Annual Report 1974

Marriott

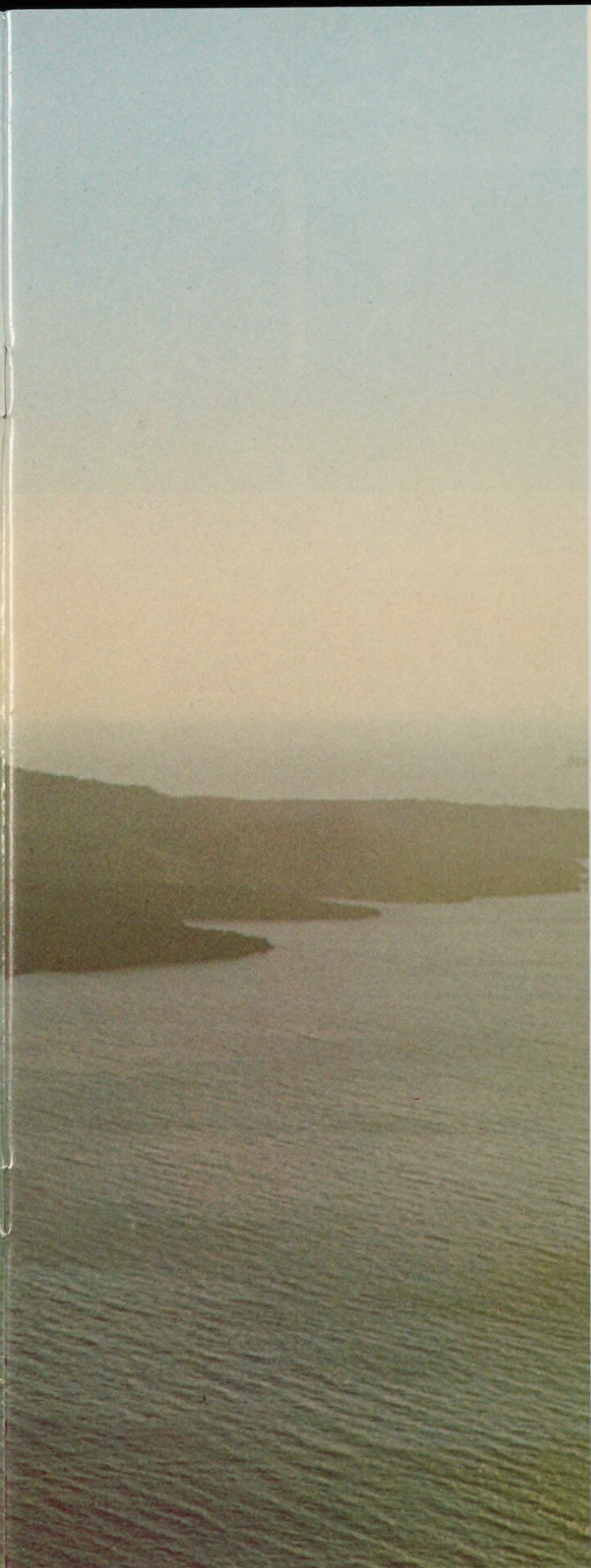
Marriott CORPORATION

Annual Report
Fiscal 1974

Highlights	1974	1973	Per Cent Increase
Sales	**$640,439,000**	$538,193,000	19.0%
Income before income taxes	**42,120,000**	36,278,000	16.1%
Per sales dollar	**6.6%**	6.7%	
Net income	**24,745,000**	21,640,000	14.3%
Per sales dollar	**3.9%**	4.0%	
Per share	**.80**	.70	
Funds provided from operations*	**63,592,000**	52,079,000	22.1%
Working capital	**14,518,000**	9,771,000	
Shareholders' investment	**227,739,000**	200,360,000	
Per share	**7.30**	6.46	
Shares outstanding	**31,183,063**	31,029,718	

NOTES: Results are for the 52 Weeks Ended July 26, 1974 and July 27, 1973.
** See note C, page 35, for explanation.*

Sun Line: Luxury cruises to exotic destinations



Message to Shareholders:

More Records Set Despite Energy Crisis, Other Problems

If ever there were a time when the strength of your company was tested, it was fiscal 1974. The "Energy Crisis" struck at home and abroad, and on top of other pressures on profits it made for an anxious year.

But ours is a highly responsive management team which adjusts remarkably well to problems. And it did not permit our continuous earnings stream to be interrupted.

We increased both net income and earnings per share by 14% to $24,745,000 or 80 cents per share, from $21,640,000, or 70 cents. Sales were up 19%, to $640.4 million from $538.2 million.

As we began fiscal 1974, interest and food costs began spiraling. Then TWA, a major airline catering customer, was shut down by a strike for six weeks. Later, it became evident that declining sales at some of the older Hot Shoppes restaurants and operating problems in Frankfurt and London catering kitchens were more serious than we first thought.

