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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of shares of common stock held by non-affiliates at June 30, 2016, was \$12,421,427,301.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement prepared for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Throughout this report, we refer to Marriott International, Inc., together with its consolidated subsidiaries, as “we,” “us,” or “the Company.”

In order to make this report easier to read, we also refer throughout to (i) our Consolidated Financial Statements as our “Financial Statements,” (ii) our Consolidated Statements of Income as our “Income Statements,” (iii) our Consolidated Balance Sheets as our “Balance Sheets,” (iv) our properties, brands, or markets in the United States (“U.S.”) and Canada as “North America” or “North American,” and (v) our properties, brands, or markets outside of the United States and Canada as “International.” References throughout to numbered “Footnotes” refer to the numbered Notes to our Financial Statements that we include in the Financial Statements section of this report.

PART I

Item 1. Business.

Corporate Structure and Business

We are a worldwide operator, franchisor, and licensor of hotels and timeshare properties under numerous brand names at different price and service points. Consistent with our focus on management, franchising, and licensing, we own very few of our lodging properties. We also operate, market, and develop residential properties and provide services to home/condominium owner associations.

We were organized as a corporation in Delaware in 1997 and became a public company in 1998 when we were “spun off” as a separate entity by the company formerly named “Marriott International, Inc.” We operate, franchise, or license 6,080 properties worldwide, with 1,190,604 rooms as of year-end 2016. We believe that our portfolio of brands is the largest and most compelling range of brands and properties of any lodging company in the world. The following table shows our principal brands:

As of year-end 2016, we group operations into three business segments: North American Full-Service, North American Limited-Service, and International. We provide financial information by segment and geography in Footnote 14 “Property and Equipment” and Footnote 18 “Business Segments.”

Acquisition of Starwood Hotels & Resorts Worldwide

On September 23, 2016 (the “Merger Date”), we completed the acquisition of Starwood Hotels & Resorts Worldwide, LLC, formerly known as Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”) through a series of transactions (the “Starwood Combination”), after which Starwood became an indirect wholly-owned subsidiary of the Company. Our Financial Statements and related discussions in this report include Starwood’s results of operations from the Merger Date through year-end 2016 and reflect the financial position of our combined company at December 31, 2016, except where we specifically state otherwise, such as certain statistics described under the caption “Performance Measures” in Part II, Item 7. We refer to our business associated with brands that were in our portfolio before the Starwood Combination as “Legacy-Marriott” and to the Starwood business and brands that we acquired as “Legacy-Starwood.” See Footnote 3 “Acquisitions and Dispositions” for more information.

Company-Operated Properties

At year-end 2016, we operated 1,821 properties (521,552 rooms) under long-term management agreements with property owners, 48 properties (10,933 rooms) under long-term lease agreements with property owners (management and lease agreements together, the “Operating Agreements”), and 22 properties (9,906 rooms) that we own. In addition, we operated

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under long-term management agreements 44 home and condominium communities (5,179 units) for which we manage the related owners' associations.

Terms of our management agreements vary, but we earn a management fee that is typically composed of a base management fee, which is a percentage of the revenues of the hotel, and an incentive management fee, which is based on the profits of the hotel. Our management agreements also typically include reimbursement of costs of operations (both direct and indirect). Such agreements are generally for initial periods of 20 to 30 years, with options for us to renew for up to 50 or more additional years. Our lease agreements also vary, but may include fixed annual rentals plus additional rentals based on a percentage of annual revenues in excess of a fixed amount. Many of our Operating Agreements are subordinated to mortgages or other liens securing indebtedness of the owners. A large number of our Operating Agreements also permit the owners to terminate the agreement if we do not meet certain performance metrics and financial returns fail to meet defined levels for a period of time and we have not cured such deficiencies. In certain circumstances, some of our management agreements allow owners to convert company-operated properties to franchised properties under our brands.

For lodging facilities that we operate, we generally are responsible for hiring, training, and supervising the managers and employees who are needed to operate the facilities and for purchasing supplies, and owners are required to reimburse us for those costs. We provide centralized reservation services and national advertising, marketing, and promotional services, as well as various accounting and data processing services, and owners are also required to reimburse us for those costs.

### Franchised, Licensed, and Unconsolidated Joint Venture Properties

We have franchising, licensing, and joint venture programs that permit other hotel owners and operators and two timeshare companies to use many of our lodging brand names and systems. Under our hotel franchising programs, we generally receive an initial application fee and continuing royalty fees, which typically range from four to six percent of room revenues for all brands, plus two to three percent of food and beverage revenues for certain full-service hotels. We are a partner in unconsolidated joint ventures that manage and, in some cases, own hotels. Some of these joint ventures also provide services to franchised hotels. We recognize our share of these joint ventures' net income or loss in the "Equity in earnings" caption of our Income Statements. Franchisees and certain joint ventures contribute to our national marketing and advertising programs and pay fees for use of our centralized reservation systems.

We also receive royalty fees under license agreements with Marriott Vacations Worldwide Corporation ("MVW"), our former timeshare subsidiary that we spun off in 2011, and Vistana Signature Experiences, Inc. ("Vistana"), a subsidiary of Interval Leisure Group, Inc. ("ILG"), which acquired Starwood's vacation timeshare operations before the Merger Date. MVW is the worldwide developer, marketer, and seller of vacation ownership and related products under the Marriott Vacation Club, Grand Residences by Marriott, and The Ritz-Carlton Destination Club brands. Vistana is the worldwide developer, marketer, seller, and manager of vacation ownership and related products under the Westin and Sheraton brands, and under the St. Regis and The Luxury Collection brands for certain existing properties. We receive license fees from both MVW and Vistana consisting of a fixed annual fee, adjusted for inflation, plus certain variable fees based on sales volumes.

MVW offers Marriott Rewards® Points and The Ritz-Carlton Rewards® Points, and Vistana offers SPG points, to their owners or potential owners as sales, tour, and financing incentives, in exchange for vacation ownership usage rights, for customer referrals, and to resolve customer service issues. MVW buys these points from our Marriott Rewards and The Ritz-Carlton Rewards programs and Vistana buys these points from our Starwood Preferred Guest program.

At year-end 2016, we had 4,006 franchised properties (614,405 rooms), 100 unconsolidated joint venture properties (13,106 rooms), and 83 licensed timeshare, fractional, and related properties (20,702 units).

### Residential

We use or license our trademarks for the sale of residential real estate, typically in conjunction with hotel development, and receive branding fees for sales of such branded residential real estate by others. Third-party owners typically construct and sell residences with limited amounts, if any, of our capital at risk. We have used or licensed our JW Marriott, The Ritz-Carlton, The Ritz-Carlton Reserve, W Hotels, The Luxury Collection, St. Regis, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Sheraton, Westin, and Autograph Collection Hotels brand names and

trademarks for residential real estate sales. While the worldwide residential market is very large, we believe the luxurious nature of our residential properties, the quality and exclusivity associated with our brands, and the hospitality services that we provide, all serve to make residential properties bearing our trademarks distinctive.

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Seasonality

In general, business at company-operated and franchised properties fluctuates only moderately with the seasons and is relatively stable. Business at some resort properties may be seasonal depending on location.

Relationship with Major Customer

We operate a number of properties under long-term management agreements that are owned or leased by Host Hotels & Resorts, Inc. (“Host”). In addition, Host is a partner in several partnerships that own properties operated by us under long-term management agreements. See Footnote 20 “Relationship with Major Customer” for more information.

Intellectual Property

We operate in a highly competitive industry and our brand names, trademarks, service marks, trade names, and logos are very important to the sales and marketing of our properties and services. We believe that our brand names and other intellectual property have come to represent the highest standards of quality, caring, service, and value to our customers and the traveling public. Accordingly, we register and protect our intellectual property where we deem appropriate and otherwise protect against its unauthorized use.

Brand Portfolio

We believe that our brand portfolio offers the largest and most compelling range of brands and properties in hospitality, offering two overall styles of hotels -- Classic and Distinctive -- each of which we group into three quality tiers: Luxury, Premium, and Select.

Classic offers time-honored hospitality for the modern traveler.

Distinctive offers memorable experiences with a unique perspective.

Luxury offers bespoke and superb amenities and services. Our Luxury brand hotels include: JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, EDITION, and Bulgari Hotels & Resorts.

Premium offers sophisticated and thoughtful amenities and services. These hotel brands include: Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Le Méridien, Autograph Collection Hotels, Delta Hotels, Gaylord Hotels, Marriott Executive Apartments, Marriott Vacation Club, Tribute Portfolio, and Design Hotels.

Select offers smart and easy amenities and services with our longer stay brands offering amenities that mirror the comforts of home. Our Select hotel brands include: Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, Four Points, TownePlace Suites, Aloft Hotels, AC Hotels by Marriott, Protea Hotels, Element Hotels, and Moxy Hotels.

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Our Classic Brands

Luxury

JW Marriott thrives in a new hotel paradigm, where design and service come together seamlessly to ensure our guests leave richer than when they arrived replete with new ideas, replenished spirits, and an enlightened view of the world they love.

The Ritz-Carlton vision is to inspire life's most meaningful journeys. The brand engages guests through unique, memorable, and personal experiences that create indelible marks on their lives.

St. Regis bridges generations by providing a luxury experience that combines modern conveniences and technology with timeless design and personalized service to appeal to a new generation of high-powered, multinational luxury travelers.

Premium

Marriott Hotels, as the signature brand of Marriott International, is one of the most recognized names in the industry. Marriott Hotels continues to evolve with contemporary style and design and innovative approaches to delivering service and amenities.

Sheraton continues to establish itself as the global hospitality brand of choice. We go beyond, through meaningful acts of service, purposeful design, and innovative programming.

Westin, through innovative, signature products and programs combined with instinctive, personal service and intuitive design, delivers on each guest's every need, driving unmatched guest loyalty and industry-leading performance.

Delta Hotels by Marriott ("Delta Hotels"), an upscale full-service brand offering a lean and flexible operating model with a clean and refreshing design.

Marriott Executive Apartments, with its elegantly appointed studio, 1-, 2-, and 3-bedroom apartments in the heart of business, shopping, and entertainment districts, offer a 5 star environment designed to meet the corporate expat's long stay lodging needs.

Marriott Vacation Club offers the ultimate in vacation flexibility with a deeded, points-based ownership program for resorts, hotels, safaris, and

Our Distinctive Brands

W Hotels, a leader in contemporary lifestyle space, provides the insider access to what's new and next, offering a unique mix of cutting-edge design and passions around design, fashion, music, and fuel.

The Luxury Collection mission is to guide our guests on transformative journeys that touch their spirits and enrich their lives and provides unmatched owner value through delivering further reach than an "independent" hotel, with greater brand awareness and stature than smaller brands or affiliate programs.

EDITION combines the personal, individualized, and unique hotel experience of a world-class boutique hotel with the reach and scale of a global hospitality company to deliver an experience that is polished and personable, charismatic and comfortable, and sophisticated while remaining accessible. Bulgari Hotels & Resorts offers a contemporary, discriminating collection of luxury hotels in gateway cities and exclusive resort locations around the world.

Renaissance Hotels, each hotel offering a journey of discovery and inspiration on and off property, is a collection of hidden gems - multifaceted and distinguished by beautiful and interesting characteristics - yet united by its common core values: intriguing, indigenous, and independent.

Le Méridien, inspired by its European heritage and mid-century modern design, offers a unique experience at some of the world's top travel destinations.

Autograph Collection Hotels is an evolving ensemble of strikingly independent hotels. Exactly like nothing else, each destination has been selected for its quality, bold originality, rich character, and uncommon details.

Gaylord Hotels is a collection of hotels and upscale resorts offering diverse convention, entertainment, and lifestyle experiences in the Nashville, Orlando, Dallas, and Washington, D.C. areas.

Tribute Portfolio gives guests access to exceptional independent hotels around the world. From boutique resorts to exciting hotels in choice urban locations, each Tribute Portfolio hotel offers inspired style and superior service.

Design Hotels represent and market a curated selection of independent hotels. More than a collection of hotels, the company is a collection of stories. Each property reflects the

cruises.

ideas of a visionary hotelier, an "Original," someone with a passion for genuine hospitality, cultural authenticity, thought-provoking design, and architecture.

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Our Classic Brands

Select

Courtyard by Marriott (“Courtyard”) is a longtime industry leader in meeting the needs of the modern business traveler. Since breaking into the market 30 years ago as a brand built for business, Courtyard has continuously evolved, pushing the boundaries of design, style, and service in the upscale category.

Residence Inn by Marriott (“Residence Inn”) created and defined the Extended Stay lodging category, first in North America and now globally. The brand recognizes the different needs of long stay guests and is uniquely suited to serve this significant market segment.

Fairfield Inn & Suites by Marriott (“Fairfield Inn & Suites”) is an established leader in the moderate-tier segment, offering value, consistency, and quality service to business travelers. The brand appeals to owners and franchisees who recognize a strong economic model and investment that works.

SpringHill Suites by Marriott (“SpringHill Suites”), the largest all-suites brand in the upscale tier, offers guests the little extras to help them enjoy their time away. Offering a fresh take on mixing business and pleasure, the brand allows travelers to expect the unexpected and indulge in the little things that make their trip more exciting.

Four Points caters to well-traveled guests. We give them what they have come to expect - with unexpected perks. Timeless classics are woven together to suit work and play, while keeping guests one step ahead of the game.

TownePlace Suites by Marriott (“TownePlace Suites”) is designed for extended stay travelers who want to feel at home and stay productive. To appeal to these guests seeking authenticity, personality, and a seamless experience, the concept infuses local flavor into a quiet neighborhood setting, complete with the added comfort, service, and quality of an all-suite hotel.

Our Distinctive Brands

Aloft Hotels offers urban, modern design and a hip social experience all at an affordable price to the next generation of travelers.

AC Hotels by Marriott was born from the vision of Spanish hotelier Antonio Catalan, who created a new kind of stay for a new kind of traveler - a creative, entrepreneurial, and modern global traveler - who prefers to have fewer things, but expect them to be better than good.

Protea Hotels by Marriott (“Protea Hotels”) is the leading hospitality brand in Africa and boasts the highest brand awareness and largest strategic footprint among all the major hospitality brands in Africa. Protea Hotels is ideal for both business and leisure travelers by offering properties in primary and secondary business centers and desirable leisure destinations.

Element Hotels offers the essentials of balanced travel for today’s standard and longer-stay traveler who does not want to compromise on comfort and design. Element Hotels is grounded in smart, environmentally friendly thinking, from its products, services, and programs to its physical spaces with flowing, multipurpose areas that maximize space.

Moxy Hotels is a fun, vibrant, and stylish hotel designed to give guests everything they want and nothing they don’t at an affordable price. Launched in 2014, the brand offers up a new way of traveling in which smaller is concentration, not reduction - where affordability is not a sacrifice of style, nor a loss of comfort - and, when we say: “less is more” we accentuate more, not less.

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At year-end 2016, we operated, franchised, or licensed properties in the following geographical regions:

|                                | North America  |        | Europe | Middle East & | Asia    | Caribbean & Latin | Total   |
|--------------------------------|----------------|--------|--------|---------------|---------|-------------------|---------|
|                                | U.S.           | Canada |        | Africa        | Pacific | America           |         |
| <b>Luxury</b>                  |                |        |        |               |         |                   |         |
| JW Marriott®                   | Properties 24  | 1      | 6      | 4             | 32      | 13                | 80      |
|                                | Rooms 13,943   | 221    | 2,075  | 2,708         | 13,034  | 3,346             | 35,327  |
| The Ritz-Carlton®              | Properties 39  | 1      | 12     | 12            | 27      | 7                 | 98      |
|                                | Rooms 11,576   | 263    | 2,925  | 3,835         | 6,998   | 1,966             | 27,563  |
| W® Hotels                      | Properties 25  | 1      | 7      | 2             | 11      | 5                 | 51      |
|                                | Rooms 8,086    | 152    | 1,332  | 798           | 2,901   | 876               | 14,145  |
| The Luxury Collection®         | Properties 14  | —      | 39     | 6             | 27      | 11                | 97      |
|                                | Rooms 4,157    | —      | 6,017  | 1,755         | 6,468   | 887               | 19,284  |
| St. Regis®                     | Properties 10  | —      | 5      | 5             | 15      | 3                 | 38      |
|                                | Rooms 1,963    | —      | 720    | 1,402         | 3,639   | 448               | 8,172   |
| EDITION®                       | Properties 2   | —      | 1      | —             | 1       | —                 | 4       |
|                                | Rooms 567      | —      | 173    | —             | 526     | —                 | 1,266   |
| Bulgari® Hotels & Resorts      | Properties —   | —      | 2      | —             | 1       | —                 | 3       |
|                                | Rooms —        | —      | 143    | —             | 59      | —                 | 202     |
| <b>Premium</b>                 |                |        |        |               |         |                   |         |
| Marriott Hotels®               | Properties 329 | 16     | 97     | 20            | 58      | 26                | 546     |
|                                | Rooms 130,132  | 5,681  | 23,872 | 6,809         | 20,286  | 7,516             | 194,296 |
| Sheraton®                      | Properties 178 | 18     | 62     | 30            | 123     | 38                | 449     |
|                                | Rooms 66,385   | 7,965  | 17,069 | 10,015        | 47,207  | 10,183            | 158,824 |
| Westin®                        | Properties 110 | 15     | 19     | 9             | 51      | 13                | 217     |
|                                | Rooms 46,161   | 5,544  | 6,241  | 2,934         | 16,299  | 4,070             | 81,249  |
| Renaissance® Hotels            | Properties 81  | 3      | 36     | 4             | 31      | 8                 | 163     |
|                                | Rooms 27,335   | 703    | 8,548  | 1,076         | 11,899  | 2,565             | 52,126  |
| Le Méridien®                   | Properties 19  | 1      | 15     | 27            | 42      | 2                 | 106     |
|                                | Rooms 4,365    | 108    | 5,051  | 7,530         | 10,973  | 271               | 28,298  |
| Autograph Collection® Hotels   | Properties 62  | 2      | 33     | 2             | 4       | 8                 | 111     |
|                                | Rooms 13,839   | 460    | 4,710  | 532           | 1,195   | 4,203             | 24,939  |
| Delta Hotels®                  | Properties 2   | 35     | —      | —             | —       | —                 | 37      |
|                                | Rooms 463      | 9,321  | —      | —             | —       | —                 | 9,784   |
| Gaylord Hotels®                | Properties 5   | —      | —      | —             | —       | —                 | 5       |
|                                | Rooms 8,098    | —      | —      | —             | —       | —                 | 8,098   |
| Marriott Executive Apartments® | Properties —   | —      | 4      | 7             | 15      | 2                 | 28      |
|                                | Rooms —        | —      | 358    | 823           | 2,774   | 240               | 4,195   |
| Tribute Portfolio™             | Properties 12  | 1      | 3      | —             | 4       | 2                 | 22      |
|                                | Rooms 4,434    | 242    | 184    | —             | 556     | 57                | 5,473   |
| <b>Select</b>                  |                |        |        |               |         |                   |         |
| Courtyard®                     | Properties 933 | 28     | 54     | 6             | 41      | 36                | 1,098   |
|                                | Rooms 130,365  | 4,831  | 10,167 | 1,279         | 10,399  | 6,014             | 163,055 |
| Residence Inn®                 | Properties 704 | 22     | 3      | 3             | —       | 2                 | 734     |
|                                | Rooms 85,893   | 3,172  | 307    | 301           | —       | 249               | 89,922  |
| Fairfield Inn & Suites®        | Properties 807 | 21     | —      | —             | 5       | 7                 | 840     |
|                                | Rooms 74,113   | 2,319  | —      | —             | 918     | 1,056             | 78,406  |
| SpringHill Suites®             | Properties 357 | 2      | —      | —             | —       | —                 | 359     |
|                                | Rooms 42,227   | 299    | —      | —             | —       | —                 | 42,526  |
| Four Points®                   | Properties 101 | 31     | 14     | 8             | 54      | 19                | 227     |

|                    |            |        |       |       |       |        |       |        |
|--------------------|------------|--------|-------|-------|-------|--------|-------|--------|
|                    | Rooms      | 15,741 | 4,389 | 2,202 | 1,943 | 13,815 | 2,583 | 40,673 |
| TownePlace Suites® | Properties | 291    | 10    | —     | —     | —      | —     | 301    |
|                    | Rooms      | 29,071 | 1,181 | —     | —     | —      | —     | 30,252 |

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|                          |                               | North America |        | Europe  | Middle East & Africa | Asia Pacific | Caribbean & Latin America | Total     |
|--------------------------|-------------------------------|---------------|--------|---------|----------------------|--------------|---------------------------|-----------|
|                          |                               | U.S.          | Canada |         |                      |              |                           |           |
| Aloft® Hotels            | Properties                    | 78            | 3      | 6       | 3                    | 20           | 6                         | 116       |
|                          | Rooms                         | 11,686        | 410    | 1,000   | 956                  | 4,629        | 1,034                     | 19,715    |
| AC Hotels by Marriott®   | Properties                    | 11            | —      | 80      | —                    | —            | 4                         | 95        |
|                          | Rooms                         | 1,913         | —      | 9,879   | —                    | —            | 966                       | 12,758    |
| Protea Hotels®           | Properties                    | —             | —      | —       | 97                   | —            | —                         | 97        |
|                          | Rooms                         | —             | —      | —       | 9,352                | —            | —                         | 9,352     |
| Element® Hotels          | Properties                    | 18            | 2      | 2       | —                    | 1            | —                         | 23        |
|                          | Rooms                         | 2,672         | 321    | 293     | —                    | 188          | —                         | 3,474     |
| Moxy Hotels®             | Properties                    | 2             | —      | 5       | —                    | —            | —                         | 7         |
|                          | Rooms                         | 294           | —      | 1,000   | —                    | —            | —                         | 1,294     |
| Residences and Timeshare |                               |               |        |         |                      |              |                           |           |
| Residences <sup>1</sup>  | Properties                    | 34            | 2      | 2       | —                    | 2            | 5                         | 45        |
|                          | Rooms                         | 4,599         | 214    | 106     | —                    | 63           | 252                       | 5,234     |
| Timeshare <sup>2</sup>   | Properties                    | 66            | —      | 5       | —                    | 4            | 8                         | 83        |
|                          | Rooms                         | 17,127        | —      | 919     | —                    | 420          | 2,236                     | 20,702    |
|                          | Total Properties <sup>3</sup> | 4,314         | 215    | 512     | 245                  | 569          | 225                       | 6,080     |
|                          | Total Rooms <sup>3</sup>      | 757,205       | 47,796 | 105,291 | 54,048               | 175,246      | 51,018                    | 1,190,604 |

(1) Figures include home and condominium products for which we manage the related owners' association.

