributed approximately \$66 million of EBITDA in 1999. The Company opened one new-build hotel and acquired four full service domestic properties during 1999.

Management and franchise fee revenue increased \$16 million in 1999 to \$120 million. This increase is attributable primarily to \$12 million of incremental fee income as a result of the Promus acquisition, a \$2 million increase in initial and termination fees from franchise properties, and increased fees as a result of the Hilton Garden Inn franchise expansion.

Depreciation and amortization, including the Company's proportionate share of depreciation and amortization from its unconsolidated affiliates, increased \$63 million in 1999 to \$195 million due primarily to acquisition activity.

Corporate Activity Corporate expense increased \$9 million in 1999 to \$73 million. The 1999 expense includes non-recurring charges incurred by Hilton related to the Promus acquisition. These expenses totaled \$26 million in 1999, \$21 million of which are included in corporate expense. The 1998 expense includes \$13 million for the Company's proportionate share of costs associated with the gaming spin-off.

Interest and dividend income increased \$44 million compared with the prior year, primarily due to interest on the \$625 million of Hilton public debt assumed by Park Place at the time of the spin-off of Hilton's gaming operations. Interest expense, net of amounts capitalized, increased \$100 million reflecting the \$625 million of debt assumed by Park Place, higher debt levels due to the Promus acquisition, individual hotel acquisition activity during the year and significant construction and renovation project expenditures.

The effective income tax rate in 1999 increased to 41.5% from 40.5% in 1998.

Hotel Statistics RevPAR for U.S. owned-or-operated hotels and for all hotels system-wide for the year ended December 31, 1999 is as follows:

U.S. owned-or-operated hotels ⁽¹⁾	1999	Change vs. 1998	System-wide ⁽²⁾	1999	Change vs. 1998
Hilton	\$ 119.07	2.5%	Hilton	\$ 92.34	2.0%
Doubletree	75.70	.5	Hilton Garden Inn	60.63	4.2
Embassy Suites	93.25	1.6	Doubletree ⁽³⁾	75.70	.5
Other	65.88	(1.1)	Embassy Suites	88.84	1.5
Total	91.52	1.2	Homewood Suites by Hilton	69.98	(1.3)
			Hampton	48.57	1.2
			Other	66.70	(.5)

⁽¹⁾ Statistics are for comparable U.S. hotels, and include only hotels in the system as of December 31, 1999 and owned or managed by Hilton or Promus since January 1, 1998. Statistics for 1999 include the properties acquired in the Promus acquisition on a pro forma basis. The change from prior year is calculated using 1998 statistics on a pro forma basis.

⁽²⁾ Statistics are for comparable hotels, and include only hotels in the system as of December 31, 1999 and owned, managed or franchised by Hilton or Promus since January 1, 1998. Statistics for 1999 include the properties acquired in the Promus acquisition on a pro forma basis. The change from prior year is calculated using 1998 statistics on a pro forma basis.

⁽³⁾ Doubletree franchised hotels are not included in the statistical information.

OTHER MATTERS

New Accounting Standards In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". The effective date for implementation of this new standard is January 1, 2001. Adoption of the statement is not expected to have a material impact on the Company's consolidated financial statements.

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, which summarized the SEC's views and provides guidance on the topic of revenue recognition. The Company adopted SAB 101 in the fourth quarter of 2000. Adoption of the SAB did not have a material impact on the Company's results of operations.

Other Various lawsuits are pending against the Company. In management's opinion, the resolution of these lawsuits is not expected to have a material adverse effect on the Company's financial position or results of operations.

CONSOLIDATED STATEMENTS OF INCOME**FORWARD-LOOKING STATEMENTS**

Forward-looking statements in this report, including without limitation, those set forth under the captions "Development," "Liquidity and Capital Resources," "Results of Operations" and "Other Matters," and statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

The words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance, and are subject to certain risks and uncertainties, including those identified above under "Results of Operations" and those in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 under the captions "Additional Information – Business Risks" and "Competition," the effects of economic conditions, supply and demand changes for hotel rooms, competitive conditions in the lodging industry, relationships with clients and property owners, the impact of government regulations and the availability of capital to finance growth, which could cause actual results to differ materially from historical results or those anticipated. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained.

<i>(in millions, except per share amounts)</i>	<i>Year ended December 31,</i>		
	<i>1998</i>	<i>1999</i>	<i>2000</i>
Revenue			
Owned hotels	\$ 1,485	1,813	2,429
Leased hotels	—	26	398
Management and franchise fees	104	120	350
Other fees and income	180	191	274
	1,769	2,150	3,451
Expenses			
Owned hotels	964	1,196	1,571
Leased hotels	—	26	365
Depreciation and amortization	125	187	382
Other operating expenses	152	173	241
Corporate expense, net	64	73	62
	1,305	1,655	2,621
Operating Income	464	495	830
Interest and dividend income	13	57	86
Interest expense	(137)	(237)	(453)
Interest expense, net, from unconsolidated affiliates	(4)	(2)	(16)
Net gain on asset dispositions	—	—	32
Income Before Income Taxes and Minority Interest	336	313	479
Provision for income taxes	(136)	(130)	(200)
Minority interest, net	(12)	(7)	(7)
Income from Continuing Operations	188	176	272
Income from discontinued gaming operations, net of tax provision of \$111 in 1998	109	—	—
Cumulative effect of accounting change, net of tax benefit of \$1 in 1999	—	(2)	—
Net Income	\$ 297	174	272
Basic Earnings Per Share			
Income from continuing operations	\$.71	.66	.74
Discontinued gaming operations	.44	—	—
Cumulative effect of accounting change	—	(.01)	—
Net Income Per Share	\$ 1.15	.65	.74
Diluted Earnings Per Share			
Income from continuing operations	\$.71	.66	.73
Discontinued gaming operations	.41	—	—
Cumulative effect of accounting change	—	(.01)	—
Net Income Per Share	\$ 1.12	.65	.73

