



Brand Value

Marriott International, Inc. 2000 Annual Report

Brand Performance

Marriott International, Inc. is a leading worldwide hospitality company, with over 2,200 operating units in 60 countries and territories. With 21 distinct brands and businesses, Marriott offers the broadest portfolio of hospitality brands in the world.

Alone, each of these brands is a leader in its category, with a high level of customer preference and excellent growth and profit potential.

Collectively, the unique strengths and competitive advantages of these brands form a powerful network—one that allows us to effectively leverage economies of scale and capitalize on profitable business opportunities.

Through this network, the entire company is strengthened. The resulting growth potential, and the reliability of that growth, are very high.

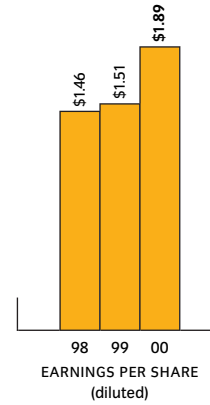
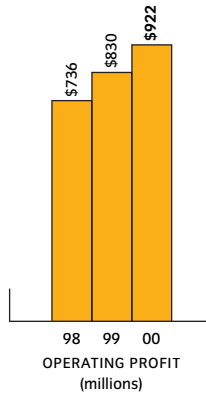
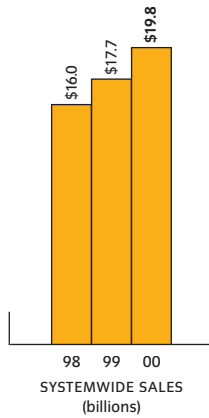
Marriott's wide distribution ensures a strong presence wherever our customers want us to be, and our brands are becoming more recognizable and preferred in global markets. This makes us stronger each year. The proof is in our results.

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VISION

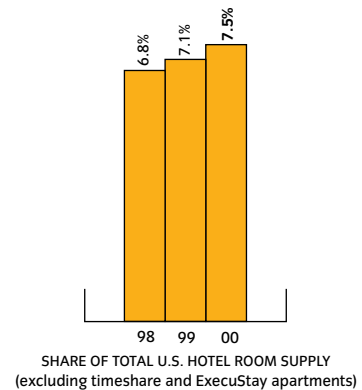
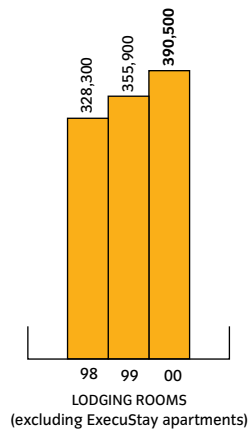
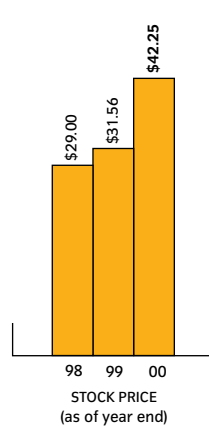
"To be the world's leading provider of hospitality services."



MARRIOTT INTERNATIONAL, INC.

| | 2000 | 1999 | Change |
|--|----------|----------|--------|
| <i>(dollars in millions, except per share amounts)</i> | | | |
| Systemwide sales | \$19,781 | \$17,684 | +12% |
| Operating profit | \$ 922 | \$ 830 | +11% |
| Net income | \$ 479 | \$ 400 | +20% |
| Diluted earnings per share | \$ 1.89 | \$ 1.51 | +25% |
| EBITDA* | \$1,052 | \$ 860 | +22% |

*Earnings before interest expense, income taxes, depreciation and amortization.





MARRIOTT VACATION CLUB'S NEWPORT COAST VILLAS BASKS IN THE CHARM OF A MEDITERRANEAN-STYLE

HILLSIDE VILLAGE, WITH PANORAMIC VIEWS OF THE RENOWNED PELICAN HILL GOLF COURSE, PACIFIC OCEAN AND CATALINA ISLAND.

Brand Leadership

From a nine-seat root beer stand in downtown Washington, D.C., in 1927, to a leading provider of hospitality services worldwide, Marriott International has built a highly successful business based on strategic growth and commitment to excellence.

We offer the best and most diverse lodging portfolio in the industry, and our growing presence in key markets around the world ensures that customers can find Marriott brands almost anywhere they travel.

All of our U.S. lodging brands generate revenue per available room premiums versus the competition. In fact, our established brands generate up to 30 percent higher revenues per room than their direct competitors. This makes our products very attractive to hotel owners and franchisees, who continue to add new hotels and convert existing hotels from competitor brands to Marriott brands. Over one quarter of the guest rooms added to Marriott's portfolio in 2000 were conversions from competitor brands.

Because Marriott owns very little real estate, our business is more resistant to the sometimes cyclical nature of the hotel business and fluctuations in the economy.

By leveraging all of these strengths—a diverse lodging portfolio, strong customer, owner and franchisee preference, and a consistent and profitable return on investment—we sustain our industry leadership and create considerable long-term value for our shareholders.



The Philadelphia Downtown Courtyard, formerly the historic City Hall Annex.

Since 1990, over 25 percent of the company's room openings were conversions of other hotels, and another 22 percent were the result of acquisitions.

At year-end 2000, over 70,000 rooms were under construction or approved for development, funded largely by third-party owners and franchisees. We expect to open at least 35,000 rooms in 2001.

While Marriott has opened more than 250,000 rooms in the past decade, the company owned fewer than 5,000 rooms at the end of 2000. Our growth is fueled by customer preference for our hotels and by owner and franchisee demand for our brands.



THE AWARD-WINNING RENAISSANCE ESMERALDA RESORT IN INDIAN WELLS, CALIFORNIA, IS SITUATED ON
TWO 18-HOLE CHAMPIONSHIP GOLF COURSES IN A NATURAL DESERT SETTING.

Brand Power

For 73 years, Marriott has been at the vanguard of the hospitality industry. We were the first to segment our hotel offerings and the first to offer frequent traveler benefits across multiple brands. We were the first to apply yield management principles to lodging, and the first lodging company to expand into the timeshare market.

In 2000, we continued to lead the industry, using award-winning systems to reach new audiences and deliver enhanced benefits and recognition to our customers.

Marriott Rewards remains the world's largest and most preferred frequent guest program, with more than 14 million members. In 2000, we introduced "elite" membership levels to provide a higher level of recognition for our best customers and added 20 new business and travel partners worldwide.

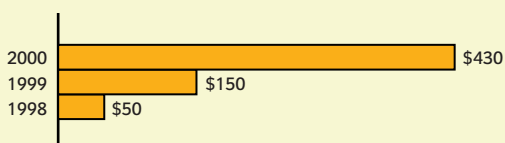
We launched a new, more customer-focused marriott.com that provides customers with customized web page content and e-mail offers. We are also developing information systems that allow us to provide each customer with personalized service. Our Sales Force Automation system puts customer information in the hands of our sales people, enabling them to capture more business for all of our hotels.

Through these and other innovative uses of technology, we are quicker, more flexible and better able to meet or exceed the expectations of our customers, owners and franchisees. This evolution in service—backed by our reputation for integrity and consistency—provides a competitive advantage for Marriott and a greater return on investment for our stakeholders.



With more than 14 million members, Marriott Rewards is recognized as the world's largest and most-preferred frequent hotel guest program.

MARRIOTT.COM SALES (millions)



While systemwide sales in 2000 increased 12 percent over the previous year, sales generated through marriott.com nearly tripled.

Marriott brands represent nearly eight percent of all hotel rooms in the U.S.; however, we receive 20 percent of all reservations made by travel agents through global reservation systems.



THE LUXURIOUS RITZ-CARLTON ROSE HALL, JAMAICA, WHICH FEATURES 18 HOLES OF CHAMPIONSHIP GOLF,
IS LOCATED ON THE ISLAND'S HISTORIC PLANTATION AREA FACING THE CARIBBEAN SEA.

Brand Integrity

Marriott's long-standing reputation for quality products and service gives our customers the confidence to explore their world. Whether attending a business meeting in Hong Kong or vacationing in Aruba, travelers enjoy the ambience and memorable experiences other countries and cultures have to offer. They know that almost anywhere they may go, Marriott brands will be there to provide them with consistent, reliable and comfortable accommodations and services.

Customers also know that whatever their travel plans, the Marriott portfolio of brands offers the right product at the right price. We've built strong, enduring relationships that help us stay connected to our customers, travel intermediaries, owners and communities. Through them we understand the unique needs of each customer group, and we tailor each Marriott brand to respond to those needs.

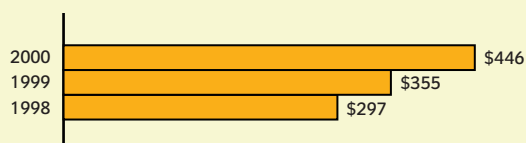
Most important, all of Marriott's brands and businesses are backed by carefully tooled business processes. By applying our management expertise, purchasing power, and unique systems and procedures across all of our brands, we increase customer, owner and associate satisfaction. This, in turn, strengthens the competitive advantage of all of our brands.

We take pride in knowing that our customers can count on Marriott's unique blend of quality, consistency, personalized service and recognition almost anywhere they travel in the world or whichever Marriott brand they choose.



In 2000, nearly 56 million reservations were made through the Marriott reservations systems.

CROSS-SELL REVENUE (millions)



Marriott's multibrand strategy, centralized reservation system and customer loyalty encourages customers to stay at our hotels, even if their first-choice Marriott location is sold out. In 2000, we captured \$446 million in cross-sell revenue that might have gone to a competitor.



THE STUNNING JW MARRIOTT HOTEL SEOUL, A LANDMARK IN SOUTH KOREA'S BUSTLING COSMOPOLITAN CAPITAL AND LINKED TO THE CITY'S MOST POPULAR SHOPPING, DINING AND ENTERTAINMENT COMPLEX, OFFERS THE FINEST SERVICE AND AMENITIES, INCLUDING A COMPREHENSIVE HEALTH CLUB.

Brand Reach

The Marriott brand represents consistency, quality, reliability and trust.

These characteristics are important elements of Marriott’s Senior Living Services business, as we serve the changing needs of seniors and their families. Similarly, the “Marriott” in Marriott Vacation Club International signals a commitment to quality and service for vacation ownership customers.

Our operating skills also reach across industries. Marriott Distribution Services provides prompt and reliable food delivery to Marriott businesses, plus a growing number of external customers across the United States.

Marriott brands serve as the catalysts for our global growth plans. The opportunities for growth, particularly in the lodging industry, are enormous.

Today, lodging is a nearly \$300 billion worldwide industry. As the world’s largest export earner, the tourism industry creates new jobs 1½ times faster than any other industrial sector. Marriott is one of the world’s largest hospitality companies, but our market share of hotel rooms worldwide is less than three percent, and our global share of the timeshare market is only nine percent.

Marriott offers a collection of lodging products that covers the entire spectrum of travel needs. From a clean, comfortable, affordable room not far from home, to luxurious upscale accommodations in major gateway cities, to exciting resort getaways in exotic locations around the world—Marriott is there.



Guests dining at the Kaun Restaurant in the Nagoya Marriott Associa Hotel enjoy gracious and traditional Japanese service.

MARRIOTT HOTELS, RESORTS AND SUITES GUEST PREFERENCE OVER NEXT LEADING COMPETITOR

| Customer | Preference Advantage |
|----------------------------|----------------------|
| Business Travelers* | 3:1 |
| Corporate Meeting Planners | 2:1 |
| Travel Managers | 5:1 |
| Leisure Travelers | 2:1 |

*Business travelers (6+ trips/year paying \$100 or more per night)

Marriott Hotels, Resorts and Suites guest preference has a substantial lead over its next closest competitor. Key attributes contributing to this preference lead include an emphasis on operational excellence, our steadily growing global distribution and our continued focus on the customer.



THE ELEGANT PARIS MARRIOTT HOTEL CHAMPS-ELYSEES, LOCATED ON THE CITY'S MOST RENOWNED BOULEVARD, IS NEAR THE ARC DE TRIOMPHE, THE EIFFEL TOWER AND OTHER FAMOUS LANDMARKS IN THE FRENCH CAPITAL.

Brand Loyalty

Marriott's brands are the most preferred and sought after hospitality brands in the industry because they keep people coming back again and again.

Customers choose Marriott brands because of our high level of service, product excellence and worldwide distribution. They tell us they prefer us by at least 2-to-1 over our next closest competitor, and they prove it by staying with us 90 million nights a year. Eight out of 10 quality-tier business travelers in the United States stayed in a Marriott full-service hotel at least once last year. No other lodging brand has that kind of market penetration.

One of our top priorities is to sustain these high levels of preference and satisfaction by forging great long-term relationships with our customers. We accomplish this by building on our strengths: powerful, attractive brands; a strong presence in key markets; and, of course, the consistently high level of service only Marriott can offer.

Owners and franchisees prefer our brands because they are backed by Marriott's proven management expertise and superior systems, and because Marriott brands deliver a premium return on their investment.

They also choose Marriott because they know that our global team of associates takes great pride in the quality of service they provide and that they are dedicated to offering a memorable customer experience to every Marriott guest.



Great brands, great service and great associates keep customers coming back to Marriott.

In 2000, readers of *Business Traveler* magazine named Marriott Rewards the "Best Hotel Rewards Program in the World" for the fourth consecutive year.

Marriott Rewards members account for 40 percent of all Marriott lodging room nights.

After joining Marriott Rewards, travelers are twice as likely to select one of Marriott's brands for their next hotel stay.

Marriott Rewards has the highest frequent traveler loyalty in the industry, with members spending 49 percent of their travel nights with Marriott brands.



MARRIOTT'S GLOBAL TEAM OF DEDICATED ASSOCIATES TAKES GREAT PRIDE IN DELIVERING EXCEPTIONAL CUSTOMER SERVICE.

Brand Culture

Marriott's people-first culture has been the foundation of our company since the beginning. It is even more important now that our worldwide managed operations encompass over 153,000 associates. Given our growth goals over the next several years, we expect that number to increase to more than 200,000.

Our associates tell us that Marriott's strong corporate culture and inspiring core values greatly influenced their decision to work here. They identify three elements of our culture as being very important to them: leadership, diversity and civic responsibility.

Leadership is important to any organization. It is a critical gauge of how a company will perform years into the future, and research shows a significant correlation between strong leadership and associate retention. We are committed to attracting and developing future leaders who appreciate the value of all people and inspire exceptional performance.

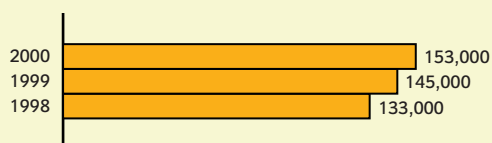
We are also focused on building diversity in our company and ensuring that the companies we do business with understand our values. As a global company, our customers and associates come from all walks of life and represent many languages and cultures. Our company leadership and business relationships must reflect our customers and associates. Marriott International will continue to increase spending with diverse suppliers and vendors, contract with diverse owners and franchisees, and build diversity within Marriott's leadership.

Marriott's "spirit to serve" is a philosophy we have embraced for more than 70 years. It reflects the genuine desire of our company and our associates to give resources, time and energy to help make a difference in the lives of others. Around the world, our associates give their hearts and hands to help prepare at-risk people for work, raise funds for sick children, mentor students and help clean up the environment. It is our pledge that every Marriott community will be a better place to live and work because we are there.



Marriott's outstanding associates and our "spirit to serve" culture are the keys to our success.

MARRIOTT INTERNATIONAL NUMBER OF ASSOCIATES



Marriott has increased spending with women and minority vendors 139 percent since 1997.

Since 1998, the percentage of minorities in executive level positions has more than doubled and the percentage of women in executive level positions has increased over 70 percent.

Brand Superiority

THE LOS SUEÑOS MARRIOTT OCEAN AND GOLF RESORT IN COSTA RICA, NESTLED BETWEEN THE WARM PACIFIC

OCEAN AND A VERDANT RAIN FOREST, CAPTURES THE REGION'S NATURAL BEAUTY WHILE OFFERING THE

CONTEMPORARY AMENITIES OF A WORLD-CLASS RESORT.





FULL-SERVICE LODGING



Marriott Hotels, Resorts and Suites is the company's flagship brand of quality-tier hotels and resorts known for quality service and genuine care that enables travelers to enjoy a memorable travel experience. Most hotels feature multiple restaurants and lounges, health club, swimming pool, concierge level, business center and meeting facilities. **JW Marriott Hotels**, the most elegant, luxurious brand to carry the Marriott name, offers a higher level of personal service and amenities to discerning business and leisure travelers. There are 393 Marriott Hotels, Resorts and Suites properties worldwide.