Timeshare properties are licensed by MVW under the Marriott Vacation Club®, The Ritz-Carlton Destination

(2) Club®, The Ritz-Carlton Residences®, and Grand Residences by Marriott<sup>SM</sup> brand names, and by Vistana under the Sheraton®, Westin®, St. Regis®, and The Luxury Collection® brand names.

(3) Excludes Design Hotels<sup>TM</sup> properties, which participate as partner hotels in the SPG loyalty program and are available for booking through our reservation channels.

#### Other Activities

**Credit Card Programs.** At year-end 2016, we licensed 13 credit card programs in the United States, Canada, United Kingdom, United Arab Emirates, and Japan, which include Marriott Rewards, The Ritz-Carlton Rewards, and Starwood Preferred Guest ("SPG") credit cards. We earn licensing fees based on card usage, and the cards are designed to encourage loyalty to our brands.

**Loyalty Programs, Sales and Marketing, and Reservation Systems.** Our customer loyalty programs, Marriott Rewards and The Ritz-Carlton Rewards, and SPG (collectively "Loyalty Programs"), have 30 participating brands. MVW, Vistana, and other program partners also participate in one or more of our Loyalty Programs. The Loyalty Programs yield repeat guest business by rewarding frequent stays with points toward free hotel stays and other rewards, or airline miles with any of 49 participating airline programs. We believe that our Loyalty Programs generate substantial repeat business that might otherwise go to competing hotels. In 2016, Loyalty Programs members purchased over 50 percent of our room nights. While we continue to run our Loyalty Programs in parallel, we encourage the linking of accounts between the Loyalty Programs, allowing instant elite status match, and enabling the transfer of points between the programs. We continue to enhance our Loyalty Program offerings and strategically market to this large and growing customer base. Our loyalty member base provides a low cost and high impact vehicle for our revenue generation efforts. See the "Loyalty Programs" caption in Footnote 2 "Summary of Significant Accounting Policies" for more information.

Marriott.com, Starwoodhotels.com, SPG.com, our international sites, and our mobile apps continued to grow significantly in 2016. Our web and mobile platforms allow for a seamless booking experience, and enable our guests to easily enroll in our Loyalty Programs and book our exclusive Member Rates. Our Look No Further® Best Rate Guarantee ensures best rate integrity, strengthening consumer confidence in our brand, and gives customers access to the same rates when they book through our various direct channels. We also continue to grow engagement levels with millions of customers through our mobile guest services. In addition to existing mobile services like mobile check-in

and check-out, in 2016 we expanded to add mobile service requests, now offered at many hotel brands around the globe, enabling guests to engage in a two-way chat with the hotel before their arrival and throughout their stay. Our digital strategy continues to focus on creating a simple and efficient digital booking experience, and to create a superior and memorable stay experience for our guests powered by digital guest services across our hotel portfolio. At year-end 2016, we operated 24 hotel reservation centers, nine in the United States and Canada and 15 in other countries and territories, which handle reservation requests for our lodging brands worldwide, including franchised properties. We own two of the U.S. facilities and either lease the others or share space with an existing Marriott property. While pricing is

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set by our hotels, our reservation system manages inventory and allows us to utilize third party agents where cost effective. Economies of scale enable us to minimize costs per occupied room, drive profits for our owners and franchisees, and enhance our fee revenue.

We believe our global sales and revenue management organization is a key competitive advantage due to our unrelenting focus on optimizing our investment in people, processes, and systems. Our above-property sales deployment strategy aligns our sales efforts around the customer, reducing duplication of sales efforts by individual hotels and allowing us to cover a larger number of accounts. We also utilize innovative sophisticated revenue management systems, many of which are proprietary, which we believe provide a competitive advantage in pricing decisions, increase efficiency in analysis and decision making, and produce higher property-level revenue for the hotels in our system. Most of the hotels in our system utilize web-based programs to effectively manage the rate set up and modification processes which provides for greater pricing flexibility, reduces time spent on rate program creation and maintenance, and increases the speed to market of new products and services.

As we further discuss in Part I, Item 1A “Risk Factors” later in this report, we utilize sophisticated technology and systems in our reservation, revenue management, and property management systems, in our Loyalty Programs, and in other aspects of our business. We also make certain technologies available to our guests. Keeping pace with developments in technology is important for our operations and our competitive position. Furthermore, the integrity and protection of customer, employee, and company data is critical to us as we use such data for business decisions and to maintain operational efficiency.

**Environmental Responsibility and Sustainable Hotels.** Our sustainability strategy supports business growth, conservation of natural resources, and protecting our planet through wide-reaching environmental initiatives.

Marriott’s environmental goals are to: (1) reduce energy and water consumption by 20 percent from 2007 to 2020; (2) empower our hotel development partners to build sustainable hotels; (3) green our multi-billion dollar supply chain; (4) educate and inspire associates and guests to conserve and preserve; and (5) address environmental challenges through innovative conservation initiatives including rainforest protection and water conservation.

We recognize our responsibility to reduce waste as well as water and energy consumption in our hotels and corporate offices. Our focus remains on continually integrating greater environmental sustainability throughout our business. In the year ahead, we intend to build upon our progress and launch our next generation of sustainability goals. We were the first major hotel chain to calculate our carbon footprint and launch a plan to improve energy efficiency, conserve water, and support globally significant projects that reduce deforestation. We use Energy and Environmental Action plans to help our properties achieve energy and water reduction goals. Working in partnership with the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED®) certification, Marriott is empowering our hotel development partners to build sustainable hotels. Marriott has one of the largest portfolios of LEED-certified buildings in the hospitality industry with 111 certified properties and over 180 more in the development pipeline.

**Global Design Division.** Our Global Design division provides design, development, construction, refurbishment, and procurement services to owners and franchisees of lodging properties on a voluntary basis outside the scope of and separate from our management or franchise contracts. Similar to third-party contractors, Global Design provides these services on a fee basis to owners and franchisees of our branded properties.

### Competition

We encounter strong competition both as a lodging operator and as a franchisor. According to lodging industry data, there are approximately 1,044 lodging management companies in the United States, including approximately 20 that operate more than 100 properties. These operators are primarily private management firms, but also include several large national and international chains that own and operate their own hotels and also franchise their brands.

Management contracts are typically long-term in nature, but most allow the hotel owner to replace the management firm if it does not meet certain financial or performance criteria.

During the last recession, demand for hotel rooms declined significantly, particularly in 2009, and we took steps to reduce operating costs and improve efficiency. Due to the competitive nature of our industry, we focused these efforts on areas that had limited or no impact on the guest experience. While demand trends globally improved from 2010 through 2016, cost reductions could again become necessary if demand trends reverse. We would expect to implement any such efforts in a manner designed to maintain customer loyalty, owner preference, and associate satisfaction, in

order to help maintain or increase our market share.

Affiliation with a national or regional brand is common in the U.S. lodging industry, and we believe that our brand recognition assists us in attracting and retaining guests, owners, and franchisees. In 2016, approximately 60 percent of U.S. hotel rooms were brand-affiliated. Most of the branded properties are franchises, under which the operator pays the franchisor a fee for use of its hotel name and reservation system. In the franchising business, we face a number of competitors that have

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strong brands and customer appeal, including Hilton, Intercontinental Hotels Group, Hyatt, Wyndham, Accor, Choice, Carlson Rezidor, Best Western, La Quinta, and others.

Outside the United States, branding is much less prevalent and most markets are served primarily by independent operators, although branding is more common for new hotel development. We believe that chain affiliation will increase in many overseas markets as local economies grow, trade barriers decline, international travel accelerates, and hotel owners seek the economies of centralized reservation systems and marketing programs.

Based on lodging industry data, we have more than a 14 percent share of the U.S. hotel market (based on number of rooms) and we estimate less than a four percent share of the lodging market outside the United States. We believe that our hotel brands are attractive to hotel owners seeking a management company or franchise affiliation because our hotels typically generate higher Revenue per Available Room (“RevPAR”) than our direct competitors in most market areas. We attribute this performance premium to our success in achieving and maintaining strong customer preference. We believe that the location and quality of our lodging facilities, our marketing programs, our reservation systems, and our emphasis on guest service and guest and associate satisfaction contribute to customer preference across all of our brands.

Properties that we operate, franchise, or license are regularly upgraded to maintain their competitiveness. Most of our management agreements provide for the allocation of funds to be set aside, generally a fixed percentage of revenue, for periodic renovation of buildings and replacement of furnishings. These ongoing refurbishment programs, along with periodic brand initiatives, are generally adequate to preserve or enhance the competitive position and earning power of the properties. Properties converting to one of our brands typically complete renovations as needed in conjunction with the conversion.

Employee Relations

At year-end 2016, we had approximately 226,500 employees, approximately 23,000 of whom were represented by labor unions. We believe relations with our employees are positive.

Environmental Compliance

The properties we operate or develop are subject to national, state, and local laws and regulations that govern the discharge of materials into the environment or otherwise relate to protecting the environment. Those environmental provisions include requirements that address health and safety; the use, management, and disposal of hazardous substances and wastes; and emission or discharge of wastes or other materials. We believe that our operation and development of properties complies, in all material respects, with environmental laws and regulations. Compliance with such provisions has not materially impacted our capital expenditures, earnings, or competitive position, and we do not anticipate that it will have a material impact in the future.

Internet Address and Company SEC Filings

Our primary Internet address is [Marriott.com](http://Marriott.com). On the investor relations portion of our website, [Marriott.com/investor](http://Marriott.com/investor), we provide a link to our electronic filings with the U.S. Securities and Exchange Commission (the “SEC”), including our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to these reports. We make all such filings available free of charge as soon as reasonably practicable after filing. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

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### Item 1A. Risk Factors.

#### Forward-Looking Statements

We make forward-looking statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report based on the beliefs and assumptions of our management and on information currently available to us. Forward-looking statements include information about our possible or assumed future results of operations, which follow under the headings "Business and Overview," "Liquidity and Capital Resources," and other statements throughout this report preceded by, followed by, or that include the words "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

Any number of risks and uncertainties could cause actual results to differ materially from those we express in our forward-looking statements, including the risks and uncertainties we describe below and other factors we describe from time to time in our periodic filings with the U.S. Securities and Exchange Commission (the "SEC"). We therefore caution you not to rely unduly on any forward-looking statement. The forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments, or otherwise.

#### Risks and Uncertainties

We are subject to various risks that could have a negative effect on us or on our financial condition. You should understand that these risks could cause results to differ materially from those we express in forward-looking statements contained in this report or in other Company communications. Because there is no way to determine in advance whether, or to what extent, any present uncertainty will ultimately impact our business, you should give equal weight to each of the following:

Our industry is highly competitive, which may impact our ability to compete successfully with other hotel properties and home and apartment sharing services for customers. We operate in markets that contain many competitors. Each of our hotel brands competes with major hotel chains, as well as home and apartment sharing services, in national and international venues and with independent companies in regional markets. Our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing the quality, value, and efficiency of our lodging products and services, including our loyalty programs and consumer-facing technology platforms and services, from those offered by others. If we cannot compete successfully in these areas, our operating margins could contract, our market share could decrease, and our earnings could decline. Further, new lodging supply in individual markets could have a negative impact on the hotel industry and hamper our ability to increase room rates or occupancy in those markets.

Economic uncertainty could continue to impact our financial results and growth. Weak economic conditions in some parts of the world, the strength or continuation of recovery in countries that have experienced improved economic conditions, changes in oil prices and currency values, potential disruptions in the U.S. economy that might result from the new U.S. administration's policies in such areas as trade, immigration, healthcare, and related issues, political instability in some areas, and the uncertainty over how long any of these conditions will continue, could continue to have a negative impact on the lodging industry. U.S. government travel is also a significant part of our business, and this aspect of our business may continue to suffer due to U.S. federal spending cuts or government hiring freezes and any further limitations that may result from presidential or congressional action or inaction. As a result of such current economic conditions and uncertainty, we continue to experience weakened demand for our hotel rooms in some markets. Recent improvements in demand trends in other markets may not continue, and our future financial results and growth could be further harmed or constrained if the recovery stalls or conditions worsen.

#### Risks Relating to Our Integration of Starwood

The diversion of resources and management's attention to the integration of Starwood could adversely affect our day-to-day business. The integration of Starwood places a significant burden on our management and internal resources. The diversion of management's attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could adversely affect our financial results.

We may not be able to integrate Starwood successfully and many of the anticipated benefits of combining Starwood and Marriott may not be realized. We decided to acquire Starwood with the expectation that the Starwood Combination will result in various benefits, including, among other things, operating efficiencies. Achieving those

anticipated benefits is subject to a number of uncertainties, including whether we can integrate the business of Starwood in an efficient and effective manner, and we cannot assure you that those benefits will be realized at all or as quickly as we expect. If we do not achieve those benefits, our costs could increase, our expected net income could decrease, and our future business, financial condition, operating results, and prospects could suffer.

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The integration process could take longer than we anticipate and involve unanticipated costs. Disruptions of each company's ongoing businesses, processes, and systems or inconsistencies in standards, controls, procedures, practices, policies, and compensation arrangements could adversely affect the combined company. We may also have difficulty addressing differences in corporate cultures and management philosophies, and in harmonizing our different reservations and other systems and business practices. Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will over time offset the substantial incremental transaction and merger-related costs and charges we incurred in connection with the Starwood Combination, we may not achieve this net benefit in the near term, or at all.

Our future results will suffer if we do not effectively manage our expanded operations. With completion of the Starwood Combination, the size of our business has increased significantly. Our continued success depends, in part, upon our ability to manage this expanded business, which poses substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We cannot assure you that we will be successful or that we will realize the expected operating efficiencies, cost savings, and other benefits from the combination that we currently anticipate.

We may not be able to retain Legacy-Starwood personnel successfully. The success of the Starwood Combination will depend in part on our ability to retain the talents and dedication of key Legacy-Starwood employees. It remains possible that these employees may decide not to remain with us. If key Legacy-Starwood employees who we would like to retain terminate their employment, the loss of institutional knowledge and key business relationships could cause our business to suffer.

### Risks Relating to Our Business

#### Operational Risks

Premature termination of our management or franchise agreements could hurt our financial performance. Our hotel management and franchise agreements may be subject to premature termination in certain circumstances, such as the bankruptcy of a hotel owner or franchisee, or a failure under some agreements to meet specified financial or performance criteria that are subject to the risks described in this section, which we fail or elect not to cure. In addition, some courts have applied principles of agency law and related fiduciary standards to managers of third-party hotel properties, including us (or have interpreted hotel management agreements as "personal services contracts"). This means, among other things, that property owners may assert the right to terminate management agreements even where the agreements provide otherwise, and some courts have upheld such assertions about our management agreements and may do so in the future. In addition, some management and franchise agreements may be terminated, or property owners may attempt to terminate such agreements, in connection with the Starwood Combination. If terminations occur for these or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages we ultimately collect could be less than the projected future value of the fees and other amounts we would have otherwise collected under the management agreement. A significant loss of agreements due to premature terminations could hurt our financial performance or our ability to grow our business.

Our lodging operations are subject to global, regional, and national conditions. Because we conduct our business on a global platform, changes in global and regional economies impact our activities. In recent years, decreases in travel resulting from weak economic conditions and the heightened travel security measures that have resulted from the threat of further terrorism have hurt our business. Our future performance could be similarly affected by the economic environment in each of our operating regions, the resulting unknown pace of business travel, and any future incidents or changes in those regions.

The growing significance of our operations outside of the United States, including as a result of the Starwood Combination, makes us increasingly susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits, disrupt our business, or damage our reputation. At year-end 2016, we operated or franchised hotels and resorts in 122 countries and territories. With the acquisition of Starwood, the hotels we operate or franchise outside of the United States represented more than 36 percent of the rooms in our system at year-end 2016. We expect that our international operations, and resulting revenues, will continue to grow. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, many of which

are outside of our control, and which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, otherwise disrupt our business, or damage our reputation. These challenges include:

(1) compliance with complex and changing laws, regulations and government policies that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as competition laws, currency regulations, and other laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner, or in some cases at all due to foreign exchange restrictions; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and

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intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest in the Middle East and elsewhere, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations, which may impact the results and cash flows of our international operations.

Any failure by our international operations to comply with anti-corruption laws or trade sanctions could increase our costs, reduce our profits, limit our growth, harm our reputation, or subject us to broader liability. We are subject to restrictions imposed by the U.S. Foreign Corrupt Practices Act (the “FCPA”) and anti-corruption laws and regulations of other countries applicable to our operations, such as the UK Bribery Act. Anti-corruption laws and regulations generally prohibit companies and their intermediaries from making improper payments to government officials or other persons in order to receive or retain business. These laws also require us to maintain adequate internal controls and accurate books and records. As a result of the Starwood Combination, we now have more properties in countries outside of the U.S., including in many parts of the world where corruption is common, and our compliance with anti-corruption laws may potentially conflict with local customs and practices. The compliance programs, internal controls and policies we and, prior to the Merger Date, Starwood, maintain and enforce to promote compliance with applicable anti-bribery and anti-corruption laws may not prevent our associates, contractors or agents from acting in ways prohibited by these laws and regulations. We are also subject to trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce. Our compliance programs and internal controls also may not prevent conduct that is prohibited under these rules. The United States may impose additional sanctions at any time against any country in which or with whom we do business. Depending on the nature of the sanctions imposed, our operations in the relevant country could be restricted or otherwise adversely affected. Any violations of anti-corruption laws and regulations or trade sanctions could result in significant civil and criminal penalties, reduce our profits, disrupt or have a material adverse effect on our business, damage our reputation, or result in lawsuits being brought against the Company or its officers or directors. In addition, the operation of these laws or an imposition of further restrictions in these areas could increase our cost of operations, reduce our profits or cause us to forgo development opportunities, or cease operations in certain countries, that would otherwise support growth. In connection with the Starwood Combination, we are currently assessing various regulatory compliance matters at several foreign Legacy-Starwood locations, including compliance with the FCPA. The results of this assessment may give rise to contingencies that could require us to record balance sheet liabilities or accrue expenses, the amounts of which we are not able to currently estimate.

Exchange rate fluctuations and foreign exchange hedging arrangements could result in significant foreign currency gains and losses and affect our business results. We earn revenues and incur expenses in foreign currencies as part of our operations outside of the United States. Accordingly, fluctuations in currency exchange rates may significantly increase the amount of U.S. dollars required for foreign currency expenses or significantly decrease the U.S. dollars we receive from foreign currency revenues. We are also exposed to currency translation risk because the results of our business outside of the U.S. are generally reported in local currency, which we then translate to U.S. dollars for inclusion in our consolidated financial statements. As a result, changes between the foreign exchange rates and the U.S. dollar affect the amounts we record for our foreign assets, liabilities, revenues and expenses, and could have a negative effect on our financial results. We expect that our exposure to foreign currency exchange rate fluctuations will grow as the relative contribution of our non-U.S. operations increases. Our efforts to mitigate some of our foreign currency exposure by entering into foreign exchange hedging agreements with financial institutions to reduce exposures to some of the principal currencies in which we receive management and franchise fees may not be successful. In this regard, these hedging agreements do not cover all currencies in which we do business, do not eliminate foreign currency risk entirely for the currencies that they do cover, and involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk.

Some of our management agreements and related contracts require us to make payments to owners if the hotels do not achieve specified levels of operating profit. Some of our contracts with hotel owners require that we fund shortfalls if the hotels do not attain specified levels of operating profit. We may not be able to recover any fundings of such performance guarantees, which could lower our profits and reduce our cash flows.

Our new programs and new branded products may not be successful. We cannot assure you that recently launched, newly acquired, or recently announced brands, such as EDITION, AC Hotels by Marriott in the Americas, Protea Hotels, Moxy Hotels, Delta Hotels, and those we acquired as a result of the Starwood Combination, or any other new programs or products we may launch in the future, will be accepted by hotel owners, potential franchisees, or the traveling public or other customers. We also cannot be certain that we will recover the costs we incurred in developing or acquiring the brands or any new programs or products, or that the brands or any new programs or products will be successful. In addition, some of our new or newly acquired brands involve or may involve cooperation and/or consultation with one or more third parties, including some shared control over product design and development, sales and marketing, and brand standards. Disagreements with these third parties could slow the development of these new brands and/or impair our ability to take actions we believe to be advisable for the success and profitability of such brands.

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Risks relating to natural or man-made disasters, contagious disease, terrorist activity, and war could reduce the demand for lodging, which may adversely affect our revenues. So called “Acts of God,” such as hurricanes, earthquakes, tsunamis, and other natural disasters, such as Hurricane Sandy in the Northeastern United States, the earthquake and tsunami in Japan, and man-made disasters in recent years as well as the potential spread of contagious diseases such as MERS (Middle East Respiratory Syndrome), Zika virus, and Ebola in locations where we own, manage, or franchise significant properties and areas of the world from which we draw a large number of customers, could cause a decline in business or leisure travel and reduce demand for lodging. Actual or threatened war, terrorist activity, political unrest, or civil strife, such as recent events in Fort Lauderdale, Orlando, Charlotte, Berlin, Brussels, Paris, Turkey, Ukraine and Russia, the Middle East, and other geopolitical uncertainty could have a similar effect. Any one or more of these events may reduce the overall demand for hotel rooms and corporate apartments or limit the prices that we can obtain for them, both of which could adversely affect our profits.