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

<i>(in millions)</i>	<i>December 31,</i>	<i>1999</i>	<i>2000</i>
ASSETS			
Current Assets			
Cash and equivalents		\$ 104	47
Accounts receivable, net of allowance of \$12 in 1999 and \$15 in 2000		396	403
Inventories		90	137
Deferred income taxes		15	44
Current portion of notes receivable		78	32
Assets held for sale		—	73
Other current assets		80	104
Total current assets		763	840
Investments, Property and Other Assets			
Investments and notes receivable		676	570
Long-term receivable		625	625
Property and equipment, net		3,892	3,986
Management and franchise contracts, net		647	528
Leases, net		216	147
Brands, net		1,048	1,022
Goodwill, net		1,277	1,307
Other assets		109	115
Total investments, property and other assets		8,490	8,300
Total Assets		\$9,253	9,140
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued expenses		\$ 615	618
Current maturities of long-term debt		9	23
Income taxes payable		5	5
Total current liabilities		629	646
Long-term debt		6,085	5,693
Deferred income taxes		879	902
Insurance reserves and other		245	257
Total liabilities		7,838	7,498
Commitments and Contingencies			
Stockholders' Equity			
Common stock, 368 and 369 shares outstanding, respectively		946	947
Additional paid-in capital		853	861
Retained (deficit) earnings		(197)	35
Accumulated other comprehensive income		24	6
		1,626	1,849
Less treasury stock, at cost		(211)	(207)
Total stockholders' equity		1,415	1,642
Total Liabilities and Stockholders' Equity		\$9,253	9,140

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

<i>(in millions)</i>	<i>Year ended December 31,</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Operating Activities				
Net income	\$ 297	174	272	272
Adjustments to reconcile net income to net cash provided by operating activities:				
Income from discontinued gaming operations	(109)	—	—	—
Cumulative effect of accounting change	—	2	—	—
Depreciation and amortization	125	187	382	382
Amortization of loan costs	2	3	8	8
Gain on asset dispositions	—	—	—	(32)
Change in working capital components:				
Inventories	(15)	(30)	(26)	(26)
Accounts receivable	(42)	(58)	(6)	(6)
Other current assets	(17)	15	(18)	(18)
Accounts payable and accrued expenses	124	16	(48)	(48)
Income taxes payable	25	(29)	—	—
Change in deferred income taxes	9	(5)	13	13
Change in other liabilities	5	4	30	30
Unconsolidated affiliates' distributions (less than) in excess of earnings	(17)	(7)	40	40
Other	3	7	(26)	(26)
Net cash provided by operating activities	390	279	589	589
Investing Activities				
Capital expenditures	(171)	(254)	(458)	(458)
Additional investments	(98)	(102)	(140)	(140)
Proceeds from asset dispositions	—	—	165	165
Payments on notes and other	49	78	190	190
Acquisitions, net of cash acquired	(842)	(2,036)	—	—
Net cash used in investing activities	(1,062)	(2,314)	(243)	(243)
Financing Activities				
Change in commercial paper borrowings and revolving loans	355	2,264	(918)	(918)
Long-term borrowings	400	—	655	655
Reduction of long-term debt	(247)	(64)	(115)	(115)
Issuance of common stock	25	5	4	4
Purchase of common stock	(81)	(90)	—	—
Cash dividends	(90)	(23)	(29)	(29)
Net cash provided by (used in) financing activities	362	2,092	(403)	(403)
Net transfers to discontinued gaming operations	352	—	—	—
Increase (Decrease) in Cash and Equivalents	42	57	(57)	(57)
Cash and Equivalents at Beginning of Year	5	47	104	104
Cash and Equivalents at End of Year	\$ 47	104	47	47

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(in millions, except per share amounts)</i>	8% PRIDES Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 1997	\$ 15	628	1,759	1,040	11	(70)	3,383
Net Income	—	—	—	297	—	—	297
Other comprehensive income:							
Cumulative translation adjustment, net of deferred tax	—	—	—	—	(9)	—	(9)
Change in unrealized gain/loss on marketable securities, net of deferred tax	—	—	—	—	(10)	—	(10)
Comprehensive income for 1998	—	—	—	297	(19)	—	278
Issuance of common stock	—	1	10	—	—	—	11
Exercise of stock options	—	—	—	(8)	—	22	14
Treasury stock acquired	—	—	—	—	—	(81)	(81)
Conversion of PRIDES	(15)	34	(19)	—	—	—	—
Deferred compensation	—	—	10	—	—	—	10
Dividends	—	—	—	—	—	—	—
PRIDES (\$.67 per share)	—	—	—	(10)	—	—	(10)
Common (\$.32 per share)	—	—	—	(80)	—	—	(80)
Spin-off of Park Place Entertainment Corporation	—	—	(1,760)	(1,586)	8	—	(3,338)
Balance at December 31, 1998	—	663	—	(347)	—	(129)	187
Net Income	—	—	—	174	—	—	174
Other comprehensive income:							
Cumulative translation adjustment, net of deferred tax	—	—	—	—	(1)	—	(1)
Change in unrealized gain/loss on marketable securities, net of deferred tax	—	—	—	—	25	—	25
Comprehensive income for 1999	—	—	—	174	24	—	198
Issuance of common stock	—	283	843	—	—	—	1,126
Exercise of stock options	—	—	—	(5)	—	8	3
Treasury stock acquired	—	—	—	—	—	(90)	(90)
Deferred compensation	—	—	10	—	—	—	10
Common dividends (\$.08 per share)	—	—	—	(23)	—	—	(23)
Adjustment to spin-off of Park Place Entertainment Corporation	—	—	—	4	—	—	4
Balance at December 31, 1999	—	946	853	(197)	24	(211)	1,415
Net Income	—	—	—	272	—	—	272
Other comprehensive income:							
Cumulative translation adjustment, net of deferred tax	—	—	—	—	(1)	—	(1)
Change in unrealized gain/loss on marketable securities, net of deferred tax	—	—	—	—	(17)	—	(17)
Comprehensive income for 2000	—	—	—	272	(18)	—	254
Issuance of common stock	—	1	2	—	—	—	3
Exercise of stock options	—	—	—	(3)	—	4	1
Deferred compensation	—	—	6	—	—	—	6
Common dividends (\$.08 per share)	—	—	—	(29)	—	—	(29)
Adjustment to spin-off of Park Place Entertainment Corporation	—	—	—	(8)	—	—	(8)
Balance at December 31, 2000	\$ —	947	861	35	6	(207)	1,642

See notes to consolidated financial statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000****BASIS OF PRESENTATION AND ORGANIZATION**

On November 30, 1999, Hilton Hotels Corporation ("Hilton" or the "Company") acquired Promus Hotel Corporation ("Promus") in a business combination accounted for as a purchase. Accordingly, the consolidated financial results of Hilton include the results of Promus and its subsidiaries from the date of acquisition.