SELECT-SERVICE LODGING



Courtyard is the moderately priced lodging brand that was designed by business travelers for business travelers. Courtyard provides travelers with the conveniences that make business and pleasure travel easy and allows them to relax and prepare for the day ahead. Courtyard hotels feature a restaurant, lounge, meeting space, exercise room and swimming pool. There are 520 Courtyard hotels in the United States and nine other countries.

EXTENDED-STAY AND CORPORATE LODGING



Residence Inn, North America's top extended-stay brand, combines a homelike atmosphere with Marriott's passion for making every guest feel welcome. Versatile guest suites feature a fully equipped kitchen, space for entertaining or meeting, and plenty of work space. Services include daily housekeeping, 24-hour staffing, complimentary hot breakfast buffet and evening social hours. There are over 350 Residence Inn properties across the United States, Canada and Mexico.

OWNERSHIP RESORTS



Marriott Vacation Club International is a leading developer and operator of vacation ownership resorts. MVCI resorts feature spacious one-, two- and three-bedroom villas designed to provide high-quality accommodations in a relaxed resort atmosphere. Each villa features a spacious living and dining area, master bedroom and bath, private balcony, kitchen and laundry area. There are 47 exclusive MVCI resorts in desirable locations in the United States, the Caribbean and Europe.

SENIOR LIVING



MARRIOTT INDEPENDENT FULL-SERVICE COMMUNITIES

Marriott Independent Full-Service Communities offer gracious, apartment-like surroundings that are ideal for seniors who value their independence. They feature the comfortable lifestyle and superb amenities that have made the name Marriott synonymous with the highest standards of hospitality and service. There are 45 independent full-service communities, most offering a number of levels of care, including assisted living, Alzheimer's and skilled nursing.



The Ritz-Carlton Hotel Company is the premier global luxury hotel brand and a worldwide symbol of prestige and distinction. Each Ritz-Carlton hotel offers fine dining, 24-hour room service and twice-daily housekeeping, as well as the finest fitness and business centers and concierge service. Ritz-Carlton operates 38 hotels and resorts worldwide.



Fairfield Inn appeals to mid-tier business and leisure travelers looking for consistent, quality lodging at an affordable price. Fairfield Inn locations provide clean and comfortable guest rooms, free local calls, a swimming pool and complimentary continental breakfast. Fairfield Inn and Suites properties also include uniquely designed suites, an exercise room and enhanced amenities. There are more than 430 Fairfield Inn locations in 46 states and the District of Columbia.



TownePlace Suites offers extended-stay travelers a comfortable residential atmosphere at a moderate price. Each suite has a fully equipped kitchen, ample work space and access to the technology necessary to work productively. When it is time to relax, each property has an exercise room and outdoor pool. All TownePlace Suites properties offer housekeeping service and 24-hour staffing. There are 84 TownePlace Suites properties in 29 states.



The Ritz-Carlton Club is a collection of private residences in highly desirable resort destinations that are reserved for the exclusive use of members and their guests. The Ritz-Carlton Club is a highly attractive alternative to second home ownership for upscale vacationers who want worry-free access to deluxe resort accommodations and Ritz-Carlton world-class service. The first Ritz-Carlton Club resort opened in Aspen, Colorado. A second resort is scheduled to open in St. Thomas, U.S. Virgin Islands in 2002.



Brighton Gardens is the quality leader in assisted living, offering superior design and service. Each community offers tasteful, apartment-style accommodations and a relaxed, home-like environment. Featuring Marriott's innovative Levels of Wellness and Care program, the communities provide residents with personalized service and care. There are 74 Brighton Gardens communities in 23 states, and most include skilled nursing or Alzheimer's care centers.



RENAISSANCE
HOTELS • RESORTS • SUITES

Renaissance Hotels, Resorts and Suites is an upscale, full-service lodging brand that provides a distinctive choice for travelers who prize their individuality. Renaissance guests may expect unique, tastefully decorated environments designed to reflect the local destination, thoughtful amenities, stylish restaurants and unique meeting facilities. Renaissance hotels deliver warm, anticipatory service in over 100 locations in the United States and 26 other countries and territories.



SpringHill Suites is a moderately priced, all-suite lodging brand that provides unexpected value with a unique blend of added space and smart functionality. All SpringHill Suites feature separate areas for sleeping, eating/working and relaxing; in-room coffee maker, mini-refrigerator and microwave; swimming pool; exercise room and complimentary continental breakfast. There are 61 SpringHill Suites locations in 24 states.



For the global executive in need of furnished temporary housing, Marriott Executive Apartments offers both the ambience and privacy of apartment living and the convenience of hotel-like services and amenities. In addition to a range of available services, apartment communities feature a fitness center, lounge, meeting room, housekeeping and 24-hour staffing. Marriott Executive Apartments are open in gateway cities across the globe.



Horizons by Marriott Vacation Club offers value-priced resort communities that emphasize exciting, on-site recreation, planned activities and entertainment for the entire family. Horizons' spacious two-bedroom accommodations feature a screened patio/balcony, comfortable living and dining areas, fully equipped kitchen, washer/dryer and more. One Horizons by Marriott resort is open in Orlando, Florida, and another is under development in Branson, Missouri.



With Marriott MapleRidge, Marriott has created an approach to assisted living that combines the simple comforts and security of home with attentive, professional care. Each Marriott MapleRidge "neighborhood" consists of several residential-style cottages and a community center in a landscaped setting. Cottages feature a country-style kitchen, living room, private and semi-private bedrooms, and each is attended by a live-in care coordinator. There are nine Marriott MapleRidge communities in four U.S. states.



Marriott operates 13 conference centers throughout the United States that are specifically designed for small- to mid-size groups. Marriott Conference Centers provide the environment, technology and expertise to ensure a creative and effective meeting experience. All Conference Centers feature guest rooms designed for working and relaxing, technologically advanced conference rooms and diverse recreational facilities.



Ramada International provides international business travelers with a comfortable guest room at an affordable price. Each Ramada International hotel features restaurants, meeting and banquet facilities, swimming pool and fitness center. There are 47 Ramada hotels, primarily franchised, in 14 countries and territories. Marriott also licenses the use of the Ramada brand name in North America to other lodging companies.



ExecuStay by Marriott provides a corporate housing solution for the business traveler in need of a furnished apartment for 30 days or more. With nearly 7,000 units in 200 cities across the United States and Canada, ExecuStay can locate and set up a fully furnished, customized residence within 48 hours. Residents enjoy quality furnishings, weekly house-keeping and exceptional customer service 24 hours a day, seven days a week.

OTHER OPERATIONS



Marriott Distribution Services is one of the leading limited-line food service distributors in the United States. Through 13 distribution centers strategically located across the country, Marriott Distribution Services provides food and related products to nearly 7,000 restaurants and other customers.



Village Oaks moderately priced assisted living communities offer a simpler way of life in a home-like setting. The communities are warm and comfortable without being formal, so residents can feel right at home. Village Oaks offers a full complement of activities and unique programs, such as "Companion Living" and "Reach to Improve," to enhance the health and well-being of residents. There are 25 Village Oaks communities in seven states.

To Our Shareholders



WILLIAM J. SHAW
President and Chief Operating Officer

J.W. MARRIOTT, JR.
Chairman and Chief Executive Officer

The year 2000 was an outstanding one for Marriott International. Our geographic and product distribution and market share grew dramatically. By year-end, we had reached 2,099 hotels, and our 16 lodging and timeshare brands are represented in 60 countries and territories around the world. Marriott Senior Living Services now has 153 communities nationwide across four brands, and Marriott Distribution Services serves nearly 7,000 customer locations throughout the United States. Together these 21 brands and businesses form the most extensive portfolio of hospitality brands in the world.

We achieved record sales, operating profit and earnings per share in 2000. Our stock price rose 34 percent, outperforming the S&P 500 and most other consumer brand companies.

To grow our leadership position in the 21st century, we are focusing on three key areas:

- Sustaining rapid worldwide unit expansion by offering strong, profitable, preferred branded hotels to our customers, owners and franchisees;
- Building on our strong culture of innovation and operational excellence to provide our customers with the highest quality lodging and senior living experience; and
- Finding ever better ways to attract, develop and retain our valued, world-class team of associates and future leaders.

Our growth goals are aggressive. Between 1999 and 2003, we expect to open over 1,000 hotels and timeshare resorts, representing 175,000 gross room additions, increasing our distribution from 53 countries and territories to more than 75.

Our U.S. lodging market share in 1990 was only 4.4 percent. Today our U.S. share is 7.5 percent, and our brands account for over 25 percent of all new hotel rooms under construction and in permitting in the United States. Our full-service brands—Marriott, Renaissance and Ritz-Carlton—represent over 45 percent of the industry's pipeline of upper-upscale hotel rooms. Over 80 percent of the progress toward our five-year growth goal consists of rooms open or under development as of year-end 2000.

Our international presence has grown more than tenfold since 1990, but we still have less than a one percent market share outside the United States. Over 20 percent of the hotels, or more than 17,000 rooms, in our pipeline are in international markets.

Marriott Vacation Club International (MVCI) is achieving impressive growth in the competitive time-share industry. U.S. market share has grown from around 14 percent in 1997 to nearly 17 percent today. With the successful launch of The Ritz-Carlton Club and Horizons by Marriott brands, MVCI is posting record sales gains, with approximately 30 percent of sales coming from existing owners or referrals.

Marriott Senior Living Services begins 2001 with a new leadership team and a strong focus on operational excellence. Compelling demographics will drive demand growth in the assisted living industry. Combined with slower supply growth, this should result in improved performance in future years.

Marriott Distribution Services is growing steadily with the addition of new customers, expanded sales to existing customers, and the opening of a new distribution center in Denver.

A vital component of Marriott's growth is our emphasis on strong relationships with our owners and franchise partners. Our focus on managing strong, profitable brands in partnership with these important investors—who are close to the market, understand the importance of customer preference, and share our commitment to brand leadership—has emerged as a win-win strategy for everyone.

All of our established U.S. brands maintained or increased their REVPAR premiums versus the competition in 2000. Our owners and franchisees are attracted to both the outstanding quality of our brands and our commitment to their profitability.

In return, their commitment to brand quality and growth allows Marriott to enhance the value of our brands and offer our products in markets around the world. Over 85 percent of the hotels added in 2000 were built or converted to one of our brands by owners or franchisees. Today, over 400 additional hotels with more than 70,000 rooms are approved or under construction.

Marriott may assist owners of significant hotels from time to time through investments in the form of equity, mezzanine debt or limited guarantees. However, 85 percent of our 70,000-room pipeline, representing approximately \$10 billion of investment, is being funded by our partners. We're proud of the trust and confidence they've placed in us, and we are dedicated to maximizing the return on their investment.

As part of our ongoing strategy to expand our reach through partnerships with preeminent, world-class companies, in early 2001 we entered into a joint venture with Bulgari SpA to launch a distinctive new luxury hotel brand—Bulgari Hotels & Resorts.

We also enjoy strong relationships with our customers. Our extensive research into what our customers and business partners want from a hospitality company is reflected in our preference ratings.

Business and leisure travelers, meeting planners, owners and franchisees continue to prefer our brands by wide margins. The flagship Marriott Hotels, Resorts and Suites brand maintains a 3-to-1 preference over its nearest quality-tier competitor among frequent U.S. business travelers. About 80 percent of all U.S. frequent quality-tier business travelers stayed at a Marriott full-service property at least once last year, which reflects not only our brand strength but our growing geographic distribution.

We will continue our global growth and expand our leadership position in the hospitality industry by building on our reputation for innovation and operational excellence. We've found some unique ways to combine our "spirit to serve" culture with new technology to further understand our customers, meet their needs, increase their loyalty and lower our operating costs.

We just launched a more customer-focused marriott.com to enable customers to receive a personalized web page. This sets the stage for permission-based e-mail marketing and our customer information management system. This is a critical factor in today's "wired" business environment as we work to deliver personalized benefits and recognition to high-value customers.

We introduced the Marriott Rewards Elite membership program, consolidating our frequent traveler programs to provide cross-brand recognition to Marriott's best customers. And we have replaced Marriott Miles with a new program, Cross-Brand Miles, that will provide an even higher level of recognition.

Our reservations system is second to none. Revenues through marriott.com have increased nearly ninefold over the last two years, from \$50 million in 1998 to \$430 million in 2000. That number is estimated to reach \$1 billion in 2002. While we already have the lowest cost per reservation in the industry, that cost is trending even lower.

Finally, we introduced our Sales Force Automation system, which supplements our hotel-specific organizations with a global operation that uses innovative concepts and processes to sell across markets, regions and brands.

Our efforts are being noticed. Several influential publications have named us to their lists of the most innovative, technology-driven companies, observing that Marriott's U.S. occupancy is significantly higher than the industry. They also mention that our expert use of the web helps us smooth the cycles that often trouble the hotel business. And that aligns perfectly with our positioning of Marriott as a global consumer brand that is more resistant to the cyclical nature of the lodging industry.

Collectively, our technology initiatives have dramatically altered the way we do business. We're faster, more flexible and better able to do business the way our customers, owners and franchisees want us to. And this evolution in service is earning us increased customer loyalty and an even greater competitive edge.

But the single most important factor in our success is our associates. They provide the outstanding service that keeps our customers coming back to Marriott.

We take pride in meeting the needs of our associates with a consistent, long-term vision for our business, good compensation, fair treatment, career training, commitment to work-life balance and opportunities for growth. Our success in caring for our associates is impressive, and we're consistently recognized in major surveys as a great place to work.

Leadership is critically important, and at Marriott, every executive is focused on increasing value for our stakeholders. Our unit management incentive compensation plans are based on profitability, customer satisfaction and associate satisfaction. We continue to actively recruit and develop promising managers who can lead our businesses in the future.

We remain committed to diversity. The number of our minority and women franchisees has more than doubled in the past four years. Our purchasing from diverse suppliers reached \$150 million in 2000. Minorities and women now represent over 60 percent of Marriott's management team and 21 percent of its corporate officers.

Our "spirit to serve" also applies to our communities. We have a large economic and social presence in each of our markets, and we have pledged that these communities

will be better places to live and work because Marriott is there. Working with organizations like America's Promise, Children's Miracle Network, Habitat for Humanity International, and local charities and community organizations in every market, Marriott and its associates contribute goods, funds and, most important, their time and energy to make a difference in the lives of others.

We've accomplished a great deal in 2000, but there is more to be done.

Marriott's business model, which focuses on long-term management and franchise agreements rather than real estate ownership, positions the company to perform well in any economic environment. In fact, in more difficult economic climates, our strong customer preference has given us increased REVPAR premiums, which has resulted in additional unit growth through hotels converting to our brands.

The future is bright. We will take advantage of worldwide market opportunities, and we expect to increase our distribution of hotel rooms by approximately eight percent per year through 2003. We continue to focus on controlling costs, and we have set a corporate goal of increasing return on invested capital to 20 percent.

The 21st century has only just begun. We have a long journey ahead of us, filled with challenges and opportunities. But we're working hard—in partnership with our owners, franchisees, associates, customers and shareholders—to build a great future at Marriott. We want to thank you for your continued support and invite you to journey with us as we move Marriott International into the new millennium.



J.W. MARRIOTT, JR.

Chairman and Chief Executive Officer



WILLIAM J. SHAW

President and Chief Operating Officer

March 2, 2001

2000 Awards

MARRIOTT INTERNATIONAL, INC.