But the biggest problem of all was the energy crisis. Gasoline shortages, a general concern about travel, and higher fuel charges came down on us hard. Many divisions were affected in various ways, but the principal casualties were the Sun Line and Tollroad Divisions.

Sun Line fuel costs tripled. Some people concerned about travel connections—or about sharply higher air fares—canceled their bookings. Gasoline shortages kept motorists off the highways—and out of our tollroad units. The combined effect of the energy crisis on these two divisions alone was about six cents a share compared with their results the year before.

Marriott Team Responds

Management and employees, however, came through brilliantly in all divisions. We reduced man-hours, improved employee productivity, consolidated or streamlined operations, strengthened controls, lowered energy consumption, cut non-urgent expenses.

When the year was over, our three basic businesses—restaurant operations, lodging, airline catering—were healthier than ever.

The company's three operating Groups shared about equally in the overall 19% sales gain.

IN-FLITE SERVICES had the greatest rate of earnings improvement over the year before. With traffic in the United States up for most of the year, and new internal efficiencies, domestic results were good. So were results in South America. Only Europe declined.

RESTAURANT OPERATIONS also had excellent earnings progress, especially in our popular new dinner houses and Farrell's Ice Cream Parlour Restaurants, in fast-expanding Roy Rogers Family Restaurants and Big Boy coffee shops, and in Business Food Service. Of our major divisions, only Service Restaurants and Tollroads were off from last year.

HOTELS as a group had only a moderate increase over the year before. But losses in the Sun Line and World Travel Divisions obscured the outstanding performance of the Marriott Hotels themselves, and of our new condominium program.

Your company now has 688 operations spread across 34 states and 15 foreign countries. We serve 600,000 people every day in our restaurants, at our hotels, on airlines from our flight kitchens, and on Sun Line cruise ships.

This is solid footing as we move into the second half of the 70's—a period when travel and leisure time patterns may be changing somewhat under the pressures of inflation.

Meeting A Trend In Resorts

We have no doubt that the desire for travel and "escape" is as strong as ever. And as travel costs rise and inflation reduces disposable income, we can expect an increase in business for Western Hemisphere resorts and in mini-vacations closer to home. Marriott is well-positioned to benefit from this trend.

Our North American-Caribbean resort hotel expansion moved forward rapidly this last year with contracts to manage two large and magnificent resort facilities for Sea Pines Company—one at Amelia Island in Florida and the other at Palmas del Mar in Puerto Rico. We started plans for a 150-room expansion at Sam Lord's Castle in Barbados. A management fee on a second Acapulco hotel was consummated. We began construction of 74 additional rooms at world-famous Camelback Inn in Arizona.

In fiscal 1975 we will open our new Lincolnshire resort-sports complex, the closest resort hotel to downtown Chicago and O'Hare Airport. It has been specifically designed to appeal to the two-to-three night mini-vacation market with short driving time. Our Newport Beach, California, resort hotel will open this fiscal year with complete resort amenities developed on a beautiful site overlooking the Pacific Ocean. And our third Acapulco hotel will open under management contract.


J. Willard Marriott


J. W. Marriott Jr.

It should also be emphasized that Marriott, for several years, has been developing "escape weekend" business in all hotels. We have, or soon will have, indoor swimming pools and recreation centers in most properties above the year-round warm climate zone.

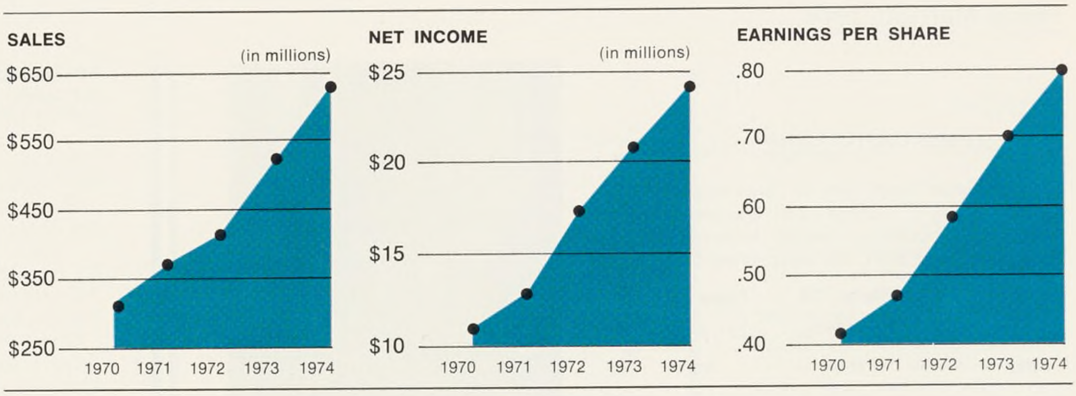
Our In-Flite operations have been developed through the years with a heavy focus on growth in leisure travel. We have kitchens at most warm weather resorts serving the U.S. domestic market, including Miami (three kitchens), Ft. Lauderdale, Tampa, Barbados, San Juan, St. Croix, Honolulu, Mexico City, Acapulco, Los Angeles, and Las Vegas. We serve the growing ski market in Salt Lake City, and soon will be in Denver.