On December 31, 1998, Hilton completed a spin-off that split the Company's operations into two independent public corporations, one for conducting its hotel business and one for conducting its gaming business. Hilton retained ownership of the hotel business. Hilton transferred the gaming business to a new corporation named Park Place Entertainment Corporation ("Park Place") and distributed the stock of Park Place tax-free to Hilton stockholders on a one-for-one basis. As a result of the spin-off, Hilton's financial statements reflect the gaming business as discontinued operations.

Hilton is primarily engaged in the ownership, management and development of hotels, resorts and vacation ownership properties and the franchising of lodging properties. Hilton operates in select markets throughout the world, predominately in the United States.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of Hilton Hotels Corporation and its majority owned and controlled subsidiaries. All material intercompany transactions are eliminated and net earnings are reduced by the portion of the earnings of affiliates applicable to other ownership interests.

Cash and Equivalents Cash and equivalents include investments with initial maturities of three months or less. Cash and equivalents at December 31, 2000 includes approximately \$17 million of cash related to certain consolidated hotels, the use of which is restricted for hotel purposes under the terms of collateralized borrowings.

Currency Translation Assets and liabilities denominated in most foreign currencies are translated into U.S. dollars at year-end exchange rates and related gains and losses, net of applicable deferred income taxes, are reflected in stockholders' equity. Gains and losses from foreign currency transactions are included in earnings.

Valuation of Long-Lived Assets The carrying value of the Company's long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on expected future cash flows, then a loss is recognized in the income statement using a fair value based model.

Property and Equipment Property and equipment are stated at cost. Interest incurred during construction of facilities is capitalized and amortized over the life of the asset. Costs of improvements are capitalized. Costs of normal repairs and maintenance are charged to expense as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in income.

Depreciation is provided on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are amortized over the shorter of the asset life or lease term. The service lives of assets are generally 40 years for buildings and eight years for building improvements and furniture and equipment.

Pre-Opening Costs In April 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities." This SOP requires that all nongovernmental entities expense the costs of start-up activities (pre-opening, pre-operating and organizational costs) as those costs are incurred and required the write-off of any unamortized balances upon implementation. The Company's adoption of SOP 98-5 resulted in a cumulative effect of accounting change of \$2 million, net of a tax benefit of \$1 million, in the first quarter of 1999.

Management and Franchise Contracts Management and franchise contracts acquired in acquisitions that were accounted for as purchases are recorded at the estimated present value of net cash flows expected to be received over the lives of the contracts. This value is amortized using the straight-line method over the remaining contract life. Costs incurred to acquire individual management and franchise contracts are amortized using the straight-line method over the life of the respective contract. Accumulated amortization of management and franchise contracts totaled \$4 million and \$52 million at December 31, 1999 and 2000, respectively.

Leases Leases acquired in acquisitions that were accounted for as purchases are recorded at the estimated present value of net cash flows expected to be received over the lives of the lease agreements. This value is amortized using the straight-line method over the remaining lease term. Accumulated amortization of leases totaled \$1 million and \$5 million at December 31, 1999 and 2000, respectively.

Brands The brand names of hotels acquired in acquisitions are assigned a fair market value. To arrive at a value for each brand name, an estimation is made of the amount of royalty income that could be generated from the brand name if it was licensed to an independent third-party owner. The resulting cash flow is discounted back using the estimated weighted average cost of capital for each respective brand name. The brand value is amortized on a straight-line basis over 40 years. Accumulated amortization of brands totaled \$2 million and \$28 million at December 31, 1999 and 2000, respectively.

Goodwill Goodwill arising in connection with purchase acquisitions is amortized using the straight-line method over 40 years. Accumulated amortization of goodwill totaled \$5 million and \$39 million at December 31, 1999 and 2000, respectively.

Unamortized Loan Costs Debt discount and issuance costs incurred in connection with the placement of long-term debt are capitalized and amortized to interest expense over the lives of the related debt.

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

Revenue Recognition Revenue is generally recognized as services are performed. Owned and leased hotel revenue represents primarily rooms rental and food and beverage sales from owned, leased and consolidated joint venture hotels. Management and franchise fees represent fees earned on hotels managed by the Company, usually under long-term contracts with the hotel owner, and fees received in connection with the franchise of the Company's brand names. Other fees and income includes primarily equity income from unconsolidated affiliates and earnings from vacation ownership operations.

Earnings Per Share ("EPS") Basic EPS is computed by dividing net income available to common stockholders (net income less preferred dividends of \$10 million in 1998; no preferred stock was outstanding in 1999 or 2000) by the weighted average number of common shares outstanding for the period. The weighted average number of common shares outstanding for 1998, 1999 and 2000 were 250 million, 266 million and 368 million, respectively. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The dilutive effect of the assumed exercise of stock options and convertible securities increased the weighted average number of common shares by 28 million, 24 million and 24 million for 1998, 1999 and 2000, respectively. In addition, the increase to net income resulting from interest on convertible securities assumed to have not been paid was \$15 million per year for 1998, 1999 and 2000.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". The effective date for implementation of this new standard is January 1, 2001. Adoption of the statement is not expected to have a material impact on the Company's consolidated financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, which summarized the SEC's views and provides guidance on the topic of revenue recognition. The Company adopted SAB 101 in the fourth quarter of 2000. Adoption of the SAB did not have a material impact on the Company's results of operations.

Reclassifications The consolidated financial statements for prior years reflect certain reclassifications to conform with classifications adopted in 2000. These classifications have no effect on net income.

ACQUISITIONS AND DIVESTITURES

Acquisition of Promus Hotel Corporation On November 30, 1999, the Company completed the acquisition of Promus pursuant to an agreement dated September 3, 1999. Aggregate consideration consisted of approximately \$1.7 billion in cash in exchange for 55 percent of the outstanding shares of Promus common stock and approximately 113 million shares of the Company's common stock in exchange for the remaining 45 percent of Promus stock for a combined equity value of approximately \$2.8 billion, transaction costs of \$175 million, and the assumption of Promus and Promus subsidiary debt totaling \$750 million. Transaction costs include \$46 million of severance costs, \$42 million of which had been paid as of December 31, 2000, covering the termination of Promus employees whose positions were duplicative.