- * *Fortune* magazine recognized Marriott International as one of the “100 Best Companies to Work For” for the fourth consecutive year, and one of the “Top 50 Companies For Minorities” for the third consecutive year.
- * *Fortune* magazine ranked Marriott International number one in the “Hotels, Casinos and Resorts” category on the publication’s list of “Most Admired Companies in America.”
- * *Business Traveler* magazine readers named Marriott Rewards “Best Hotel Rewards Program in the World” for the fourth consecutive year, and Marriott as best domestic hotel chain for business travel.
- * *Smart Money* magazine’s Readers’ Choice poll named Marriott as “Best Hotel for 2000.”
- * The NAACP ranked Marriott International first in its annual hospitality report card for the second consecutive year.
- * *Working Mother* magazine named Marriott International one of the “100 Best Companies for Working Mothers” for the tenth year.
- * *Sales and Marketing* magazine named Marriott Sales one of the “Top 25 Sales Forces” in the United States for the fourth consecutive year.
- * The American Hotel & Motel Association cited Marriott as a “Hotel of Promise,” for being the first lodging company to participate in Colin Powell’s America’s Promise.
- * National Alliance for the Mentally Ill (NAMI) honored Marriott International and the Marriott Foundation for People with Disabilities for their leadership in providing employment opportunities to young people with disabilities.
- * *Irish Travel Trade News* named Marriott “Best Hotel Group Worldwide” for the second consecutive year.
- * *Hispanic* magazine selected Marriott International for inclusion in the “2000 *Hispanic* Corporate 100” for providing opportunities for Hispanics.
- * *Latina Style* magazine named Marriott one of the “50 Best Companies for Latinas to Work For.”
- * Readers of *German Business Traveller* magazine named Marriott Hotels, Resorts and Suites the “Best Hotel Chain in America.”
- * *Worth* magazine’s Readers’ Choice award was presented to The Ritz-Carlton Hotel Company, L.L.C. for “Best Luxury Hotel Chain.”
- * *Zagat* survey ranked Renaissance Hotels, Resorts and Suites one of the top 10 hotel chains in the United States.
- * *Hotelier* magazine presented Marriott Hotels of Canada with the Pinnacle Award for “Newsmaker of the Year.”
- * *CIO* magazine included Marriott International in its list of 100 companies that have mastered the “Customer Connection.”

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The following discussion presents an analysis of results of our operations for fiscal years ended December 29, 2000, December 31, 1999, and January 1, 1999. Comparable REVPAR, room rate and occupancy statistics used throughout this report are based on U.S. properties operated by us except for Fairfield Inn, which data also include franchised units. Systemwide sales and statistics include data from our franchised properties, in addition to our owned, leased and managed properties. Systemwide statistics are based on comparable worldwide units and reflect the impact of foreign exchange rates.

In 1998 we changed our accounting policy to no longer include the working capital and sales of managed hotels and managed senior living communities in our financial statements. Instead, our sales include fees earned plus costs recovered from owners of managed properties.

CONSOLIDATED RESULTS

2000 Compared to 1999

Net income increased 20 percent to \$479 million and diluted earnings per share advanced 25 percent to \$1.89. Profit growth was driven by our strong U.S. lodging operations, lower system-related costs associated with the year 2000 and the impact on the 1999 financial results of a \$39 million pretax charge to reflect a litigation settlement. Results were also impacted by a \$15 million one-time write-off of a contract investment in our Distribution Services segment in the first quarter of 2000.

Sales increased 15 percent to \$10 billion in 2000, reflecting strong revenue resulting from new and established hotels, contributions from established Senior Living communities, as well as new customers in our Distribution Services business. Systemwide sales increased by 12 percent to \$19.8 billion in 2000.

1999 Compared to 1998

Net income increased three percent to \$400 million in 1999 and diluted earnings per share advanced three percent to \$1.51. Overall profit growth in 1999 was curtailed by a \$39 million pretax charge to reflect an agreement to settle litigation, incremental costs of our

Year 2000 readiness efforts, and an operating loss in our Senior Living Services business.

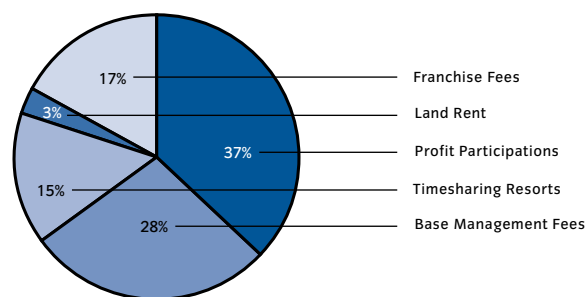
Sales increased 10 percent to \$8.7 billion in 1999, reflecting revenue gains at established hotels, and contributions from new lodging properties and Senior Living communities. Systemwide sales grew 10 percent to \$17.7 billion in 1999.

MARRIOTT LODGING

| | 2000 | 1999 | 1998 | Annual Change | |
|------------------------------|---------|---------|---------|---------------|-------|
| | | | | 00/99 | 99/98 |
| <i>(dollars in millions)</i> | | | | | |
| Sales | \$7,848 | \$7,041 | \$6,311 | +11% | +12% |
| Operating profit | 936 | 827 | 704 | +13% | +17% |

2000 Compared to 1999

Marriott Lodging reported a 13 percent increase in operating profit on 11 percent higher sales in 2000. Results reflected solid room rate growth at U.S. hotels, and contributions from new properties worldwide. Nearly half of Lodging operating profit in 2000 was attributable to base management fees, franchise fees and land rent, which are based on fixed dollar amounts or percentages of sales.



Across our full-service lodging brands (Marriott Hotels, Resorts and Suites, Renaissance Hotels, Resorts and Suites and Ritz-Carlton), REVPAR for comparable company-operated U.S. properties grew by an average of 7.2 percent in 2000. Average room rates for these hotels rose 6.3 percent, while occupancy increased slightly to 77.4 percent. In 2000, as a result of the

termination of two Ritz-Carlton management agreements, we wrote off our \$3 million investment in these contracts. In addition, due to the bankruptcy of the owner of one hotel, we reserved \$6 million of our investment in that management agreement.

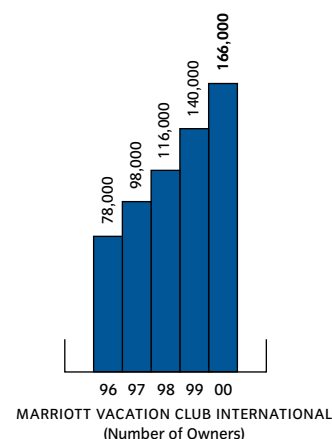
Our domestic select-service and extended-stay brands (Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites and SpringHill Suites) added a total of 161 properties (18,870 rooms) and deflagged seven properties (1,500 rooms), primarily franchises, during the 2000 fiscal year. REVPAR for comparable properties increased 5.5 percent.

| | Comparable U.S. properties | | Comparable Systemwide | |
|---|----------------------------|-----------------|-----------------------|-----------------|
| | 2000 | Change vs. 1999 | 2000 | Change vs. 1999 |
| MARRIOTT HOTELS, RESORTS AND SUITES | | | | |
| Occupancy | 78.2% | +0.4%pts. | 75.7% | +0.4%pts. |
| Average daily rate | \$149.50 | +6.2% | \$136.37 | +4.9% |
| REVPAR | \$116.95 | +6.8% | \$103.27 | +5.5% |
| RITZ-CARLTON | | | | |
| Occupancy | 77.5% | +0.1%pts. | 77.5% | +2.0%pts. |
| Average daily rate | \$242.26 | +9.2% | \$228.01 | +8.9% |
| REVPAR | \$187.75 | +9.4% | \$176.75 | +11.9% |
| RENAISSANCE HOTELS, RESORTS AND SUITES | | | | |
| Occupancy | 73.3% | +2.0%pts. | 70.9% | +2.7%pts. |
| Average daily rate | \$142.27 | +4.5% | \$119.95 | +3.0% |
| REVPAR | \$104.35 | +7.5% | \$ 85.07 | +7.0% |
| RESIDENCE INN | | | | |
| Occupancy | 83.5% | +0.7%pts. | 82.2% | +0.8%pts. |
| Average daily rate | \$104.88 | +5.1% | \$102.25 | +4.3% |
| REVPAR | \$ 87.61 | +6.1% | \$ 84.10 | +5.3% |
| COURTYARD | | | | |
| Occupancy | 78.9% | — pts. | 77.0% | +0.2%pts. |
| Average daily rate | \$ 97.68 | +5.7% | \$ 93.51 | +4.9% |
| REVPAR | \$ 77.05 | +5.7% | \$ 71.96 | +5.1% |
| FAIRFIELD INN | | | | |
| Occupancy | 69.7% | -1.0%pts. | 69.7% | -1.0%pts. |
| Average daily rate | \$ 61.32 | +3.8% | \$ 61.32 | +3.8% |
| REVPAR | \$ 42.75 | +2.4% | \$ 42.75 | +2.4% |

Results for international lodging operations were favorable in 2000, despite a decline in the value of the Euro against the U.S. dollar, reflecting strong demand in the Middle East, Asia, Europe and the Caribbean region.

Marriott Vacation Club International also posted favorable profit growth in 2000, reporting a 34 percent increase in contract sales. The increase in contract sales reflects interest in our newest brands, *Horizons by Marriott Vacation Club* in Orlando, Florida,

The Ritz-Carlton Club resorts in St. Thomas, U.S. Virgin Islands, and Aspen, Colorado, as well as continued strong demand for our timeshare properties in Hawaii, Aruba and California. The profit growth in 2000 was impacted by a \$6 million decline in gains from the sale of notes receivable arising from lower note



sale volume. At the end of the year, 24 resorts were in active sales, 23 resorts were sold out and an additional 13 resorts were under development.

The Marketplace by Marriott (Marketplace), our hospitality procurement business, prepared for its launch as an independent company. In January 2001, Marriott and Hyatt Corporation formed a joint venture, Avendra LLC, and we each merged our respective procurement businesses into it. Avendra LLC is an independent professional procurement services company serving the North American hospitality market and related industries. Bass Hotels & Resorts, Inc., ClubCorp USA Inc. and Fairmont Hotels & Resorts, Inc. are expected to join Avendra LLC in 2001.

1999 Compared to 1998

Marriott Lodging reported a 17 percent increase in operating profit and 12 percent higher sales in 1999. Results reflected higher room rates for U.S. hotels, contributions from new hotels worldwide, and strong interval sales in resort timesharing. Lodging operating profit in 1999 was attributable to base management fees (27 percent of total), franchise fees (17 percent) and land rent (three percent) that are based on fixed dollar amounts or percentages of sales. The balance was attributable to our timesharing business (15 percent), and to incentive management fees and other income based on the profits of the underlying properties (38 percent).

Across our Lodging brands, REVPAR for comparable company-operated U.S. properties grew by an average of 3.7 percent in 1999. Average room rates for these hotels rose 3.6 percent, while occupancy remained at 77.5 percent. Occupancy, average daily rate and REVPAR for each of our principal established brands are shown in the following table.

| | Comparable U.S. properties | | Comparable Systemwide | |
|---|----------------------------|-----------------|-----------------------|-----------------|
| | 1999 | Change vs. 1998 | 1999 | Change vs. 1998 |
| MARRIOTT HOTELS, RESORTS AND SUITES | | | | |
| Occupancy | 77.5% | -0.1%pts. | 75.6% | +0.8%pts. |
| Average daily rate | \$140.86 | +3.9% | \$131.61 | +2.3% |
| REVPAR | \$109.22 | +3.9% | \$ 99.55 | +3.3% |
| RITZ-CARLTON | | | | |
| Occupancy | 77.8% | +3.4%pts. | 76.4% | +3.9%pts. |
| Average daily rate | \$219.37 | +5.5% | \$207.28 | +4.8% |
| REVPAR | \$170.67 | +10.3% | \$158.28 | +10.4% |
| RENAISSANCE HOTELS, RESORTS AND SUITES | | | | |
| Occupancy | 70.8% | +0.5%pts. | 68.1% | +0.8%pts. |
| Average daily rate | \$132.09 | +2.1% | \$115.65 | -1.5% |
| REVPAR | \$ 93.54 | +2.9% | \$ 78.75 | -0.4% |
| RESIDENCE INN | | | | |
| Occupancy | 83.0% | -0.1%pts. | 81.9% | -0.1%pts. |
| Average daily rate | \$ 99.03 | +0.9% | \$ 97.95 | +1.7% |
| REVPAR | \$ 82.23 | +0.8% | \$ 80.20 | +1.5% |
| COURTYARD | | | | |
| Occupancy | 79.3% | -0.1%pts. | 77.3% | +0.3%pts. |
| Average daily rate | \$ 91.48 | +2.8% | \$ 88.59 | +2.6% |
| REVPAR | \$ 72.53 | +2.7% | \$ 68.48 | +3.0% |
| FAIRFIELD INN | | | | |
| Occupancy | 71.0% | -2.2%pts. | 71.0% | -2.2%pts. |
| Average daily rate | \$ 58.87 | +3.3% | \$ 58.76 | +3.1% |
| REVPAR | \$ 41.80 | +0.1% | \$ 41.75 | — |

International hotel operations posted improved results in 1999, reflecting profit growth for properties in continental Europe, the Middle East, Latin America and the Caribbean region.

Marriott Vacation Club International achieved a 22 percent increase in contract sales in 1999, as well as higher income from resort management. Strong interval sales

were generated at timeshare resorts in Florida, South Carolina, Hawaii and Spain. During 1999, we had 21 resorts in active sales, including the initial project (Orlando, Florida) for *Horizons by Marriott Vacation Club*, a new product line targeting the moderate price tier of the timeshare market.

MARRIOTT SENIOR LIVING SERVICES

| | | | | Annual Change | |
|------------------------------|-------|-------|-------|---------------|-------|
| | 2000 | 1999 | 1998 | 00/99 | 99/98 |
| <i>(dollars in millions)</i> | | | | | |
| Sales | \$669 | \$559 | \$479 | +20% | +17% |
| Operating (loss) profit | (18) | (18) | 15 | — | n/m |

2000 Compared to 1999

Marriott Senior Living Services posted a 20 percent increase in sales in 2000, reflecting the net addition of nine properties during the year and a four percentage point increase in occupancy for comparable communities to 88 percent. Despite the increase in sales, profitability was impacted by start-up inefficiencies for new properties, higher administrative expenses, pre-opening costs for new communities, costs related to debt associated with facilities developed by unaffiliated third parties, and charges associated with our decision to limit new construction until the market improves, resulting in a loss of \$18 million.

1999 Compared to 1998

Marriott Senior Living Services posted a 17 percent increase in sales in 1999, as we added a net total of 31 new communities (4,216 living units) during the year. Occupancy for comparable communities increased by nearly one percentage point to 90 percent in 1999.

The division reported an operating loss in 1999, primarily as a result of \$18 million of pre-opening costs for new communities, increased accounts receivable reserves, and one-time charges associated with our decision to slow new construction until market conditions improve.

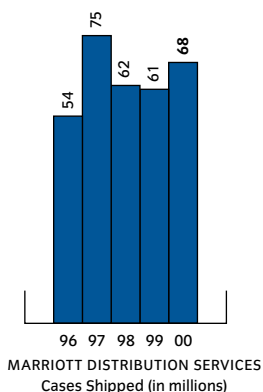
MARRIOTT DISTRIBUTION SERVICES

| | | | | Annual Change | |
|------------------------------|---------|---------|---------|---------------|-------|
| | 2000 | 1999 | 1998 | 00/99 | 99/98 |
| <i>(dollars in millions)</i> | | | | | |
| Sales | \$1,500 | \$1,139 | \$1,178 | +32% | -3% |
| Operating profit | 4 | 21 | 17 | -81% | +24% |

2000 Compared to 1999

Marriott Distribution Services (MDS) posted a 32 percent increase in sales for 2000, reflecting the commencement of service to three large restaurant chains in the year. Operating profit declined \$17 million as a result of start-up inefficiencies associated with the new business and a \$15 million pretax write-off of an investment in a contract with Boston Chicken, Inc. and its Boston Market-controlled subsidiaries, a major customer that filed for bankruptcy in October 1998. McDonald's Corporation (McDonald's) acquired Boston Market in 2000, and during the first quarter of 2000, MDS

entered into an agreement with McDonald's to continue providing distribution services to Boston Market restaurants (refer to the "Intangible Assets" footnote in the financial statements set forth in Part II, Item 8, "Financial Statements and Supplementary Data").



1999 Compared to 1998

Operating profit for Marriott Distribution Services

increased 24 percent in 1999 on a modest decline in sales. The division benefited from higher gross margins per case and reduced inventory losses compared to 1998.

CORPORATE EXPENSES, INTEREST AND TAXES

2000 Compared to 1999

Corporate expenses decreased \$44 million in 2000 to \$120 million primarily due to a \$39 million pretax charge in 1999 associated with a litigation settlement and systems-related costs associated with Year 2000 that were incurred in 1999, offset by costs incurred in 2000 associated with new corporate systems and a \$3 million charge due to a change in our vacation accrual policy. Interest expense increased \$39 million as a result of borrowings to finance growth outlays and share repurchases. Interest income increased \$23 million primarily due to the collection of \$14 million of interest associated with an international loan that was previously reserved for and increased advances and loan fundings made during 2000. Our effective income tax rate decreased to approximately 36.8 percent in 2000 from 37.3 percent in 1999 primarily due to increased income in countries with lower effective tax rates.