Our Theme Parks under construction in Santa Clara, California, and near Chicago—and planned for the Washington, D.C. area—are specifically designed to appeal to the local family vacation market requiring less than a one hour drive from home. In the spring of 1976 the first two parks will open, and a major new business for your company will be launched.

Serving New Demands In Dining Out

As the tendency to stay close to home develops, we are finding that dining out takes on new meaning for leisure-conscious people. There is a particularly strong desire for the different and unusual in restaurants. We are experiencing excellent demand for our dinner houses and will double this division in 1975.

We also are seeing greater customer appreciation of the entertainment value of Farrell's Ice Cream Parlour Restaurants. This division will expand by almost 50% in 1975, making it one of our fastest growing divisions. In addition, the public is recognizing the uniqueness



of our Roy Rogers concept in the crowded fast food field, and the basic value of our Big Boy Family Restaurants, which are registering the best sales-per-unit gain in years.

Sun Line cruise ships present a great challenge to us, as the international travel market runs into difficulty. But we do have unusual flexibility in the marketing of our product, as evidenced by our transfer of the Stella Maris from the Aegean Sea to the Great Lakes in the summer of '74. This winter all three ships will be positioned in exciting itineraries in the Caribbean and Latin America.

Improving The Return On Investment

Being ready to serve shifting markets is at the core of our corporate strategy. So too is coping with an inflation rate which has escalated interest and construction costs and makes it extremely difficult to earn a good return on investment. Two developments geared directly to improving our return on investment picked up momentum in fiscal '74.

Management contracts, which will help us curtail large investments in hotel properties, were signed on six properties. Four we have already mentioned: The two Sea Pines and two Acapulco facilities.

Two other contracts will take the Marriott name into the Middle East for the first time. A 700-room Marriott hotel is now under construction in the heart of Cairo, Egypt, and a 500-room hotel will start soon in Tehran, Iran.

As this report went to press, we signed a management contract for the largest Marriott hotel anywhere: A new 1200-room, 44 story hotel-retail complex in the heart of Chicago, on North Michigan Avenue. Several other management fee contracts, for both U.S. and overseas markets, are under active negotiation.

Likewise our condominium program continues to aid us in our efforts to withdraw capital from some of our existing properties. In the past two years we have raised $10.5 million through the sale of units at Camelback Inn in Arizona. Starting late in fiscal '74, we began marketing a condominium program for Essex House in New York that should allow us to reduce our investment there by several million dollars in the next two years.

As we swing more to management contracts for hotels and away from ownership, it is significant to note that over two thirds of the facilities at our 24 hotels are less than six years old . . . that it would cost us at least 50 percent more to replace our hotels at today's construction costs . . . that the average interest rate being paid on mortgages for our existing properties is 7.5 percent, compared with today's rates in excess of 10 percent.

And to help keep our properties in like-new condition, we continue an extensive program of maintenance and improvement. Last year alone, $21.6 million was spent on this program.

* * *

Marriott Corporation today operates 14 different divisions in the food and lodging business whose annual sales range from $10 million to over $150 million, plus many smaller divisions. We believe that this broad diversification will allow us to grow profitably in the years ahead in spite of unsettled economic conditions.

J. Willard Marriott
Chairman of the Board

J. W. Marriott, Jr.
President and Chief Executive Officer

September 27, 1974

This is Marriott, 1974

Marriott
Restaurant Operations Group

Most diverse food service organization in United States . . . large food manufacturing plant . . . coming: family entertainment centers—East Coast, Midwest, West Coast

	Fiscal '74	Fiscal '73
Sales:	$265 Million	$221 Million
Units:	501	406
Scope:	26 States and D. C.	
Employees:	22,000	18,100
Franchises:	815	786

RESTAURANTS, CAFETERIAS,
375 Company-owned facilities nationwide

	UNITS
Hot Shoppes Service Restaurants	22
Hot Shoppes Cafeterias	38
Big Boy Coffee Shops	115
Tollroad Restaurants	16
Farrell's Ice Cream Parlour Restaurants	60
Dinner Houses	6
Roy Rogers Family Restaurants	58
Jr. Hot Shoppes and Snack Shoppes	41

Marriott
Hotels Group

Most diverse lodging-travel-tourism group in U. S.: Hotels and resorts, Sun Line cruise ships, resort and luxury hotel condominiums, world travel services

	Fiscal '74	Fiscal '73
Sales:	$207 million	$175 million
Hotels:	24 (10,187 rooms)	20(8,772 rooms)
Scope:	Hotels: U.S., Mexico, Caribbean Cruise Ships: Aegean, N.-S. America	
Employees:	11,700	11,100
Franchises:	12 Inns	10 Inns