The acquisition was accounted for using the purchase method of accounting, and accordingly, the acquisition cost has been allocated to the assets acquired and liabilities assumed based on estimates of their fair value. A total of \$1.27 billion, representing the excess of acquisition cost over the final determination of the fair value of Promus' tangible and identifiable intangible net assets, has been allocated to goodwill and is being amortized over 40 years.

The Company's consolidated results of operations incorporate Promus' activity from the date of the acquisition. The following unaudited pro forma information has been prepared assuming that this acquisition had taken place at the beginning of the respective periods. This pro forma information does not purport to be indicative of future results or what would have occurred had the acquisition been made as of those dates.

<i>(in millions, except per share amounts) (unaudited)</i>	1998	1999
Revenue	\$2,876	3,161
Operating income	676	703
Income from continuing operations	197	216
Income from discontinued gaming operations	109	—
Net income	306	214
Basic earnings per share		
Income from continuing operations	.51	.58
Income from discontinued gaming operations	.30	—
Net income	.81	.58
Diluted earnings per share		
Income from continuing operations	.51	.58
Income from discontinued gaming operations	.30	—
Net income	.81	.58

Spin-Off of Gaming Operations On December 31, 1998, the Company completed a spin-off of its gaming operations. Accordingly, results of operations and cash flows of Park Place have been reported as discontinued operations in the 1998 period presented in the consolidated financial statements.

Income from discontinued gaming operations for the year ended December 31, 1998 is as follows:

<i>(in millions)</i>	1998
Revenue	\$2,295
Costs and expenses	(1,993)
Operating income	302
Net interest expense	(79)
Income before income taxes and minority interest	223
Provision for income taxes	(111)
Minority interest, net	(3)
Income from discontinued gaming operations	\$ 109

Net Gain on Asset Dispositions The Company realized a pre-tax gain on asset dispositions of \$32 million in 2000 from the sale of marketable securities.

Assets Held for Sale In January 2000, the Company entered into an agreement with RFS Hotel Investors, Inc. ("RFS"), which gave RFS the option to terminate 52 operating leases and four management contracts on hotels owned by RFS. In November 2000, RFS notified the Company of its intention to exercise the option to terminate these agreements. In January 2001, RFS paid the Company approximately \$60 million in cash as consideration for terminating the leases and management contracts. The Company also sold 973,684 shares of RFS preferred stock to RFS for \$13 million in cash. The values of these leases, management contracts and shares of preferred stock are reflected as assets held for sale in the Company's December 31, 2000 consolidated balance sheet.

INVENTORIES

Included in inventories at December 31, 1999 and 2000 are unsold intervals at the Company's vacation ownership properties of \$70 million and \$111 million, respectively. Inventories are valued at the lower of cost or estimated net realizable value.

INVESTMENTS AND NOTES RECEIVABLE

Investments and notes receivable at December 31, 1999 and 2000 are as follows:

<i>(in millions)</i>	1999	2000
Equity investments		
Hotels	\$220	236
Other	74	34
Vacation ownership notes receivable	123	147
Other notes receivable	212	141
Marketable securities	125	44
	754	602
Less current portion of notes receivable	(78)	(32)
Total	\$676	570

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1999 and 2000 are as follows:

<i>(in millions)</i>	1999	2000
Land	\$ 590	569
Buildings and leasehold improvements	3,256	3,258
Furniture and equipment	872	912
Property held for sale or development	22	45
Construction in progress	86	200
	4,826	4,984
Less accumulated depreciation	(934)	(998)
Total	\$ 3,892	3,986

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 1999 and 2000 are as follows:

<i>(in millions)</i>	1999	2000
Accounts and notes payable	\$ 106	146
Accrued compensation and benefits	140	149
Deposits	23	38
Deferred timeshare sales	—	34
Accrued property tax	32	32
Accrued interest	34	29
Other accrued expenses	280	190
Total	\$ 615	618

LONG-TERM DEBT

Long-term debt at December 31, 1999 and 2000 is as follows:

<i>(in millions)</i>	1999	2000
Industrial development revenue bonds at adjustable rates, due 2015	\$ 82	82
Senior notes, with an average rate of 7.7%, due 2001 to 2017	1,057	1,052
Senior notes, with an average rate of 7.2%, due 2002 to 2004 ⁽¹⁾	625	625
Mortgage notes, 6.0% to 8.6%, due 2002 to 2022	308	353
7.95% Collateralized borrowings, due 2010	—	499
5% Convertible subordinated notes due 2006	494	495
Commercial paper	19	235
Revolving loans	3,506	2,372
Other	3	3
	6,094	5,716
Less current maturities	(9)	(23)
Net long-term debt	\$ 6,085	5,693

⁽¹⁾ Represents balances assumed by Park Place in connection with the December 31, 1998 spin-off of the Company's gaming business.

Interest paid, net of amounts capitalized, was \$130 million, \$187 million and \$402 million in 1998, 1999 and 2000, respectively. Capitalized interest totaled \$4 million, \$7 million and \$9 million in 1998, 1999 and 2000, respectively.

Debt maturities during the next five years are as follows:

<i>(in millions)</i>	
2001	\$ 23
2002	626
2003	1,534
2004	1,423
2005	14

In September 2000, the Company entered into a financing agreement pursuant to which it borrowed \$500 million for ten years at a fixed rate of 7.95 percent. Five of the Company's hotels serve as collateral for the agreement, the proceeds of which were used to pay down the Company's floating rate revolving debt. In August 2000, the Company and its partners refinanced the debt on the Hilton New Orleans Riverside, of which the Company owns 67.4 percent. The new \$155 million mortgage has a term of ten years at a fixed rate of 8.62 percent.

The Company has three revolving credit facilities. In October 1996, Hilton entered into a \$1.75 billion five-year revolving credit facility (the "1996 facility"). In October 2000, the Company extended the term of the 1996 facility from 2001 to 2003 and reduced the commitment under the facility to \$1.145 billion, which was the amount outstanding under the facility at the time of the reduction. As of December 31, 2000, the 1996 facility had been reduced to \$1.084 billion through the repayment of outstanding balances. In November 1999, Hilton entered into a \$1.8 billion revolving credit facility (the "1999 facility") consisting of a \$1.4 billion revolver

which expires in 2004 and a \$400 million 364-day revolver which expires in November 2001. As of December 31, 2000, \$850 million of borrowings were outstanding under the \$1.4 billion revolver and \$235 million of the \$1.4 billion revolver supported the issuance of commercial paper. The 364-day revolver was undrawn at December 31, 2000. Borrowings under the 1996 facility and the 1999 facility will generally bear interest at the London Interbank Offered Rate ("LIBOR") plus a spread based on the Company's public debt rating or a leverage ratio. The all-in borrowing cost under both facilities was approximately LIBOR plus 125 basis points as of December 31, 2000. In June 1998, Hilton entered into a five-year \$500 million revolving credit facility to acquire the remaining 50% interest in the Hilton Hawaiian Village Beach Resort & Spa. The all-in borrowing cost under this facility was approximately LIBOR plus 87.5 basis points as of December 31, 2000. As of December 31, 2000, \$438 million of borrowings were outstanding under the \$500 million revolver. Total revolving debt capacity of approximately \$780 million was available to the Company at December 31, 2000.