1999 Compared to 1998

Corporate expenses increased to \$164 million in 1999 primarily due to a \$39 million pretax charge associated with an agreement to settle pending litigation, together with increased systems-related costs, including \$22 million of costs associated with our Year 2000 readiness program, compared to \$12 million of Year 2000 readiness program costs in 1998. Interest expense more than doubled to \$61 million as a result of borrowings to finance growth outlays and share repurchases. Our effective income tax rate decreased to approximately 37.3 percent in 1999 from 38.3 percent in 1998, primarily due to the impact of tax-oriented investments, and increased income in countries with lower effective tax rates.

LODGING DEVELOPMENT

Marriott Lodging opened 238 properties totaling approximately 40,000 rooms across its brands in 2000, while 19 hotels (approximately 5,400 rooms) exited the system. Highlights of the year included:

- Twenty-two full-service properties (approximately 5,400 rooms) opened outside the United States. These include our first hotels in Romania, Chile and Peru.
- Fifty-five hotels (approximately 11,700 rooms) converted from independent status or competitor chains, including the 782-room Renaissance Hotel in Honolulu, Hawaii, the 577-room Renaissance Hotel in Kissimmee, Florida, and the 349-room Renaissance Hotel in Miami Beach, Florida.
- The addition of 161 properties (approximately 18,900 rooms) to our select-service and extended-stay brands.
- The launch of *The Ritz-Carlton Club* resorts in Aspen, Colorado, and St. Thomas, U.S. Virgin Islands, and the development of a *Horizons by Marriott Vacation Club* resort in Branson, Missouri, and a new *Marriott Vacation Club International* resort in Shadow Ridge, California.

At year-end 2000, we had over 400 hotel properties and more than 70,000 rooms under construction or approved for development. We expect to open over 200 hotels and timesharing resorts (more than 35,000 rooms) in 2001. Over a five-year period (1999 to 2003), we plan to add 175,000 rooms to our lodging system. These growth plans are subject to numerous risks and uncertainties, many of which are outside our control. See "Forward-Looking Statements" and "Liquidity and Capital Resources."

SENIOR LIVING SERVICES DEVELOPMENT

Due to oversupply conditions in some senior housing markets, we decided in 1999 to dramatically slow development of planned communities. Consequently, a number of projects in the early stages of development were postponed or cancelled. Additional projects were cancelled in the second and fourth quarters of 2000.

LIQUIDITY AND CAPITAL RESOURCES

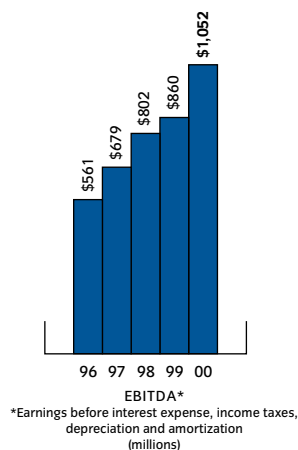
We believe that we have access to sufficient financial resources to finance our growth, as well as to support our ongoing operations and meet debt service and other cash requirements. However, our ability to sell properties that we develop, and the ability of hotel developers to build or acquire new Marriott-branded properties, which are important parts of our growth plans, are partially dependent on the availability and cost of capital. We are monitoring the status of the capital markets, and are evaluating the effect that changes in capital market conditions may have on our ability to execute our announced growth plans.

Cash From Operations

Cash from operations was \$850 million in 2000, \$711 million in 1999, and \$605 million in 1998. Net income is stated after depreciation expense of \$123 million in 2000, \$96 million in 1999, and \$76 million in 1998, and after amortization expense of \$72 million in 2000, \$66 million in 1999 and \$64 million in 1998. While our timesharing business generates strong operating cash flow, annual amounts are affected by the timing of cash outlays for the acquisition and development of new resorts, and cash received from purchaser financing. We include interval sales we finance in cash from operations when we collect cash payments or the notes are sold for cash.

Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) increased to \$1,052 million in 2000 compared to \$860 million in 1999, and \$802 million in 1998, and has grown at a 19 percent compounded annual rate since 1995.

We consider EBITDA to be an indicator of our operating performance because it can be used to measure our ability to service debt, fund capital expenditures and expand our business. Nevertheless, one should not consider EBITDA an alternative to net income, operating profit, cash flows from operations, or any other operating or liquidity measure prescribed by accounting principles generally accepted in the United States.



A substantial portion of our EBITDA is based on fixed dollar amounts or percentages of sales. These include lodging base management fees, franchise fees and land rent. With more than 2,000 hotels and senior living communities in the Marriott system, no single property or region is critical to our financial results.

Our ratio of current assets to current liabilities was .74 at December 29, 2000, compared to .92 at December 31, 1999. Each of our businesses minimizes working capital through cash management, strict credit-granting policies, aggressive collection efforts and high inventory turnover.

Investing Activities Cash Flows

Acquisitions. We continually seek opportunities to enter new markets, increase market share or broaden service offerings through acquisitions.

Dispositions. Asset sales generated proceeds of \$742 million in 2000, \$436 million in 1999 and \$332 million in 1998. Proceeds in 2000 are net of \$79 million of financing and joint venture investments made by us in connection with the sales transactions. In 2000 we closed on the sales of 23 hotels and 15 senior living communities, which we continue to operate under long-term operating agreements.

Capital Expenditures and Other Investments. Capital expenditures of \$1,095 million in 2000, \$929 million in 1999 and \$937 million in 1998, included development and construction of new hotels and senior living communities and acquisitions of hotel properties. Over time, we expect to sell certain lodging and senior living properties under development, or to be developed, while continuing to operate them under long-term agreements.

We also expect to continue to make other investments to grow our businesses, including loans, minority equity investments and development of new timeshare resorts in connection with adding units to our lodging business.

On February 23, 2000, we entered into an agreement to resolve litigation involving certain limited partnerships formed in the mid- to late 1980s. Under the agreement, we paid \$31 million to partners in four

limited partnerships and acquired, through an unconsolidated joint venture (the Courtyard Joint Venture) with affiliates of Host Marriott Corporation (Host Marriott), substantially all of the limited partners' interests in two other limited partnerships, Courtyard by Marriott Limited Partnership (CBM I) and Courtyard by Marriott II Limited Partnership (CBM II). These partnerships own 120 Courtyard by Marriott hotels. The Courtyard Joint Venture was financed with equity contributed in equal shares by us and affiliates of Host Marriott and approximately \$200 million in mezzanine debt provided by us. Our total investment in the joint venture, including mezzanine debt, is approximately \$300 million.

We have made loans to owners of hotels and senior living communities that we operate or franchise. Loans outstanding under this program totaled \$592 million at December 29, 2000, including the mezzanine debt related to the Courtyard Joint Venture, \$295 million at December 31, 1999, and \$213 million at January 1, 1999. Unfunded commitments aggregating \$829 million were outstanding at December 29, 2000, of which \$332 million are expected to be funded in 2001 and \$573 million are expected to be funded in total. These loans typically are secured by mortgages on the projects. We participate in a program with an unaffiliated lender in which we may partially guarantee loans made to facilitate third-party ownership of hotels and senior living services communities that we operate or franchise.

Cash From Financing Activities

Long-term debt increased by \$340 million in 2000 and \$409 million in 1999, primarily to finance our capital expenditure and share repurchase programs.

Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of our long-term debt and reducing our working capital. At year-end 2000, our long-term debt (including commercial paper borrowings of \$827 million) had an average interest rate of 6.8 percent and an average maturity of approximately 4.7 years. The ratio of fixed rate long-term debt to total long-term debt was .59 as of December 29, 2000.

In April 1999, January 2000 and January 2001, we filed "universal shelf" registration statements with the Securities and Exchange Commission in the amounts of \$500 million, \$300 million and \$300 million, respectively. As of January 30, 2001, we had offered and sold to the

public \$600 million of debt securities under these registration statements, leaving a balance of \$500 million available for future offerings.

In January 2001, we issued, through a private placement, \$300 million of seven percent senior unsecured notes due 2008, and received net proceeds of \$297 million. We have agreed to promptly make and complete a registered exchange offer for these notes and, if required, to implement a resale shelf registration statement. If we fail to do so on a timely basis, we will pay additional interest to the holders of these notes.

We have entered into revolving credit agreements that provide for borrowings of \$1.5 billion expiring in March 2003, and \$500 million expiring in February 2004. Loans of \$26 million were outstanding at December 29, 2000, under these facilities, which support our commercial paper program and letters of credit. We had \$1.1 billion of unused revolving credit available under these facilities as of December 29, 2000. Borrowings under these facilities bear interest at LIBOR plus a spread, based on our public debt rating.

We called for mandatory redemption of our Liquid Yield Option Notes (LYONs) in 1999. Approximately 64 percent of LYONs holders elected to convert their notes to common stock, for which we issued 6.1 million shares. The other 36 percent of LYONs holders received cash totaling \$120 million, which reduced by 3.4 million common shares the dilutive impact of these convertible debt securities issued by a predecessor company in 1996. Nine percent of the cash redemption price was reimbursed to us by our predecessor company (Sodexo Marriott Services, Inc.).

We determine our debt capacity based on the amount and variability of our cash flows. EBITDA coverage of gross interest cost was 6.9 times in 2000, and cash flow requirements under our loan agreements were exceeded by a substantial margin. At December 29, 2000, we had public debt ratings of BBB+ and Baa1 from Standard and Poor's and Moody's, respectively.

Share Repurchases. We periodically repurchase our common stock to replace shares needed for employee stock plans and for other corporate purposes. We purchased 10.8 million of our shares in 2000, at an average price of \$31 per share, and 10.8 million shares in 1999 at an average price of \$33 per share. As of December 29, 2000, we had been authorized by our Board of Directors to repurchase an additional 19.6 million shares.

Dividends. In August 2000, our Board of Directors increased the quarterly cash dividend by nine percent to \$.06 per share.

OTHER MATTERS

Einstein/Noah Bagel Corporation

In 1996, MDS became the exclusive provider of distribution services to Einstein/Noah Bagel Corp. (ENBC), which operates over 490 bagel shops in 29 states and the District of Columbia. In March 2000, ENBC disclosed that its independent auditors had expressed substantial doubt about ENBC's ability to continue as a going concern, due to its inability to meet certain financial obligations. On April 27, 2000, ENBC and its majority-owned operating subsidiary filed voluntary bankruptcy petitions for protection under Chapter 11 of the Federal Bankruptcy code in the U.S. Bankruptcy Court for the District of Arizona in Phoenix. On April 28, 2000, the bankruptcy court approved a \$31 million debtor-in-possession credit facility to allow for operation of the companies during reorganization, and also approved the payment in the ordinary course of business of pre-petition trade creditor claims, including those of MDS, subject to recovery by the debtors under certain circumstances. On July 27, 2000, the Bankruptcy Court entered an order approving ENBC's assumption of the MDS contract. MDS continues to distribute to ENBC and has been receiving full payment in accordance with the terms of its contractual agreement. If ENBC were to cease or substantially reduce its operations, MDS may be unable to recover some or all of an aggregate of approximately \$5 million in contract investment and \$13 million in receivables and inventory.

Inflation

Inflation has been moderate in recent years, and has not had a significant impact on our businesses.

Market Risk Disclosures

We are exposed to market risk from changes in interest rates. We manage our exposure to this risk by monitoring available financing alternatives and through development and application of credit granting policies. Our strategy to manage exposure to changes in interest rates is unchanged from December 31, 1999. Furthermore, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how such exposure is managed in the near future.

The following sensitivity analysis displays how our earnings and the fair values of certain instruments we hold are affected by changes in interest rates.

We hold notes receivable that earn interest at variable rates. Hypothetically, an immediate one percentage point change in interest rates would change annual interest income by \$3 million, based on the balances of these notes receivable at December 29, 2000, and December 31, 1999.

Changes in interest rates also impact the fair value of our long-term fixed rate debt and long-term fixed rate notes receivable. Based on the balances outstanding at December 29, 2000, and December 31, 1999, a hypothetical immediate one percentage point change in interest rates would change the fair value of our long-term fixed rate debt by \$50 million and \$41 million, respectively, and would change the fair value of the long-term fixed rate notes receivable by \$22 million and \$5 million, respectively.

Although commercial paper is classified as long-term debt (based on our ability and intent to refinance it on a long-term basis) all commercial paper matures within two months of year-end. Based on the balances of commercial paper outstanding at December 29, 2000, and December 31, 1999, a hypothetical one percentage point change in interest rates would change interest by \$8 million for both periods, on an annualized basis.

Forward-Looking Statements

This annual report contains "forward-looking statements" within the meaning of federal securities law, including statements concerning the company's outlook for 2001 and beyond; the number of new lodging properties expected to be added in 2001 and subsequent years; business strategies and their anticipated results; and similar statements concerning anticipated future events and expectations that are not historical facts. The forward-looking statements in this report are subject to numerous risks and uncertainties, including the effects of economic conditions; supply and demand changes for hotel rooms, vacation ownership intervals, corporate apartments and senior housing; competitive conditions in the lodging, senior living and food service distribution industries; relationships with clients and property owners; the impact of government regulations; the impact of internet hotel reservation channels; and the availability of capital to finance growth, which could cause actual results to differ materially from those expressed in or implied by the statements herein.

Consolidated Statement of Income

| <i>Fiscal Years Ended December 29, 2000, December 31, 1999 and January 1, 1999</i> | 2000 | 1999 | 1998 |
|--|-----------------|----------------|----------------|
| <i>(\$ in millions, except per share amounts)</i> | | | |
| SALES | \$10,017 | \$8,739 | \$7,968 |
| Operating costs and expenses | 9,095 | 7,909 | 7,232 |
| OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST | 922 | 830 | 736 |
| Corporate expenses | (120) | (164) | (110) |
| Interest expense | (100) | (61) | (30) |
| Interest income | 55 | 32 | 36 |
| INCOME BEFORE INCOME TAXES | 757 | 637 | 632 |
| Provision for income taxes | 278 | 237 | 242 |
| NET INCOME | \$ 479 | \$ 400 | \$ 390 |
| Basic Earnings Per Share | \$ 1.99 | \$ 1.62 | \$ 1.56 |
| Diluted Earnings Per Share | \$ 1.89 | \$ 1.51 | \$ 1.46 |

See Notes to Consolidated Financial Statements

Consolidated Balance Sheet

| December 29, 2000 and December 31, 1999 | 2000 | 1999 |
|---|----------------|----------------|
| <i>(\$ in millions)</i> | | |
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 334 | \$ 489 |
| Accounts and notes receivable | 728 | 740 |
| Inventories, at lower of average cost or market | 97 | 93 |
| Prepaid taxes | 197 | 220 |
| Other | 59 | 58 |
| | 1,415 | 1,600 |
| Property and equipment | 3,241 | 2,845 |
| Intangible assets | 1,833 | 1,820 |
| Investments in affiliates | 747 | 294 |
| Notes and other receivables | 661 | 473 |
| Other | 340 | 292 |
| | \$8,237 | \$7,324 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 660 | \$ 628 |
| Accrued payroll and benefits | 440 | 399 |
| Self-insurance | 27 | 36 |
| Other payables and accruals | 790 | 680 |
| | 1,917 | 1,743 |
| Long-term debt | 2,016 | 1,676 |
| Self-insurance | 122 | 142 |
| Other long-term liabilities | 915 | 855 |
| Shareholders' equity | | |
| ESOP preferred stock | — | — |
| Class A common stock, 255.6 million shares issued | 3 | 3 |
| Additional paid-in capital | 3,590 | 2,738 |
| Retained earnings | 851 | 508 |
| Unearned ESOP shares | (679) | — |
| Treasury stock, at cost | (454) | (305) |
| Accumulated other comprehensive income | (44) | (36) |
| | 3,267 | 2,908 |
| | \$8,237 | \$7,324 |

See Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

| Fiscal Years Ended December 29, 2000, December 31, 1999 and January 1, 1998 | 2000 | 1999 | 1998 |
|---|---------------|---------------|---------------|
| <i>(\$ in millions)</i> | | | |
| OPERATING ACTIVITIES | | | |
| Net income | \$ 479 | \$ 400 | \$ 390 |
| Adjustments to reconcile to cash provided by operations: | | | |
| Depreciation and amortization | 195 | 162 | 140 |
| Income taxes | 133 | 87 | 76 |
| Timeshare activity, net | (195) | (102) | 28 |
| Other | 48 | 19 | (22) |
| Working capital changes: | | | |
| Accounts receivable | (53) | (126) | (104) |
| Inventories | (4) | (17) | 15 |
| Other current assets | 28 | (38) | (16) |
| Accounts payable and accruals | 219 | 326 | 98 |
| Cash provided by operations | 850 | 711 | 605 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures | (1,095) | (929) | (937) |
| Acquisitions | — | (61) | (48) |
| Dispositions | 742 | 436 | 332 |
| Loan advances | (389) | (144) | (48) |
| Loan collections and sales | 93 | 54 | 169 |
| Other | (377) | (143) | (192) |
| Cash used in investing activities | (1,026) | (787) | (724) |
| FINANCING ACTIVITIES | | | |
| Commercial paper, net | 46 | 355 | 426 |
| Issuance of long-term debt | 338 | 366 | 868 |
| Repayment of long-term debt | (26) | (63) | (473) |
| Redemption of convertible subordinated debt | — | (120) | — |
| Issuance of Class A common stock | 58 | 43 | 15 |
| Dividends paid | (55) | (52) | (37) |
| Purchase of treasury stock | (340) | (354) | (398) |
| Advances to Old Marriott | — | — | (100) |
| Cash provided by financing activities | 21 | 175 | 301 |
| (DECREASE) INCREASE IN CASH AND EQUIVALENTS | (155) | 99 | 182 |
| CASH AND EQUIVALENTS, beginning of year | 489 | 390 | 208 |
| CASH AND EQUIVALENTS, end of year | \$ 334 | \$ 489 | \$ 390 |

See Notes to Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

| Fiscal Years Ended December 29, 2000, December 31, 1999 and January 1, 1999 | 2000 | 1999 | 1998 |
|---|-------|-------|-------|
| <i>(\$ in millions)</i> | | | |
| Net income | \$479 | \$400 | \$390 |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments | (10) | (18) | (3) |
| Other | 2 | (2) | 6 |
| Total other comprehensive (loss) income | (8) | (20) | 3 |
| Comprehensive income | \$471 | \$380 | \$393 |

See Notes to Consolidated Financial Statements

Consolidated Statement of Shareholders' Equity

| Period From March 27, 1998 to December 29, 2000 | | | | | | | |
|---|---|----------------------|----------------------------|-------------------|----------------------|-------------------------|--|
| <i>(in millions, except per share amounts)</i> | | | | | | | |
| Common shares outstanding | | Class A common stock | Additional paid-in capital | Retained earnings | Unearned ESOP shares | Treasury stock, at cost | Accumulated other comprehensive income |
| 255.6 | Spinoff on March 27, 1998 | \$3 | \$2,711 | \$— | \$— | \$— | \$(23) |
| — | Net income, after the Spinoff | — | — | 301 | — | — | — |
| — | Dividends (\$.195 per share) | — | — | (49) | — | — | — |
| 1.5 | Employee stock plan issuance and other, after the Spinoff | — | 2 | (34) | — | 50 | 7 |
| (13.7) | Purchase of treasury stock | — | — | — | — | (398) | — |
| 243.4 | Balance, January 1, 1999 | 3 | 2,713 | 218 | — | (348) | (16) |
| — | Net income | — | — | 400 | — | — | — |
| — | Dividends (\$.215 per share) | — | — | (53) | — | — | — |
| 5.5 | Employee stock plan issuance and other | — | 29 | (87) | — | 172 | (20) |
| 2.1 | ExecuStay acquisition | — | — | (4) | — | 67 | — |
| (10.8) | Purchase of treasury stock | — | — | — | — | (358) | — |
| 6.1 | Conversion of convertible subordinated debt | — | (4) | 34 | — | 162 | — |
| 246.3 | Balance at December 31, 1999 | 3 | 2,738 | 508 | — | (305) | (36) |
| — | Net income | — | — | 479 | — | — | — |
| — | Dividends (\$.235 per share) | — | — | (56) | — | — | — |
| 5.5 | Employee stock plan issuance and other | — | 852 | (80) | (679) | 186 | (8) |
| (10.8) | Purchase of treasury stock | — | — | — | — | (335) | — |
| 241.0 | Balance at December 29, 2000 | \$3 | \$3,590 | \$851 | \$(679) | \$(454) | \$(44) |

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements present the results of operations, financial position and cash flows of Marriott International, Inc. (together with its subsidiaries, we, us or the Company), formerly New Marriott MI, Inc., as if we were a separate entity for all periods presented. During periods prior to March 27, 1998, we were a wholly owned subsidiary of the former Marriott International, Inc. (Old Marriott).

On March 27, 1998, all of our issued and outstanding common stock was distributed, on a pro rata basis, as a special dividend (the Spinoff) to holders of common stock of Old Marriott, and the Company was renamed "Marriott International, Inc." Old Marriott's historical cost basis in our assets and liabilities has been carried over. Old Marriott received a private letter ruling from the Internal Revenue Service that the Spinoff would be tax-free to it and its shareholders. For each share of common stock in Old Marriott, shareholders received one share of our Common Stock and one share of our Class A Common Stock. On May 21, 1998, all outstanding shares of our Common Stock were converted, on a one-for-one basis, into shares of our Class A Common Stock.

Also on March 27, 1998, Old Marriott was renamed Sodexo Marriott Services, Inc. (SMS) and its food service and facilities management business was combined with the North American operations of Sodexo Alliance, S.A. (Sodexo), a worldwide food and management services organization.

For purposes of governing certain of the ongoing relationships between us and SMS after the Spinoff and to provide for orderly transition, we entered into various agreements with SMS including the Employee Benefits and Other Employee Matters Allocation Agreement, Liquid Yield Option Notes (LYONs) Allocation Agreement, Tax Sharing Agreement, Trademark and Trade Name License Agreement, Noncompetition Agreement, Employee Benefit Services Agreement, Procurement Services Agreement, Distribution Services Agreement, and other transitional services agreements. Effective as of the Spinoff date, pursuant to these agreements, we

assumed sponsorship of certain of Old Marriott's employee benefit plans and insurance programs and succeeded to Old Marriott's liability to LYONs holders under the LYONs Indenture, nine percent of which was assumed by SMS.

All material intercompany transactions and balances between entities included in these consolidated financial statements have been eliminated. Sales by us to SMS of \$350 million in 2000, \$435 million in 1999 and \$434 million in 1998, have not been eliminated. Changes in Investments and Net Advances from Old Marriott represent our net income, the net cash transferred between Old Marriott and us, and certain non-cash items.

Prior to the Spinoff, we operated as a unit of Old Marriott, utilizing Old Marriott's centralized systems for cash management, payroll, purchasing and distribution, employee benefit plans, insurance and administrative services. As a result, substantially all cash received by us was deposited in and commingled with Old Marriott's general corporate funds. Similarly, our operating expenses, capital expenditures and other cash requirements were paid by Old Marriott and charged directly or allocated to us. Certain assets and liabilities related to our operations were managed and controlled by Old Marriott on a centralized basis. Prior to the Spinoff such assets and liabilities were allocated to us based on our use of, or interest in, those assets and liabilities. In our opinion, the methods for allocating costs, assets and liabilities prior to the Spinoff were reasonable. We now perform these functions independently and the costs incurred have not been materially different from those allocated prior to the Spinoff.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Accordingly, ultimate results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the 2000 presentation.

Fiscal Year

Our fiscal year ends on the Friday nearest to December 31. All fiscal years presented include 52 weeks.

Revenue Recognition

Our sales include fees and reimbursed costs for properties managed by us, together with sales by lodging properties and senior living communities owned or leased by us, and sales made by our other businesses. Fees comprise management fees, incentive fees and franchise fees received from third-party owners of lodging properties and senior living communities. We recognize base fees and reimbursed costs as revenue when earned in accordance with the contract. In accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," base fees and incentive management fees are accrued as earned based on the profitability of the hotel, subject to the specific terms of each individual contract.

Profit Sharing Plan

We contribute to a profit sharing plan for the benefit of employees meeting certain eligibility requirements and electing participation in the plan. Contributions are determined annually by the Board of Directors. We recognized compensation cost from profit sharing of \$55 million in 2000, \$46 million in 1999 and \$45 million in 1998.

Self-Insurance Programs

We are self-insured for certain levels of general liability, workers' compensation, employment practices and employee medical coverage. Estimated costs of these self-insurance programs are accrued at the present value of projected settlements for known and anticipated claims.

Frequent Guest Program

We accrue for the cost of redeeming points awarded to members of our frequent guest program based on the discounted expected costs of redemption. The liability for this program was \$554 million at December 29, 2000, and \$433 million at December 31, 1999, of which \$310 million and \$289 million, respectively, are included in other long-term liabilities in the accompanying consolidated balance sheet.

Cash and Equivalents

We consider all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

New Accounting Standards

We will adopt Financial Accounting Standard (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which will not have a material effect on our consolidated financial statements, in the first quarter of 2001.

In the fourth quarter of 2000, we adopted SAB No. 101. The implementation of SAB No. 101 did not have a material impact on annual or quarterly earnings.

In the fourth quarter of 2000, we adopted FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The implementation of FAS No. 140 resulted in increased footnote disclosures, but did not have an effect on our consolidated financial statements.

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." We adopted SOP 98-5 in the first quarter of 1999 by expensing pre-opening costs for Company-owned lodging and senior living communities as incurred. The adoption of SOP 98-5 resulted in a pretax expense of \$22 million in 1999.

RELATIONSHIPS WITH MAJOR CUSTOMERS

In December 1998, Host Marriott Corporation (Host Marriott) reorganized its business operations to qualify as a real estate investment trust (REIT). In conjunction with its conversion to a REIT, Host Marriott spun off, in a taxable transaction, a new company called Crestline Capital Corporation (Crestline). As part of the Crestline spinoff, Host Marriott transferred to Crestline all of the senior living communities previously owned by Host Marriott, and Host Marriott entered into lease or sublease agreements with subsidiaries of Crestline for substantially all of Host Marriott's lodging properties. Our lodging and senior living community management and franchise agreements with Host Marriott were also assigned to these Crestline subsidiaries. The lodging agreements now provide for us to manage the Marriott hotels, Ritz-Carlton hotels, Courtyard hotels and

Residence Inn hotels leased by the lessee. Our consent is required for the lessee to take certain major actions relating to leased properties that we manage. Effective as of January 1, 2001, a Host Marriott taxable subsidiary acquired the lessee entities for the full-service hotels in the United States and took an assignment of the lessee entities' interests in the leases for the hotels in Canada.

We recognized sales of \$2,746 million, \$2,553 million and \$2,144 million and operating profit before corporate expenses and interest of \$235 million, \$221 million and \$197 million during 2000, 1999 and 1998, respectively, from lodging properties owned or leased by Host Marriott. Additionally, Host Marriott is a general partner in several unconsolidated partnerships that own lodging properties operated by us under long-term agreements. We recognized sales of \$622 million, \$562 million and \$712 million and operating profit before corporate expenses and interest of \$72 million, \$64 million and \$83 million in 2000, 1999 and 1998, respectively, from the lodging properties owned by these unconsolidated partnerships. We also leased land to certain of these partnerships and recognized land rent income of \$26 million in 2000 and \$24 million in both 1999 and 1998.

In December 2000, we acquired, through an unconsolidated joint venture (the Courtyard Joint Venture) with an affiliate of Host Marriott, 120 Courtyard by Marriott hotels. Prior to the formation of the Courtyard Joint Venture, Host Marriott was a general partner in the unconsolidated partnerships that owned the 120 Courtyard by Marriott hotels. Included above in amounts recognized from lodging properties owned by unconsolidated partnerships are sales of \$345 million, \$334 million and \$295 million, operating profit before corporate expenses and interest of \$53 million, \$50 million and \$53 million and land rent income of \$19 million in 2000 and \$18 million in both 1999 and 1998, related to the 120 Courtyard by Marriott hotels.

We have provided Host Marriott with financing for a portion of the cost of acquiring properties to be operated or franchised by us, and may continue to provide financing to Host Marriott in the future. The outstanding principal balance of these loans was \$9 million and \$11 million at December 29, 2000, and at December 31, 1999, respectively, and we recognized \$1 million, \$1 million and \$5 million in 2000, 1999 and 1998, respectively, in interest and fee income under these credit agreements with Host Marriott.

We have guaranteed the performance of Host Marriott and certain of its affiliates to lenders and other third parties. These guarantees were limited to \$12 million at December 29, 2000. No payments have been made by us pursuant to these guarantees. We continue to have the right to purchase up to 20 percent of Host Marriott's outstanding common stock upon the occurrence of certain events generally involving a change of control of Host Marriott. This right expires 2017, and Host Marriott has granted an exception to the ownership limitations in its charter to permit full exercise of this right, subject to certain conditions related to ownership limitations applicable to REITs generally. We lease land to Host Marriott that had an aggregate book value of \$264 million at December 29, 2000. Most of this land has been pledged to secure debt of the lessees. We have agreed to defer receipt of rentals on this land, if necessary, to permit the lessees to meet their debt service requirements.

We are party to agreements which provide for us to manage the senior living communities owned by Crestline. We recognized sales of \$185 million, \$177 million and \$173 million and operating profit before corporate expenses and interest of \$3 million, \$3 million and \$5 million under these agreements during 2000, 1999 and 1998, respectively.

We are party to management agreements with entities owned by or affiliated with another hotel owner which provide for us to manage hotel properties owned or leased by those entities. We recognized sales of \$557 million, \$531 million and \$560 million during 2000, 1999, and 1998, respectively, from these properties.

PROPERTY AND EQUIPMENT

| | 2000 | 1999 |
|---|---------|---------|
| <i>(\$ in millions)</i> | | |
| Land | \$ 597 | \$ 658 |
| Buildings and leasehold improvements | 1,240 | 1,075 |
| Furniture and equipment | 647 | 523 |
| Timeshare properties | 914 | 587 |
| Construction in progress | 349 | 429 |
| | 3,747 | 3,272 |
| Accumulated depreciation and amortization | (506) | (427) |
| | \$3,241 | \$2,845 |

We record property and equipment at cost, including interest, rent and real estate taxes incurred during development and construction. Interest capitalized as a cost of property and equipment totaled \$52 million in 2000, \$33 million in 1999 and \$21 million in 1998. We capitalize replacements and improvements that extend the useful life of property and equipment. We compute depreciation using the straight-line method over the estimated useful lives of the assets (three to 40 years). We amortize leasehold improvements over the shorter of the asset life or lease term.

ACQUISITIONS AND DISPOSITIONS

ExecuStay

On February 17, 1999, we completed a cash tender offer for approximately 44 percent of the outstanding common stock of ExecuStay Corporation (ExecuStay), a leading provider of leased corporate apartments in the United States. On February 24, 1999, substantially all of the remaining common stock of ExecuStay was converted into nonvoting preferred stock of ExecuStay, which we acquired on March 26, 1999, for approximately 2.1 million shares of our Class A Common Stock. Our aggregate purchase price totaled \$116 million. We consolidated the operating results of ExecuStay from February 24, 1999, and have accounted for the acquisition using the purchase method of accounting. We are amortizing the resulting goodwill on a straight-line basis over 30 years.

The Ritz-Carlton Hotel Company, L.L.C.

In 1995, we acquired a 49 percent beneficial ownership interest in The Ritz-Carlton Hotel Company, L.L.C., which owns the management agreements on the Ritz-Carlton hotels and resorts, the licenses for the Ritz-Carlton trademarks and trade name, as well as miscellaneous assets. The investment was acquired for a total consideration of approximately \$200 million. On March 19, 1998, we increased our ownership interest in The Ritz-Carlton Hotel Company, L.L.C. to approximately 99 percent for additional consideration of approximately \$90 million. We expect to acquire the remaining one percent within the next several years. We accounted for the acquisition using the purchase method of accounting. We allocated the purchase cost to the assets acquired and the liabilities assumed based on estimated fair values. We amortize the resulting goodwill on a straight-line basis over 40 years. We

amortize the amounts allocated to management agreements on a straight-line basis over the estimated lives of the agreements. Prior to March 19, 1998, we accounted for our investment in The Ritz-Carlton Hotel Company, L.L.C. using the equity method of accounting.