HOTELS AND RESORTS
24 Properties in U.S., Mexico, Caribbean

CITY	FISCAL YEAR OPENED	ROOMS AT 7/26/74
Washington, D. C.		
Twin Bridges	'57	451
Key Bridge	'59	371
Dallas	'60	477
Philadelphia	'61	713
Atlanta	'66	777
Saddlebrook, N.J.	'66	245
Scottsdale, Ariz. Camelback Inn*	'68	297
Chicago	'68	706
Houston	'69	339

Marriott
In-Flite Services Group

Broadest system of airline catering kitchens in world, serving 92 U.S. and foreign carriers, scheduled and supplemental—plus terminal restaurants, special services

	Fiscal '74	Fiscal '73
Sales:	$168 Million	$142 Million
Kitchens:	64 (56 airports)	59 (53 airports)
Scope:	N. and S. America, Europe, Pacific, S. Africa	
Employees:	9,100	8,800

FLIGHT KITCHENS—NORTH
37 kitchens in U.S., Mexico, Caribbean

	UNITS
Acapulco	1
Albuquerque	1
Baltimore	1
Barbados	1
Boston	1
Chicago	2
Dallas/Fort Worth	2
Ft. Lauderdale	1
Honolulu	1
Houston	1
Kansas City	1
Las Vegas	1
Los Angeles	1
Mexico City	1

FAST FOOD UNITS

	UNITS
Big Boy Jr. Units	17
St. Petersburg Pier	2

815 Franchised units across U.S. and in Canada

Big Boy Restaurants of America	718
Farrell's Ice Cream Parlour Restaurants	26
Roy Rogers Family Restaurants	71

FOOD SERVICE AND HOUSEKEEPING MANAGEMENT

117 contracts for food service with businesses, hospitals, and schools and colleges, and for food vending routes, all in the eastern half of the U. S. and Texas. Nine contracts for housekeeping services in Eastern U. S.

FAIRFIELD FARM KITCHENS

Food research and production center in Washington, D.C., serving Marriott restaurants, hotels, flight kitchens in eastern half of U. S. . . . manufacturer of food for external sale to food service industry and food retail chains.

FAMILY ENTERTAINMENT CENTERS

Three major theme park complexes (rides, live entertainment, restaurants, specialty shops, etc.) now being developed for three of country's largest regions—Washington, D.C./Baltimore, Chicago/Milwaukee, and San Francisco/Santa Clara—with first "Marriott's Great America" parks to open in Santa Clara and Chicago area in 1976.

CITY	FISCAL YEAR OPENED	ROOMS AT 7/26/74
New York City Essex House	'69	763
Acapulco	'69	435
Boston	'70	433
Washington, D. C. Crystal City	'70	301
Dulles Int'l Airport	'70	215
Bloomington, Minn.	'71	323
St. Louis	'72	426
Miami	'72	358
New Orleans	'72	924
Barbados	'73	61
Dallas Inn	'73	277
Los Angeles	'74	1,020
Palmas del Mar* Puerto Rico	'74	57
Amelia Island,* Fla.	'74	115
Auto Ritz* Acapulco	'74	103
Total Rooms		10,187

* Managed by Marriott

Specialty Restaurants in above 24 hotels now number 46.

FRANCHISED MARRIOTT INNS

CITY	OPENED	ROOMS
Cincinnati	'70	170
Columbus	'70	214
Fort Wayne	'70	227
Louisville	'70	358
Cleveland	'71	208
Berkeley	'72	243
Ann Arbor	'73	169
Pittsburgh	'73	270
Blacksburg	'73	105
Milwaukee	'73	254
Indianapolis	'74	255
Rochester	'74	202
Total Rooms		2675

RESORT/HOTEL CONDOMINIUMS

World-famous Camelback Inn "Five Star" resort at Scottsdale, Arizona, and luxury Essex House on Central Park South in New York City now offering units for purchase as condominiums.

SUN LINE CRUISE SHIPS

Sun Line fleet cruising in Aegean and Caribbean — Stella Solaris (650 passengers), Stella Oceanis (310), Stella Maris (180).

WORLD TRAVEL SERVICES

Marriott World Travel Division providing special tours to unique world destinations.

AMERICA

	UNITS
Miami	3
Minneapolis	1
Newark	2
New Orleans	1
New York	4
St. Croix	1
Oakland	1
Salt Lake City	1
San Francisco	2
San Juan	1
Seattle	1
Tampa	1
Washington, D.C.	2

FLIGHT KITCHENS—OVERSEAS

	UNITS
Europe—19 kitchens	
Alghero, Sardinia	1
Athens	1
Barcelona	1
Cagliari, Sardinia	1
Faro	1
Frankfurt	1
Gerona	1
Lisbon	1
London	2
Malaga	1
Madrid	1
Milan	2
Palma de Mallorca	1
Paris	1
Rome	2
Torino	1
South America—6 kitchens	
Buenos Aires	2
Caracas	1
Lima	1
Rio de Janiero	1
Santiago	1
South Africa	
Johannesburg	1
Pacific	
Guam	1