In October 1997, the Company filed a shelf registration statement ("Shelf") with the SEC registering up to \$2.5 billion in debt or equity securities. At December 31, 2000, available financing under the Shelf totaled \$2.1 billion. The terms of any additional securities offered pursuant to the Shelf will be determined by market conditions at the time of issuance.

Pursuant to a debt assumption agreement entered into at the time of the Park Place spin-off, Park Place assumed and agreed to pay 100% of the amount of each payment required to be made by Hilton under the terms of the indentures governing Hilton's \$300 million 7.375% Senior Notes due 2002 and its \$325 million 7% Senior Notes due 2004. These notes remain in Hilton's long-term debt balance and a long-term receivable from Park Place in an equal amount is included in the Company's 1999 and 2000 consolidated balance sheets. In the event of an increase in the interest rate on these notes as a result of certain actions taken by Hilton or in certain other limited circumstances, Hilton will be required to reimburse Park Place for any such increase. Hilton is obligated to make any payment Park Place fails to make, and in such event Park Place shall pay to Hilton the amount of such payment together with interest, at the rate per annum borne by the applicable notes plus two percent, to the date of such reimbursement.

As of December 31, 2000, 53% of the Company's long-term debt (excluding the Park Place allocated debt) was floating rate debt.

Provisions under various loan agreements require the Company to comply with certain financial covenants which include limiting the amount of outstanding indebtedness.

FINANCIAL INSTRUMENTS

Cash Equivalents and Long-Term Marketable Securities The fair value of cash equivalents and long-term marketable securities is estimated based on the quoted market price of the investments.

Long-Term Debt The estimated fair value of long-term debt is based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

The estimated fair values of the Company's financial instruments at December 31, 1999 and 2000 are as follows:

(in millions)	1999		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents and long-term marketable securities	\$ 229	229	91	91
Long-term debt (including current maturities)	6,094	5,837	5,716	5,481

INCOME TAXES

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

(in millions)	1998	1999	2000
Current			
Federal	\$ 98	98	169
State, foreign and local	31	34	33
	129	132	202
Deferred	7	(2)	(2)
Total	\$136	130	200

During 1998, 1999 and 2000, the Company paid income taxes, including amounts paid on behalf of the discontinued gaming operations during 1998, of \$165 million, \$141 million and \$138 million, respectively.

The income tax effects of temporary differences between financial and income tax reporting that gave rise to deferred income tax assets and liabilities at December 31, 1999 and 2000 are as follows:

<i>(in millions)</i>	1999	2000
Deferred tax assets		
Compensation	\$ 57	77
Deferred income	7	15
Insurance	25	19
Business combination expense	45	11
Foreign taxes	29	5
Franchise system funds	—	4
Reserves	11	3
NOL carry forwards	3	2
Other	9	10
	186	146
Valuation allowance	(6)	(3)
	180	143
Deferred tax liabilities		
Basis difference	(269)	(299)
Property	(119)	(169)
Investments	(207)	(118)
Brand value	(420)	(415)
Other	(29)	—
	(1,044)	(1,001)
Net deferred tax liability	\$ (864)	(858)

The reconciliations of the Federal income tax rate to the Company's effective tax rate for the three years ended December 31 are as follows:

	1998	1999	2000
Federal income tax rate	35.0%	35.0	35.0
Increase (reduction) in taxes			
State and local income taxes, net of Federal tax benefits	4.2	4.7	4.2
Foreign taxes, net	2.7	3.7	2.3
Spin-off costs	.8	—	—
Goodwill	—	.3	2.4
Federal income tax credits	(2.9)	(3.4)	(2.7)
Other	.7	1.2	.6
Effective tax rate	40.5%	41.5	41.8

STOCKHOLDERS' EQUITY

Five hundred million shares of common stock with a par value of \$2.50 per share are authorized, of which 378 million and 379 million were issued at December 31, 1999 and 2000, respectively, including treasury shares of ten million in both 1999 and 2000. Authorized preferred stock includes 25 million shares of preferred stock with a par value of \$1.00 per share. In October 1998, 15 million shares of 8% PRIDES convertible preferred stock were converted into 14 million shares of common stock. No preferred shares were issued or outstanding at December 31, 1999 and 2000.

To reflect the spin-off of the gaming business, the \$3.3 billion book value of net assets of discontinued gaming operations as of December 31, 1998 was charged against the Company's retained earnings and additional paid-in capital. During 1999 and 2000, additional spin-off adjustments totaling \$4 million and \$8 million, respectively, were recorded through retained earnings.

The Company's Board of Directors has approved the repurchase by the Company of up to 20 million shares of its common stock pursuant to a stock repurchase program. The timing of the stock purchases are made at the discretion of the Company's management. There were no shares repurchased during 2000. At December 31, 2000, the Company had repurchased 10.7 million shares or 54 percent of the total authorized to be repurchased. The Company may at any time repurchase up to 9.3 million of the remaining shares authorized for repurchase.

The Company has a Preferred Share Purchase Rights Plan under which a right is attached to each share of the Company's common stock. The rights may only become exercisable under certain circumstances involving actual or potential acquisitions of the Company's common stock by a specified person or affiliated group. Depending on the circumstances, if the rights become exercisable, the holder may be entitled to purchase units of the Company's junior participating preferred stock, shares of the Company's common stock or shares of common stock of the acquiror. The rights remain in existence until November 2009 unless they are terminated, exercised or redeemed.