Dispositions

In the fourth quarter of 2000 we sold land, at book value, for \$46 million to a joint venture in which we hold a minority interest. The joint venture plans to build a resort hotel, which will be partially funded with up to \$92 million of mezzanine financing to be provided by us. We have also provided the joint venture with a \$45 million senior debt service guarantee.

In 2000, we sold and leased back, under long-term, limited-recourse leases, three lodging properties and one senior living community for an aggregate purchase price of \$118 million. We agreed to pay a security deposit of \$3 million for the lodging properties, which will be refunded at the end of the leases. The sales price exceeded the net book value by \$4 million, which is being recognized as a reduction of rent expense over the 15-year initial lease terms.

In 2000, we agreed to sell 23 lodging properties for \$519 million in cash. We will continue to operate the hotels under long-term management agreements. As of December 29, 2000, sales of 17 of those properties had been completed for \$461 million, resulting in pretax gains of \$27 million. We recognized \$9 million of the net gains in 2000, and will recognize the remainder in subsequent years provided certain contingencies in the sales contracts expire. Unaffiliated third-party tenants will lease 13 of the properties from the buyers. In 2000, one of these tenants replaced us as the tenant on nine other properties sold and leased back by us in 1997 and 1998. We now manage these nine previously leased properties under long-term management agreements, and gains on the sale of these properties of \$15 million were recognized as our leases were cancelled throughout 2000. In connection with the sale of four of the properties, we provided \$39 million of mezzanine funding and agreed to provide the buyer with up to \$161 million of additional loans to finance future acquisitions of Marriott-branded hotels. We also acquired a minority interest in the joint venture that purchased the four hotels.

On April 28, 2000, we sold 14 senior living communities for cash proceeds of \$194 million. We simultaneously entered into long-term management agreements for the communities with a third-party tenant, which leases the communities from the buyer. In connection with the sale we provided a credit facility to the buyer to be used, if necessary, to meet its debt service requirements. The buyer's obligation to repay us under the facility is guaranteed by an unaffiliated third party. We also extended a limited credit facility to the tenant to cover operating shortfalls, if any.

In 1999, we sold an 89 percent interest in one hotel, and concurrently signed a long-term lease on the property. We are accounting for this transaction under the financing method, and the sales proceeds of \$58 million are reflected as long-term debt in the accompanying consolidated balance sheet.

In 1999, we agreed to sell and leaseback, under long-term, limited-recourse leases, four hotels for approximately \$59 million in cash. At the same time, we agreed to pay security deposits of \$2 million, which will be refunded at the end of the leases. As of December 29, 2000, all of the properties had been sold, resulting in a sales price which exceeded the net book value by \$4 million, which we will recognize as a reduction of rent expense over the 15-year initial lease terms. We can renew the leases on all four hotels at our option.

During 1999, we sold four hotels and three senior living communities for \$55 million and \$52 million, respectively, resulting in pretax gains of \$10 million. We recognized \$2 million of the gain in both 2000 and 1999, and the balance will be recognized provided certain contingencies in the sales contracts expire. We operate these hotels under long-term management agreements.

On December 29, 1998, we agreed to sell and leaseback, under long-term, limited-recourse leases, 17 hotels for approximately \$202 million in cash. At the same time, we agreed to pay security deposits of \$21 million, which will be refunded at the end of the leases. As of December 31, 1999, all of the properties had been sold, resulting in a sales price that exceeded the net book value by \$19 million, which is being recognized as a reduction of rent expense over the 15-year initial lease terms.

During 1998, we agreed to sell, subject to long-term management agreements, eight lodging properties and 11 senior living communities for consideration of \$183 million and \$178 million, respectively. As of December

31, 1999, sales of all of these properties had been completed, resulting in pretax gains of \$69 million. We recognized \$8 million, \$21 million and \$12 million of these gains in 2000, 1999 and 1998, respectively. The balance will be recognized provided certain contingencies in the sales contracts expire.

ASSET SECURITIZATIONS

We periodically sell, with limited recourse, through qualified special purpose entities ("SPEs"), notes receivable originated by Marriott Vacation Club International in connection with the sale of timeshare intervals. We continue to service the notes and transfer all proceeds collected to the SPEs. We retain servicing assets and beneficial interests in the securitizations in the form of interest-only strips. The beneficial interests are limited to the present value of cash available after paying financing expenses, program fees, and absorbing credit losses. Gains from the sales of notes receivable totaled \$22 million in 2000, \$29 million in 1999, and \$26 million in 1998.

At the date of securitization and at the end of each reporting period, we estimate the fair value of the interest-only strips and servicing assets using a discounted cash flow model. These transactions utilize interest rate swaps to protect the net interest margin associated with the beneficial interest, and the interest-only strips are treated as "Available for Sale" securities under the provisions of FAS No. 115, with changes in fair values reported through other comprehensive income in the accompanying consolidated balance sheet. The key assumptions used in measuring the fair value of the interest-only strips at the time of securitization and at the end of each reporting period during the year ended December 29, 2000, were as follows: average discount rate of 7.82 percent; average expected annual prepayments, including defaults, of 12.72 percent; and expected weighted average life of prepayable notes receivable of 86 months. Our key assumptions are based on experience. To date, actual results have not materially affected the carrying value of the beneficial interests.

Cash flows between us and third-party purchasers during the year ended December 29, 2000, were as follows: net proceeds to us from new securitizations of \$144 million, repurchases by us of delinquent loans (over 150 days overdue) of \$12 million, servicing fees received by us of \$2 million and cash flows received on retained interests of \$18 million.

On December 12, 2000, we repurchased notes receivable with a principal balance of \$359 million and immediately sold those notes, along with \$19 million of additional notes, in a \$378 million securitization to an investor group. Net proceeds from these transactions of \$9 million are included in the net proceeds from securitizations of \$144 million disclosed above. We realized a gain of \$3 million, primarily associated with the \$19 million of additional notes sold, which is included in the \$22 million gain on the sales of notes receivable for fiscal year 2000 disclosed above.

At December 29, 2000, \$439 million of principal remains outstanding in all securitizations in which we have a retained interest-only strip. Delinquencies of more than 90 days at December 29, 2000, amounted to \$1 million. Loans repurchased by the Company, net of obligors subsequently curing delinquencies during the year ended December 29, 2000, amounted to \$7 million. We have been able to resell timeshare units underlying repurchased loans without incurring material losses.

We have completed a stress test on the net present value of the interest-only strips and the servicing assets with the objective of measuring the change in value associated with independent changes in individual key variables. The methodology used applied unfavorable changes that would be considered statistically significant for the key variables of prepayment rate, discount rate, and weighted average remaining term. The net present value of the interest-only strips and servicing assets was \$72 million at December 29, 2000, before any stress test changes were applied. An increase of 100 basis points in the prepayment rate would decrease the year-end valuation by \$2 million, or two percent, and an increase of 200 basis points in the prepayment rate would decrease the year-end valuation by \$3 million, or four percent. An increase of 100 basis points in the discount rate would decrease the year-end valuation by \$1 million, or two percent, and an increase of 200 basis points in the discount rate would decrease the year-end valuation by \$3 million, or four percent. A decline of two months in the weighted average remaining term would decrease the year-end valuation by \$1 million, or two percent, and a decline of four months in the weighted average remaining term would decrease the year-end valuation by \$2 million, or four percent.

INTANGIBLE ASSETS

| | 2000 | 1999 |
|--|---------|---------|
| <i>(\$ in millions)</i> | | |
| Management, franchise and license agreements | \$ 861 | \$ 771 |
| Goodwill | 1,245 | 1,246 |
| Other | 7 | 23 |
| | 2,113 | 2,040 |
| Accumulated amortization | (280) | (220) |
| | \$1,833 | \$1,820 |

We amortize intangible assets on a straight-line basis over periods of three to 40 years. Intangible amortization expense totaled \$64 million in 2000, \$62 million in 1999 and \$54 million in 1998.

In 1996, MDS became the exclusive provider of distribution services to Boston Chicken, Inc. (BCI). On October 5, 1998, BCI and its Boston Market-controlled subsidiaries filed voluntary bankruptcy petitions for protection under Chapter 11 of the Federal Bankruptcy Code in the U.S. Bankruptcy Court in Phoenix (the Court). In December 1999, McDonald's Corporation (McDonald's) announced that it had reached a definitive agreement to purchase the majority of the assets of BCI subject to confirmation of the pending BCI plan of reorganization, including Court approval. In March 2000, MDS entered into an agreement with McDonald's providing for continuation of distribution services to Boston Market restaurants. Because the existing distribution contract was terminated upon confirmation of the pending reorganization, MDS wrote off the unamortized balance of the existing investment, resulting in a \$15 million pretax charge in the first quarter of 2000. In June 2000, McDonald's completed its acquisition of Boston Market. MDS is now providing distribution services under the new contract with McDonald's.

SHAREHOLDERS' EQUITY

Eight hundred million shares of our Class A Common Stock with a par value of \$.01 per share are authorized. Ten million shares of preferred stock, without par value, are authorized, with none issued.

On March 27, 1998, our Board of Directors adopted a shareholder rights plan under which one preferred stock purchase right was distributed for each share of our Class A Common Stock. Each right entitles the

holder to buy 1/1000th of a share of a newly issued series of junior participating preferred stock of the Company at an exercise price of \$175. The rights will be exercisable 10 days after a person or group acquires beneficial ownership of 20 percent or more of our Class A Common Stock, or begins a tender or exchange for 30 percent or more of our Class A Common Stock. Shares owned by a person or group on March 27, 1998, and held continuously thereafter are exempt for purposes of determining beneficial ownership under the rights plan. The rights are nonvoting and will expire on the tenth anniversary of the adoption of the shareholder rights plan, unless exercised or previously redeemed by us for \$.01 each. If we are involved in a merger or certain other business combinations not approved by the Board of Directors, each right entitles its holder, other than the acquiring person or group, to purchase common stock of either the Company or the acquirer having a value of twice the exercise price of the right.

As of December 29, 2000, we had been authorized by our Board of Directors to repurchase an additional 19.6 million shares of our Class A Common Stock.

During the second quarter of 2000 we established an employee stock ownership plan (the ESOP) solely to fund employer contributions to the profit sharing plan. The ESOP acquired 100,000 shares of special-purpose Company convertible preferred stock (ESOP Preferred Stock) for \$1 billion. The ESOP Preferred Stock has a stated value and liquidation preference of \$10,000 per share, pays a quarterly dividend of one percent of the stated value, and is convertible into our Class A Common Stock at any time based on the amount of our contributions to the ESOP and the market price of the common stock on the conversion date, subject to certain caps and a floor price. We hold a note from the ESOP, which is eliminated upon consolidation, for the purchase price of the ESOP Preferred Stock. The shares of ESOP Preferred Stock are pledged as collateral for the repayment of the ESOP's note, and those shares are released from the pledge as principal on the note is repaid. Shares of ESOP Preferred Stock released from the pledge may be redeemed for cash based on the value of the common stock into which those shares may be converted. Principal and interest payments on the ESOP's debt are expected to be forgiven periodically to fund contributions to the ESOP and release shares of ESOP Preferred Stock. Unearned ESOP shares are

reflected within shareholders' equity and are amortized as shares of ESOP Preferred Stock are released and cash is allocated to employees' accounts.

INCOME TAXES

Total deferred tax assets and liabilities as of December 29, 2000, and December 31, 1999, were as follows:

| | 2000 | 1999 |
|--------------------------|-------|-------|
| <i>(\$ in millions)</i> | | |
| Deferred tax assets | \$471 | \$424 |
| Deferred tax liabilities | (399) | (340) |
| Net deferred taxes | \$ 72 | \$ 84 |

The tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets and liabilities as of December 29, 2000, and December 31, 1999, were as follows:

| | 2000 | 1999 |
|---|-------|-------|
| <i>(\$ in millions)</i> | | |
| Self-insurance | \$ 65 | \$ 74 |
| Employee benefits | 169 | 151 |
| Deferred income | 45 | 51 |
| Other reserves | 13 | 32 |
| Frequent guest program | 65 | 44 |
| Timeshare operations | (21) | (10) |
| Property, equipment and intangible assets | (213) | (231) |
| Other, net | (51) | (27) |
| Net deferred taxes | \$ 72 | \$ 84 |

At December 29, 2000, we had approximately \$26 million of tax credits that expire through 2020.

We have made no provision for U.S. income taxes, or additional foreign taxes, on the cumulative unremitted earnings of non-U.S. subsidiaries (\$186 million as of December 29, 2000) because we consider these earnings to be permanently invested. These earnings could become subject to additional taxes if remitted as dividends, loaned to us or a U.S. affiliate, or if we sell our interests in the affiliates. We cannot practically estimate the amount of additional taxes that might be payable on the unremitted earnings.

The provision for income taxes consists of:

| | 2000 | 1999 | 1998 |
|-------------------------|-------|-------|-------|
| <i>(\$ in millions)</i> | | | |
| Current — Federal | \$216 | \$117 | \$164 |
| — State | 28 | 26 | 35 |
| — Foreign | 26 | 24 | 18 |
| | 270 | 167 | 217 |
| Deferred — Federal | (2) | 58 | 25 |
| — State | 10 | 12 | 1 |
| — Foreign | — | — | (1) |
| | 8 | 70 | 25 |
| | \$278 | \$237 | \$242 |

The current tax provision does not reflect the benefits attributable to us relating to our ESOP of \$109 million in 2000 or the exercise of employee stock options of \$42 million in 2000, \$44 million in 1999 and \$39 million in 1998. The taxes applicable to other comprehensive income are not material.

A reconciliation of the U.S. statutory tax rate to our effective income tax rate follows:

| | 2000 | 1999 | 1998 |
|---|-------|-------|-------|
| U.S. statutory tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of U.S. tax benefit | 3.6 | 3.9 | 4.1 |
| Foreign income | (1.4) | (0.3) | 0.7 |
| Corporate-owned life insurance | — | — | (0.3) |
| Tax credits | (3.1) | (5.4) | (4.2) |
| Goodwill amortization | 1.6 | 1.8 | 1.6 |
| Other, net | 1.1 | 2.3 | 1.4 |
| Effective rate | 36.8% | 37.3% | 38.3% |

Cash paid for income taxes, net of refunds, was \$145 million in 2000, \$150 million in 1999 and \$164 million in 1998.

As part of the Spinoff, we entered into a tax sharing agreement with SMS, which reflects each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state or other taxes relating to the business of Old Marriott and the Company prior to the Spinoff.

During periods prior to the Spinoff, we were included in the consolidated federal income tax return of Old Marriott. The income tax provision reflects the portion of Old Marriott's historical income tax provision attributable to our operations. We believe that the income tax provision, as reflected, is comparable to what the income tax provision would have been if we had filed a separate return during the periods presented.

LEASES

Our future obligations under operating leases at December 29, 2000, are summarized below:

| Fiscal Year | |
|------------------------------|---------|
| <i>(\$ in millions)</i> | |
| 2001 | \$ 176 |
| 2002 | 174 |
| 2003 | 168 |
| 2004 | 165 |
| 2005 | 163 |
| Thereafter | 1,914 |
| Total minimum lease payments | \$2,760 |

Most leases have initial terms of up to 20 years, and contain one or more renewal options, generally for five- or 10-year periods. The leases provide for minimum rentals, and additional rentals based on the operations of the leased property. The total minimum lease payments above include \$1,399 million representing obligations of consolidated subsidiaries that are non-recourse to Marriott International, Inc.

Rent expense consists of:

| | 2000 | 1999 | 1998 |
|-------------------------|-------|-------|-------|
| <i>(\$ in millions)</i> | | | |
| Minimum rentals | \$149 | \$158 | \$138 |
| Additional rentals | 97 | 102 | 101 |
| | \$246 | \$260 | \$239 |

LONG-TERM DEBT

Our long-term debt at December 29, 2000, and December 31, 1999, consisted of the following:

| | 2000 | 1999 |
|---|---------|---------|
| <i>(\$ in millions)</i> | | |
| Senior notes, average interest rate of 6.9% at December 29, 2000, maturing through 2009 | \$1,001 | \$ 701 |
| Commercial paper, interest rate of 7.3% at December 29, 2000 | 827 | 781 |
| Endowment deposits (non-interest bearing) | 108 | 111 |
| Other | 122 | 101 |
| | 2,058 | 1,694 |
| Less current portion | (42) | (18) |
| | \$2,016 | \$1,676 |

The debt is unsecured with the exception of \$15 million which is secured by real estate.