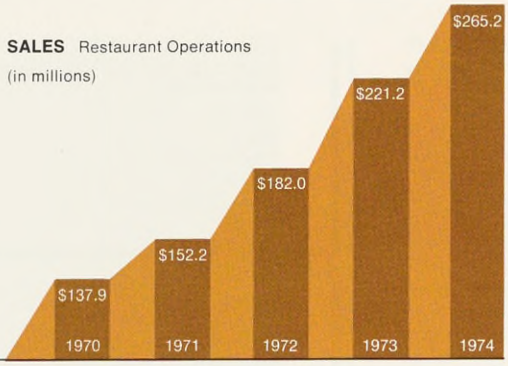
AIRLINE TERMINAL RESTAURANTS

17 restaurants in airline terminals: 7 in U.S./Caribbean, 7 in Europe, 3 in South America.

SPECIAL SERVICES

Catering for Auto-Train and Amtrak, East Coast; Kaiser Hospitals, West Coast . . . Marriott Security Systems . . . total of 28 special ground activities.

Restaurant Group Continues Solid Growth Performance



by G. Michael Hostage
President
Marriott Restaurant Operations

Fiscal 1974 was quite a year for Marriott Restaurant Operations. We met our goals, and then some, but it took a fast finish in the second half by a great team of managers and employees to maintain our traditional rate of profit growth.

Unpredictable food costs . . . a fuel shortage that had both real and psychological impact . . . and declining sales in our Hot Shoppes Service Restaurants . . . these were the issues most difficult to grapple with the past year.

But they didn't stop us from more new records. Sales were up. Earnings were up. Profit margins were generally maintained. Number of new facilities was up—we now have over 500 company operations in our Group.

These highlights came about in a number of ways: aggressive expansion in market segments with strong potential, improvements in employee productivity, additional administrative efficiencies, increased advertising expenditures, decisions to convert some units to more profitable types of operations, and price increases. All these have been important routes to profit growth this past year.

And after a slow second quarter, things came together in the last half of the year. We frankly had our hands tied by the energy crisis for a while. Sunday closings of gasoline stations and a general concern about driving on any day of the week adversely affected almost every division to some extent, but cut very deeply into Tollroad operations. In addition, the Service Restaurant Division was not profitable, and Cafeteria results were flat on a year-to-year basis.

But all other major divisions had healthy gains in fiscal '74—Dinner Houses, Fast Foods, Business Food Service, Big Boy Coffee Shops, Farrell's Ice Cream Parlour Restaurants, and Fairfield Farm Kitchens.

FARRELL'S ICE CREAM PARLOUR RESTAURANTS sales and profits were almost double the year before. The number of company-owned units doubled in fiscal '74 by acquisition of 16 franchised units in Los Angeles and the state of Washington, and by opening 14 new locations. We now have 60 Parlours and are beginning to span the continent, achieving national recognition for Farrell's famous brand of wholesome fun and great ice cream specialties. Farrell's acceptance by the public everywhere has been outstanding. It is a concept we intend to expand aggressively—a 42% growth in number of units is programmed for fiscal 1975.

BOB'S BIG BOY had another good year. The division opened a dozen new coffee shops and entered the Midwest with the acquisition of 38 franchised Manner's Big Boy units in northern Ohio. Franchising revenue and "Bob's" retail salad dressings continue to make a steady overall contribution to the Big Boy division. Further expansion is planned on both the East and West coasts for this national leader in quality coffee shop service.

DINNER HOUSE results keep improving by leaps and bounds. Opened this past year was a new Pittsburgh Joshua Tree—and it has been just as successful as our earlier dinner houses. Five new units are planned for fiscal '75, including one on Long Island, and two more in the met-

(At right) Farrell's: Building the "World's Largest Sundae" for special events . . . spreading fun nationwide


FARRELL'S

Restaurant Operations: Growing Everywhere

Food Service Management strengthens corporate dining business with Dresser Industries Tower in Houston (left), hospital business with medical center on Duke University campus (lower left) . . . stylish Roy Rogers fast food units (above) open in new markets . . . Bob's Big Boy (below), dinner houses (right) continue building public appeal.

ropolitan Washington, D. C. area. The dinner house concept is an excellent growth area for us, and we will pursue it strongly.

HOT SHOPPES CAFETERIAS in fiscal '74 were able to equal the sales and earnings of fiscal '73 despite the closing of one unit and enormous increases in food cost. An experimental cafeteria-style concept with greater operating efficiency is being tested as "Audrey's Sister's Buffet" in Waukegan, Illinois. New price levels and the good market positions of most cafeterias should strengthen results in fiscal '75.

THE SERVICE RESTAURANT DIVISION, with its Hot Shoppes Restaurants, was unprofitable last year for the first time in its long history. In the fourth quarter, however, we reversed the declining sales trend through special sales promotions, and Hot Shoppes are expected to regain their profit position in fiscal '75. We expect to sell several of the existing 22 units and plan to convert several more to other modes of Marriott's widely diversified food services during the next few years.