STOCK PLANS

At December 31, 2000, 57 million shares of common stock were reserved for the exercise of options under the Company's Stock Incentive Plans. Options may be granted to salaried officers, directors and other key employees of the Company to purchase common stock at not less than the fair market value at the date of grant. Generally, options may be exercised in installments commencing one year after the date of grant. The Stock Incentive Plans also permit the granting of Stock Appreciation Rights ("SARs"). No SARs have been granted as of December 31, 2000.

A summary of the status of the Company's stock option plans as of December 31, 1998, 1999 and 2000, and changes during the years ending on those dates is presented below:

	Options Price Range (per share)	Weighted Average Price (per share)	Options Outstanding	Available for Grant
Balance at December 31, 1997	\$ 4.68 – 21.30	\$ 13.23	14,631,619	7,170,664
Authorized			—	12,000,000
Granted	12.17 – 27.53	18.23	9,113,850	(9,113,850)
Exercised	4.72 – 18.38	10.04	(692,067)	—
Cancelled	10.48 – 21.30	15.71	(2,359,632)	2,359,632
Balance at December 31, 1998	4.68 – 27.53	15.25	20,693,770	12,416,446
Granted	10.84 – 15.31	14.84	3,157,400	(3,157,400)
Exercised	4.72 – 16.59	9.35	(270,276)	—
Cancelled	10.48 – 21.30	16.39	(823,152)	823,152
Balance at December 31, 1999	4.68 – 27.53	15.22	22,757,742	10,082,198
Authorized			—	25,000,000
Granted	6.66 – 15.28	9.20	7,765,000	(7,765,000)
Exercised	4.68 – 10.48	5.29	(207,400)	—
Cancelled	7.78 – 20.66	14.92	(2,032,325)	1,738,259
Balance at December 31, 2000	\$ 4.68 – 27.53	\$ 13.66	28,283,017	29,055,457

The following table summarizes information about stock options outstanding at December 31, 2000:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 4.68 – 9.22	7,306,900	8.6	\$ 9.07	522,200	\$ 8.27
9.81 – 11.88	7,500,082	4.6	11.66	7,128,532	11.72
12.51 – 14.84	7,424,000	7.6	14.15	3,743,681	14.12
15.06 – 27.53	6,052,035	7.0	21.06	2,811,098	17.56
\$ 4.68 – 27.53	28,283,017	6.9	\$ 13.66	14,205,511	\$ 13.38

The Company applies Accounting Principles Board (“APB”) Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, compensation expense recognized was different than what would have otherwise been recognized under the fair value based method defined in SFAS No. 123, “Accounting for Stock-Based Compensation.” Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated as follows:

(in millions, except per share amounts)	1998	1999	2000
Income from continuing operations	\$ 183	169	255
Discontinued gaming operations	92	—	—
Cumulative effect of accounting change	—	(2)	—
Net income	\$ 275	167	255
Basic EPS			
Income from continuing operations	\$.69	.63	.69
Discontinued gaming operations	.37	—	—
Cumulative effect of accounting change	—	(.01)	—
Net income	\$ 1.06	.62	.69
Diluted EPS			
Income from continuing operations	\$.69	.63	.69
Discontinued gaming operations	.35	—	—
Cumulative effect of accounting change	—	(.01)	—
Net income	\$ 1.04	.62	.69

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1999 and 2000, respectively: dividend yield of one percent for each of the three years; expected volatility of 34, 31 and 40 percent; risk-free interest rates of 5.5, 4.8 and 6.0 percent and expected lives of six years for 1998 and seven years for 1999 and 2000.

The Company also has an Employee Stock Purchase Plan by which the Company is authorized to issue up to two million shares of common stock to its full-time employees. Under the terms of the Plan, employees can elect to have a percentage of their earnings withheld to purchase the Company's common stock.

EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries have various employee investment plans whereby the Company contributes certain percentages of employee contributions. The aggregate expense to the Company under these plans totaled \$4 million, \$6 million and \$10 million in 1998, 1999 and 2000, respectively.

The Company has provided supplemental retirement benefits to certain eligible executives in the form of fixed stock units that settle for shares of the Company's common stock on a one-for-one basis upon the participant's retirement. The compensation expense associated with the benefits is expensed over a four year vesting period. The aggregate expense to the Company under these plans totaled \$6 million in 2000; no such benefits were provided in 1998 or 1999.

A significant number of the Company's employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed and charged to expense \$11 million, \$13 million and \$14 million in 1998, 1999 and 2000, respectively, for such plans. Information from the plans' administrators is not sufficient to permit the Company to determine its share, if any, of unfunded vested benefits.

In addition, a significant number of the Company's employees are covered by a noncontributory retirement plan ("Basic Plan"). The Company also has plans covering qualifying employees and non-officer directors ("Supplemental Plans"). Benefits for all plans are based upon years of service and compensation, as defined. Since December 31, 1996, employees and non-officer directors have not accrued additional benefits under either the Basic or Supplemental Plans. Plan assets will be used to pay benefits due employees for service through this date. As of December 31, 1999 and 2000, these plans have assets of \$258 million and \$261 million and a projected benefit obligation of \$224 million and \$234 million, respectively. Accrued pension cost totaled \$17 million and \$16 million at December 31, 1999 and 2000, respectively. Pension expense for the years ended December 31, 1998, 1999 and 2000 was not significant.

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

As part of the integration of the Hilton and Promus employee benefit plans, Hilton terminated its post-retirement life insurance programs effective December 31, 2000. As a result, the Company recorded an \$8 million benefit in the fourth quarter of 2000. The annual cost of these benefits provided prior to termination of the program was not significant. The Company does not provide post-retirement health care benefits to its employees.

LEASES

The Company leases hotel properties and land under operating leases. As of December 31, 2000, the Company leased 73 hotels, including the leases which were terminated by RFS in January 2001. The Company's hotel leases require the payment of rent equal to the greater of fixed base rent or percentage rent based on a percentage of revenue, and expire through July 2012, with varying renewal options. The Company's land leases represent ground leases for certain owned hotels and, in addition to minimum base rental payments, may require the payment of additional rents based on varying percentages of revenue or income. Total rent expense incurred under the Company's leases was \$22 million, \$23 million and \$144 million in 1998, 1999 and 2000, respectively. Minimum lease commitments under noncancelable operating leases, excluding the terminated RFS leases, approximate \$30 million annually through 2005 with an aggregate commitment of \$420 million through 2044.