In April 1999, January 2000 and January 2001, we filed "universal shelf" registration statements with the Securities and Exchange Commission in the amount of \$500 million, \$300 million and \$300 million, respectively. As of January 30, 2001, we had offered and sold to the public \$600 million of debt securities under these registration statements, leaving a balance of \$500 million available for future offerings.

In January 2001, we issued, through a private placement, \$300 million of seven percent Series E Notes due 2008, and received net proceeds of \$297 million. We have agreed to promptly make and complete a registered exchange offer for these notes and, if required, to implement a resale shelf registration statement. If we fail to do so on a timely basis, we will pay additional interest to the holders of these notes.

In March 2000, we sold \$300 million principal amount of 8-1/8 percent Series D Notes, which mature in 2005, in a public offering made under our shelf registration statements. We received net proceeds of approximately \$298 million from the offering, after paying underwriting discounts, commissions and offering expenses.

In September 1999, we sold \$300 million principal amount of 7-7/8 percent Series C Notes, which mature in 2009, in a public offering made under our shelf registration statement. We received net proceeds of approximately \$296 million from this offering, after paying underwriting discounts, commissions and offering expenses.

In November 1998, we sold, through a private placement, \$400 million of unsecured senior notes (Series A and B Notes). Proceeds net of discounts totaled \$396 million. On April 23, 1999, we commenced a registered exchange offer to exchange the privately placed Series A and B Notes for publicly registered new notes on substantially identical terms. All of the privately placed Series A and B Notes were tendered for exchange, and new notes were issued to the holders on May 31, 1999.

In March 1998 and February 1999, respectively, we entered into \$1.5 billion and \$500 million multicurrency revolving credit facilities (the Facilities) each with terms of five years. Borrowings bear interest at the London Interbank Offered Rate (LIBOR) plus a spread, based on our public debt rating. Additionally, annual fees are paid on the Facilities at a rate also based on our public debt rating. Commercial paper, supported by the Facilities, is classified as long-term debt based on our ability and intent to refinance it on a long-term basis.

We are in compliance with covenants in our loan agreements, which require the maintenance of certain financial ratios and minimum shareholders' equity, and also include, among other things, limitations on additional indebtedness and the pledging of assets.

The 2000 statement of cash flows excludes \$79 million of financing and joint venture investments made by us in connection with asset sales. The 1999 statement of cash flows excludes \$215 million of convertible subordinated debt that was converted to equity in November 1999, \$54 million of debt that we assumed during 1999, and \$15 million of notes receivable we received in a 1999 asset sale that we subsequently sold for cash. The 1998 statement of cash flows excludes \$31 million of notes receivable forgiven as part consideration for the 1998 acquisition of The Ritz-Carlton Hotel Company, L.L.C., and \$12 million of long-term debt assumed in 1998.

Aggregate debt maturities are: 2001—\$42 million; 2002—\$14 million; 2003—\$834 million; 2004—\$220 million; 2005—\$515 million; and \$433 million thereafter.

Cash paid for interest was \$125 million in 2000, \$63 million in 1999 and \$23 million in 1998.

CONVERTIBLE SUBORDINATED DEBT

On March 25, 1996, Old Marriott issued \$540 million (principal amount at maturity) of zero coupon convertible subordinated debt in the form of LYONs due 2011. The LYONs were issued and recorded at a discount representing a yield to maturity of 4.25 percent. Accretion was recorded as interest expense and an increase to the carrying value. Gross proceeds from the LYONs issuance were \$288 million. Upon consummation of the Spinoff, we assumed the LYONs, and SMS assumed a nine percent share of the LYONs obligation based on the relative equity values of SMS and the Company at the Spinoff.

The LYONs were redeemable by us at any time on or after March 25, 1999, for cash equal to the issue price plus accrued original issue discount. On October 7, 1999, we delivered a mandatory redemption notice to the holders of the LYONs indicating our plan to redeem them on November 8, 1999, for \$619.65 in cash per LYON. Holders of 347,000 LYONs elected to convert each LYON into 17.52 shares of our Class A Common Stock and 2.19 shares of SMS common stock prior to the close of business on November 8, 1999. The aggregate redemption payment for the remaining 193,000 LYONs totaled \$120 million. Pursuant to the LYONs Allocation Agreement entered into with SMS as part of the Spinoff, SMS funded nine percent of the aggregate LYONs redemption payment. We funded the redemption payment with proceeds from commercial paper borrowings. Unamortized deferred financing costs of \$2 million relating to the LYONs that were redeemed were recognized as interest expense in 1999.

EARNINGS PER SHARE

For periods prior to the Spinoff, the earnings per share calculations are pro forma, and the number of weighted average shares outstanding and the effect of dilutive securities are based upon the weighted average number of Old Marriott shares outstanding, and the Old Marriott effect of dilutive securities for the applicable period, adjusted (1) for the distribution ratio in the Spinoff of one share of our Common Stock and one share of our Class A Common Stock for every share of Old Marriott common stock and (2) to reflect the conversion of our Common Stock into our Class A Common Stock on May 21, 1998.

The following table illustrates the reconciliation of the earnings and number of shares used in the basic and diluted earnings per share calculations (in millions, except per share amounts).

| | 2000 | 1999 | 1998 |
|---|---------|---------|---------|
| <i>Computation of Basic Earnings Per Share</i> | | | |
| Net income | \$ 479 | \$ 400 | \$ 390 |
| Weighted average shares outstanding | 241.0 | 247.5 | 249.8 |
| Basic Earnings Per Share | \$ 1.99 | \$ 1.62 | \$ 1.56 |
| <i>Computation of Diluted Earnings Per Share</i> | | | |
| Net income | \$ 479 | \$ 400 | \$ 390 |
| After-tax interest expense on convertible subordinated debt | — | 7 | 8 |
| Net income for diluted earnings per share | \$ 479 | \$ 407 | \$ 398 |
| Weighted average shares outstanding | 241.0 | 247.5 | 249.8 |
| <i>Effect of Dilutive Securities</i> | | | |
| Employee stock purchase plan | 0.1 | 0.2 | — |
| Employee stock option plan | 7.5 | 8.7 | 8.1 |
| Deferred stock incentive plan | 5.4 | 5.4 | 5.7 |
| Convertible subordinated debt | — | 8.0 | 9.5 |
| Shares for diluted earnings per share | 254.0 | 269.8 | 273.1 |
| Diluted Earnings Per Share | \$ 1.89 | \$ 1.51 | \$ 1.46 |

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. For periods prior to November 8, 1999, when all of our convertible subordinated debt was redeemed or converted, we used the if-converted method for purposes of calculating diluted earnings per share.

INVESTMENTS AND NET ADVANCES FROM OLD MARRIOTT

The following is an analysis of Old Marriott's investment in the Company:

| | 1998 |
|--|----------|
| <i>(\$ in millions)</i> | |
| Balance at beginning of year | \$ 2,586 |
| Net income | 89 |
| Advances to Old Marriott | (100) |
| Employee stock plan issuance and other | 116 |
| Spinoff on March 27, 1998 | (2,691) |
| Balance at end of year | \$ — |

EMPLOYEE STOCK PLANS

In connection with the Spinoff, we issued stock options, deferred shares and restricted shares with the same value as the respective Old Marriott awards as of the Spinoff under our 1998 Comprehensive Stock and Cash Incentive Plan (Comprehensive Plan). Under the Comprehensive Plan, we may award to participating employees (1) options to purchase our Class A Common Stock (Stock Option Program and Supplemental Executive Stock Option awards), (2) deferred shares of our Class A Common Stock and (3) restricted shares of our Class A Common Stock. In addition we have an employee stock purchase plan (Stock Purchase Plan). In accordance with the provisions of Opinion No. 25 of the Accounting Principles Board, we recognize no compensation cost for the Stock Option Program, the Supplemental Executive Stock Option awards or the Stock Purchase Plan.

Deferred shares granted to officers and key employees under the Comprehensive Plan generally vest over 10 years in annual installments commencing one year after the date of grant. Certain employees may elect to defer receipt of shares until termination or retirement. We accrue compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures. We granted 0.9 million deferred shares during 2000. Compensation cost recognized during 2000, 1999 and 1998 was \$18 million, \$15 million and \$12 million, respectively.

Restricted shares under the Comprehensive Plan are issued to officers and key employees and distributed over a number of years in annual installments, subject to certain prescribed conditions including continued employment. We recognize compensation expense for the restricted shares over the restriction period equal to the fair market value of the shares on the date of issuance. We awarded 0.1 million restricted shares under this plan during 2000. We recognized compensation cost of \$4 million, \$4 million and \$3 million in 2000, 1999 and 1998, respectively.

Under the Stock Purchase Plan, eligible employees may purchase our Class A Common Stock through payroll deductions at the lower of the market value at the beginning or end of each plan year.

Employee stock options may be granted to officers and key employees at exercise prices equal to the market price of our Class A Common Stock on the date of grant. Nonqualified options expire 10 years after the date of grant, except those issued from 1990 through 2000, which expire 15 years after the date of the grant. Most options under the Stock Option Program are exercisable in cumulative installments of one quarter at the end of each of the first four years following the date of grant. In February 1997, 2.1 million Supplemental Executive Stock Option awards were awarded to certain of our officers. The options vest after eight years but could vest earlier if our stock price meets certain performance criteria. These options have an exercise price of \$25 and 0.2 million of them were forfeited during 1998. None of them were exercised during 2000, 1999 or 1998 and 1.9 million remained outstanding at December 29, 2000. The annual grant of options under the Comprehensive Plan, which occurred in November 1999 and previous years, was moved to February, commencing in 2001.

For the purposes of the following disclosures required by FAS No. 123, "Accounting for Stock-Based Compensation," the fair value of each option granted during 2000, 1999 and 1998 was \$15, \$14 and \$11, respectively. We estimated the fair value of each option granted on the date of grant using the Black-Scholes option-pricing model, using the assumptions noted in the following table:

| | 2000 | 1999 | 1998 |
|--------------------------|--------|--------|--------|
| Annual dividends | \$.24 | \$.22 | \$.20 |
| Expected volatility | 30% | 29% | 28% |
| Risk-free interest rate | 5.8% | 6.7% | 5.8% |
| Expected life (in years) | 7 | 7 | 7 |

Pro forma compensation cost for the Stock Option Program, the Supplemental Executive Stock Option awards and employee purchases pursuant to the Stock Purchase Plan subsequent to December 30, 1994, recognized in accordance with FAS No. 123, would reduce our net income as follows (in millions, except per share amounts):

| | 2000 | 1999 | 1998 |
|--|--------|--------|--------|
| Net income as reported | \$ 479 | \$ 400 | \$ 390 |
| Pro forma net income | \$ 435 | \$ 364 | \$ 366 |
| Diluted earnings per share as reported | \$1.89 | \$1.51 | \$1.46 |
| Pro forma diluted earnings per share | \$1.71 | \$1.38 | \$1.38 |

A summary of our Stock Option Program activity during 2000, 1999 and 1998 is presented below:

| | Number of options (in millions) | Weighted average exercise price |
|----------------------------------|---------------------------------|---------------------------------|
| Outstanding at March 27, 1998 | — | \$— |
| New awards at the Spinoff | 27.3 | 16 |
| Granted during the year | 6.4 | 28 |
| Exercised during the year | (1.5) | 11 |
| Forfeited during the year | (0.7) | 20 |
| Outstanding at January 1, 1999 | 31.5 | 19 |
| Granted during the year | 6.9 | 33 |
| Exercised during the year | (4.2) | 12 |
| Forfeited during the year | (0.4) | 30 |
| Outstanding at December 31, 1999 | 33.8 | 22 |
| Granted during the year | 0.6 | 36 |
| Exercised during the year | (3.9) | 16 |
| Forfeited during the year | (0.5) | 32 |
| Outstanding at December 29, 2000 | 30.0 | \$23 |

There were 20.5 million, 19.3 million and 19.1 million exercisable options under the Stock Option Program at December 29, 2000, December 31, 1999, and January 1, 1999, respectively, with weighted average exercise prices of \$19, \$16 and \$13, respectively.

At December 29, 2000, 59.4 million shares were reserved under the Comprehensive Plan (including 30.0 million shares under the Stock Option Program and 1.9 million shares of the Supplemental Executive Stock Option awards) and 3.0 million shares were reserved under the Stock Purchase Plan.

Stock options issued under the Stock Option Program outstanding at December 29, 2000, were as follows:

| Range of exercise prices | Outstanding | | | Exercisable | |
|--------------------------|---------------------------------|--|---------------------------------|---------------------------------|---------------------------------|
| | Number of options (in millions) | Weighted average remaining life (in years) | Weighted average exercise price | Number of options (in millions) | Weighted average exercise price |
| \$ 3 to 5 | 2.7 | 6 | \$ 5 | 2.7 | \$ 5 |
| 6 to 9 | 1.8 | 7 | 7 | 1.8 | 7 |
| 10 to 15 | 3.8 | 9 | 13 | 3.9 | 13 |
| 16 to 24 | 3.7 | 10 | 20 | 3.7 | 20 |
| 25 to 37 | 17.8 | 13 | 31 | 8.4 | 30 |
| 38 to 43 | 0.2 | 15 | 41 | — | 42 |
| \$ 3 to 43 | 30.0 | 11 | \$23 | 20.5 | \$19 |

FAIR VALUE OF FINANCIAL INSTRUMENTS

We assume that the fair values of current assets and current liabilities are equal to their reported carrying amounts. The fair values of noncurrent financial assets and liabilities are shown below.

| | 2000 | | 1999 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <i>(\$ in millions)</i> | | | | |
| Notes and other receivables | \$1,180 | \$1,206 | \$ 708 | \$ 720 |
| Long-term debt and other long-term liabilities | 1,998 | 1,974 | 1,646 | 1,568 |

We value notes and other receivables based on the expected future cash flows discounted at risk adjusted rates. We determine valuations for long-term debt and other long-term liabilities based on quoted market prices or expected future payments discounted at risk adjusted rates.

CONTINGENT LIABILITIES

We issue guarantees to lenders and other third parties in connection with financing and other transactions. These guarantees were limited, in the aggregate, to \$256 million at December 29, 2000, including guarantees involving major customers, with minimal expected funding. In addition, we have made physical completion guarantees relating to two hotel properties with minimal expected funding. As of December 29, 2000, we had extended approximately \$829 million of loan commitments to owners of lodging and senior living communities under which we expect to fund approximately \$332 million by December 28, 2001, and \$573 million in total. Letters of credit outstanding on our behalf at December 29, 2000, totaled \$73 million, the majority of which related to our self-insurance programs. At December 29, 2000, we had repurchase obligations of \$41 million related to notes receivable from timeshare interval purchasers, which have been sold with limited recourse.

New World Development and another affiliate of Dr. Cheng, a director of the Company, have severally indemnified us for guarantees by us of leases with minimum annual payments of approximately \$59 million.

On February 23, 2000, we entered into an agreement, which was subsequently embodied in a definitive agreement executed on March 9, 2000, to resolve the litigation described below involving certain limited partnerships formed in the mid- to late 1980s. The agreement was reached with lead counsel to the plaintiffs in the lawsuits described below, and with the special litigation committee appointed by the general partner of two of the partnerships, Courtyard by Marriott Limited Partnership (CBM I) and Courtyard by Marriott II Limited Partnership (CBM II). The agreement was amended on September 23, 2000, to increase the amount that CBM I settlement class members were to receive after deduction of court-awarded attorneys' fees and expenses and to provide that the defendants, including the Company, would pay a portion of the attorneys' fees and expenses of the CBM I settlement class.

Under the agreement, we acquired, through an unconsolidated joint venture with affiliates of Host Marriott Corporation (Host Marriott), substantially all of the limited partners' interests in CBM I and CBM II. These partnerships own 120 Courtyard by Marriott hotels. We continue to manage the 120 hotels under long-term agreements. The joint venture was financed with equity contributed in equal shares by us and an affiliate of Host Marriott and approximately \$200 million in mezzanine debt provided by us. Our total investment in the joint venture, including the mezzanine debt, is approximately \$300 million. Final court approval of the CBM I and CBM II settlements was granted on October 24, 2000, and became effective on December 8, 2000.

The agreement also provided for the resolution of litigation with respect to four other limited partnerships. On September 28, 2000, the court entered a final order with respect to those partnerships, and on that same date, we and Host Marriott each paid into escrow approximately \$31 million for payment to the plaintiffs in the Texas Multi-Partnership lawsuit described below in exchange for dismissal of the complaints and full releases.