Disagreements with owners of hotels that we manage or franchise may result in litigation or may delay implementation of product or service initiatives. Consistent with our focus on management and franchising, we own very few of our lodging properties. The nature of our responsibilities under our management agreements to manage each hotel and enforce the standards required for our brands under both management and franchise agreements may be subject to interpretation and will from time to time give rise to disagreements, which may include disagreements over the need for or payment for new product, service or systems initiatives, the timing and amount of capital investments, and reimbursement for certain system initiatives and costs. Such disagreements may be more likely when hotel returns are weaker. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential hotel owners and joint venture partners, but we are not always able to do so. Failure to resolve such disagreements has resulted in litigation, and could do so in the future. If any such litigation results in a significant adverse judgment, settlement, or court order, we could suffer significant losses, our profits could be reduced, or our future ability to operate our business could be constrained.

Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands could have an adverse impact on our market share, reputation, business, financial condition, or results of operations. Events that may be beyond our control could affect the reputation of one or more of our properties or more generally impact the reputation of our brands. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition, or results of operations could be affected.

If our brands, goodwill or other intangible assets become impaired, we may be required to record significant non-cash charges to earnings. As of December 31, 2016, we had \$16.9 billion of goodwill and other intangible assets, including \$6.5 billion attributable to the Legacy-Starwood brands (based on the preliminary purchase accounting for the Starwood Combination), a significant increase over the \$2.4 billion of goodwill and other intangible assets we had as of December 31, 2015. The amount of goodwill acquired in the Starwood Combination could increase over the year following the acquisition if we determine that the value of physical assets acquired is less than, or the amount of liabilities assumed (including under Starwood’s guest loyalty program) is greater than, we preliminarily estimated. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. Estimated fair values of our brands or reporting units could change if, for example, there are changes in the business climate, unanticipated changes in the competitive environment, adverse legal or regulatory actions or developments, changes in customers’ perception of and the reputation of the Legacy-Starwood brands, or changes in interest rates, operating cash flows, or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material non-cash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations.

Actions by our franchisees and licensees could adversely affect our image and reputation. We franchise and license many of our brand names and trademarks to third parties in connection with lodging, timeshare, residential services, and our credit card programs. Under the terms of their agreements with us, our franchisees and licensees interact directly with customers and other third parties under our brand and trade names. If these franchisees or licensees fail to maintain or act in accordance with applicable brand standards; experience operational problems, including any data breach involving customer information; or project a brand image inconsistent with ours, our image and reputation

could suffer. Although our franchise and license agreements provide us with recourse and remedies in the event of a breach by the franchisee or licensee, including termination of the agreements under certain circumstances, pursuing any such recourse, remedy, or termination could be expensive and time consuming. In addition, we cannot assure you that a court would ultimately enforce our contractual termination rights in every instance.

Damage to, or losses involving, properties that we own, manage, or franchise may not be covered by insurance. We have comprehensive property and liability insurance policies for our managed, leased, and owned properties with coverage features and insured limits that we believe are customary, and require our franchisees to maintain similar levels of insurance. Market forces beyond our control may nonetheless limit the scope of the insurance coverage we or our franchisees can obtain, or our or their ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as

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earthquakes, hurricanes and floods, or terrorist acts, or liabilities that result from breaches in the security of our information systems, may be uninsurable or too expensive to justify obtaining insurance. As a result, we and our franchisees may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a substantial loss, the insurance coverage we or our franchisees carry may not be sufficient to pay the full market value or replacement cost of any lost investment or in some cases could result in certain losses being totally uninsured. As a result, we could lose some or all of any capital that we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated for guarantees, debt, or other financial obligations for the property.

### Development and Financing Risks

While we are predominantly a manager and franchisor of hotel properties, our hotel owners depend on capital to buy, develop, and improve hotels, and our hotel owners may be unable to access capital when necessary. In order to fund new hotel investments, as well as refurbish and improve existing hotels, both we and current and potential hotel owners must periodically spend money. The availability of funds for new investments and improvement of existing hotels by our current and potential hotel owners depends in large measure on capital markets and liquidity factors, over which we can exert little control. The difficulty of obtaining financing on attractive terms may be constrained by the capital markets for hotel and real estate investments. In addition, owners of existing hotels that we franchise or manage may have difficulty meeting required debt service payments or refinancing loans at maturity.

Our growth strategy depends upon third-party owners/operators, and future arrangements with these third parties may be less favorable. Our growth strategy for development of additional lodging facilities entails entering into and maintaining various arrangements with property owners. The terms of our management agreements, franchise agreements, and leases for each of our lodging facilities are influenced by contract terms offered by our competitors, among other things. We cannot assure you that any of our current arrangements will continue or that we will be able to enter into future collaborations, renew agreements, or enter into new agreements in the future on terms that are as favorable to us as those that exist today.

Our ability to grow our management and franchise systems is subject to the range of risks associated with real estate investments. Our ability to sustain continued growth through management or franchise agreements for new hotels and the conversion of existing facilities to managed or franchised Marriott brands is affected, and may potentially be limited, by a variety of factors influencing real estate development generally. These include site availability, financing, planning, zoning and other local approvals, and other limitations that may be imposed by market and submarket factors, such as projected room occupancy, changes in growth in demand compared to projected supply, territorial restrictions in our management and franchise agreements, costs of construction, and anticipated room rate structure.

Our development activities expose us to project cost, completion, and resale risks. We develop new hotel and residential properties, both directly and through partnerships, joint ventures, and other business structures with third parties. As demonstrated by the impairment charges that we recorded in 2015 and 2014 in connection with our development and construction of three EDITION hotels and residences, our ongoing involvement in the development of properties presents a number of risks, including that: (1) continued weakness in the capital markets may limit our ability, or that of third parties with whom we do business, to raise capital for completion of projects that have commenced or for development of future properties; (2) properties that we develop could become less attractive due to decreases in demand for hotel and residential properties, market absorption or oversupply, with the result that we may not be able to sell such properties for a profit or at the prices or selling pace we anticipate, potentially requiring additional changes in our pricing strategy that could result in further charges; (3) construction delays, cost overruns, lender financial defaults, or so called "Acts of God" such as earthquakes, hurricanes, floods, or fires may increase overall project costs or result in project cancellations; and (4) we may be unable to recover development costs we incur for any projects that we do not pursue to completion.

Our owned properties and other real estate investments subject us to numerous risks. Although we had relatively few owned and leased properties at the end of 2016, we acquired significant numbers of those properties as part of the Starwood Combination, and such properties are subject to the risks that generally relate to investments in real

property. Although we intend to sell most of our owned and leased properties over the next two years, equity real estate investments can be difficult to sell quickly, and we may not be able to do so at prices we find acceptable or at all. Moreover, the investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties, and the expenses incurred. A variety of other factors also affect income from properties and real estate values, including governmental regulations, insurance, zoning, tax and eminent domain laws, interest rate levels, and the availability of financing. For example, new or existing real estate zoning or tax laws can make it more expensive and/or time-consuming to develop real property or expand, modify, or renovate hotels. When interest rates increase, the cost of acquiring, developing, expanding, or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult both to acquire and to sell real property. Finally, under eminent domain laws, governments can take real property. Sometimes this taking is for less

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compensation than the owner believes the property is worth. Despite our asset-light strategy, our real estate properties could be impacted by any of these factors, resulting in a material adverse impact on our results of operations or financial condition. If our properties do not generate revenue sufficient to meet operating expenses, including needed capital expenditures, our income will be adversely affected.

Development activities that involve our co-investment with third parties may result in disputes that could increase project costs, impair project operations, or increase project completion risks. Partnerships, joint ventures, and other business structures involving our co-investment with third parties which we have entered into or acquired as part of the Starwood Combination generally include some form of shared control over the operations of the business and create added risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies, or objectives that are inconsistent with ours. Actions by another investor may present additional risks of project delay, increased project costs, or operational difficulties following project completion. Such disputes may also be more likely in difficult business environments.

Investing through partnerships or joint ventures decreases our ability to manage risk. In addition to acquiring or developing hotels and resorts or acquiring companies that complement our business directly, Starwood, and to the lesser extent Marriott, has from time to time invested, and we may continue to invest, as a co-venturer. Such arrangements often have shared control over the operation of the assets. Therefore, such investments may involve risks such as the possibility that the co-venturer might become bankrupt or not have the financial resources to meet its obligations. Should a venture partner become bankrupt we could become liable for our partner's share of venture's liabilities. Also, our venture partner may have economic or business interests or goals that are inconsistent with our economic or business interests or goals, may be in a position to take action contrary to our instructions, or may make requests contrary to our policies or objectives. Further, we may be unable to take action without the approval of our venture partners and, alternatively, our venture partners could take actions binding on the venture or partnership without our consent. Therefore, actions by a co-venturer might subject the assets owned by the venture or partnership to additional risk. We cannot assure you that our investments through partnerships or joint ventures will be successful despite these risks.

Risks associated with development and sale of residential properties associated with our lodging properties or brands may reduce our profits. In certain hotel and timeshare projects we participate, directly or through noncontrolling interests and/or licensing agreements, in the development and sale of residential properties associated with our brands, including residences and condominiums under our JW Marriott, The Ritz-Carlton, The Ritz-Carlton Reserve, W Hotels, The Luxury Collection, St. Regis, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Sheraton, Westin, and Autograph Collection Hotels brand names and trademarks. Such projects pose further risks beyond those generally associated with our lodging business, which may reduce our profits or compromise our brand equity, including the following: (1) weakness in residential real estate and demand generally may reduce our profits and could make it more difficult to convince future hotel development partners of the value added by our brands; (2) increases in interest rates, reductions in mortgage availability, or increases in the costs of residential ownership could prevent potential customers from buying residential products or reduce the prices they are willing to pay; and (3) residential construction may be subject to warranty and liability claims, and the costs of resolving such claims may be significant. Some hotel openings in our existing development pipeline and approved projects may be delayed or not result in new hotels, which could adversely affect our growth prospects. We report a significant number of hotels in our development pipeline, including hotels under construction and under signed contracts, as well as hotels approved for development but not yet under signed contracts. The eventual opening of such pipeline hotels and, in particular, the hotels approved for development that are not yet under contract, is subject to numerous risks, including in some cases the owner's or developer's ability to obtain adequate financing or governmental or regulatory approvals. Accordingly, we cannot assure you that our development pipeline, and in particular hotels not yet under contract, will result in new hotels that enter our system, or that those hotels will open when we anticipate.

If we incur losses on loans or loan guarantees that we have made to third parties, our profits could decline. At times, we make loans for hotel development or renovation expenditures in connection with entering into or amending management or franchise agreements. From time to time we also provide third-party lenders financial guarantees for

the timely repayment of all or a portion of debt related to hotels that we manage or franchise, generally subject to an obligation that the owner reimburse us for any fundings. We could suffer losses if hotel owners or franchisees default on loans that we provide or fail to reimburse us for loan guarantees that we have funded.

If owners of hotels that we manage or franchise cannot repay or refinance mortgage loans secured by their properties, our revenues and profits could decrease and our business could be harmed. The owners of many of our managed or franchised properties have pledged their hotels as collateral for mortgage loans that they entered into when those properties were purchased or refinanced. If those owners cannot repay or refinance maturing indebtedness on favorable terms or at all, the

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lenders could declare a default, accelerate the related debt, and repossess the property. Such sales or repossessions could, in some cases, result in the termination of our management or franchise agreements and eliminate our anticipated income and cash flows, which could negatively affect our results of operations.

### Technology, Information Protection, and Privacy Risks

A failure to keep pace with developments in technology could impair our operations or competitive position. The lodging industry continues to demand the use of sophisticated technology and systems, including those used for our reservation, revenue management, and property management systems, our Loyalty Programs, and technologies we make available to our guests. These technologies and systems must be refined, updated, and/or replaced with more advanced systems on a regular basis, and if we cannot do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

An increase in the use of third-party Internet services to book online hotel reservations could adversely impact our business. Some of our hotel rooms are booked through Internet travel intermediaries such as Expedia.com<sup>®</sup>, Priceline.com<sup>®</sup>, Booking.com<sup>™</sup>, Travelocity.com<sup>®</sup> and Orbitz.com<sup>®</sup>, as well as lesser-known online travel service providers. These intermediaries initially focused on leisure travel, but now also provide offerings for corporate travel and group meetings. Although Marriott's and Starwood's respective Best Rate Guarantee programs have helped prevent customer preference shift to the intermediaries and greatly reduced the ability of intermediaries to undercut the published rates at our hotels, intermediaries continue to use a variety of aggressive online marketing methods to attract customers, including the purchase, by certain companies, of trademarked online keywords such as "Marriott" from Internet search engines such as Google<sup>®</sup>, Bing<sup>®</sup>, Yahoo<sup>®</sup>, and Baidu<sup>®</sup> to steer customers toward their websites (a practice that has been challenged by various trademark owners in federal court). Although Marriott has successfully limited these practices through contracts with key online intermediaries, the number of intermediaries and related companies that drive traffic to intermediaries' websites is too large to permit us to eliminate this risk entirely. Our business and profitability could be harmed if online intermediaries succeed in significantly shifting loyalties from our lodging brands to their travel services, diverting bookings away from Marriott and Starwood direct online channels, or through their fees increasing the overall cost of Internet bookings for our hotels. In addition, if we fail to reach satisfactory agreements with intermediaries as our contracts with them come up for periodic renewal, our hotels might no longer appear on their websites and we could lose business as a result.

We are exposed to risks and costs associated with protecting the integrity and security of internal and customer data. Our businesses process, use, and transmit large volumes of internal employee and customer data, including credit card numbers and other personal information in various information systems that we maintain and in those maintained by third parties, including our owners, franchisees and licensees, as well as our service providers, in areas such as human resources outsourcing, website hosting, and various forms of electronic communications. The integrity and protection of that customer, employee, and company data is critical to our business. If that data is inaccurate or incomplete, we could make faulty decisions.

Our customers and employees also have a high expectation that we, as well as our owners, franchisees, licensees, and service providers, will adequately protect their personal information. The information, security, and privacy requirements imposed by governmental regulation and the requirements of the payment card industry are also increasingly demanding, in both the United States and other jurisdictions where we operate. Our systems and the systems maintained or used by our owners, franchisees, licensees, and service providers may not be able to satisfy these changing requirements and employee and customer expectations, or may require significant additional investments or time in order to do so.

Cyber-attacks could have a disruptive effect on our business. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error, or inadvertent releases of data may materially impact our, including our owners', franchisees', licensees', or service providers', information systems and records. Our reliance on computer, Internet-based and mobile systems and communications and the frequency and sophistication of efforts by hackers to gain unauthorized access to such systems have increased significantly in recent

years. A significant theft, loss, or fraudulent use of customer, employee, or company data could adversely impact our reputation and could result in remedial and other expenses, fines, or litigation. Breaches in the security of our information systems or those of our owners, franchisees, licensees, or service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. In addition, although we carry cyber/privacy liability insurance that is designed to protect us against certain losses related to cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in connection with cyber-attacks, security breaches, and other related breaches. Furthermore, in the future such insurance may not be available to us on commercially reasonable terms, or at all.

Changes in privacy law could increase our operating costs and adversely affect our ability to market our products effectively. We are subject to numerous laws, regulations, and contractual obligations designed to protect personal information,

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including foreign data protection laws, various U.S. federal and state laws, and credit card industry security standards and other applicable information privacy and security standards. Compliance with changes in applicable privacy regulations may increase our operating costs.

Additionally, we rely on a variety of direct marketing techniques, including email marketing, online advertising, and postal mailings. Any further restrictions in laws such as the CANSPAM Act, and various U.S. state laws, or new federal laws on marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of email, online advertising, and postal mailing techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of certain products. We also obtain access to potential customers from travel service providers or other companies with whom we have substantial relationships and market to some individuals on these lists directly or by including our marketing message in the other company's marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to our products could be impaired.

Any disruption in the functioning of our reservation system, such as in connection with our integration of Starwood, could adversely affect our performance and results. We manage a global reservation system that communicates reservations to our branded hotels that individuals make directly with us online, through our mobile app, or through our telephone call centers, or through intermediaries like travel agents, Internet travel websites, and other distribution channels. The cost, speed, accuracy and efficiency of our reservation system are critical aspects of our business and are important considerations for hotel owners when choosing our brands. Our business may suffer if we fail to maintain, upgrade, or prevent disruption to our reservation system. In addition, the risk of disruption in the functioning of our global reservation system could increase in connection with the system integration that we anticipate undertaking as part of our integration of Starwood. Disruptions in or changes to our reservation system could result in a disruption to our business and the loss of important data.

### Other Risks

Changes in laws and regulations could reduce our profits or increase our costs. We are subject to a wide variety of laws, regulations, and policies in jurisdictions around the world, including those for financial reporting, taxes, healthcare, and the environment. Changes to these laws, regulations, or policies, including those associated with health care, tax or financial reforms, could reduce our profits. We also anticipate that many of the jurisdictions where we do business will continue to review taxes and other revenue raising measures, and any resulting changes could impose new restrictions, costs, or prohibitions on our current practices or reduce our profits. In particular, governments may revise tax laws, regulations, or official interpretations in ways that could significantly impact us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that could require costly changes to those operations, or the way in which they are structured. For example, most U.S. company effective tax rates reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations, or interpretations significantly increase the tax rates on non-U.S. income, our effective tax rate could increase and our profits could be reduced. If such increases resulted from our status as a U.S. company, those changes could place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

If we cannot attract and retain talented associates, our business could suffer. We compete with other companies both within and outside of our industry for talented personnel. If we cannot recruit, train, develop, and retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low morale, inefficiency, or internal control failures. Insufficient numbers of talented associates could also limit our ability to grow and expand our businesses. Any shortage of skilled labor could also require higher wages that would increase our labor costs, which could reduce our profits.

Delaware law and our governing corporate documents contain, and our Board of Directors could implement, anti-takeover provisions that could deter takeover attempts. Under the Delaware business combination statute, a shareholder holding 15 percent or more of our outstanding voting stock could not acquire us without Board of Director consent for at least three years after the date the shareholder first held 15 percent or more of the voting stock. Our governing corporate documents also, among other things, require supermajority votes for mergers and similar

transactions. In addition, our Board of Directors could, without shareholder approval, implement other anti-takeover defenses, such as a shareholder rights plan.

Item 1B. Unresolved Staff Comments.

None.

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## Item 2. Properties.

We describe our company-operated properties in Part I, Item 1. “Business” earlier in this report, and under the “Properties and Rooms by Segment” caption in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We believe our properties are in generally good physical condition with the need for only routine repairs and maintenance and periodic capital improvements. Most of our regional offices, reservation centers, and sales offices, as well as our corporate headquarters, are located in leased facilities, both domestically and internationally.

As of December 31, 2016, we owned or leased 70 hotel properties as follows:

| Properties                                              | Location            | Rooms |
|---------------------------------------------------------|---------------------|-------|
| North American Full-Service                             |                     |       |
| Owned Hotels                                            |                     |       |
| The St. Regis, New York                                 | New York, NY        | 238   |
| The Westin Peachtree Plaza, Atlanta                     | Atlanta, GA         | 1,073 |
| The Westin Maui Resort & Spa, Ka’anapali                | Lahaina, HI         | 759   |
| The Tremont Chicago Hotel at Magnificent Mile           | Chicago, IL         | 135   |
| Le Centre Sheraton Montreal Hotel                       | Montreal, Canada    | 825   |
| Sheraton Centre Toronto Hotel                           | Toronto, Canada     | 1,372 |
| Sheraton Gateway Hotel in Toronto International Airport | Mississauga, Canada | 474   |
| Charlotte Marriott City Center                          | Charlotte, NC       | 438   |
| Las Vegas Marriott                                      | Las Vegas, NV       | 278   |
| Leased Hotels                                           |                     |       |
| W New York – Times Square                               | New York, NY        | 509   |
| Renaissance New York Times Square Hotel                 | New York, NY        | 310   |
| Anaheim Marriott                                        | Anaheim, CA         | 1,030 |
| Kaua’i Marriott Resort                                  | Lihue, HI           | 356   |
| North American Limited-Service                          |                     |       |
| Owned Hotels                                            |                     |       |
| Courtyard Las Vegas Convention Center                   | Las Vegas, NV       | 149   |
| Residence Inn Las Vegas Convention Center               | Las Vegas, NV       | 192   |
| Leased Hotels                                           |                     |       |
| Albuquerque Airport Courtyard                           | Albuquerque, NM     | 150   |
| Baltimore BWI Airport Courtyard                         | Linthicum, MD       | 149   |
| Baton Rouge Acadian Centre/LSU Area Courtyard           | Baton Rouge, LA     | 149   |
| Chicago O’Hare Courtyard                                | Des Plaines, IL     | 180   |
| Des Moines West/Clive Courtyard                         | Clive, IA           | 108   |
| Fort Worth University Drive Courtyard                   | Fort Worth, TX      | 130   |
| Greensboro Courtyard                                    | Greensboro, NC      | 149   |
| Indianapolis Airport Courtyard                          | Indianapolis, IN    | 151   |
| Irvine John Wayne Airport/Orange County Courtyard       | Irvine, CA          | 153   |
| Louisville East Courtyard                               | Louisville, KY      | 151   |
| Mt. Laurel Courtyard                                    | Mt Laurel, NJ       | 151   |
| Newark Liberty International Airport Courtyard          | Newark, NJ          | 146   |
| Orlando Airport Courtyard                               | Orlando, FL         | 149   |
| Orlando International Drive/Convention Center Courtyard | Orlando, FL         | 151   |
| Sacramento Airport Natomas Courtyard                    | Sacramento, CA      | 151   |
| San Diego Sorrento Valley Courtyard                     | San Diego, CA       | 149   |
| Spokane Downtown at the Convention Center Courtyard     | Spokane, WA         | 149   |
| St. Louis Downtown West Courtyard                       | St. Louis, MO       | 151   |