THE TOLLROAD DIVISION began operations with high expectations in fiscal 1974, taking over seven New Jersey Turnpike facilities in October of 1973. These traditionally high volume units replaced an equal number of units in Florida. Good fiscal year results were projected for the division despite heavy costs incurred in the Florida-New Jersey shift—but that was before the "Energy Crisis." Sales went into a tailspin in the second quarter as gas rationing on the tollroads restricted traffic, and profits were down substantially for several months. In the fourth quarter we had more normal results and finished the year profitably. The growth that was delayed in '74 should materialize in '75.

ROY ROGERS FAMILY RESTAURANTS have grown to 58 company-owned units in the past year and are experiencing excellent results. We think Roy Rogers is the "class" of the fast food industry. Like Farrell's, it has a unique market standing. And like Farrell's, we will be aggressive with expansion. Nine units were added in 1974, and another 15 are planned for this year, including several in the metropolitan New York area.

JR. HOT SHOPPES made substantial gains last year in cutting costs and in raising profit margins. Many have been converted to the more profitable Roy Rogers format, but others continue strong in their Washington-area locations, some with colorful new design.

FOOD SERVICE MANAGEMENT: Business Food Service, the mainstay of this group, had a fine year. Major new accounts include Celanese Corporation, Western Electric—and in Houston, the Dresser Industries Tower and the new 47-story Milam Building, giving Marriott higher visibility in a geographic area where we previously had few accounts. The Hospital Division is also expanding. Profits were up for the year and a number of new accounts were signed, including the large Duke University Medical Center in Durham, North Carolina; Victoria Hospital in Miami; Morton Hospital in Taunton, Massachusetts, near Boston; and St. Agnes Hospital in Philadelphia. The School and College and Vending Divisions had earnings declines in fiscal '74, but both are budgeting for better results this year.

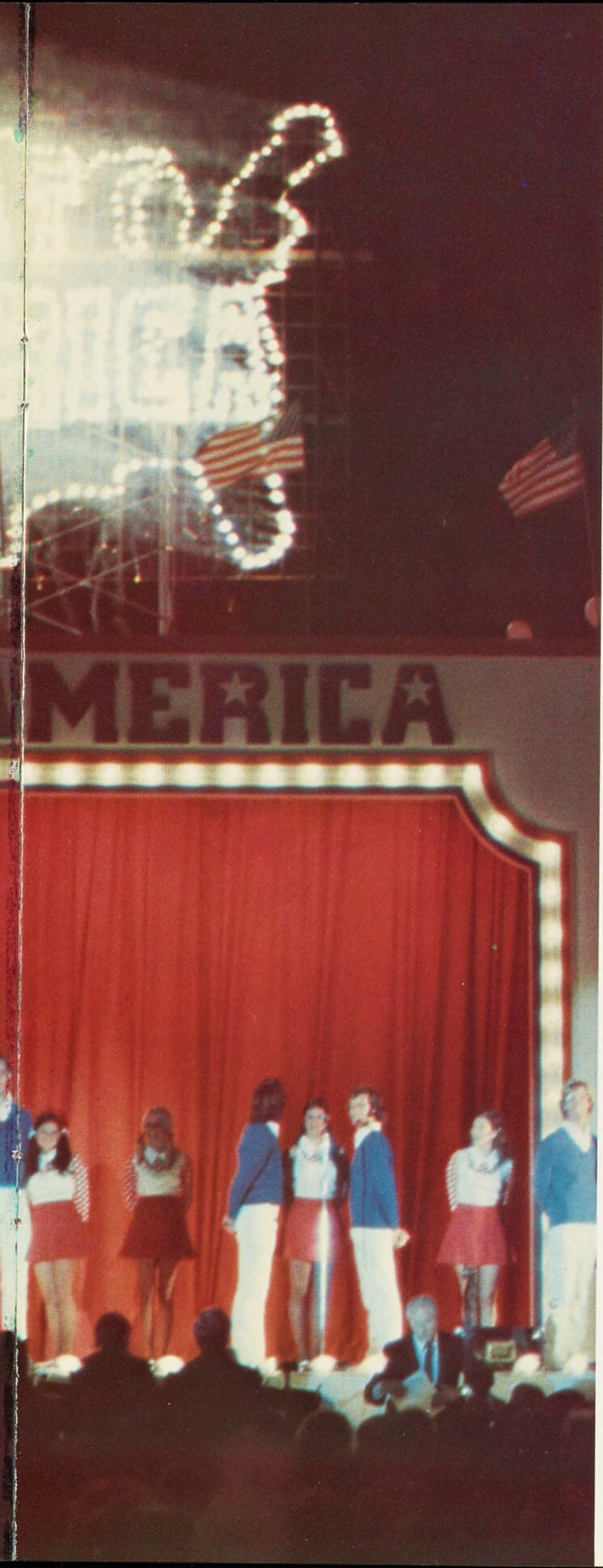
FAIRFIELD FARM KITCHENS: Our giant food production facility near Washington continued its profitable operation in fiscal 1974. A great many internal efficiencies and increased shipments to company facilities in the eastern half of the United States contributed to this success, and we think FFK is now "in the black" to stay. Our new retail salad dressing program is doing well in Washington, D. C., and Miami, Florida.