We recorded a pretax charge of \$39 million, which was included in corporate expenses in the fourth quarter of 1999, to reflect the settlement transactions.

Courtyard by Marriott II Limited Partnership Litigation

On June 7, 1996, a group of partners in CBM II filed a lawsuit against Host Marriott, the Company and others, *Whitey Ford, et al. v. Host Marriott Corporation, et al.*, in the 285th Judicial District Court of Bexar County, Texas, alleging breach of fiduciary duty, breach of contract, fraud, negligent misrepresentation, tortious interference, violation of the Texas Free Enterprise and Antitrust Act of 1983 and conspiracy in connection with the formation, operation and management of CBM II and its hotels. The plaintiffs sought unspecified damages. On January 29, 1998, two other limited partners, A.R. Milkes and D.R. Burklew, filed a petition in intervention seeking to convert the lawsuit into a class action, and a class was certified. In March 1999, Palm Investors, L.L.C., the assignee of a number of limited partnership units acquired through various tender offers, and Equity Resource, an assignee of a number of limited partnership units, through various of its funds, filed pleas in intervention, which among other things added additional claims relating to the 1993 split of Marriott Corporation and to the 1995 refinancing of CBM II's indebtedness. On August 17, 1999, the general partner of CBM II appointed an independent special litigation committee to investigate the derivative claims described above and to recommend to the general partner whether it was in the best interests of CBM II for the derivative litigation to proceed. The general partner agreed to adopt the recommendation of the committee. Under Delaware law, the recommendation of a duly appointed independent litigation committee is binding

on the general partner and the limited partners. Following certain adjustments to the underlying complaints, including the assertion as derivative claims some of the claims previously filed as individual claims, a final amended class action complaint was filed on January 6, 2000. The lawsuit was dismissed as part of the settlement described above.

Texas Multi-Partnership Lawsuits

On March 16, 1998, limited partners in several limited partnerships sponsored by Host Marriott or its subsidiaries filed a lawsuit, *Robert M. Haas, Sr. and Irwin Randolph Joint Tenants, et al. v. Marriott International, Inc., et al.*, Case No. 98-CI-04092, in the 57th Judicial District Court of Bexar County, Texas, alleging that the defendants conspired to sell hotels to the partnerships for inflated prices and that they charged the partnerships' excessive management fees to operate the partnerships' hotels. The plaintiffs further alleged that the defendants committed fraud, breached fiduciary duties and violated the provisions of various contracts. A Marriott International subsidiary manages each of the hotels involved and, as to some properties, the Company is the ground lessor and collects rent. The Company, several Marriott subsidiaries and J.W. Marriott, Jr. were among the several named defendants. This lawsuit was resolved as part of the settlement described above.

BUSINESS SEGMENTS

We are a diversified hospitality company with operations in three business segments: Lodging, which includes the franchising, ownership, operation and development of lodging properties including vacation timesharing resorts; Senior Living Services, which consists of the operation, ownership and development of senior living communities; and Distribution Services, which operates a wholesale food distribution business. We evaluate the performance of our segments based primarily on operating profit before corporate expenses and interest. We do not allocate income taxes at the segment level.

| | 2000 | 1999 | 1998 |
|--|-----------------|----------------|----------------|
| <i>(\$ in millions)</i> | | | |
| Sales | | | |
| Lodging | \$ 7,848 | \$7,041 | \$6,311 |
| Senior Living Services | 669 | 559 | 479 |
| Distribution Services | 1,500 | 1,139 | 1,178 |
| | \$10,017 | \$8,739 | \$7,968 |
| Operating profit (loss) before corporate expenses and interest | | | |
| Lodging | \$ 936 | \$ 827 | \$ 704 |
| Senior Living Services | (18) | (18) | 15 |
| Distribution Services | 4 | 21 | 17 |
| | \$ 922 | \$ 830 | \$ 736 |
| Depreciation and amortization | | | |
| Lodging | \$ 131 | \$ 108 | \$ 99 |
| Senior Living Services | 28 | 21 | 19 |
| Distribution Services | 6 | 6 | 6 |
| Corporate | 30 | 27 | 16 |
| | \$ 195 | \$ 162 | \$ 140 |
| Assets | | | |
| Lodging | \$ 6,481 | \$5,159 | \$4,285 |
| Senior Living Services | 784 | 980 | 905 |
| Distribution Services | 194 | 187 | 179 |
| Corporate | 778 | 998 | 864 |
| | \$ 8,237 | \$7,324 | \$6,233 |
| Capital expenditures | | | |
| Lodging | \$ 965 | \$ 519 | \$ 562 |
| Senior Living Services | 76 | 301 | 329 |
| Distribution Services | 6 | 3 | 2 |
| Corporate | 48 | 106 | 44 |
| | \$ 1,095 | \$ 929 | \$ 937 |

Sales for Distribution Services exclude sales (made at market terms and conditions) to other segments of \$176 million, \$166 million and \$155 million in 2000, 1999 and 1998, respectively.

Segment operating expenses include selling, general and administrative expenses directly related to the operations of the businesses, aggregating \$682 million in 2000, \$592 million in 1999 and \$496 million in 1998.

The consolidated financial statements include the following related to international operations: sales of \$455 million in 2000, \$392 million in 1999 and \$323 million in 1998; operating profit before corporate expenses and interest of \$73 million in 2000, \$66 million in 1999 and \$49 million in 1998; and fixed assets of \$241 million in 2000, \$137 million in 1999 and \$102 million in 1998.

QUARTERLY FINANCIAL DATA—UNAUDITED

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|---|------------------|-------------------|------------------|-------------------|----------------|
| <i>(\$ in millions, except per share data)</i> | | | | | |
| 2000¹ | | | | | |
| Systemwide sales ² | \$4,259 | \$4,800 | \$4,483 | \$6,239 | \$19,781 |
| Sales | 2,167 | 2,391 | 2,303 | 3,156 | 10,017 |
| Operating profit before corporate expenses and interest | 193 | 247 | 216 | 266 | 922 |
| Net income | \$ 94 | \$ 126 | \$ 110 | \$ 149 | \$ 479 |
| Diluted earnings per share | \$.37 | \$.50 | \$.43 | \$.59 | \$ 1.89 |
| 1999¹ | | | | | |
| Systemwide sales ² | \$3,687 | \$4,235 | \$3,992 | \$5,770 | \$17,684 |
| Sales | 1,895 | 2,042 | 1,995 | 2,807 | 8,739 |
| Operating profit before corporate expenses and interest | 193 | 216 | 188 | 233 | 830 |
| Net income | \$ 100 | \$ 114 | \$ 96 | \$ 90 | \$ 400 |
| Diluted earnings per share ³ | \$.38 | \$.42 | \$.36 | \$.34 | \$ 1.51 |

¹ The quarters consist of 12 weeks, except the fourth quarter, which consists of 16 weeks.

² Systemwide sales comprise revenues generated from guests at owned, leased, managed and franchised hotels and senior living communities, together with sales of our other businesses.

³ In 1999 the sum of the earnings per share for the four quarters differs from annual earnings per share due to the required method of computing the weighted average number of shares in interim periods.

Five-Year Financial Summary

(unaudited)

| | 2000 | 1999 | 1998 | 1997 | 1996 ¹ |
|---|----------|----------|----------|----------|-------------------|
| <i>(\$ in millions, except per share data)</i> | | | | | |
| SYSTEMWIDE SALES² | \$19,781 | \$17,684 | \$16,024 | \$13,196 | \$9,899 |
| INCOME STATEMENT DATA: | | | | | |
| Sales | 10,017 | 8,739 | 7,968 | 7,236 | 5,738 |
| Operating profit before corporate expenses and interest | 922 | 830 | 736 | 609 | 508 |
| Net income | 479 | 400 | 390 | 324 | 270 |
| PER SHARE DATA³: | | | | | |
| Diluted earnings per share | 1.89 | 1.51 | 1.46 | | |
| Cash dividends declared | .235 | .215 | .195 | | |
| BALANCE SHEET DATA (AT END OF YEAR): | | | | | |
| Total assets | 8,237 | 7,324 | 6,233 | 5,161 | 3,756 |
| Long-term and convertible subordinated debt | 2,016 | 1,676 | 1,267 | 422 | 681 |
| Shareholders' equity ³ | 3,267 | 2,908 | 2,570 | | |

¹ Fiscal year 1996 includes 53 weeks, all other years include 52 weeks.

² Systemwide sales comprise revenues generated from guests at owned, leased, managed and franchised hotels and senior living communities, together with sales of our other businesses.

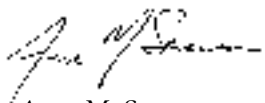
³ Per share data and shareholders' equity have not been presented for periods prior to 1998 because we were not a publicly-held company during that time.

Management's Report

Management is responsible for the integrity and objectivity of the consolidated financial statements and other financial information presented in this annual report. In meeting this responsibility, we maintain a highly developed system of internal controls, policies and procedures, including an internal auditing function that continually evaluates the adequacy and effectiveness of our control system. Management believes this system provides reasonable assurance that transactions are properly authorized and recorded to adequately safeguard our assets and to permit preparation of financial statements in accordance with generally accepted accounting principles.

The consolidated financial statements have been audited by Arthur Andersen LLP, independent public accountants. Their report expresses an informed judgement as to whether management's financial statements, considered in their entirety, present fairly our financial position, operating results and cash flows in conformity with accounting principles generally accepted in the United States.

The Board of Directors pursues its responsibility for the financial statements through its Audit Committee, composed of four directors not otherwise employed by the company. The committee meets a minimum of three times during the year with the independent public accountants, representatives of management and the internal auditors to review the scope and results of the internal and external audits, the accounting principles applied in financial reporting, and financial and operational controls. The independent public accountants and internal auditors have unrestricted access to the Audit Committee with or without the presence of management.



Arne M. Sorenson
Executive Vice President and Chief Financial Officer

Report of Independent Public Accountants

To the Shareholders of Marriott International, Inc.:

We have audited the accompanying consolidated balance sheet of Marriott International, Inc. and subsidiaries as of December 29, 2000 and December 31, 1999, and the related consolidated statements of income, cash flows and comprehensive income for each of the three fiscal years in the period ended December 29, 2000 and the consolidated statement of shareholders' equity for each of the two fiscal years ended December 29, 2000 and the period from March 27, 1998 to January 1, 1999. 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 an 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 Marriott International, Inc. and subsidiaries as of December 29, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 29, 2000 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Vienna, Virginia
January 30, 2001



Directors and Officers

DIRECTORS

J.W. MARRIOTT, JR.¹
*Chairman of the Board and
Chief Executive Officer*

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*Chairman
Host Marriott Corporation*

DR. HENRY CHENG KAR-SHUN
*Managing Director
New World Development Company Limited*

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*Chairman
National Geographic Society*

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*Chief Executive Officer
The McKenzie Group*

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LAWRENCE M. SMALL^{2,3}
*Secretary
The Smithsonian Institution*

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Retired Vice Chairman

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Chairman—The Ritz-Carlton
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President—Marriott Services Group

CORPORATE OFFICERS

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Architecture and Construction*

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Marriott Distribution Services*

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Project Finance*

RONALD E. EASTMAN
Group Vice President—Lodging Development

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*Senior Vice President
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Marriott Lodging*

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Secretary and Senior Counsel

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Marriott Lodging*

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Owner and Franchise Services
Marriott Lodging*

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Europe*

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KARL KILBURG
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Marriott Lodging*

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Marriott Lodging*

THOMAS E. LADD
Senior Vice President—Government Affairs

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Marriott Lodging*

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Operations, Planning and Support
Marriott Lodging*

SCOTT E. MELBY
*Senior Vice President
Development Planning and Feasibility
Marriott Lodging*

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Select-Service and Extended-Stay Brands*

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Investor Relations*

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North American Lodging Operations*

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Senior Vice President—Taxes

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*Senior Vice President—Staffing and
Development*

DAVID M. SAMPSON
Senior Vice President—Diversity Initiatives

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*Vice Chairman
The Ritz-Carlton Hotel Company, L.L.C.*

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Executive Vice President—Communications

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Deputy General Counsel*

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International*

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Executive Vice President—Strategic Planning

JOHN L. WILLIAMS
*Executive Vice President—Lodging Development
North America*

CARL WILSON
*Executive Vice President and
Chief Information Officer*

LEGEND

¹ Executive Committee

² Audit Committee

³ Compensation Policy Committee

⁴ Nominating and Corporate
Governance Committee

[†] Executive officer as defined under the
Securities Exchange Act of 1934

Corporate Information

CORPORATE HEADQUARTERS

Marriott International, Inc.
Marriott Drive
Washington, D.C. 20058
301/380-3000
Internet: www.marriott.com

COMMON STOCK LISTINGS

The company's Class A common stock (ticker symbol: MAR) is listed on the New York Stock Exchange and other U.S. exchanges.

SHAREHOLDERS OF RECORD

53,374 at December 29, 2000

REGISTRAR AND TRANSFER AGENT

Shareholder inquiries regarding stock transfers, dividend payments, address changes, enrollment in the company's direct investment plan, lost stock certificates, or other stock account matters should be directed to:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, N.J. 07303-2500
800/311-4816
Internet: www.gateway.equiserve.com

INVESTOR RELATIONS

For information, call: 301/380-6500
Internet: www.marriott.com/investor

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
Vienna, Va.

ANNUAL MEETING OF SHAREHOLDERS

May 4, 2001—10:30 a.m.
JW Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Washington, D.C.

COMMON STOCK PRICES AND DIVIDENDS

| | Stock Price | | Dividends Declared Per Share |
|---------------------------|----------------------------------|---------------------------------|------------------------------|
| | High | Low | |
| 2000 – First quarter..... | 34 ³ / ₄ | 26 ¹ / ₈ | \$ 0.055 |
| – Second quarter..... | 38 | 29 ¹ / ₂ | 0.060 |
| – Third quarter..... | 42 ³ / ₈ | 34 ³ / ₈ | 0.060 |
| – Fourth quarter..... | 43 ¹ / ₂ | 34 ¹ / ₈ | 0.060 |
| 1999 – First quarter..... | 39 ¹⁵ / ₁₆ | 29 | 0.050 |
| – Second quarter..... | 44 ¹ / ₂ | 33 | 0.055 |
| – Third quarter..... | 38 ¹ / ₂ | 33 ⁵ / ₁₆ | 0.055 |
| – Fourth quarter..... | 36 ¹ / ₄ | 29 ⁹ / ₁₆ | 0.055 |

TELEPHONE NUMBERS

For reservations or information, call:

| | |
|---|--------------|
| Marriott Hotels, Resorts and Suites | 800/228-9290 |
| Courtyard | 800/321-2211 |
| Fairfield Inn..... | 800/228-2800 |
| Residence Inn | 800/331-3131 |
| The Ritz-Carlton Hotel Company, L.L.C. | 800/241-3333 |
| SpringHill Suites..... | 888/287-9400 |
| Renaissance Hotels, Resorts and Suites | 800/468-3571 |
| New World International..... | 800/468-3571 |
| Ramada International Hotels and Resorts | 800/854-7854 |
| TownePlace Suites | 800/257-3000 |
| Marriott Vacation Club International..... | 800/845-5279 |
| The Ritz-Carlton Club..... | 800/941-4386 |
| Horizons by Marriott Vacation Club..... | 888/220-2086 |
| ExecuStay by Marriott..... | 888/840-7829 |
| Marriott Conference Centers | 800/453-0309 |
| Marriott Executive Apartments..... | 800/800-5744 |
| Marriott Senior Living Services..... | 800/880-3131 |
| Marriott Distribution Services | 301/380-2517 |
| Avendra LLC | 877/866-2753 |

DEVELOPMENT INQUIRIES

| | |
|--|-------------------|
| Lodging | |
| Full-Service | 301/380-3200 |
| Select-Service and Extended-Stay | 301/380-5237 |
| Latin America..... | 301/380-7156 |
| Europe, Middle East and Africa | 011-411-723-5100 |
| Asia/Pacific..... | 011-852-2521-1848 |
| Senior Living Services | 301/380-7879 |

Marriott International is proud to have been named the Official Hotel Supplier of the 2002 and 2004 U.S. Olympic Teams and the 2002 Olympic Winter Games in Salt Lake City.



MARRIOTT INTERNATIONAL, INC. MARRIOTT DRIVE, WASHINGTON, D.C. 20058



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OFFICIAL HOTEL SUPPLIER OF THE
U.S. OLYMPIC TEAM