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| Properties                                                     | Location                          | Rooms |
|----------------------------------------------------------------|-----------------------------------|-------|
| International                                                  |                                   |       |
| Owned Hotels                                                   |                                   |       |
| Park Tower, Buenos Aires                                       | Buenos Aires, Argentina           | 181   |
| The Westin Denarau Island Resort                               | Nadi, Fiji                        | 246   |
| Sheraton Buenos Aires Hotel & Convention Center                | Buenos Aires, Argentina           | 740   |
| Sheraton Fiji Resort                                           | Nadi, Fiji                        | 297   |
| Sheraton Grand Rio Hotel & Resort                              | Rio de Janeiro, Brazil            | 539   |
| Sheraton Lima Hotel & Convention Center                        | Lima, Peru                        | 431   |
| Sheraton Mexico City Maria Isabel Hotel                        | Mexico City, Mexico               | 755   |
| Courtyard by Marriott Toulouse Airport                         | Toulouse, France                  | 186   |
| Courtyard by Marriott Aberdeen Airport                         | Aberdeen, UK                      | 194   |
| Courtyard by Marriott Rio de Janeiro Barra da Tijuca           | Barra da Tijuca, Brazil           | 264   |
| Residence Inn Rio de Janeiro Barra da Tijuca                   | Barra da Tijuca, Brazil           | 140   |
| Leased Hotels                                                  |                                   |       |
| Grosvenor House, A JW Marriott Hotel                           | London, UK                        | 496   |
| The Ritz-Carlton, Berlin                                       | Berlin, Germany                   | 303   |
| The Ritz-Carlton, Tokyo                                        | Tokyo, Japan                      | 250   |
| W Barcelona                                                    | Barcelona, Spain                  | 473   |
| W London – Leicester Square                                    | London, UK                        | 192   |
| Hotel Alfonso XIII                                             | Seville, Spain                    | 151   |
| Hotel Maria Cristina, San Sebastian                            | San Sebastian, Spain              | 136   |
| The St. Regis, Osaka                                           | Osaka, Japan                      | 160   |
| Cape Town Marriott Hotel Crystal Towers                        | Cape Town, South Africa           | 180   |
| Frankfurt Marriott Hotel                                       | Frankfurt Germany                 | 587   |
| Berlin Marriott Hotel                                          | Berlin, Germany                   | 379   |
| Leipzig Marriott Hotel                                         | Leipzig, Germany                  | 231   |
| Heidelberg Marriott Hotel                                      | Heidelberg, Germany               | 248   |
| Sheraton Diana Majestic Hotel, Milan                           | Milan, Italy                      | 105   |
| Renaissance Duesseldorf Hotel                                  | Duesseldorf, Germany              | 244   |
| Renaissance Hamburg Hotel                                      | Hamburg, Germany                  | 205   |
| Renaissance Santo Domingo Jaragua Hotel & Casino               | Santo Domingo, Dominican Republic | 300   |
| African Pride 15 on Orange Hotel                               | Cape Town, South Africa           | 135   |
| African Pride Melrose Arch                                     | Johannesburg, South Africa        | 118   |
| Protea Hotel by Marriott Cape Town Sea Point                   | Cape Town, South Africa           | 124   |
| Protea Hotel by Marriott Midrand                               | Midrand, South Africa             | 177   |
| Protea Hotel by Marriott Pretoria Centurion                    | Pretoria, South Africa            | 177   |
| Protea Hotel by Marriott O R Tambo Airport                     | Johannesburg, South Africa        | 213   |
| Protea Hotel by Marriott Roodepoort                            | Roodepoort, South Africa          | 79    |
| Protea Hotel Fire & Ice! by Marriott Cape Town                 | Cape Town, South Africa           | 201   |
| Protea Hotel Fire & Ice! by Marriott Johannesburg Melrose Arch | Johannesburg, South Africa        | 197   |

## Item 3. Legal Proceedings.

See the information under “Legal Proceedings” in Footnote 8 “Commitments and Contingencies” which we incorporate here by reference.

From time to time, we are also subject to other legal proceedings and claims in the ordinary course of business, including adjustments proposed during governmental examinations of the various tax returns we file. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, legal proceedings are inherently uncertain, and unfavorable rulings could, individually or in aggregate, have a material adverse effect on our

business, financial condition, or operating results.

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Item 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of the Registrant

See the information under “Executive Officers of the Registrant” in Part III, Item 10 of this report for information about our executive officers, which we incorporate here by reference.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

## Market Information and Dividends

The table below presents the price range of our Class A Common Stock (our "common stock") and the per share cash dividends we declared for each fiscal quarter during the last two years.

|                    | Stock Price |         | Dividends          |
|--------------------|-------------|---------|--------------------|
|                    | High        | Low     | Declared per Share |
| 2016 First Quarter | \$73.89     | \$56.43 | \$ 0.2500          |
| Second Quarter     | 70.75       | 60.87   | 0.3000             |
| Third Quarter      | 73.99       | 66.09   | 0.3000             |
| Fourth Quarter     | 86.15       | 65.91   | 0.3000             |
|                    | Stock Price |         | Dividends          |
|                    | High        | Low     | Declared per Share |
| 2015 First Quarter | \$85.00     | \$72.77 | \$ 0.2000          |
| Second Quarter     | 84.33       | 73.77   | 0.2500             |
| Third Quarter      | 78.76       | 63.95   | 0.2500             |
| Fourth Quarter     | 79.88       | 64.64   | 0.2500             |

At February 7, 2017, 383,561,428 shares of our common stock were outstanding and were held by 37,941 shareholders of record. We issued 134.4 million unrestricted shares of common stock in the Starwood Combination. Our common stock trades on the NASDAQ Global Select Market ("NASDAQ") and the Chicago Stock Exchange. The fiscal year-end closing price for our stock was \$82.68 on December 30, 2016, and \$67.04 on December 31, 2015. All prices are reported on the consolidated transaction reporting system.

## Fourth Quarter 2016 Issuer Purchases of Equity Securities

(in millions, except per share amounts)

| Period                             | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> |
|------------------------------------|----------------------------------|-------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| October 1, 2016-October 31, 2016   | —                                | \$ —                    | —                                                                                               | 35.7                                                                                          |
| November 1, 2016-November 30, 2016 | 2.1                              | \$ 77.15                | 2.1                                                                                             | 33.6                                                                                          |
| December 1, 2016-December 31, 2016 | 2.2                              | \$ 83.01                | 2.2                                                                                             | 31.4                                                                                          |

(1) On February 11, 2016, we announced that our Board of Directors had increased the authorization to repurchase our common stock by 25 million shares as part of an ongoing share repurchase program. At year-end 2016, 31.4 million shares remained available for repurchase under previous authorizations. We repurchase shares in the open market and in privately negotiated transactions.

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## Item 6. Selected Financial Data.

The following table presents a summary of our selected historical financial data derived from our last 10 years of Financial Statements. Because this information is only a summary and does not provide all of the information contained in our Financial Statements, including the related notes, you should read “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements for each year for more detailed information including, among other items, restructuring costs and other charges we incurred in 2016, 2009, and 2008, timeshare strategy-impairment charges we incurred in 2011 and 2009, and our 2011 spin-off of our former timeshare operations and timeshare development business. For 2016, we include Legacy-Starwood results from the Merger Date to year-end 2016.

| (\$ in millions, except per share data)                                                              | Fiscal Year <sup>(1)</sup> |          |          |          |          |          |          |          |          |
|------------------------------------------------------------------------------------------------------|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                                                                                      | 2016                       | 2015     | 2014     | 2013     | 2012     | 2011     | 2010     | 2009     | 2008     |
| <b>Income Statement Data:</b>                                                                        |                            |          |          |          |          |          |          |          |          |
| Revenues <sup>(2)</sup>                                                                              | \$17,072                   | \$14,486 | \$13,796 | \$12,784 | \$11,814 | \$12,317 | \$11,691 | \$10,908 | \$12,879 |
| Operating income (loss) <sup>(2)</sup>                                                               | \$1,368                    | \$1,350  | \$1,159  | \$988    | \$940    | \$526    | \$695    | \$(152)  | \$765    |
| Income (loss) from continuing operations attributable to Marriott                                    | \$780                      | \$859    | \$753    | \$626    | \$571    | \$198    | \$458    | \$(346)  | \$359    |
| Discontinued operations <sup>(3)</sup>                                                               | —                          | —        | —        | —        | —        | —        | —        | —        | 3        |
| Net income (loss) attributable to Marriott                                                           | \$780                      | \$859    | \$753    | \$626    | \$571    | \$198    | \$458    | \$(346)  | \$362    |
| <b>Per Share Data <sup>(4)</sup>:</b>                                                                |                            |          |          |          |          |          |          |          |          |
| Diluted earnings (losses) per share from continuing operations attributable to Marriott shareholders | \$2.64                     | \$3.15   | \$2.54   | \$2.00   | \$1.72   | \$0.55   | \$1.21   | \$(0.97) | \$0.97   |
| Diluted earnings per share from discontinued operations attributable to Marriott shareholders        | —                          | —        | —        | —        | —        | —        | —        | —        | 0.01     |
| Diluted earnings (losses) per share attributable to Marriott shareholders                            | \$2.64                     | \$3.15   | \$2.54   | \$2.00   | \$1.72   | \$0.55   | \$1.21   | \$(0.97) | \$0.98   |
| Cash dividends declared per share                                                                    | \$1.1500                   | \$0.9500 | \$0.7700 | \$0.6400 | \$0.4900 | \$0.3875 | \$0.2075 | \$0.0866 | \$0.3339 |
| <b>Balance Sheet Data (at year-end):</b>                                                             |                            |          |          |          |          |          |          |          |          |
| Total assets <sup>(7)</sup>                                                                          | \$24,140                   | \$6,082  | \$6,833  | \$6,794  | \$6,342  | \$5,910  | \$8,983  | \$7,933  | \$8,903  |
| Long-term debt <sup>(7)</sup>                                                                        | 8,197                      | 3,807    | 3,447    | 3,147    | 2,528    | 1,816    | 2,691    | 2,234    | 2,975    |
| Shareholders’ equity (deficit)                                                                       | 5,357                      | (3,590)  | (2,200)  | (1,415)  | (1,285)  | (781)    | 1,585    | 1,142    | 1,380    |
| <b>Other Data:</b>                                                                                   |                            |          |          |          |          |          |          |          |          |
| Base management fees                                                                                 | \$806                      | \$698    | \$672    | \$621    | \$581    | \$602    | \$562    | \$530    | \$635    |
| Franchise fees                                                                                       | 988                        | 853      | 745      | 666      | 607      | 506      | 441      | 400      | 451      |
| Incentive management fees                                                                            | 425                        | 319      | 302      | 256      | 232      | 195      | 182      | 154      | 311      |
| Total fees                                                                                           | \$2,219                    | \$1,870  | \$1,719  | \$1,543  | \$1,420  | \$1,303  | \$1,185  | \$1,084  | \$1,397  |
| <b>Fee Revenue-Source:</b>                                                                           |                            |          |          |          |          |          |          |          |          |
| North America <sup>(5)</sup>                                                                         | \$1,682                    | \$1,458  | \$1,319  | \$1,186  | \$1,074  | \$970    | \$878    | \$806    | \$1,038  |
| Total Outside North America <sup>(6)</sup>                                                           | 537                        | 412      | 400      | 357      | 346      | 333      | 307      | 278      | 359      |
| Total fees                                                                                           | \$2,219                    | \$1,870  | \$1,719  | \$1,543  | \$1,420  | \$1,303  | \$1,185  | \$1,084  | \$1,397  |

(1) In 2013, we changed to a calendar year-end reporting cycle. All fiscal years presented before 2013 included 52 weeks, except for 2008 which included 53 weeks.

(2) Balances do not reflect the impact of discontinued operations. Also, for periods before 2009, we reclassified our provision for loan losses associated with our lodging operations to the “General, administrative, and other” caption of our Income Statements to conform to our presentation for periods beginning in 2009. This reclassification only affected operating income.

(3)

The following businesses became discontinued operations in the year we announced that we would sell or exit them: synthetic fuel (2007).

- (4) We issued stock dividends in the third and fourth quarters of 2009 and have adjusted all per share data retroactively to reflect those stock dividends.
- (5) Represents fee revenue from the United States (but not Hawaii before 2011) and Canada.
- (6) Represents fee revenue outside of North America, as defined in footnote (5) above.
- In 2015, we adopted ASU No. 2015-03, which changes the presentation of debt issuance costs, and ASU No.
- (7) 2015-17, which changes the classification of deferred taxes. Years before 2014 have not been adjusted for these new accounting standards.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**BUSINESS AND OVERVIEW**

Overview

We are a worldwide operator, franchisor, and licensor of hotels and timeshare properties in 122 countries and territories under 30 brand names. We also develop, operate, and market residential properties and provide services to home/condominium owner associations. Under our business model, we typically manage or franchise hotels, rather than own them. We group our operations into three business segments: North American Full-Service, North American Limited-Service, and International.

We earn base management fees and in many cases incentive management fees from the properties that we manage, and we earn franchise fees on the properties that others operate under franchise agreements with us. In most markets, base fees typically consist of a percentage of property-level revenue while incentive fees typically consist of a percentage of net house profit adjusted for a specified owner return. In the Middle East and Asia, incentive fees typically consist of a percentage of gross operating profit without adjustment for a specified owner return. Net house profit is calculated as gross operating profit (house profit) less non-controllable expenses such as insurance, real estate taxes, and capital spending reserves.

Our emphasis on long-term management contracts and franchising tends to provide more stable earnings in periods of economic softness, while adding new hotels to our system generates growth, typically with little or no investment by the Company. This strategy has driven substantial growth while minimizing financial leverage and risk in a cyclical industry. In addition, we believe minimizing our capital investments and adopting a strategy of recycling the investments that we do make maximizes and maintains our financial flexibility.

We remain focused on doing the things that we do well; that is, selling rooms, taking care of our guests, and making sure we control costs both at company-operated properties and at the corporate level ("above-property"). Our brands remain strong as a result of skilled management teams, dedicated associates, superior customer service with an emphasis on guest and associate satisfaction, significant distribution, our Loyalty Programs, a multichannel reservations system, and desirable property amenities. We strive to effectively leverage our size and broad distribution.

We, along with owners and franchisees, continue to invest in our brands by means of new, refreshed, and reinvented properties, new room and public space designs, and enhanced amenities and technology offerings. We address, through various means, hotels in our system that do not meet standards. We continue to enhance the appeal of our proprietary, information-rich, and easy-to-use websites, and of our associated mobile smartphone applications, through functionality and service improvements, and we expect to continue capturing an increasing proportion of property-level reservations via this cost-efficient channel.

Our profitability, as well as that of owners and franchisees, has benefited from our approach to property-level and above-property productivity. Properties in our system continue to maintain very tight cost controls. We also control above-property costs, some of which we allocate to hotels, by remaining focused on systems, processing, and support areas.

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### Acquisition of Starwood Hotels & Resorts Worldwide

On the Merger Date, we completed the Starwood Combination. Our Income Statements reflect a net loss of \$39 million for Starwood's results of operations for the period from September 23, 2016 to December 31, 2016, including merger-related costs and charges, net of tax, of \$194 million. The combination of our brands creates a more comprehensive portfolio, enhances our global market distribution, and provides opportunities for cost efficiencies. Our combined company now operates or franchises over 6,000 properties with nearly 1.2 million rooms. See Footnote 3 "Acquisitions and Dispositions" for more information.

### Performance Measures

We believe Revenue per Available Room ("RevPAR"), which we calculate by dividing room sales for comparable properties by room nights available for the period, is a meaningful indicator of our performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR may not be comparable to similarly titled measures, such as revenues. We also believe occupancy and average daily rate ("ADR"), which are components of calculating RevPAR, are meaningful indicators of our performance. Occupancy, which we calculate by dividing occupied rooms by total rooms available, measures the utilization of a property's available capacity. ADR, which we calculate by dividing property room revenue by total rooms sold, measures average room price and is useful in assessing pricing levels.

Our RevPAR statistics for 2016, and for 2016 compared to 2015, include Legacy-Starwood comparable properties for both full years even though Marriott did not own the Legacy-Starwood brands before the Starwood Combination. Therefore, our RevPAR statistics include Legacy-Starwood properties for periods during which fees from the Legacy-Starwood properties are not included in our Income Statements. We provide these RevPAR statistics as an indicator of the performance of our brands and to allow for comparison to industry metrics, and they should not be viewed as necessarily correlating with our fee revenue. Our RevPAR statistics for 2015, and for 2015 compared to 2014, are for Legacy-Marriott comparable properties only, as Marriott did not own the Legacy-Starwood brands at any time during that two-year period. For the properties located in countries that use currencies other than the U.S. dollar, the comparisons to the prior year period are on a constant U.S. dollar basis. We calculate constant dollar statistics by applying exchange rates for the current period to the prior comparable period.

We define our comparable properties as our properties, including those that we acquired through the Starwood Combination, that were open and operating under one of our Legacy-Marriott or Legacy-Starwood brands since the beginning of the last full calendar year (since January 1, 2015 for the current period), and have not, in either the current or previous year: (i) undergone significant room or public space renovations or expansions, (ii) been converted between company-operated and franchised, or (iii) sustained substantial property damage or business interruption. For 2016 compared to 2015, we had 3,698 comparable North American properties (including 483 Legacy-Starwood properties) and 965 comparable International properties (including 506 Legacy-Starwood properties). For 2015 compared to 2014, we had 3,077 comparable North American properties and 367 comparable International properties. We also believe company-operated house profit margin, which is the ratio of property-level gross operating profit to total property-level revenue, is a meaningful indicator of our performance because this ratio measures our overall ability as the operator to produce property-level profits by generating sales and controlling the operating expenses over which we have the most direct control. House profit includes room, food and beverage, and other revenue and the related expenses including payroll and benefits expenses, as well as repairs and maintenance, utility, general and administrative, and sales and marketing expenses. House profit does not include the impact of management fees, furniture, fixtures and equipment replacement reserves, insurance, taxes, or other fixed expenses.

### Business Trends

Our 2016 results reflected a year-over-year increase in the number of properties in our system, favorable demand for our brands in many markets around the world, and slow but steady economic growth. Comparable worldwide systemwide RevPAR for 2016 increased 1.8 percent to \$113.50, ADR increased 1.0 percent on a constant dollar basis to \$156.53, and occupancy increased 0.6 percentage points to 72.5 percent, compared to 2015.

In North America, 2016 lodging demand for our brands reflected increased transient business, driven by higher retail and government travel, but weaker premium-priced corporate transient demand. Group business was higher in most of 2016 compared to 2015. Revenue growth was constrained in certain markets by new lodging supply, weak demand

from the oil and gas industries, the impact of the strong dollar on international travel to U.S. gateway markets, and moderate GDP growth. The 2017 group revenue pace for systemwide full-service hotels in North America was up more than two percent as of year-end 2016, compared to the 2016 group pace measured as of year-end 2015.

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Our Europe region experienced higher demand in 2016 across most countries, led by Spain, Portugal and Russia, partially constrained by weaker demand in France, Belgium, and Turkey following terrorism events in those countries. In our Asia Pacific region in 2016, RevPAR growth was strong in India and Thailand, while RevPAR growth in China was constrained in Hong Kong and certain southern and tertiary China markets. Middle East demand continued to be impacted by geopolitical instability, oversupply in Dubai and Qatar, and lower oil prices. In South Africa, results were favorable in 2016, reflecting strong local demand and higher international tourism attracted by the weak South African Rand. In the Caribbean and Latin America, growth from strong demand in Mexico and the Summer Olympic Games in Rio de Janeiro was offset by concerns relating to the Zika Virus in the Caribbean and weak economic conditions in most markets in South America.

We monitor market conditions and provide the tools for our hotels to price rooms daily in accordance with individual property demand levels, generally adjusting room rates as demand changes. Our hotels modify the mix of business to improve revenue as demand changes. For our company-operated properties, we continue to focus on enhancing property-level house profit margins and making productivity improvements.

Compared to 2015, worldwide comparable company-operated house profit margins in 2016 increased by 50 basis points and worldwide comparable company-operated house profit per available room (“HP-PAR”) increased by 2.7 percent on a constant U.S. dollar basis, reflecting higher occupancy, rate increases, improved productivity, and solid cost controls primarily at our Legacy-Marriott properties. North American company-operated house profit margins increased by 70 basis points, and HP-PAR at those properties increased by 4.4 percent. International company-operated house profit margins increased by 20 basis points, and HP-PAR at those properties increased by 0.7 percent compared to 2015.

System Growth and Pipeline

In 2016, we added 348 properties with 55,321 rooms, in addition to the 1,342 properties and 381,440 rooms gained with the Starwood Combination on the Merger Date. Approximately 40 percent of the added rooms are located outside North America, and 18 percent are conversions from competitor brands. Of the rooms gained with the Starwood Combination, approximately 50 percent are located outside North America. In 2016, 34 properties (5,691 rooms) exited our system.

At the end of 2016, including rooms under Legacy-Starwood brands, we had more than 420,000 hotel rooms in our development pipeline, which includes hotel rooms under construction and under signed contracts, and nearly 34,000 hotel rooms approved for development but not yet under signed contracts. More than half of the rooms in our development pipeline are outside North America.

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. Nonetheless, our ability to develop and update our brands and the ability of hotel developers to build or acquire new Marriott-branded properties, both of which are important parts of our growth plan, depend in part on capital access, availability and cost for other hotel developers and third-party owners. These growth plans are subject to numerous risks and uncertainties, many of which are outside of our control. See the “Forward-Looking Statements” and “Risks and Uncertainties” captions earlier in this report and the “Liquidity and Capital Resources” caption later in this report.

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## Brand Statistics

The following brand statistics for 2016, and for 2016 compared to 2015, include Legacy-Starwood comparable properties for both full years even though Marriott did not own the Legacy-Starwood brands before the Starwood Combination. The statistics for 2015, and for 2015 compared to 2014, are for Legacy-Marriott comparable properties only, as Marriott did not own the Legacy-Starwood brands at any time during that two-year period.

2016 Compared to 2015. The following tables present RevPAR, occupancy, and ADR for comparable properties under our Legacy-Marriott and Legacy-Starwood brands in North America and in our International regions.

Systemwide statistics include data from our franchised properties, in addition to our company-operated properties.