THEME PARK DIVISION: Construction on the first of three planned "Marriott's Great America" regional theme parks got underway in October of 1973 in Santa Clara, California, with a spectacular ground-breaking ceremony. Opening of the park has been set back due to highway construction delays and is now set for early spring of 1976. Our Chicago-Milwaukee park, in the town of Gurnee, Illinois, is also under construction and will open in the summer of 1976. No date for starting construction of the Washington-area park, at Manassas, Virginia, has been set as yet, but we expect to move ahead soon.

We are enthusiastic about the prospects for this new business, and for the contribution it will make to the long-term success of the company. There is an excellent future for this type of family-oriented entertainment and recreation. In 1964 about 16 million Americans visited theme parks. By 1976, when we open our first park, this number should jump to about 75 million. With their bicentennially-appropriate American heritage theme, and their trans-continental market span, we expect our "Great America" parks to be a major national factor in this profitable and growing leisure time industry.

* * *

The Restaurant Operations Group projects strong growth for fiscal '75 with about 100 new operations to be added. All in all, fiscal 1975 should be another good year.



"Great America" Theme Parks: On the Way

Construction of "Marriott's Great America" family entertainment centers is off to glittering start in Santa Clara, Calif. (left), and near Chicago (above). Parks will open in 1976. Grand two-deck carousel (below) will introduce guests to Americana spectacle of rides, live shows, Bugs Bunny and cartoon friends, restaurants, shops, music, color, excitement.

Hotels Up Strongly; Energy Crisis Hits Sun Line

by James E. Durbin
President
Marriott Hotels

Marriott Hotels and the company's related lodging activities had a good fiscal 1974, particularly in light of the energy crisis and its impact on the lodging industry.

Room occupancy slipped some from the year-ago rate but remained above 80 percent. This is a particularly remarkable testimony to the competitive position of Marriott Hotels. When the energy crisis struck and travel fell off, most of our industry went into a sharp decline. Marriott Hotel occupancy on a comparable year-to-year basis, however, dipped less than 3 percent.

Our real test the past year was in making a satisfactory profit with costs spiraling and confidence of the pleasure traveler dampened by the energy crisis. Thanks primarily to highly effective cost control and marketing programs, profits from our hotels and our condominium division were good.

We can't say the same for our Sun Line cruise ship and Marriott World Travel ventures. Both were unprofitable, with Sun Line especially penalized by higher costs of fuel due to the energy crisis, by government unrest in the Mediterranean and the Middle East, and by declines in leisure-time air travel caused by higher air fares to Europe and elsewhere.

NORTH AMERICAN HOTELS STRONG

Even with these two divisions having troubles, the full Hotels Group showed a profit increase over fiscal 1973. Total sales were up 18%.

Certain fundamental strengths enabled Marriott hotels—almost alone in the lodging industry—to overcome the damaging effects of the country's energy crisis, and of other problems.

Marriott Hotels at airports benefited from increased air traffic as highway travel slumped. Our properties in major suburban areas remained in high demand by business and leisure travelers. Marriott resorts, situated at air-destination centers, continued to enjoy good occupancies right through the heart of the crisis. It is important to note here that Marriott is not in the highway motel business, significantly minimizing the effect of the energy crisis.

Other difficulties included: 1) higher costs for food and other items, 2) the fate of the calendar—when Christmas and New Year's fall toward mid-week as they did last year, the travel business drops drastically for two full weeks, 3) costs to open our giant Los Angeles hotel.

However, room rates and sales went up. And so did profits, despite the problems.