COMMITMENTS AND CONTINGENCIES

The Company is liable under certain lease agreements pursuant to which it has assigned the direct obligation to third party interests. Additionally, the Company manages certain hotels for others under agreements that provide for payments or loans to the hotel owners if stipulated levels of financial performance are not maintained. The Company has also provided guarantees for loans and leases related to certain joint ventures. Management believes the likelihood is remote that material payments will be required under these agreements. The Company's estimated maximum exposure under such agreements is approximately \$78 million as of December 31, 2000.

At December 31, 2000, the Company had contractual commitments for construction, major expansion and rehabilitation projects of approximately \$140 million.

FelCor FelCor Lodging Trust Inc. ("FelCor") owns or has an interest in 84 Company hotels as of December 31, 2000. The Company has guaranteed repayment of a third party loan to FelCor of up to \$25 million.

Candlewood A subsidiary of the Company has committed to provide credit support for a loan facility utilized by Candlewood Hotel Company ("Candlewood") to provide construction and permanent financing to Candlewood and its franchisees, with the aggregate amount of exposure for all such credit support capped at \$30 million. As of December 31, 2000, the Company has guaranteed \$10 million in such financing.

Franchise Financing The Company has established franchise financing programs with third party lenders to support the growth of its Hampton, Homewood Suites by Hilton, Hilton Garden Inn and Embassy Suites hotels. As of December 31, 2000, the Company has guaranteed \$33 million of loans outstanding under the programs.

Other Various lawsuits are pending against the Company. In management's opinion, the resolution of these lawsuits is not expected to have a material effect on the Company's financial position or results of operations.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
HILTON HOTELS CORPORATION:

We have audited the accompanying consolidated balance sheets of Hilton Hotels Corporation (a Delaware corporation) and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Hotels Corporation and subsidiaries as of December 31, 1999 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



Arthur Andersen LLP
Los Angeles, California
January 24, 2001

QUARTERLY FINANCIAL DATA

(dollars in millions, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2000					
Revenue	\$ 793	916	867	875	3,451
EBITDA ⁽¹⁾	280	361	317	313	1,271
Operating income	173	250	203	204	830
Net income	58	88	62	64	272
Basic EPS	\$.16	.24	.17	.17	.74
Diluted EPS	\$.16	.23	.17	.17	.73
1999					
Revenue	\$ 475	539	498	638	2,150
EBITDA ⁽¹⁾	156	198	161	180	695
Operating income	116	154	114	111	495
Income from continuing operations	42	66	42	26	176
Cumulative effect of accounting change, net of tax benefit	(2)	—	—	—	(2)
Net income	40	66	42	26	174
Basic EPS ⁽²⁾					
Continuing operations	\$.16	.26	.16	.09	.66
Cumulative effect of accounting change	(.01)	—	—	—	(.01)
Net income	\$.15	.26	.16	.09	.65
Diluted EPS					
Continuing operations	\$.16	.25	.16	.09	.66
Cumulative effect of accounting change	(.01)	—	—	—	(.01)
Net income	\$.15	.25	.16	.09	.65

As of December 31, 2000, there were approximately 21,100 stockholders of record.

⁽¹⁾ EBITDA is earnings before interest, taxes, depreciation, amortization, pre-opening expense and non-cash items. EBITDA can be computed by adding depreciation, amortization, pre-opening expense, interest and dividend income from investments related to operating activities and non-cash items to operating income. EBITDA is presented supplementally because management believes it allows for a more complete analysis of results of operations. Non-cash items, such as asset write-downs and impairment losses, are excluded from EBITDA as these items do not impact operating results on a recurring basis. This information should not be considered as an alternative to any measure of performance as promulgated under generally accepted accounting principles, such as operating income or net income, nor should it be considered as an indicator of the overall financial performance of the Company. The Company's calculation of EBITDA may be different from the calculation used by other companies, and therefore comparability may be limited.

⁽²⁾ The sum of EPS for the four quarters differs from the annual EPS due to the required method of computing weighted average number of shares in the respective periods.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**FIVE YEAR SUMMARY****GENERAL INFORMATION**

EBITDA (in millions)	Year ended December 31,		
	1998	1999	2000
Operations	\$ 660	768	1,333
Corporate expense, net	(64)	(73)	(62)
Total EBITDA	\$ 596	695	1,271
Reconciliation of operating income to EBITDA:			
Operating income	\$ 464	495	830
Pre-opening expense	—	2	4
Operating interest and dividend income	—	3	32
Depreciation and amortization ⁽¹⁾	132	195	405
EBITDA	\$ 596	695	1,271

Comparative Statistical Information ⁽²⁾

	Year ended December 31, 2000		
	Occupancy	Average Rate	RevPAR
Hilton	72.6%	\$ 135.75	\$ 98.62
Change from prior year	2.3 pts	5.0%	8.6%
Hilton Garden Inn	68.7%	\$ 98.08	\$ 67.39
Change from prior year	5.6 pts	3.1%	12.3%
Doubletree	70.3%	\$ 106.81	\$ 75.12
Change from prior year	1.4 pts	4.0%	6.1%
Embassy Suites	74.3%	\$ 126.18	\$ 93.75
Change from prior year	1.2 pts	4.0%	5.6%
Homewood Suites by Hilton	74.4%	\$ 97.35	\$ 72.45
Change from prior year	1.9 pts	2.6%	5.4%
Hampton	68.1%	\$ 74.04	\$ 50.42
Change from prior year	.4 pts	3.0%	3.6%
Other	67.9%	\$ 107.45	\$ 72.96
Change from prior year	1.3 pts	4.8%	6.9%

⁽¹⁾ Includes proportionate share of unconsolidated affiliates.

⁽²⁾ Statistics are for comparable hotels, and include only those hotels in the system as of December 31, 2000 which were owned, managed or franchised by Hilton or Promus since January 1, 1999. The change from prior year is calculated using 1999 statistics on a pro forma basis, as if the acquisition of Promus had been completed as of January 1, 1999.