## Comparable Company-Operated North American Properties

|                                                         | RevPAR   |                 |   | Occupancy |                 |        | Average Daily Rate |                 |   |
|---------------------------------------------------------|----------|-----------------|---|-----------|-----------------|--------|--------------------|-----------------|---|
|                                                         | 2016     | Change vs. 2015 |   | 2016      | Change vs. 2015 |        | 2016               | Change vs. 2015 |   |
| JW Marriott                                             | \$187.02 | 4.0             | % | 76.8%     | 2.2             | % pts. | \$243.57           | 1.1             | % |
| The Ritz-Carlton                                        | \$252.40 | 3.6             | % | 71.9%     | 1.0             | % pts. | \$350.99           | 2.2             | % |
| W Hotels                                                | \$239.94 | (2.2)           | % | 81.7%     | 0.2             | % pts. | \$293.82           | (2.5)           | % |
| Composite North American Luxury <sup>(1)</sup>          | \$242.10 | 2.8             | % | 76.3%     | 1.4             | % pts. | \$317.13           | 0.9             | % |
| Marriott Hotels                                         | \$144.94 | 2.4             | % | 75.4%     | 0.7             | % pts. | \$192.23           | 1.4             | % |
| Sheraton                                                | \$149.49 | 2.1             | % | 76.5%     | (0.5)           | % pts. | \$195.40           | 2.7             | % |
| Westin                                                  | \$167.21 | 0.9             | % | 77.4%     | (0.6)           | % pts. | \$216.07           | 1.7             | % |
| Composite North American Upper Upscale <sup>(2)</sup>   | \$149.92 | 2.3             | % | 76.1%     | 0.3             | % pts. | \$196.98           | 1.8             | % |
| Composite North American Full-Service <sup>(3)</sup>    | \$166.97 | 2.4             | % | 76.2%     | 0.5             | % pts. | \$219.25           | 1.7             | % |
| Courtyard                                               | \$103.65 | 2.2             | % | 73.1%     | 0.3             | % pts. | \$141.83           | 1.7             | % |
| Residence Inn                                           | \$118.14 | 3.8             | % | 79.0%     | 0.6             | % pts. | \$149.56           | 3.0             | % |
| Composite North American Limited-Service <sup>(4)</sup> | \$106.20 | 2.8             | % | 75.0%     | 0.5             | % pts. | \$141.68           | 2.1             | % |
| Composite North American - All                          | \$147.48 | 2.5             | % | 75.8%     | 0.5             | % pts. | \$194.64           | 1.8             | % |

## Comparable Systemwide North American Properties

|                                                         | RevPAR   |                 |   | Occupancy |                 |        | Average Daily Rate |                 |   |
|---------------------------------------------------------|----------|-----------------|---|-----------|-----------------|--------|--------------------|-----------------|---|
|                                                         | 2016     | Change vs. 2015 |   | 2016      | Change vs. 2015 |        | 2016               | Change vs. 2015 |   |
| JW Marriott                                             | \$178.91 | 3.5             | % | 76.0%     | 1.3             | % pts. | \$235.47           | 1.8             | % |
| The Ritz-Carlton                                        | \$252.40 | 3.6             | % | 71.9%     | 1.0             | % pts. | \$350.99           | 2.2             | % |
| W Hotels                                                | \$239.94 | (2.2)           | % | 81.7%     | 0.2             | % pts. | \$293.82           | (2.5)           | % |
| Composite North American Luxury <sup>(1)</sup>          | \$231.99 | 2.8             | % | 76.0%     | 1.2             | % pts. | \$305.36           | 1.2             | % |
| Marriott Hotels                                         | \$124.39 | 2.0             | % | 72.4%     | 0.3             | % pts. | \$171.92           | 1.5             | % |
| Sheraton                                                | \$115.58 | 2.4             | % | 73.3%     | 0.3             | % pts. | \$157.73           | 2.0             | % |
| Westin                                                  | \$152.94 | 2.4             | % | 76.9%     | 0.1             | % pts. | \$198.98           | 2.3             | % |
| Composite North American Upper Upscale <sup>(2)</sup>   | \$130.44 | 2.5             | % | 73.9%     | 0.4             | % pts. | \$176.52           | 1.9             | % |
| Composite North American Full-Service <sup>(3)</sup>    | \$141.11 | 2.6             | % | 74.1%     | 0.5             | % pts. | \$190.41           | 1.9             | % |
| Courtyard                                               | \$101.49 | 1.9             | % | 72.9%     | —               | % pts. | \$139.24           | 1.9             | % |
| Residence Inn                                           | \$112.78 | 2.4             | % | 79.0%     | (0.1)           | % pts. | \$142.78           | 2.6             | % |
| Fairfield Inn & Suites                                  | \$77.96  | 1.2             | % | 70.1%     | (0.5)           | % pts. | \$111.20           | 1.9             | % |
| Composite North American Limited-Service <sup>(4)</sup> | \$96.62  | 2.0             | % | 74.2%     | —               | % pts. | \$130.15           | 2.0             | % |
| Composite North American - All                          | \$116.47 | 2.3             | % | 74.2%     | 0.2             | % pts. | \$157.00           | 2.0             | % |

<sup>(1)</sup> Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, and EDITION.

<sup>(2)</sup> Includes Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Autograph Collection Hotels, Gaylord Hotels, Le Méridien, and Tribute Portfolio.

<sup>(3)</sup> Includes Composite North American Luxury and Composite North American Upper Upscale.

<sup>(4)</sup> Includes Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, and TownePlace Suites. Systemwide also includes Four Points, Aloft Hotels, and Element Hotels.



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## Comparable Company-Operated International Properties

|                                    | RevPAR   |                 |   | Occupancy |                 |        | Average Daily Rate |                 |   |
|------------------------------------|----------|-----------------|---|-----------|-----------------|--------|--------------------|-----------------|---|
|                                    | 2016     | Change vs. 2015 | % | 2016      | Change vs. 2015 | % pts. | 2016               | Change vs. 2015 | % |
| Greater China                      | \$89.17  | 0.4             | % | 67.5%     | 3.7             | % pts. | \$132.16           | (5.1)           | % |
| Rest of Asia Pacific               | \$112.69 | 3.7             | % | 75.2%     | 3.0             | % pts. | \$149.80           | (0.5)           | % |
| Asia Pacific                       | \$97.08  | 1.6             | % | 70.1%     | 3.4             | % pts. | \$138.52           | (3.4)           | % |
| Caribbean & Latin America          | \$139.69 | 0.4             | % | 65.3%     | (0.9)           | % pts. | \$213.99           | 1.8             | % |
| Europe                             | \$124.87 | 0.8             | % | 71.8%     | (0.5)           | % pts. | \$173.84           | 1.5             | % |
| Middle East & Africa               | \$106.49 | (3.8)           | % | 64.6%     | 0.6             | % pts. | \$164.90           | (4.8)           | % |
| Total International <sup>(1)</sup> | \$109.05 | 0.3             | % | 69.2%     | 1.6             | % pts. | \$157.69           | (2.1)           | % |
| Worldwide <sup>(2)</sup>           | \$128.37 | 1.6             | % | 72.5%     | 1.1             | % pts. | \$177.11           | 0.1             | % |

## Comparable Systemwide International Properties

|                                    | RevPAR   |                 |   | Occupancy |                 |        | Average Daily Rate |                 |   |
|------------------------------------|----------|-----------------|---|-----------|-----------------|--------|--------------------|-----------------|---|
|                                    | 2016     | Change vs. 2015 | % | 2016      | Change vs. 2015 | % pts. | 2016               | Change vs. 2015 | % |
| Greater China                      | \$89.33  | 0.2             | % | 67.2%     | 3.5             | % pts. | \$132.92           | (5.1)           | % |
| Rest of Asia Pacific               | \$114.07 | 4.0             | % | 74.4%     | 2.4             | % pts. | \$153.35           | 0.7             | % |
| Asia Pacific                       | \$99.50  | 2.0             | % | 70.2%     | 3.1             | % pts. | \$141.82           | (2.5)           | % |
| Caribbean & Latin America          | \$116.98 | (0.4)           | % | 63.5%     | —               | % pts. | \$184.29           | (0.3)           | % |
| Europe                             | \$114.62 | 1.4             | % | 70.6%     | 0.1             | % pts. | \$162.34           | 1.3             | % |
| Middle East & Africa               | \$102.09 | (3.5)           | % | 64.2%     | 0.4             | % pts. | \$159.12           | (4.1)           | % |
| Total International <sup>(1)</sup> | \$106.39 | 0.7             | % | 68.5%     | 1.4             | % pts. | \$155.31           | (1.5)           | % |
| Worldwide <sup>(2)</sup>           | \$113.50 | 1.8             | % | 72.5%     | 0.6             | % pts. | \$156.53           | 1.0             | % |

Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Autograph Collection Hotels, Protea Hotels, Le Méridien, Courtyard, Residence Inn, Fairfield Inn & Suites, Four Points, Aloft Hotels, and AC Hotels by Marriott. Systemwide also includes Element Hotels and Moxy Hotels.

<sup>(1)</sup> Includes JW Marriott, The Ritz-Carlton, W Hotels, The Luxury Collection, St. Regis, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Sheraton, Westin, Renaissance Hotels, Autograph Collection Hotels, Protea Hotels, <sup>(2)</sup> Gaylord Hotels, Le Méridien, Tribute Portfolio, Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, TownePlace Suites, Four Points, Aloft Hotels, and AC Hotels by Marriott. Systemwide also includes Element Hotels and Moxy Hotels.

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2015 Compared to 2014. The following tables present RevPAR, occupancy, and ADR for comparable properties under our Legacy-Marriott brands in North America and in our International regions. Systemwide statistics include data from our franchised properties, in addition to our company-operated properties.

## Comparable Company-Operated North American Properties

|                                                         | RevPAR   |                 |  | Occupancy |                 |      | Average Daily Rate |                 |  |
|---------------------------------------------------------|----------|-----------------|--|-----------|-----------------|------|--------------------|-----------------|--|
|                                                         | 2015     | Change vs. 2014 |  | 2015      | Change vs. 2014 |      | 2015               | Change vs. 2014 |  |
| Legacy-Marriott                                         |          |                 |  |           |                 |      |                    |                 |  |
| Marriott Hotels                                         | \$147.33 | 4.7 %           |  | 75.4%     | 0.6 %           | pts. | \$195.28           | 3.8 %           |  |
| Renaissance Hotels                                      | \$136.91 | 5.5 %           |  | 75.2%     | 0.8 %           | pts. | \$182.13           | 4.4 %           |  |
| The Ritz-Carlton                                        | \$259.41 | 2.7 %           |  | 72.1%     | (0.1)%          | pts. | \$359.92           | 2.9 %           |  |
| Composite North American Full-Service <sup>(1)</sup>    | \$157.10 | 4.3 %           |  | 74.9%     | 0.6 %           | pts. | \$209.72           | 3.5 %           |  |
| Courtyard                                               | \$101.18 | 6.3 %           |  | 72.8%     | 0.7 %           | pts. | \$139.08           | 5.2 %           |  |
| SpringHill Suites                                       | \$95.21  | 7.5 %           |  | 76.0%     | 1.6 %           | pts. | \$125.24           | 5.1 %           |  |
| Residence Inn                                           | \$112.33 | 6.5 %           |  | 78.5%     | 0.4 %           | pts. | \$143.14           | 6.0 %           |  |
| TownePlace Suites                                       | \$74.83  | 8.3 %           |  | 72.7%     | 0.1 %           | pts. | \$102.99           | 8.2 %           |  |
| Composite North American Limited-Service <sup>(2)</sup> | \$102.76 | 6.5 %           |  | 74.5%     | 0.7 %           | pts. | \$137.92           | 5.5 %           |  |
| Composite North American - All                          | \$134.18 | 5.0 %           |  | 74.7%     | 0.6 %           | pts. | \$179.53           | 4.2 %           |  |

## Comparable Systemwide North American Properties

|                                                         | RevPAR   |                 |  | Occupancy |                 |      | Average Daily Rate |                 |  |
|---------------------------------------------------------|----------|-----------------|--|-----------|-----------------|------|--------------------|-----------------|--|
|                                                         | 2015     | Change vs. 2014 |  | 2015      | Change vs. 2014 |      | 2015               | Change vs. 2014 |  |
| Legacy-Marriott                                         |          |                 |  |           |                 |      |                    |                 |  |
| Marriott Hotels                                         | \$127.52 | 5.0 %           |  | 72.6%     | 0.6 %           | pts. | \$175.53           | 4.2 %           |  |
| Renaissance Hotels                                      | \$121.20 | 5.4 %           |  | 73.9%     | 0.8 %           | pts. | \$164.02           | 4.3 %           |  |
| Autograph Collection Hotels                             | \$178.16 | 3.5 %           |  | 77.5%     | 1.1 %           | pts. | \$229.90           | 1.9 %           |  |
| The Ritz-Carlton                                        | \$259.41 | 2.7 %           |  | 72.1%     | (0.1)%          | pts. | \$359.92           | 2.9 %           |  |
| Composite North American Full-Service <sup>(1)</sup>    | \$136.95 | 4.6 %           |  | 73.1%     | 0.6 %           | pts. | \$187.40           | 3.8 %           |  |
| Courtyard                                               | \$99.88  | 6.1 %           |  | 73.1%     | 0.8 %           | pts. | \$136.58           | 5.0 %           |  |
| Fairfield Inn & Suites                                  | \$76.70  | 4.7 %           |  | 70.6%     | 0.3 %           | pts. | \$108.71           | 4.2 %           |  |
| SpringHill Suites                                       | \$88.80  | 5.2 %           |  | 74.8%     | 0.3 %           | pts. | \$118.64           | 4.8 %           |  |
| Residence Inn                                           | \$110.75 | 5.5 %           |  | 79.4%     | 0.1 %           | pts. | \$139.51           | 5.3 %           |  |
| TownePlace Suites                                       | \$76.15  | 5.0 %           |  | 74.8%     | 0.3 %           | pts. | \$101.83           | 4.6 %           |  |
| Composite North American Limited-Service <sup>(2)</sup> | \$94.99  | 5.6 %           |  | 74.4%     | 0.5 %           | pts. | \$127.65           | 4.9 %           |  |
| Composite North American - All                          | \$109.83 | 5.2 %           |  | 73.9%     | 0.5 %           | pts. | \$148.53           | 4.5 %           |  |

<sup>(1)</sup> Includes The Ritz-Carlton, Marriott Hotels, Renaissance Hotels, and Gaylord Hotels. Systemwide also includes Autograph Collection Hotels.

<sup>(2)</sup> Includes Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, and TownePlace Suites.

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## Comparable Company-Operated International Properties

| Legacy-Marriott                    | RevPAR   |                 |   | Occupancy |                 |   | Average Daily Rate |                 |   |
|------------------------------------|----------|-----------------|---|-----------|-----------------|---|--------------------|-----------------|---|
|                                    | 2015     | Change vs. 2014 | % | 2015      | Change vs. 2014 | % | 2015               | Change vs. 2014 | % |
| Caribbean & Latin America          | \$179.58 | 5.2             | % | 72.4%     | 0.2             | % | pts. \$248.05      | 4.9             | % |
| Europe                             | \$131.43 | 6.5             | % | 75.9%     | 1.7             | % | pts. \$173.07      | 4.1             | % |
| Middle East & Africa               | \$110.85 | 0.9             | % | 61.2%     | 2.7             | % | pts. \$181.16      | (3.5)           | % |
| Asia Pacific                       | \$114.00 | 4.7             | % | 74.1%     | 3.4             | % | pts. \$153.83      | —               | % |
| Total International <sup>(1)</sup> | \$128.50 | 5.0             | % | 72.9%     | 2.3             | % | pts. \$176.24      | 1.7             | % |
| Worldwide <sup>(2)</sup>           | \$132.30 | 5.0             | % | 74.1%     | 1.2             | % | pts. \$178.46      | 3.4             | % |

## Comparable Systemwide International Properties

| Legacy-Marriott                    | RevPAR   |                 |   | Occupancy |                 |   | Average Daily Rate |                 |   |
|------------------------------------|----------|-----------------|---|-----------|-----------------|---|--------------------|-----------------|---|
|                                    | 2015     | Change vs. 2014 | % | 2015      | Change vs. 2014 | % | 2015               | Change vs. 2014 | % |
| Caribbean & Latin America          | \$148.86 | 4.1             | % | 70.7%     | 0.6             | % | pts. \$210.46      | 3.3             | % |
| Europe                             | \$124.59 | 6.2             | % | 74.3%     | 1.5             | % | pts. \$167.63      | 4.0             | % |
| Middle East & Africa               | \$109.80 | 1.6             | % | 61.6%     | 2.8             | % | pts. \$178.37      | (3.0)           | % |
| Asia Pacific                       | \$115.77 | 5.5             | % | 74.6%     | 3.2             | % | pts. \$155.24      | 0.9             | % |
| Total International <sup>(1)</sup> | \$124.13 | 5.1             | % | 72.5%     | 2.1             | % | pts. \$171.20      | 2.1             | % |
| Worldwide <sup>(2)</sup>           | \$112.25 | 5.2             | % | 73.7%     | 0.8             | % | pts. \$152.30      | 4.1             | % |

<sup>(1)</sup> Includes The Ritz-Carlton, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Renaissance Hotels, Autograph Collection Hotels, Courtyard, Residence Inn, and Fairfield Inn & Suites.

Includes The Ritz-Carlton, EDITION, Bulgari Hotels & Resorts, Marriott Hotels, Renaissance Hotels, Autograph

<sup>(2)</sup> Collection Hotels, Gaylord Hotels, Courtyard, Residence Inn, Fairfield Inn & Suites, SpringHill Suites, and TownePlace Suites.

## CONSOLIDATED RESULTS

The following discussion presents an analysis of our consolidated revenues, operating income, and non-operating income for 2016, 2015, and 2014. In accordance with GAAP, we include the business that we acquired in the Starwood Combination starting from the Merger Date through year-end 2016.

## Revenues

2016 Compared to 2015. The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions)                 | 2016     | 2015     | Change 2016 vs. 2015 | Change due to Starwood | Change Excluding Starwood Impact |
|----------------------------------|----------|----------|----------------------|------------------------|----------------------------------|
| Base management fees             | \$806    | \$698    | \$108                | \$103                  | \$5 1 %                          |
| Franchise fees                   | 988      | 853      | 135                  | 87                     | 48 6 %                           |
| Incentive management fees        | 425      | 319      | 106                  | 72                     | 34 11 %                          |
|                                  | 2,219    | 1,870    | 349                  | 262                    | 87                               |
| Owned, leased, and other revenue | 1,307    | 986      | 321                  | 296                    | 25 3 %                           |
| Cost reimbursements              | 13,546   | 11,630   | 1,916                | 1,348                  | 568 5 %                          |
|                                  | \$17,072 | \$14,486 | \$2,586              | \$1,906                | \$680                            |

The \$5 million increase in base management fees for Legacy-Marriott operations primarily reflected the impact of stronger sales at existing properties (\$22 million) and unit growth across our system (\$15 million), partially offset by the impact of unfavorable foreign exchange rates (\$15 million), lower deferred fee recognition (\$11 million), and lower fees from properties that converted from managed to franchised (\$8 million).

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The \$48 million increase in franchise fees for Legacy-Marriott operations reflected the impact of unit growth across our system (\$48 million), stronger sales at existing properties (\$16 million), and higher fees from properties that converted from managed to franchised (\$11 million), partially offset by lower relicensing fees (\$22 million) and the impact of unfavorable foreign exchange rates (\$7 million).

The \$34 million increase in incentive management fees for Legacy-Marriott operations reflected higher net house profit and unit growth, higher incentive fees earned from a few limited-service portfolios (\$10 million), and higher deferred fee recognition (\$8 million), partially offset by the impact of unfavorable foreign exchange rates (\$7 million). In 2016, 69 percent of our Legacy-Marriott managed properties paid incentive management fees to us versus 68 percent in 2015. In North America, 65 percent of Legacy-Marriott managed properties paid incentive fees in 2016 compared to 63 percent in 2015. Outside North America, 74 percent of Legacy-Marriott managed properties paid incentive fees in both 2016 and 2015, representing 48 percent of our total incentive management fees in 2016 from Legacy-Marriott managed properties compared to 51 percent of our total fees in 2015.

The \$25 million increase in owned, leased, and other revenue for Legacy-Marriott operations reflected \$38 million of higher other revenue predominantly from branding fees, partially offset by \$13 million of lower owned and leased revenue. The decrease in owned and leased revenue primarily reflected lower revenues from properties that converted to managed (\$60 million) and the impact of unfavorable foreign exchange rates (\$15 million), partially offset by improved sales from several properties following renovations (\$29 million), stronger sales at other existing properties across our segments (\$28 million), and favorable results at two new owned properties (\$9 million).

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and relates, predominantly, to payroll costs at managed properties where we are the employer but also includes reimbursements for other costs, such as those associated with our Loyalty Programs, reservations, and marketing programs. As we record cost reimbursements based upon costs incurred with no added markup, this revenue and related expense has no impact on either our operating or net income. The \$568 million increase in cost reimbursements revenue for Legacy-Marriott operations reflected the impact of higher property occupancies, unit growth across our system, and growth in the Marriott Rewards program membership and activity.

2015 Compared to 2014. The following discussion presents our analysis of our revenues for 2015 compared to 2014.

| (\$ in millions)                 | 2015     | 2014     | Change Percentage |        |               |
|----------------------------------|----------|----------|-------------------|--------|---------------|
|                                  |          |          | 2015 vs. 2014     | change | 2015 vs. 2014 |
| Base management fees             | \$698    | \$672    | \$26              | 4      | %             |
| Franchise fees                   | 853      | 745      | 108               | 14     | %             |
| Incentive management fees        | 319      | 302      | 17                | 6      | %             |
|                                  | 1,870    | 1,719    | 151               |        |               |
| Owned, leased, and other revenue | 986      | 1,022    | (36)              | (4)    | %             |
| Cost reimbursements              | 11,630   | 11,055   | 575               | 5      | %             |
|                                  | \$14,486 | \$13,796 | \$690             |        |               |

The \$26 million increase in base management fees reflected stronger RevPAR (\$29 million) and the impact of unit growth across our system (\$25 million), partially offset by the impact of unfavorable foreign exchange rates (\$11 million), lower fees due to properties that converted from managed to franchised (\$7 million), and decreased recognition of previously deferred fees (\$8 million).

The \$108 million increase in total franchise fees reflected the impact of unit growth across our system (\$55 million), stronger RevPAR due to increased demand (\$31 million), increased relicensing and application fees (\$22 million), and higher fees from properties that converted to franchised from managed (\$7 million), partially offset by the impact of unfavorable foreign exchange rates (\$7 million).

The \$17 million increase in incentive management fees reflected higher RevPAR and house profit margins primarily at company-managed North American properties, particularly at a few large portfolios of managed hotels whose improved net house profits allowed them to reach their owners priority threshold and begin to record incentive fees. Higher incentive fees also reflected the addition of hotels included in the Delta Hotels acquisition, partially offset by

\$15 million in unfavorable foreign exchange rates and \$7 million of lower incentive fees from properties under renovation.

In 2015, 68 percent of our managed properties paid incentive management fees to us versus 50 percent in 2014. Managed properties that paid incentive management fees in 2015 represented 63 percent of properties in North America and 74 percent outside of North America, compared to 36 percent in North America and 73 percent outside of North America in 2014. The

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percentage of North American properties that paid incentive management fees to us increased compared to 2014 primarily due to a few large North American Limited-Service portfolios of properties that paid incentive management fees in 2015 but did not do so in 2014. In addition, in 2015, 51 percent of our incentive fees came from properties outside of North America versus 56 percent in 2014.

The \$36 million decrease in owned, leased, and other revenue reflected \$44 million of lower owned and leased revenue, partially offset by \$8 million in higher other revenue predominantly from branding fees and hotel service programs that we acquired as part of our acquisition of Protea Hotels in the 2014 second quarter. Lower owned and leased revenue reflected net weaker performance impacted by unfavorable foreign exchange rates, a decrease of \$27 million attributable to properties that converted to managed or franchised or left our system, and \$16 million net unfavorable impact of properties under renovation, partially offset by increases of \$10 million from Protea Hotel leases we acquired in the 2014 second quarter and \$6 million from The Miami Beach EDITION hotel, which opened in the 2014 fourth quarter and which we subsequently sold in the 2015 first quarter as discussed in Footnote 3 “Acquisitions and Dispositions.”

The \$575 million increase in total cost reimbursements revenue reflected the impact of higher occupancies and growth across our system. In 2015, our managed rooms increased by 12,668 rooms and our franchised rooms increased by 31,883 rooms, net of rooms at hotels exiting our system.

Operating Income

2016 Compared to 2015. Operating income increased by \$18 million to \$1,368 million in 2016 from \$1,350 million in 2015. The increase in operating income reflected a \$349 million increase in fee revenue, which we discuss in the preceding “Revenues” section, a \$386 million increase in merger-related costs and charges which we discuss in Footnote 4 “Merger-Related Costs and Charges,” as well as the following changes. The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions)                          | 2016    | 2015  | Change<br>2016<br>vs.<br>2015 | Change<br>due to<br>Starwood | Change<br>Excluding<br>Starwood<br>Impact |      |   |
|-------------------------------------------|---------|-------|-------------------------------|------------------------------|-------------------------------------------|------|---|
| Owned, leased, and other revenue          | \$1,307 | \$986 | \$321                         | \$296                        | \$25                                      | 3    | % |
| Owned, leased, and other - direct expense | 900     | 733   | 167                           | 207                          | (40)                                      | (5)  | % |
|                                           | 407     | 253   | 154                           | 89                           | 65                                        | 26   | % |
| Depreciation, amortization, and other     | 168     | 139   | 29                            | 43                           | (14)                                      | (10) | % |
| General, administrative, and other        | 704     | 634   | 70                            | 79                           | (9)                                       | (1)  | % |

Owned, leased, and other revenue, net of direct expenses for Legacy-Marriott operations increased by \$65 million. The increase was largely attributable to \$39 million in higher branding fees and \$25 million of higher owned and leased revenue, net of direct expenses. The \$25 million of higher owned and leased revenue, net of direct expenses primarily reflected \$17 million of net stronger performance at several properties following renovations, \$15 million overall favorable results across our segments, and \$4 million of lower pre-opening costs, partially offset by \$10 million of lower profits from properties that converted from owned to managed.

Depreciation, amortization, and other expense for Legacy-Marriott operations decreased by \$14 million. The decrease primarily reflected a favorable variance to the 2015 impairment charges on the EDITION hotels (\$12 million) and corporate equipment (\$4 million).

General, administrative, and other expenses for Legacy-Marriott operations decreased by \$9 million. The decrease primarily reflected \$15 million in lower reserves for guarantee funding, and \$9 million in lower foreign exchange losses, partially offset by \$15 million of higher administrative costs to grow our brands globally, \$4 million of higher bad debt reserves, and \$3 million net unfavorable impact to our legal expenses associated with 2015 litigation resolutions.

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2015 Compared to 2014. Operating income increased by \$191 million to \$1,350 million in 2015 from \$1,159 million in 2014. The increase in operating income reflected a \$151 million increase in fee revenue, which we discuss in the preceding "Revenues" section, as well as the following changes.

| (\$ in millions)                          | 2015  | 2014    | Change Percentage |                      |
|-------------------------------------------|-------|---------|-------------------|----------------------|
|                                           |       |         | 2015 vs. 2014     | change 2015 vs. 2014 |
| Owned, leased, and other revenue          | \$986 | \$1,022 | \$(36)            | (4)%                 |
| Owned, leased, and other - direct expense | 733   | 775     | (42)              | (5)%                 |
|                                           | 253   | 247     | 6                 | 2%                   |
| Depreciation, amortization, and other     | 139   | 148     | (9)               | (6)%                 |
| General, administrative, and other        | 634   | 659     | (25)              | (4)%                 |

The \$6 million increase in owned, leased, and other revenue, net of direct expenses was largely attributable to \$4 million in higher branding fees. Owned and leased revenue, net of direct expenses was unchanged as stronger results at several of our International properties, including \$4 million of lower lease payments for properties that moved to managed, franchised, or left our system, were offset by \$10 million of weaker performance due to renovations.

The \$9 million decrease in depreciation, amortization, and other expense reflected a \$25 million favorable variance to the 2014 impairment charge on the EDITION hotels, partially offset by the 2015 impairment charges of \$6 million for The Miami Beach EDITION residences and \$6 million for The New York (Madison Square Park) EDITION and a \$4 million impairment charge on corporate equipment.

The \$25 million decrease in general, administrative, and other expenses largely reflected a \$28 million net favorable impact to our legal expenses associated with litigation resolutions, \$24 million of development costs that we deferred in 2015 related to our growing franchise pipeline, and \$5 million in lower foreign exchange losses compared to the 2014 devaluation of assets denominated in Venezuelan Bolivars, partially offset by \$20 million of higher costs incurred to grow our brands globally, \$5 million of transaction costs related to the Starwood Combination, and \$5 million from the Delta Hotels acquisition.

#### Non-Operating Income (Expense) and Income Taxes

2016 Compared to 2015. The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions)            | 2016  | 2015  | Change        |                        | Change                    |       |
|-----------------------------|-------|-------|---------------|------------------------|---------------------------|-------|
|                             |       |       | 2016 vs. 2015 | Change due to Starwood | Excluding Starwood Impact |       |
| Gains and other income, net | \$ 5  | \$27  | \$(22)        | \$ 1                   | \$(23)                    | (85)% |
| Interest expense            | (234) | (167) | 67            | 15                     | 52                        | 31%   |
| Interest income             | 35    | 29    | 6             | 2                      | 4                         | 14%   |
| Equity in earnings          | 10    | 16    | (6)           | 5                      | (11)                      | (69)% |
| Provision for income taxes  | (404) | (396) | 8             | 4                      | 4                         | 1%    |

Gains and other income, net for Legacy-Marriott operations decreased by \$23 million primarily due to the net gain that we recorded in the prior year, which consisted of a \$41 million gain on the redemption of a preferred equity ownership interest, partially offset by an \$11 million disposal loss for an International property and a \$4 million disposal loss for a North American Limited-Service segment plot of land.

Interest expense for Legacy-Marriott operations, including interest expense on debt incurred for the Starwood Combination, increased by \$52 million. The increase was primarily due to a net increase in Senior Notes interest expense (\$18 million) from the issuances of Series Q through W Notes in 2016 and Series O and P Notes in 2015, partially offset by the maturities of Series H Notes in 2016 and Series G Notes in 2015. The remaining increase is primarily due to the amortization of costs for a bridge term loan facility commitment that we obtained in the 2016 first quarter (\$13 million), net lower capitalized interest primarily as a result of the completion of The New York (Madison

Square Park) EDITION in 2015 (\$9 million), and higher interest rates on commercial paper borrowings (\$7 million). Interest income for Legacy-Marriott operations increased by \$4 million primarily due to higher interest income on a loan that we provided to an owner in conjunction with entering into a franchise agreement for a North American Limited-Service property in the 2015 fourth quarter (\$8 million), partially offset by lower interest income on two repaid loans (\$6 million).

Equity in earnings for Legacy-Marriott operations decreased by \$11 million primarily reflecting a net unfavorable variance to three adjustments recorded in 2015, which consisted of a reversal of a litigation reserve (\$11 million) and a

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reduction of an International investee's liabilities (\$5 million), partially offset by an impairment charge on an International joint venture (\$6 million).

Provision for income taxes for Legacy-Marriott operations increased by \$4 million primarily due to tax rate changes in several jurisdictions (\$12 million), higher earnings from foreign operations (\$6 million), and an unfavorable comparison to 2015 U.S. and foreign true-ups (\$5 million), partially offset by lower U.S. earnings due to merger-related expenses (\$11 million) and the release of a valuation allowance (\$8 million).

2015 Compared to 2014. The following discussion presents our analysis of our revenues for 2015 compared to 2014.

| (\$ in millions)            |       |       | Change Percentage   |                            |   |
|-----------------------------|-------|-------|---------------------|----------------------------|---|
|                             | 2015  | 2014  | 2015<br>vs.<br>2014 | change<br>2015 vs.<br>2014 |   |
| Gains and other income, net | \$27  | \$ 8  | \$ 19               | 238                        | % |
| Interest expense            | (167) | (115) | 52                  | 45                         | % |
| Interest income             | 29    | 30    | (1)                 | (3)                        | % |
| Equity in earnings          | 16    | 6     | 10                  | 167                        | % |
| Provision for income taxes  | (396) | (335) | 61                  | 18                         | % |

Gains and other income, net increased by \$19 million. The increase primarily reflects the \$41 million gain on the redemption of our preferred equity ownership interest. The increase was partially offset by an \$11 million disposal loss for an International property and a \$4 million expected disposal loss for a North American Limited-Service segment plot of land.

Interest expense increased by \$52 million. The increase was due to net lower capitalized interest expense as a result of the completion of The Miami Beach EDITION in the 2014 fourth quarter and The New York (Madison Square Park) EDITION in the 2015 second quarter (\$25 million), interest on the Series O Notes and Series P Notes that we issued in the 2015 third quarter and the Series N Notes that we issued in the 2014 fourth quarter (\$17 million), and an unfavorable variance to the 2014 debt premium accretion true-up (\$7 million).

Interest income decreased by \$1 million. This decrease was primarily due to lower interest income on the preferred equity ownership interest that was redeemed in the 2015 second quarter (\$5 million), partially offset by higher interest income on the \$85 million mezzanine loan (net of a \$15 million discount) we provided to an owner in conjunction with entering into a franchise agreement for an International property in the 2014 second quarter (\$5 million).

Equity in earnings increased by \$10 million. The increase reflects a \$22 million year-over-year impact from the reversal in 2015 of an \$11 million litigation reserve that was recorded in 2014 and associated with an equity investment and a \$5 million benefit recorded in 2015 following an adjustment to an International investee's liabilities. The increase was partially offset by a \$6 million impairment charge relating to an International joint venture and an unfavorable variance to a \$9 million benefit recorded in 2014 for two of our International investments following the reversal of their liabilities associated with a tax law change in a country in which they operate.

Our provision for income taxes increased by \$61 million. The increase was primarily due to higher pre-tax earnings and unfavorable comparisons to the 2014 resolution of a U.S. federal tax issue relating to a guest marketing program, the 2014 release of an international valuation allowance, and the 2014 resolution of an international financing activity tax issue. The increase was partially offset by a favorable IRS settlement relating to share-based compensation (\$12 million), a tax benefit from an International property disposition (\$7 million), and a favorable comparison to the 2014 tax on unrealized foreign exchange gains that were taxed within a foreign jurisdiction (\$5 million).

**BUSINESS SEGMENTS**

We are a diversified global lodging company with operations in three reportable business segments: North American Full-Service, North American Limited-Service, and International. See Footnote 18 "Business Segments" to our Financial Statements for other information about each segment, including revenues and a reconciliation of segment profits to net income.



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## Properties and Rooms by Segment

At year-end 2016, we operated, franchised, and licensed the following properties by segment and brand:

|                                      | Managed    |         | Franchised /<br>Licensed |         | Owned/Leased |       | Other <sup>(1)</sup> |       | Total      |         |
|--------------------------------------|------------|---------|--------------------------|---------|--------------|-------|----------------------|-------|------------|---------|
|                                      | Properties | Rooms   | Properties               | Rooms   | Properties   | Rooms | Properties           | Rooms | Properties | Rooms   |
| North American Full-Service          |            |         |                          |         |              |       |                      |       |            |         |
| JW Marriott                          | 15         | 9,695   | 10                       | 4,469   | —            | —     | —                    | —     | 25         | 14,164  |
| The Ritz-Carlton                     | 39         | 11,410  | 1                        | 429     | —            | —     | —                    | —     | 40         | 11,839  |
| The Ritz-Carlton Residences          | 34         | 4,733   | 1                        | 55      | —            | —     | —                    | —     | 35         | 4,788   |
| W Hotels                             | 25         | 7,729   | —                        | —       | 1            | 509   | —                    | —     | 26         | 8,238   |
| The Luxury Collection                | 5          | 2,294   | 9                        | 1,863   | —            | —     | —                    | —     | 14         | 4,157   |
| St. Regis                            | 9          | 1,725   | —                        | —       | 1            | 238   | —                    | —     | 10         | 1,963   |
| EDITION                              | 2          | 567     | —                        | —       | —            | —     | —                    | —     | 2          | 567     |
| EDITION Residences                   | 1          | 25      | —                        | —       | —            | —     | —                    | —     | 1          | 25      |
| Marriott Hotels                      | 131        | 68,440  | 210                      | 65,271  | 4            | 2,102 | —                    | —     | 345        | 135,813 |
| Sheraton                             | 31         | 23,654  | 162                      | 48,025  | 3            | 2,671 | —                    | —     | 196        | 74,350  |
| Westin                               | 48         | 25,173  | 75                       | 24,700  | 2            | 1,832 | —                    | —     | 125        | 51,705  |
| Renaissance Hotels                   | 26         | 11,625  | 57                       | 16,103  | 1            | 310   | —                    | —     | 84         | 28,038  |
| Le Méridien                          | 4          | 720     | 16                       | 3,753   | —            | —     | —                    | —     | 20         | 4,473   |
| Autograph Collection Hotels          | 3          | 1,065   | 61                       | 13,234  | —            | —     | —                    | —     | 64         | 14,299  |
| Delta Hotels                         | 25         | 6,764   | 12                       | 3,020   | —            | —     | —                    | —     | 37         | 9,784   |
| Gaylord Hotels                       | 5          | 8,098   | —                        | —       | —            | —     | —                    | —     | 5          | 8,098   |
| Tribute Portfolio                    | —          | —       | 12                       | 4,541   | 1            | 135   | —                    | —     | 13         | 4,676   |
| Total North American Full-Service    | 403        | 183,717 | 626                      | 185,463 | 13           | 7,797 | —                    | —     | 1,042      | 376,977 |
| North American Limited-Service       |            |         |                          |         |              |       |                      |       |            |         |
| Courtyard                            | 256        | 40,821  | 686                      | 91,559  | 19           | 2,816 | —                    | —     | 961        | 135,196 |
| Residence Inn                        | 114        | 17,155  | 611                      | 71,718  | 1            | 192   | —                    | —     | 726        | 89,065  |
| Fairfield Inn & Suites               | 6          | 1,432   | 822                      | 75,000  | —            | —     | —                    | —     | 828        | 76,432  |
| SpringHill Suites                    | 30         | 4,854   | 329                      | 37,672  | —            | —     | —                    | —     | 359        | 42,526  |
| Four Points                          | 1          | 134     | 131                      | 19,996  | —            | —     | —                    | —     | 132        | 20,130  |
| TownePlace Suites                    | 15         | 1,740   | 286                      | 28,512  | —            | —     | —                    | —     | 301        | 30,252  |
| Aloft Hotels                         | 1          | 330     | 80                       | 11,766  | —            | —     | —                    | —     | 81         | 12,096  |
| AC Hotels by Marriott                | —          | —       | —                        | —       | —            | —     | 11                   | 1,913 | 11         | 1,913   |
| Element Hotels                       | 1          | 180     | 19                       | 2,813   | —            | —     | —                    | —     | 20         | 2,993   |
| Moxy Hotels                          | —          | —       | 2                        | 294     | —            | —     | —                    | —     | 2          | 294     |
| Total North American Limited-Service | 424        | 66,646  | 2,966                    | 339,330 | 20           | 3,008 | 11                   | 1,913 | 3,421      | 410,897 |

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|                                      | Managed    |         | Franchised /<br>Licensed |         | Owned/Leased |        | Other <sup>(1)</sup> |        | Total      |           |
|--------------------------------------|------------|---------|--------------------------|---------|--------------|--------|----------------------|--------|------------|-----------|
|                                      | Properties | Rooms   | Properties               | Rooms   | Properties   | Rooms  | Properties           | Rooms  | Properties | Rooms     |
| International                        |            |         |                          |         |              |        |                      |        |            |           |
| JW Marriott                          | 47         | 18,925  | 7                        | 1,742   | 1            | 496    | —                    | —      | 55         | 21,163    |
| The Ritz-Carlton                     | 51         | 14,474  | —                        | —       | 2            | 553    | —                    | —      | 53         | 15,027    |
| The Ritz-Carlton Residences          | 8          | 416     | —                        | —       | —            | —      | —                    | —      | 8          | 416       |
| The Ritz-Carlton Serviced Apartments | 5          | 697     | —                        | —       | —            | —      | —                    | —      | 5          | 697       |
| W Hotels                             | 23         | 5,242   | —                        | —       | 2            | 665    | —                    | —      | 25         | 5,907     |
| The Luxury Collection                | 47         | 8,272   | 33                       | 6,387   | 3            | 468    | —                    | —      | 83         | 15,127    |
| St. Regis                            | 27         | 6,049   | —                        | —       | 1            | 160    | —                    | —      | 28         | 6,209     |
| EDITION                              | 2          | 699     | —                        | —       | —            | —      | —                    | —      | 2          | 699       |
| Bulgari Hotels & Resorts             | 2          | 117     | 1                        | 85      | —            | —      | —                    | —      | 3          | 202       |
| Bulgari Residences                   | 1          | 5       | —                        | —       | —            | —      | —                    | —      | 1          | 5         |
| Marriott Hotels                      | 154        | 44,547  | 43                       | 12,491  | 4            | 1,445  | —                    | —      | 201        | 58,483    |
| Sheraton                             | 188        | 64,088  | 59                       | 17,519  | 6            | 2,867  | —                    | —      | 253        | 84,474    |
| Westin                               | 68         | 21,964  | 23                       | 7,334   | 1            | 246    | —                    | —      | 92         | 29,544    |
| Renaissance Hotels                   | 50         | 16,171  | 26                       | 7,168   | 3            | 749    | —                    | —      | 79         | 24,088    |
| Le Méridien                          | 75         | 20,952  | 11                       | 2,873   | —            | —      | —                    | —      | 86         | 23,825    |
| Autograph Collection Hotels          | 4          | 670     | 38                       | 9,622   | —            | —      | 5                    | 348    | 47         | 10,640    |
| Marriott Executive Apartments        | 28         | 4,195   | —                        | —       | —            | —      | —                    | —      | 28         | 4,195     |
| Tribute Portfolio                    | 3          | 515     | 6                        | 282     | —            | —      | —                    | —      | 9          | 797       |
| Courtyard                            | 78         | 16,470  | 56                       | 10,745  | 3            | 644    | —                    | —      | 137        | 27,859    |
| Residence Inn                        | 5          | 517     | 2                        | 200     | 1            | 140    | —                    | —      | 8          | 857       |
| Fairfield Inn & Suites               | 10         | 1,588   | 2                        | 386     | —            | —      | —                    | —      | 12         | 1,974     |
| Four Points                          | 58         | 14,533  | 37                       | 6,010   | —            | —      | —                    | —      | 95         | 20,543    |
| Aloft Hotels                         | 23         | 5,694   | 12                       | 1,925   | —            | —      | —                    | —      | 35         | 7,619     |
| AC Hotels by Marriott                | —          | —       | —                        | —       | —            | —      | 84                   | 10,845 | 84         | 10,845    |
| Protea Hotels                        | 36         | 4,201   | 51                       | 3,550   | 10           | 1,601  | —                    | —      | 97         | 9,352     |
| Element Hotels                       | 1          | 188     | 2                        | 293     | —            | —      | —                    | —      | 3          | 481       |
| Moxy Hotels                          | —          | —       | 5                        | 1,000   | —            | —      | —                    | —      | 5          | 1,000     |
| Total International                  | 994        | 271,189 | 414                      | 89,612  | 37           | 10,034 | 89                   | 11,193 | 1,534      | 382,028   |
| Timeshare                            | —          | —       | 83                       | 20,702  | —            | —      | —                    | —      | 83         | 20,702    |
| Total                                | 1,821      | 521,552 | 4,089                    | 635,107 | 70           | 20,839 | 100                  | 13,106 | 6,080      | 1,190,604 |

(1) Other represents unconsolidated equity method investments, which we present in the “Equity in earnings” caption of our Income Statements.

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## North American Full-Service

## 2016 Compared to 2015

In 2016, across our North American Full-Service segment we added 424 properties (154,521 rooms), including 398 properties (147,623 rooms) from the Starwood Combination on the Merger Date, and two properties (213 rooms) left our system.