Year ended December 31,

(dollars in millions, except per share amounts)	1996	1997	1998	1999	2000
Operating Data					
Revenue	\$ 947	1,475	1,769	2,150	3,451
Income					
Income from continuing operations	\$ 120	183	188	176	272
Discontinued gaming operations	(38)	67	109	—	—
Cumulative effect of accounting change	—	—	—	(2)	—
Net income	\$ 82	250	297	174	272
Basic Earnings per Share					
Income from continuing operations	\$.61	.68	.71	.66	.74
Discontinued gaming operations	(.20)	.27	.44	—	—
Cumulative effect of accounting change	—	—	—	(.01)	—
Net income	\$.41	.95	1.15	.65	.74
Diluted Earnings per Share					
Income from continuing operations	\$.61	.68	.71	.66	.73
Discontinued gaming operations	(.20)	.26	.41	—	—
Cumulative effect of accounting change	—	—	—	(.01)	—
Net income	\$.41	.94	1.12	.65	.73
Cash Dividends per Common Share	\$.305	.32	.32	.08	.08
Other Information (unaudited)					
EBITDA					
Operations	\$ 401	561	660	768	1,333
Corporate expense, net	(40)	(64)	(64)	(73)	(62)
Total	\$ 361	497	596	695	1,271
Number of Properties at Year End					
Owned ⁽¹⁾	24	25	32	85	78
Joint venture	7	7	5	56	61
Leased	—	—	—	74	73
Managed	28	27	24	185	191
Franchised	172	180	188	1,352	1,492
Total	231	239	249	1,752	1,895
Available Rooms at Year End					
Owned ⁽¹⁾	17,786	18,377	23,341	36,367	35,234
Joint venture	5,306	5,422	2,421	16,171	18,148
Leased	—	—	—	12,681	12,602
Managed	16,776	15,779	14,690	51,979	51,122
Franchised	43,694	45,092	46,562	183,081	200,717
Total	83,562	84,670	87,014	300,279	317,823

⁽¹⁾ Includes majority owned and controlled hotels.

**CORPORATE
EXECUTIVE
OFFICERS**

Stephen F. Bollenbach
President and Chief Executive Officer

Matthew J. Hart
*Executive Vice President
and Chief Financial Officer*

Dieter H. Huckestein
*Executive Vice President, Hilton Hotels
Corporation, and President – Hotel
Operations Owned and Managed*

Thomas L. Keltner
*Executive Vice President, Hilton Hotels
Corporation, and President – Brand
Performance and Franchise Development
Group*

Madeleine A. Kleiner
*Executive Vice President, General Counsel
and Corporate Secretary*

**BOARD OF
DIRECTORS**

Stephen F. Bollenbach ^(1,4)
President and Chief Executive Officer

A. Steven Crown ^(2,3)
*General Partner, Henry Crown & Company,
Chicago, Illinois – Diversified manufacturing
operations, marine operations and real
estate ventures*

Peter M. George ⁽⁴⁾
Independent Director and Consultant

Barron Hilton ⁽¹⁾
Chairman of the Board

Dieter H. Huckestein ⁽⁴⁾
*Executive Vice President, Hilton Hotels
Corporation, and President – Hotel
Operations Owned and Managed*

Robert L. Johnson ⁽⁴⁾
*Chairman and Chief Executive Officer,
BET Holdings, Inc., Washington, D.C.
– Diversified media holding company*

Benjamin V. Lambert ^(3,5)
*Chairman and Chief Executive Officer,
Eastdil Realty Company, L.L.C., New York
– Real estate investment bankers*

David Michels
*Group Chief Executive, Hilton Group plc,
Herts, England – A hotel and gaming
company*

John H. Myers ⁽²⁾
*President and Chief Executive Officer,
General Electric Asset Management
Incorporated, Stamford, Connecticut
– A subsidiary of General Electric Company*

John L. Notter ^(2,3)
*Chairman, Swiss American Investment Corp.
– An investment firm, and Chairman and
President, Westlake Properties, Inc.,
Westlake Village, California – A hotel
and real estate development company*

Judy L. Shelton ^(2,3,5)
*Economist, specializing in international money,
finance and trade issues, Marshall, Virginia,
and Professor of International Finance at the
DUXX Escuela de Graduados en Liderazgo
Empresarial, in Monterrey, Mexico*

Donna F. Tuttle ^(4,5)
*President, Korn Tuttle Capital Group,
Los Angeles, California – A financial
consulting and investments firm*

Peter V. Ueberroth ⁽³⁾
*Managing Director, Contrarian Group, Inc.,
Newport Beach, California – A business
management company, and Co-Chairman,
Pebble Beach Company, Pebble Beach,
California – A golf management company*

Sam D. Young, Jr. ⁽²⁾
*Chairman, Trans West Enterprises, Inc.,
El Paso, Texas – An investment company*

⁽¹⁾ Executive Committee

⁽²⁾ Audit Committee

⁽³⁾ Compensation Committee

⁽⁴⁾ Diversity Committee

⁽⁵⁾ Nominating Committee

**CORPORATE
SENIOR
OFFICERS**

Mariel C. Albrecht
Senior Vice President and Treasurer

Marc A. Grossman
Senior Vice President – Corporate Affairs

James T. Harvey
*Senior Vice President and
Chief Information Officer*

Robert M. La Forgia
Senior Vice President and Controller

Molly McKenzie-Swartz
*Senior Vice President – Human Resources
and Administration*

Stevan D. Porter
*Senior Vice President, Hilton Hotels
Corporation, and Executive Vice President –
Hotel Operations*

Hilmar A. Rosenast
*Senior Vice President, Hilton Hotels
Corporation, and Executive Vice President –
Hotel Operations – Select Hotels Group*

**GENERAL
INFORMATION**

Hilton Hotels Corporation
World Headquarters
9336 Civic Center Drive
Beverly Hills, CA 90210
310-278-4321

Transfer Agent and Registrar
for Common Stock
The Bank of New York
Shareholder Relations Department – 11E
Post Office Box 11258
Church Street Station
New York, NY 10286
Toll Free: 866-272-9485
E-mail: shareowner-svcs@bankofny.com
Website: www.stock.bankofny.com

Independent Public Accountants
Arthur Andersen LLP

Form 10-K
Stockholders wishing to receive a copy of
the Company's Annual Report on Form
10-K, as filed with the Securities and
Exchange Commission, exclusive of the
exhibits thereto, may do so without
charge by writing to:
Investor Relations
Hilton Hotels Corporation
9336 Civic Center Drive
Beverly Hills, CA 90210

Annual Meeting of Stockholders
The annual meeting of stockholders is
scheduled to be held at the Hilton Glendale,
100 West Glenoaks Boulevard, Glendale,
California, on May 9, 2001 at 10:00 a.m.

Hotel Reservation Information
1-800-HILTONS

Visit our website at: www.hilton.com