The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions) | 2016     | 2015    | Change<br>2016<br>vs.<br>2015 | Change<br>due to<br>Starwood | Change<br>Excluding<br>Starwood<br>Impact |     |
|------------------|----------|---------|-------------------------------|------------------------------|-------------------------------------------|-----|
| Segment revenues | \$10,376 | \$8,825 | \$1,551                       | \$ 1,215                     | \$336                                     | 4 % |
| Segment profits  | \$777    | \$561   | \$216                         | \$ 110                       | \$106                                     | 19% |

The \$106 million increase in segment profits for Legacy-Marriott operations was driven by \$40 million of higher owned, leased, and other revenue, net of direct expenses, \$37 million of higher base management and franchise fees, \$17 million of higher incentive management fees, \$11 million of lower general, administrative, and other expenses, \$1 million of lower depreciation, amortization, and other expense, and \$1 million of higher equity in earnings, partially offset by \$1 million of lower gains and other income, net.

Higher base management and franchise fees for Legacy-Marriott operations were primarily due to \$30 million of stronger RevPAR and unit growth. Increased incentive management fees for Legacy-Marriott operations were primarily driven by higher net house profits at managed hotels.

Higher owned, leased, and other revenue, net of direct expenses for Legacy-Marriott operations primarily reflected \$21 million of higher branding fees, \$10 million of favorable operating results at several properties, and \$6 million of lower pre-opening costs.

Lower general, administrative, and other expenses for Legacy-Marriott operations were primarily due to \$6 million of lower reserves for guarantee funding and \$5 million of lower administrative costs.

Cost reimbursements revenue and expenses for our Legacy-Marriott North American Full-Service segment properties totaled \$8,161 million in 2016, compared to \$7,911 million in 2015.

## 2015 Compared to 2014

| (\$ in millions) | 2015    | 2014    | Change<br>2015 vs.<br>2014 |    |
|------------------|---------|---------|----------------------------|----|
| Segment revenues | \$8,825 | \$8,323 | \$502                      | 6% |
| Segment profits  | \$561   | \$524   | \$37                       | 7% |

In 2015, across our North American Full-Service segment we added 57 properties (15,345 rooms), including 37 properties (9,590 rooms) from the Delta Hotels acquisition, and five properties (1,398 rooms) left our system.

For the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014, RevPAR for comparable systemwide North American Full-Service properties increased by 4.6 percent to \$136.95, occupancy for these properties increased by 0.6 percentage points to 73.1 percent, and average daily rates increased by 3.8 percent to \$187.40.

The \$37 million increase in segment profits, compared to 2014, was driven by \$44 million of higher base management and franchise fees and \$10 million of higher incentive management fees, partially offset by \$6 million of lower owned, leased, and other revenue, net of direct expenses, \$4 million of higher general, administrative, and other expenses, \$4 million of lower gains and other income, net, and \$3 million of higher depreciation, amortization, and other expense.

Base management and franchise fees were higher due to stronger RevPAR driven by rate and unit growth, partially offset by \$5 million of contract modifications and terminations. Increased incentive management fees were primarily driven by higher net house profits at managed hotels.

Lower owned, leased, and other revenue, net of direct expenses primarily reflected \$8 million of weaker performance at a North American Full-Service property under renovation.

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General, administrative, and other expenses were higher due to \$5 million from the Delta Hotels acquisition and \$2 million in higher reserves for guarantee funding, partially offset by \$3 million of other property expenses incurred in 2014.

Cost reimbursements revenue and expenses for our North American Full-Service segment properties totaled \$7,911 million in 2015, compared to \$7,465 million in 2014.

North American Limited-Service

2016 Compared to 2015

In 2016, across our North American Limited-Service segment we added 451 properties (60,637 rooms), including 226 properties (34,294 rooms) from the Starwood Combination on the Merger Date, and 8 properties (880 rooms) left our system.

The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions) | 2016    | 2015    | Change<br>2016<br>vs.<br>2015 | Change<br>due to<br>Starwood | Change<br>Excluding<br>Starwood<br>Impact |
|------------------|---------|---------|-------------------------------|------------------------------|-------------------------------------------|
| Segment revenues | \$3,561 | \$3,193 | \$ 368                        | \$ 58                        | \$310 10%                                 |
| Segment profits  | \$698   | \$651   | \$ 47                         | \$ 9                         | \$38 6%                                   |

The \$38 million increase in segment profits for Legacy-Marriott operations, compared to 2015, reflected \$14 million of higher base management and franchise fees, \$10 million of higher incentive management fees, \$5 million of lower general, administrative, and other expenses, \$4 million of higher owned, leased, and other revenue, net of direct expenses, \$3 million of higher gains and other income, net, and \$2 million of lower depreciation, amortization, and other expense.

Base management and franchise fees for Legacy-Marriott operations were higher primarily reflecting \$50 million from new units and stronger RevPAR, partially offset by \$24 million of lower relicensing fees and an \$11 million decrease in deferred fee recognition. Increased incentive management fees for Legacy-Marriott operations were primarily driven by \$10 million of higher incentive fees earned from a few limited-service portfolios.

Higher owned, leased, and other revenue, net of direct expenses primarily reflected higher net earnings at several leased and owned properties.

Lower general, administrative, and other expenses for Legacy-Marriott operations were primarily due to \$7 million of lower reserves for guarantee funding.

Higher gains and other income, net for Legacy-Marriott operations primarily reflected a favorable variance to the \$4 million prior year disposal loss for a North American Limited-Service segment plot of land.

Cost reimbursements revenue and expenses for our Legacy-Marriott North American Limited-Service segment properties totaled \$2,646 million in 2016, compared to \$2,366 million in 2015.

2015 Compared to 2014

| (\$ in millions) | 2015    | 2014    | Change<br>2015 vs.<br>2014 |
|------------------|---------|---------|----------------------------|
| Segment revenues | \$3,193 | \$2,962 | \$231 8%                   |
| Segment profits  | \$651   | \$574   | \$77 13%                   |

In 2015, across our North American Limited-Service segment we added 173 properties (19,712 rooms) and 26 properties (2,820 rooms) left our system. The majority of the properties that left our system were Fairfield Inn & Suites and Residence Inn properties.

For the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014, RevPAR for comparable systemwide North American Limited-Service properties increased by 5.6 percent to \$94.99, occupancy for these properties increased by 0.5 percentage points to 74.4 percent, and average daily rates increased by 4.9 percent to \$127.65.

The \$77 million increase in segment profits, compared to 2014, reflected \$73 million of higher base management and franchise fees, \$13 million of higher incentive management fees, \$2 million of lower general, administrative, and other expenses, and \$1 million of lower depreciation, amortization, and other expense, partially offset by \$5 million of lower owned,

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leased, and other revenue, net of direct expenses, \$4 million of lower gains and other income, net, and \$3 million of lower equity in earnings.

Base management and franchise fees were higher due to unit growth and stronger room rates, including \$19 million of higher franchise licensing and application fees, partially offset by a \$5 million reduction in previously deferred fees and \$3 million of contract terminations. Increased incentive management fees were primarily driven by a few large portfolios of managed hotels whose improved net house profits allowed them to reach their owners' priority threshold and begin to record incentive fees.

Lower owned, leased, and other revenue, net of direct expenses primarily reflected \$7 million of lower termination fees, partially offset by \$3 million of higher net earnings at several leased properties.

Gains and other income, net were lower due to a \$4 million expected disposal loss on a plot of land. See Footnote 3 "Acquisitions and Dispositions" for more information.

Lower equity in earnings was driven by the redemption of our investment in an entity that owns two hotels.

Cost reimbursements revenue and expenses for our North American Limited-Service segment properties totaled \$2,366 million in 2015, compared to \$2,217 million in 2014.

International2016 Compared to 2015

In 2016, across our International regions we added 789 properties (213,683 rooms), including 696 properties (191,841 rooms) from the Starwood Combination on the Merger Date, and 23 properties (4,082 rooms) left our system.

The table below presents the impact of the Starwood Combination starting from the Merger Date, with additional information on the factors attributable to our Legacy-Marriott brands discussed following the table.

| (\$ in millions) | 2016    | 2015    | Change              | Change                       | Change                          |
|------------------|---------|---------|---------------------|------------------------------|---------------------------------|
|                  |         |         | 2016<br>vs.<br>2015 | Change<br>due to<br>Starwood | Excluding<br>Starwood<br>Impact |
| Segment revenues | \$2,636 | \$2,200 | \$ 436              | \$ 399                       | \$ 37 2 %                       |
| Segment profits  | \$407   | \$292   | \$ 115              | \$ 111                       | \$ 4 1 %                        |

The \$4 million increase in segment profits for Legacy-Marriott operations, compared to 2015, consisted of \$12 million of higher gains and other income, net, \$7 million of higher incentive management fees, \$1 million of higher base management and franchise fees, \$1 million of higher owned, leased, and other revenue, net of direct expenses, and \$1 million of higher equity in earnings, partially offset by \$16 million of higher general, administrative, and other expenses, and \$2 million of higher depreciation, amortization, and other expense.

Higher base management and franchise fees for Legacy-Marriott operations were due to \$19 million of stronger RevPAR and unit growth, partially offset by the impact of \$17 million in unfavorable foreign exchange rates. The increase in incentive management fees for Legacy-Marriott operations was primarily due to an \$8 million increase in deferred fee recognition and \$5 million from new managed properties, partially offset by the impact of \$7 million in unfavorable foreign exchange rates.

Higher owned, leased, and other revenue, net of direct expenses for Legacy-Marriott operations largely reflected \$13 million net stronger performance at several properties following renovations, partially offset by \$9 million from a property that converted from owned to managed.

Higher general, administrative, and other expenses for Legacy-Marriott operations were primarily due to a \$12 million increase in administrative costs to grow our brands globally and a \$5 million increase in property expenses.

Higher gains and other income, net for Legacy-Marriott operations was primarily due to an \$11 million prior year disposal loss for an International property.

Higher equity in earnings for Legacy-Marriott operations primarily reflected a net unfavorable variance to two adjustments recorded in 2015, which consisted of a reduction of an International investee's liabilities (\$5 million) and an impairment charge on an International joint venture (\$6 million).

Cost reimbursements revenue and expenses for our Legacy-Marriott International properties totaled \$1,344 million in 2016, compared to \$1,282 million in 2015.



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## 2015 Compared to 2014

|                  |         |         | Change           |
|------------------|---------|---------|------------------|
| (\$ in millions) | 2015    | 2014    | 2015 vs.<br>2014 |
| Segment revenues | \$2,200 | \$2,255 | \$(55) (2)%      |
| Segment profits  | \$292   | \$295   | \$(3 ) (1)%      |

In 2015, across our International regions we added 70 properties (16,490 rooms) and 20 properties (2,110 rooms) left our system.

For the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014, RevPAR for comparable systemwide international properties increased by 5.1 percent to \$124.13, occupancy for these properties increased by 2.1 percentage points to 72.5 percent, and average daily rates increased by 2.1 percent to \$171.20.

The \$3 million decrease in segment profits in 2015, compared to 2014, consisted of \$12 million of lower gains and other income, net, \$9 million of lower equity in earnings, \$6 million of lower incentive management fees, and \$4 million of higher general, administrative, and other expenses, partially offset by \$18 million of higher base management and franchise fees, \$8 million of higher owned, leased, and other revenue, net of direct expenses, and \$2 million of lower depreciation, amortization, and other expense.

Base management and franchise fees increased due to stronger RevPAR, driven by both occupancy and rate, and unit growth, partially offset by the impact of \$16 million in unfavorable foreign exchange rates. Lower incentive management fees reflected \$15 million in unfavorable foreign exchange rates, partially offset by higher net house profit at managed hotels and unit growth.

Higher owned, leased, and other revenue, net of direct expenses largely reflected favorable operating results at several of our properties, including \$4 million of lower lease payments for properties that moved to managed, franchised, or left our system, and \$7 million of increased termination fees, partially offset by \$4 million in lower branding fees and \$2 million from a property that converted to managed.

Lower depreciation, amortization, and other expense was driven by amortization true-ups and lower depreciation from an International property sold in 2015, partially offset by \$5 million of higher depreciation at several of our leased properties.

General, administrative, and other expenses increased primarily due to higher costs for branding and service initiatives to grow our brands globally.

Lower gains and other income, net primarily reflected an \$11 million loss on the sale of an International property discussed in Footnote 3 “Acquisitions and Dispositions.”

Lower equity in earnings reflected an unfavorable variance to a \$9 million benefit recorded in 2014 for two of our International investments, following the reversal of their liabilities associated with a tax law change in a country in which they operate, and a \$6 million impairment charge relating to an International joint venture, partially offset by a \$5 million benefit recorded in 2015 following an adjustment to an International investee’s liabilities.

Cost reimbursements revenue and expenses for our International properties totaled \$1,282 million in 2015, compared to \$1,305 million in 2014.

**SHARE-BASED COMPENSATION**

We award: (1) stock options to purchase our common stock; (2) stock appreciation rights (“SARs”) for our common stock; (3) restricted stock units (“RSUs”) of our common stock; and (4) deferred stock units. We also issue performance-based RSUs (“PSUs”) to named executive officers and some of their direct reports under their Stock Plan. See Footnote 6 “Share-Based Compensation” for more information.

**NEW ACCOUNTING STANDARDS**

See Footnote 2 “Summary of Significant Accounting Policies” for information on our anticipated adoption of recently issued accounting standards.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Our Credit Facilities

In the 2016 second quarter, we amended and restated our multicurrency revolving credit agreement (the “Credit Facility”) to extend the maturity date of the Credit Facility and increase the aggregate amount of available borrowings to up to \$4,000 million, up to \$2,500 million of which was initially available, with the full \$4,000 million becoming available to us with the closing of the Starwood Combination. The availability of the Credit Facility supports our commercial paper program and general corporate needs, including working capital, capital expenditures, share repurchases, letters of credit, and acquisitions. In addition, we used borrowings under the Credit Facility, all of which we later repaid, to finance part of the cash component of the consideration we paid to Starwood shareholders and certain fees and expenses we incurred in connection with the Starwood Combination. Borrowings under the Credit Facility generally bear interest at LIBOR (the London Interbank Offered Rate) plus a spread, based on our public debt rating. We also pay quarterly fees on the Credit Facility at a rate based on our public debt rating. The term of the facility expires on June 10, 2021.

The Credit Facility contains certain covenants, including a single financial covenant that limits our maximum leverage (consisting of the ratio of Adjusted Total Debt to Consolidated Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”), giving pro forma effect for certain material acquisitions, each as defined in the Credit Facility) to not more than 4 to 1. In connection with the Starwood Combination, we exercised our option to temporarily increase the maximum permitted leverage under the Credit Facility to 4.5 to 1 for the 2016 third and fourth quarters and the 2017 first quarter. Our outstanding public debt does not contain a corresponding financial covenant or a requirement that we maintain certain financial ratios. We currently satisfy the covenants in our Credit Facility and public debt instruments, including the leverage covenant under the Credit Facility, expect to continue to do so once the temporary increase in permitted leverage ends, and do not expect the covenants will restrict our ability to meet our anticipated borrowing and guarantee levels or increase those levels should we decide to do so in the future.

We believe the Credit Facility and our access to capital markets, together with cash we expect to generate from operations, remain adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, meet debt service, and fulfill other cash requirements.

We issue commercial paper in the United States. We do not have purchase commitments from buyers for our commercial paper; therefore, our ability to issue commercial paper is subject to market demand. We classify any outstanding commercial paper and Credit Facility borrowings as long-term based on our ability and intent to refinance them on a long-term basis. We reserve unused capacity under our Credit Facility to repay outstanding commercial paper borrowings in the event that the commercial paper market is not available to us for any reason when outstanding borrowings mature. We do not expect that fluctuations in the demand for commercial paper will affect our liquidity, given our borrowing capacity under the Credit Facility.

At year-end 2016, our available borrowing capacity amounted to \$2,545 million and reflected borrowing capacity of \$1,687 million under our Credit Facility and our cash balance of \$858 million. We calculated that borrowing capacity by taking \$4,000 million of effective aggregate bank commitments under our Credit Facility and subtracting \$2,313 million of outstanding commercial paper (there being no outstanding letters of credit under our Credit Facility).

We monitor the status of the capital markets and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans. We expect to continue meeting part of our financing and liquidity needs primarily through commercial paper borrowings, issuances of Senior Notes, and access to long-term committed credit facilities. If conditions in the lodging industry deteriorate, or if disruptions in the capital markets take place as they did in the immediate aftermath of both the 2008 worldwide financial crisis and the events of September 11, 2001, we may be unable to place some or all of our commercial paper on a temporary or extended basis and may have to rely more on borrowings under the Credit Facility, which we believe will be adequate to fund our liquidity needs, including repayment of debt obligations, but which may or may not carry a higher cost than commercial paper. Since we continue to have ample flexibility under the Credit Facility’s covenants, we expect that undrawn bank commitments under the Credit Facility will remain available to us even if business conditions were to deteriorate markedly.



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## Cash from Operations

Cash from operations and non-cash items for the last three fiscal years are as follows:

| (\$ in millions)              | 2016    | 2015    | 2014    |
|-------------------------------|---------|---------|---------|
| Cash from operations          | \$1,582 | \$1,430 | \$1,224 |
| Non-cash items <sup>(1)</sup> | 456     | 395     | 328     |

<sup>(1)</sup> Includes depreciation, amortization, impairments, share-based compensation, and deferred income taxes.

Our ratio of current assets to current liabilities was 0.7 to 1.0 at year-end 2016 and 0.4 to 1.0 at year-end 2015. We minimize working capital through cash management, strict credit-granting policies, and aggressive collection efforts. We also have significant borrowing capacity under our Credit Facility should we need additional working capital. Our ratios of earnings to fixed charges for the last five fiscal years, the calculations of which we detail in Exhibit 12 to this 2016 Annual Report on Form 10-K, are as follows:

## Fiscal Years

| 2016 | 2015 | 2014 | 2013 | 2012 |
|------|------|------|------|------|
| 5.1x | 6.4x | 6.2x | 5.1x | 4.6x |

## Investing Activities Cash Flows

Acquisition of a Business, Net of Cash Acquired. Cash outflows of \$2,412 million in 2016 reflect cash consideration to Starwood shareholders, net of cash acquired in the Starwood Combination. Cash outflows of \$137 million in 2015 primarily reflect the acquisition of Delta Hotels. See Footnote 3 “Acquisitions and Dispositions” for more information. Capital Expenditures and Other Investments. We made capital expenditures of \$199 million in 2016, \$305 million in 2015, and \$411 million in 2014. These included expenditures related to the development and construction of new hotels, improvements to existing properties, and systems initiatives. Capital expenditures in 2016 decreased by \$106 million compared to 2015, primarily due to lower spending for our EDITION hotels. Capital expenditures in 2015 decreased by \$106 million compared to 2014, primarily related to the 2014 development of two EDITION hotels, partially offset by 2015 renovations at a North American Full-Service property and investments in our reservations system.

We expect 2017 investment spending will total approximately \$500 million to \$700 million, including approximately \$175 million for maintenance capital spending. Consolidated investment spending also includes other capital expenditures, loan advances, contract acquisition costs, acquisitions, and equity and other investments.

Over time, we have sold lodging properties, both completed and under development, subject to long-term management agreements. The ability of third-party purchasers to raise the debt and equity capital necessary to acquire such properties depends in part on the perceived risks inherent in the lodging industry and other constraints inherent in the capital markets as a whole. We monitor the status of the capital markets and regularly evaluate the potential impact of changes in capital market conditions on our business operations. In the Starwood Combination, we acquired various hotels and joint venture interests in hotels, which we have sold or may seek to sell. We also expect to continue making selective and opportunistic investments to add units to our lodging business, which may include new construction, loans, and noncontrolling equity investments.

Fluctuations in the values of hotel real estate generally have little impact on our overall business results because:

(1) we own less than one percent of hotels that we operate or franchise; (2) management and franchise fees are generally based upon hotel revenues and profits rather than current hotel property values; and (3) our management agreements generally do not terminate upon hotel sale or foreclosure.

Dispositions. Property and asset sales generated \$218 million cash proceeds in 2016 and \$673 million in 2015. See Footnote 3 “Acquisitions and Dispositions” for more information on completed dispositions and planned dispositions. Loan Activity. From time to time, we make loans to owners of hotels that we operate or franchise. Loan collections, net of loan advances, amounted to \$35 million in 2016 compared to net collections of \$26 million in 2015. At year-end 2016, we had \$248 million of senior, mezzanine, and other loans (\$245 million noncurrent and \$3 million current) outstanding, compared to \$221 million (\$215 million noncurrent and \$6 million current) outstanding at year-end 2015. Our notes receivable balance for senior, mezzanine, and other loans increased by \$27 million, primarily due to \$65 million in loans acquired in the Starwood Combination on the Merger Date and loan advances of \$32 million, partially offset by loan collections of \$67 million.



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Equity and Cost Method Investments. Cash outflows of \$14 million in 2016, \$7 million in 2015, and \$6 million in 2014 for equity and cost method investments primarily reflects our investments in a number of joint ventures.

## Cash from Financing Activities

Debt. Debt increased by \$4,399 million in 2016, to \$8,506 million at year-end 2016 from \$4,107 million at year-end 2015, and primarily reflected \$1,875 million from the Starwood Combination (much of which was subsequently canceled in exchange for our Series S through W Notes), \$1,485 million (\$1,500 million face amount) in Series Q and R Notes issuances, and \$1,373 million increase in commercial paper borrowings, partially offset by \$289 million in Series H Notes that matured in the 2016 second quarter and \$24 million of repurchased Starwood senior notes in the 2016 fourth quarter. See Footnote 11 “Long-Term Debt” for additional information on the debt issuances.

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 2016, our long-term debt had an average interest rate of 2.9 percent and an average maturity of approximately 5.9 years. The ratio of our fixed-rate long-term debt to our total long-term debt was 0.7 to 1.0 at year-end 2016.

See the “Cash Requirements and Our Credit Facilities,” caption in this “Liquidity and Capital Resources” section for more information on our Credit Facility.

Share Repurchases. We purchased 8 million shares of our common stock in 2016 at an average price of \$71.55 per share, 25.7 million shares in 2015 at an average price of \$75.48 per share, and 24.2 million shares in 2014 at an average price of \$62.09 per share. At year-end 2016, 31.4 million shares remained available for repurchase under authorizations from our Board of Directors. We purchase shares in the open market and in privately negotiated transactions.

Dividends. Our Board of Directors declared and paid the following quarterly cash dividends in 2016: (1) \$0.25 per share declared on February 11, 2016 and paid March 31, 2016 to shareholders of record on February 25, 2016; (2) \$0.30 per share declared on May 6, 2016 and paid June 30, 2016 to shareholders of record on May 20, 2016; (3) \$0.30 per share declared on September 13, 2016 and paid September 30, 2016 to shareholders of record on September 23, 2016; and (4) \$0.30 per share declared November 10, 2016 and paid December 30, 2016 to shareholders of record on November 24, 2016. Our Board of Directors declared a cash dividend of \$0.30 per share on February 10, 2017, payable on March 31, 2017 to shareholders of record on February 24, 2017.

## Contractual Obligations and Off Balance Sheet Arrangements

## Contractual Obligations

The following table summarizes our contractual obligations at year-end 2016:

| (\$ in millions)                                  | Total    | Payments Due by Period |           |           |                     |
|---------------------------------------------------|----------|------------------------|-----------|-----------|---------------------|
|                                                   |          | Less Than<br>1<br>Year | 1-3 Years | 3-5 Years | After<br>5<br>Years |
| Debt <sup>(1)</sup>                               | \$9,591  | \$516                  | \$1,611   | \$3,791   | \$3,673             |
| Capital lease obligations <sup>(1)</sup>          | 256      | 13                     | 26        | 26        | 191                 |
| Operating leases where we are the primary obligor | 1,742    | 183                    | 325       | 251       | 983                 |
| Purchase obligations                              | 470      | 186                    | 242       | 42        | —                   |
| Other noncurrent liabilities                      | 99       | 5                      | 8         | 8         | 78                  |
| Total contractual obligations                     | \$12,158 | \$903                  | \$2,212   | \$4,118   | \$4,925             |

<sup>(1)</sup> Includes principal as well as interest payments.

The preceding table does not reflect unrecognized tax benefits at year-end 2016 of \$400 million, including interest and net of deferred tax assets. See Footnote 7 “Income Taxes” for additional information.

In addition to the purchase obligations noted in the preceding table, in the normal course of business we enter into purchase commitments to manage the daily operating needs of the hotels that we manage. Since we are reimbursed from the cash flows of the hotels, these obligations have minimal impact on our net income and cash flow.



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## Other Commitments

The following table summarizes our guarantee, investment, and loan commitments at year-end 2016:

| (\$ in millions)                                             | Total<br>Amounts<br>Committed | Less Than<br>1 Year | 1-3<br>Years | 3-5<br>Years | After<br>5<br>Years |
|--------------------------------------------------------------|-------------------------------|---------------------|--------------|--------------|---------------------|
| Guarantee commitments (expiration by period)                 | \$ 282                        | \$ 37               | \$ 59        | \$ 76        | \$ 110              |
| Investment and loan commitments (expected funding by period) | 103                           | 87                  | 10           | 6            | —                   |
| Total other commitments                                      | \$ 385                        | \$ 124              | \$ 69        | \$ 82        | \$ 110              |

In conjunction with financing obtained for specific projects or properties owned by joint ventures in which we are a party, we may provide industry standard indemnifications to the lender for loss, liability, or damage occurring as a result of our actions or the actions of the other joint venture owner.

For further information, including the nature of the commitments and their expirations, see the “Commitments” caption in Footnote 8 “Commitments and Contingencies.”

## Letters of Credit

At year-end 2016, we also had \$157 million of letters of credit outstanding (all outside the Credit Facility), the majority of which were for our self-insurance programs. Surety bonds issued as of year-end 2016 totaled \$149 million, the majority of which federal, state, and local governments requested in connection with our self-insurance programs.

## RELATED PARTY TRANSACTIONS

## Equity Method Investments

We have equity method investments in entities that own properties for which we provide management and/or franchise services and receive fees. We also have equity method investments in entities that provide management and/or franchise services to hotels and receive fees. In addition, in some cases we provide loans, preferred equity, or guarantees to these entities.

## Other Related Parties

We provide management services for and receive fees from properties owned by JWM Family Enterprises, L.P., which is beneficially owned and controlled by J.W. Marriott, Jr., Deborah Marriott Harrison, and other members of the Marriott family.

For more information, including the impact to our financial statements of transactions with these related parties, see Footnote 19 “Related Party Transactions.”

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if: (1) we must make assumptions that were uncertain when the estimate was made; and (2) changes in the estimate, or selection of a different estimate methodology could have a material effect on our consolidated results of operations or financial condition.

While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information available when the estimate or assumption was made. Actual results may differ significantly. Additionally, changes in our assumptions, estimates or assessments as a result of unforeseen events or otherwise could have a material impact on our financial position or results of operations.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure presented below relating to those policies.

See Footnote 2 “Summary of Significant Accounting Policies” for further information on our critical accounting policies and estimates, which are as follows:

Loyalty Programs, including how members earn points, how we estimate the value of future redemption obligation, and how we recognize revenue for these programs;

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Goodwill, including how we evaluate the fair value of reporting units and when we record an impairment loss on goodwill;

Intangibles and Long-Lived Assets, including how we evaluate the fair value of intangibles and long-lived assets and when we record impairment losses on intangibles and long-lived assets;

Investments, including information on how we evaluate the fair value of investments and when we record impairment losses on investments;

Loan Loss Reserves, including information on how we measure impairment on senior, mezzanine, and other loans of these types;

Income Taxes, including information on how we determine our current year amounts payable or refundable, as well as our estimate of deferred tax assets and liabilities; and

Business Combinations, including the assumptions that we make to estimate the fair values of assets acquired and liabilities assumed related to discount rates, royalty rates, and the amount and timing of future cash flows.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in interest rates, stock prices, currency exchange rates, and debt prices.

We manage our exposure to these risks by monitoring available financing alternatives, through development and application of credit granting policies and by entering into derivative arrangements. We do not foresee any significant changes in either our exposure to fluctuations in interest rates or currency rates or how we manage such exposure in the future.

We are exposed to interest rate risk on our floating-rate notes receivable and floating-rate debt. Changes in interest rates also impact the fair value of our fixed-rate notes receivable and the fair value of our fixed-rate long-term debt.

We are also subject to risk from changes in debt prices from our investments in debt securities and fluctuations in stock price from our investment in a publicly traded company. Changes in the price of the underlying stock can impact the fair value of our investment. We account for our investments as available-for-sale securities under the guidance for accounting for certain investments in debt and equity securities.

We use derivative instruments, including cash flow hedges, net investment in non-U.S. operations hedges, and other derivative instruments, as part of our overall strategy to manage our exposure to market risks associated with fluctuations in interest rates and currency exchange rates. As a matter of policy, we only enter into transactions that we believe will be highly effective at offsetting the underlying risk, and we do not use derivatives for trading or speculative purposes. See Footnote 2 "Summary of Significant Accounting Policies" for more information on derivative instruments.

The following table sets forth the scheduled maturities and the total fair value as of year-end 2016 for our financial instruments that are impacted by market risks:

| (\$ in millions)                                                                                   | Maturities by Period |         |         |         |           |           | There-<br>after | Total<br>Carrying<br>Amount | Total<br>Fair<br>Value |
|----------------------------------------------------------------------------------------------------|----------------------|---------|---------|---------|-----------|-----------|-----------------|-----------------------------|------------------------|
|                                                                                                    | 2017                 | 2018    | 2019    | 2020    | 2021      |           |                 |                             |                        |
| Assets - Maturities represent expected principal receipts, fair values represent assets.           |                      |         |         |         |           |           |                 |                             |                        |
| Fixed-rate notes receivable                                                                        | \$2                  | \$30    | \$16    | \$12    | \$11      | \$61      | \$132           | \$132                       |                        |
| Average interest rate                                                                              |                      |         |         |         |           |           | 3.57            | %                           |                        |
| Floating-rate notes receivable                                                                     | \$1                  | \$47    | \$4     | \$5     | \$37      | \$22      | \$116           | \$102                       |                        |
| Average interest rate                                                                              |                      |         |         |         |           |           | 3.37            | %                           |                        |
| Liabilities - Maturities represent expected principal payments, fair values represent liabilities. |                      |         |         |         |           |           |                 |                             |                        |
| Fixed-rate debt                                                                                    | \$(304)              | \$(405) | \$(844) | \$(358) | \$(853)   | \$(3,251) | \$(6,015)       | \$(5,975)                   |                        |
| Average interest rate                                                                              |                      |         |         |         |           |           | 3.67            | %                           |                        |
| Floating-rate debt                                                                                 | \$—                  | \$—     | \$(7)   | \$—     | \$(2,311) | \$—       | \$(2,318)       | \$(2,318)                   |                        |
| Average interest rate                                                                              |                      |         |         |         |           |           | 1.49            | %                           |                        |



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## Item 8. Financial Statements and Supplementary Data.

The following financial information is included on the pages indicated:

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| <u>Report of Independent Registered Public Accounting Firm</u>          | <u>48</u> |
| <u>Report of Independent Registered Public Accounting Firm</u>          | <u>49</u> |
| <u>Consolidated Statements of Income</u>                                | <u>50</u> |
| <u>Consolidated Statements of Comprehensive Income</u>                  | <u>51</u> |
| <u>Consolidated Balance Sheets</u>                                      | <u>52</u> |
| <u>Consolidated Statements of Cash Flows</u>                            | <u>53</u> |
| <u>Consolidated Statements of Shareholders' Equity (Deficit)</u>        | <u>54</u> |
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MANAGEMENT'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Marriott International, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting. The Company has designed its internal control over financial reporting to provide reasonable assurance on the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of inherent limitations in internal control over financial reporting, such controls may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the "COSO criteria").

Based on this assessment, management has concluded that, applying the COSO criteria, as of December 31, 2016, the Company's internal control over financial reporting was effective to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

On September 23, 2016, we completed our acquisition of Starwood Hotels & Resorts Worldwide, LLC ("Starwood"). We are in the process of evaluating the existing controls and procedures of Starwood and integrating Starwood into our internal control over financial reporting. In accordance with SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded the business that we acquired in the Starwood Combination from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. The business that we acquired in the Starwood Combination represented 77% of the Company's total assets as of December 31, 2016, and 11% of the Company's revenues and -5% of the Company's net income for the year ended December 31, 2016. The scope of management's assessment of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2016 includes all of the Company's consolidated operations except for those disclosure controls and procedures of Starwood that are subsumed by internal control over financial reporting.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, a copy of which appears on the following page.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Marriott International, Inc.

We have audited Marriott International, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Marriott International, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business that the company acquired in the acquisition of Starwood Hotels & Resorts Worldwide, LLC ("Starwood Acquisition"), which is included in the 2016 consolidated financial statements of Marriott International, Inc. and constituted 77% of total assets as of December 31, 2016, 11% of revenues and -5% of net income for the year then ended. Our audit of internal control over financial reporting of Marriott International, Inc. also did not include an evaluation of the internal control over financial reporting of the Starwood Acquisition.

In our opinion, Marriott International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Marriott International, Inc. as of December 31, 2016 and 2015, and the

related consolidated statements of income, comprehensive income, shareholders' equity (deficit) and cash flows for each of the three fiscal years in the period ended December 31, 2016 of Marriott International, Inc. and our report dated February 21, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
McLean, Virginia  
February 21, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Marriott International, Inc.

We have audited the accompanying consolidated balance sheets of Marriott International, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity (deficit) and cash flows for each of the three fiscal years in the period ended December 31, 2016. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marriott International, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Marriott International, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 21, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
McLean, Virginia  
February 21, 2017

Table of ContentsMARRIOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF INCOME

Fiscal Years 2016, 2015, and 2014

(\$ in millions, except per share amounts)

|                                                      | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 |
|------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>REVENUES</b>                                      |                      |                      |                      |
| Base management fees <sup>(1)</sup>                  | \$ 806               | \$ 698               | \$ 672               |
| Franchise fees                                       | 988                  | 853                  | 745                  |
| Incentive management fees <sup>(1)</sup>             | 425                  | 319                  | 302                  |
| Owned, leased, and other revenue <sup>(1)</sup>      | 1,307                | 986                  | 1,022                |
| Cost reimbursements <sup>(1)</sup>                   | 13,546               | 11,630               | 11,055               |
|                                                      | 17,072               | 14,486               | 13,796               |
| <b>OPERATING COSTS AND EXPENSES</b>                  |                      |                      |                      |
| Owned, leased, and other-direct                      | 900                  | 733                  | 775                  |
| Reimbursed costs <sup>(1)</sup>                      | 13,546               | 11,630               | 11,055               |
| Depreciation, amortization, and other <sup>(1)</sup> | 168                  | 139                  | 148                  |
| General, administrative, and other <sup>(1)</sup>    | 704                  | 634                  | 659                  |
| Merger-related costs and charges                     | 386                  | —                    | —                    |
|                                                      | 15,704               | 13,136               | 12,637               |
| <b>OPERATING INCOME</b>                              | 1,368                | 1,350                | 1,159                |
| Gains and other income, net <sup>(1)</sup>           | 5                    | 27                   | 8                    |
| Interest expense                                     | (234 )               | (167 )               | (115 )               |
| Interest income <sup>(1)</sup>                       | 35                   | 29                   | 30                   |
| Equity in earnings <sup>(1)</sup>                    | 10                   | 16                   | 6                    |
| <b>INCOME BEFORE INCOME TAXES</b>                    | 1,184                | 1,255                | 1,088                |
| Provision for income taxes                           | (404 )               | (396 )               | (335 )               |
| <b>NET INCOME</b>                                    | \$ 780               | \$ 859               | \$ 753               |
| <b>EARNINGS PER SHARE</b>                            |                      |                      |                      |
| Earnings per share - basic                           | \$ 2.68              | \$ 3.22              | \$ 2.60              |
| Earnings per share - diluted                         | \$ 2.64              | \$ 3.15              | \$ 2.54              |

<sup>(1)</sup> See Footnote 19 “Related Party Transactions” for disclosure of related party amounts.  
See Notes to Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Fiscal Years 2016, 2015, and 2014  
 (\$ in millions)

|                                                                     | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 |
|---------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Net income                                                          | \$ 780               | \$ 859               | \$ 753               |
| Other comprehensive (loss) income:                                  |                      |                      |                      |
| Foreign currency translation adjustments                            | (311 )               | (123 )               | (41 )                |
| Other derivative instrument adjustments, net of tax                 | 1                    | 10                   | 8                    |
| Unrealized gain (loss) on available-for-sale securities, net of tax | 2                    | (7 )                 | 5                    |
| Pension and postretirement adjustments                              | 5                    | —                    | —                    |
| Reclassification of losses (gains), net of tax                      | 2                    | (6 )                 | 2                    |
| Total other comprehensive loss, net of tax                          | (301 )               | (126 )               | (26 )                |
| Comprehensive income                                                | \$ 479               | \$ 733               | \$ 727               |

See Notes to Consolidated Financial Statements.

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MARRIOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS  
Fiscal Years-Ended 2016 and 2015  
(\$ in millions)

|                                                       | December 31,<br>2016 | December 31,<br>2015 |
|-------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                         |                      |                      |
| Current assets                                        |                      |                      |
| Cash and equivalents                                  | \$ 858               | \$ 96                |
| Accounts and notes receivable, net <sup>(1)</sup>     | 1,695                | 1,103                |
| Prepaid expenses                                      | 168                  | 77                   |
| Other <sup>(1)</sup>                                  | 62                   | 30                   |
| Assets held for sale                                  | 588                  | 78                   |
|                                                       | 3,371                | 1,384                |
| Property and equipment, net                           | 2,335                | 1,029                |
| Intangible assets                                     |                      |                      |
| Brands                                                | 6,509                | 197                  |
| Contract acquisition costs and other <sup>(1)</sup>   | 2,761                | 1,254                |
| Goodwill                                              | 7,598                | 943                  |
|                                                       | 16,868               | 2,394                |
| Equity and cost method investments <sup>(1)</sup>     | 728                  | 165                  |
| Notes receivable, net                                 | 245                  | 215                  |
| Deferred tax assets                                   | 116                  | 672                  |
| Other noncurrent assets <sup>(1)</sup>                | 477                  | 223                  |
|                                                       | \$ 24,140            | \$ 6,082             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b> |                      |                      |
| Current liabilities                                   |                      |                      |
| Current portion of long-term debt                     | \$ 309               | \$ 300               |
| Accounts payable <sup>(1)</sup>                       | 687                  | 593                  |
| Accrued payroll and benefits                          | 1,174                | 861                  |
| Liability for guest loyalty programs                  | 1,866                | 952                  |
| Accrued expenses and other <sup>(1)</sup>             | 1,111                | 527                  |
|                                                       | 5,147                | 3,233                |
| Long-term debt                                        | 8,197                | 3,807                |
| Liability for guest loyalty programs                  | 2,675                | 1,622                |
| Deferred tax liabilities <sup>(1)</sup>               | 1,020                | 16                   |
| Other noncurrent liabilities <sup>(1)</sup>           | 1,744                | 994                  |
| Shareholders' equity (deficit)                        |                      |                      |
| Class A Common Stock                                  | 5                    | 5                    |
| Additional paid-in-capital                            | 5,808                | 2,821                |
| Retained earnings                                     | 6,501                | 4,878                |
| Treasury stock, at cost                               | (6,460               | ) (11,098            |
| Accumulated other comprehensive loss                  | (497                 | ) (196               |
|                                                       | 5,357                | (3,590               |
|                                                       | \$ 24,140            | \$ 6,082             |

<sup>(1)</sup> See Footnote 19 "Related Party Transactions" for disclosure of related party amounts.  
See Notes to Consolidated Financial Statements.



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MARRIOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Fiscal Years 2016, 2015, and 2014  
(\$ in millions)

|                                                                    | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 |
|--------------------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>OPERATING ACTIVITIES</b>                                        |                      |                      |                      |
| Net income                                                         | \$ 780               | \$ 859               | \$ 753               |
| Adjustments to reconcile to cash provided by operating activities: |                      |                      |                      |
| Depreciation, amortization, and other                              | 168                  | 139                  | 148                  |
| Share-based compensation                                           | 212                  | 113                  | 109                  |
| Income taxes                                                       | 76                   | 143                  | 71                   |
| Liability for guest loyalty program                                | 343                  | 233                  | 175                  |
| Merger-related charges                                             | 113                  | —                    | —                    |
| Working capital changes                                            | (177)                | (126)                | (120)                |
| Other                                                              | 67                   | 69                   | 88                   |
| Net cash provided by operating activities                          | 1,582                | 1,430                | 1,224                |
| <b>INVESTING ACTIVITIES</b>                                        |                      |                      |                      |
| Acquisition of a business, net of cash acquired                    | (2,412)              | (137)                | (184)                |
| Capital expenditures                                               | (199)                | (305)                | (411)                |
| Dispositions                                                       | 218                  | 673                  | 435                  |
| Loan advances                                                      | (32)                 | (66)                 | (103)                |
| Loan collections                                                   | 67                   | 92                   | 34                   |
| Contract acquisition costs                                         | (80)                 | (121)                | (65)                 |
| Redemption of debt security                                        | —                    | 121                  | —                    |
| Other                                                              | 29                   | 110                  | (19)                 |
| Net cash (used in) provided by investing activities                | (2,409)              | 367                  | (313)                |
| <b>FINANCING ACTIVITIES</b>                                        |                      |                      |                      |
| Commercial paper/Credit Facility, net                              | 1,365                | (140)                | 235                  |
| Issuance of long-term debt                                         | 1,482                | 790                  | 394                  |
| Repayment of long-term debt                                        | (326)                | (325)                | (7)                  |
| Issuance of Class A Common Stock                                   | 34                   | 40                   | 178                  |
| Dividends paid                                                     | (374)                | (253)                | (223)                |
| Purchase of treasury stock                                         | (568)                | (1,917)              | (1,510)              |
| Other                                                              | (24)                 | —                    | —                    |
| Net cash provided by (used in) financing activities                | 1,589                | (1,805)              | (933)                |
| <b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>                 | <b>762</b>           | <b>(8)</b>           | <b>(22)</b>          |
| CASH AND EQUIVALENTS, beginning of period                          | 96                   | 104                  | 126                  |
| CASH AND EQUIVALENTS, end of period                                | \$ 858               | \$ 96                | \$ 104               |
| See Notes to Consolidated Financial Statements.                    |                      |                      |                      |

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MARRIOTT INTERNATIONAL, INC.  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)  
 Fiscal Years 2016, 2015, and 2014  
 (in millions)

| Common<br>Shares<br>Outstanding | Total                          | Class<br>A<br>Common<br>Stock | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Treasury<br>Stock, at<br>Cost | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---------------------------------|--------------------------------|-------------------------------|-----------------------------------|----------------------|-------------------------------|-----------------------------------------------|
| 298.0                           | Balance at December 31, 2013   | \$(1,415)                     | \$5 \$ 2,716                      | \$3,837              | \$(7,929)                     | \$ (44 )                                      |
| —                               | Net income                     | 753                           | — —                               | 753                  | —                             | —                                             |
| —                               | Other comprehensive loss       | (26 )                         | — —                               | —                    | —                             | (26 )                                         |
| —                               | Dividends                      | (223 )                        | — —                               | (223 )               | —                             | —                                             |
| 6.1                             | Share-based compensation plans | 211                           | — 86                              | (81 )                | 206                           | —                                             |
| (24.2 )                         | Purchase of treasury stock     | (1,500 )                      | — —                               | —                    | (1,500 )                      | —                                             |
| 279.9                           | Balance at December 31, 2014   | (2,200 )                      | 5 2,802                           | 4,286                | (9,223 )                      | (70 )                                         |
| —                               | Net income                     | 859                           | — —                               | 859                  | —                             | —                                             |
| —                               | Other comprehensive loss       | (126 )                        | — —                               | —                    | —                             | —                                             |