MANAGEMENT TAKES SWIFT ACTION

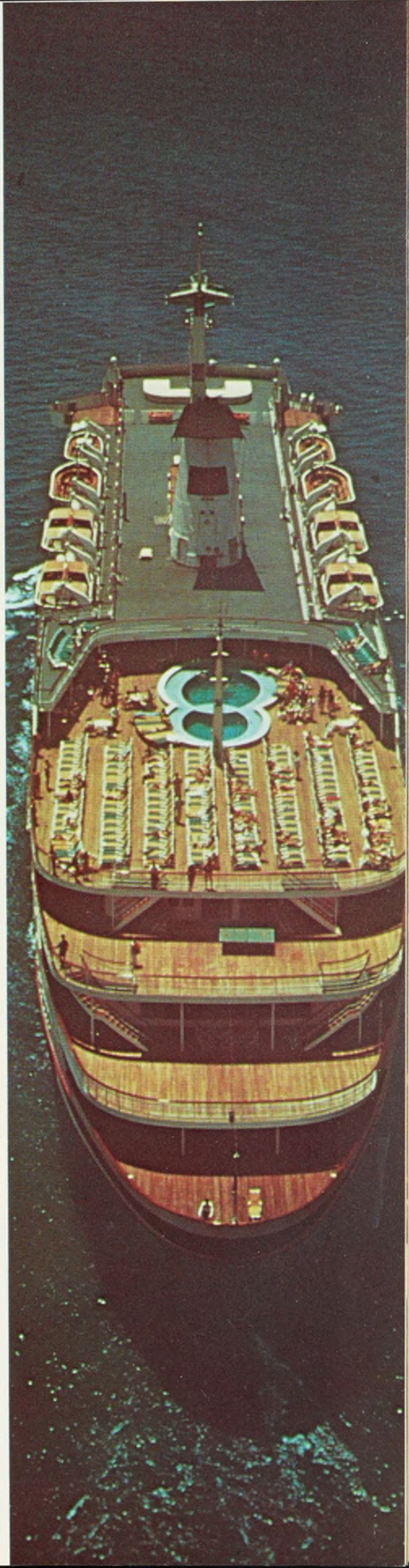
Advance contingency planning, strict controls by management, and aggressive, creative marketing played a major role in the profit growth. Manpower planning and control programs yielded significant savings in manhours. With employee energy committees in each hotel we reduced energy consumption by almost 20 percent. New food purchasing programs, revamped menus, and special "dinner house" concepts helped improve operations in the many fine hotel specialty restaurants.

Opening of the sensational new Los Angeles Marriott was a milestone for the year. It is an outstanding property, and occupancy climbed steadily during the year.

Also significant was our newly established

(At right) Essex House joins Camelback Inn in condominium program . . . credit for Sun Line cruises added


ESSEX



The Special Meaning of Marriott Hotels

Marriott Hotels lead the way in meeting a fast expanding demand for resort amenities . . . in preparing for future growth in close-to-home mini-vacations. The fun of night life and kids' life . . . sauna and swimming . . . dinner in a great restaurant or great room . . . sports on ice, courts, or golf course—all reasons why "Marriott Means More".

policy to manage certain properties on a management fee basis as well as own our hotels. A major step this year was an agreement reached with Sea Pines Company to jointly manage and operate resort facilities at Palmas del Mar in Puerto Rico and Amelia Island Plantation near Jacksonville, Florida. By year-end we had a total of 172 rooms in our system from these two resort communities. In fiscal 1975 this number will increase to approximately 1,000. Ultimately, over 24,000 rooms are expected to be built by Sea Pines at the two locations—the majority of which we expect to manage for rental. We are very pleased to associate with Sea Pines, which has an excellent reputation for high-quality resorts.

Our expansion for the future goes forward. In the United States, we will begin operations in the first half of fiscal '75 at the new Kansas City International Airport and at Denver; and in the second half at Newport Beach, California, and at a large and exciting near-Chicago resort at Lincolnshire, Illinois, where advance bookings are off to a fast start.

Various phases of planning will be completed this year for new properties in North Atlanta; Bethesda, Maryland; along the New Jersey Turnpike; and Santa Clara, California, at "Marriott's Great America" theme park.

CONDOMINIUM PROGRAM

We stepped up our condominium program this year, and we expect this activity to make an increasing contribution to future results.

At Camelback Inn, Scottsdale, Arizona, another 110 units were sold, bringing to 206 the total sold in two years. Right-of-ownership at this famous resort now includes exchange privileges for lodging in other Marriott cities and partial credit for Sun Line cruises.

Marriott's Essex House in New York City also is being converted in part to the condominium concept. We expect that about 200 suites will be sold, principally to corporations and some individuals requiring high-quality New York accommodations. With the remaining facilities, the Essex House will continue as one of New York's most prestigious hotels serving corporate and other transient guests.

FRANCHISED MARRIOTT INNS

The franchise division of the Marriott Hotels Group completed the year with good profit gains. The number of franchised rooms increased 34 percent in fiscal '74 to 2,675 rooms. Two new properties opened, in Indianapolis and Rochester, for a total of 12 franchised Marriott Inns.

SUN LINE CRUISE SHIPS

The three Sun Line ships—Stella Solaris, Stella Oceanis and Stella Maris—cruised the seas of two hemispheres last year, but financially fiscal year 1974 certainly was a great disappointment.

The energy crisis, unrest in certain countries, and large trans-Atlantic air fare increases shook the confidence and changed the plans of many travelers and several bookings were canceled. Fuel charges tripled and operating costs jumped sharply. It was probably the cruise industry's most troublesome time. Operators everywhere experienced serious difficulties and some did not survive. For Sun Line, the result was a sizable loss.

We go into the new year with these external problems continuing. We have some of the finest ships afloat. We offer creative and appealing cruise programs. We have added expertise to the management team of Sun Line. But it will be difficult to overcome some of the external pressures, at least in the near term.

In the winter of 1974-75 all three ships will be sailing interesting and marketable itineraries. Equally exciting cruise programs are being developed for next summer.

WORLD TRAVEL SERVICES

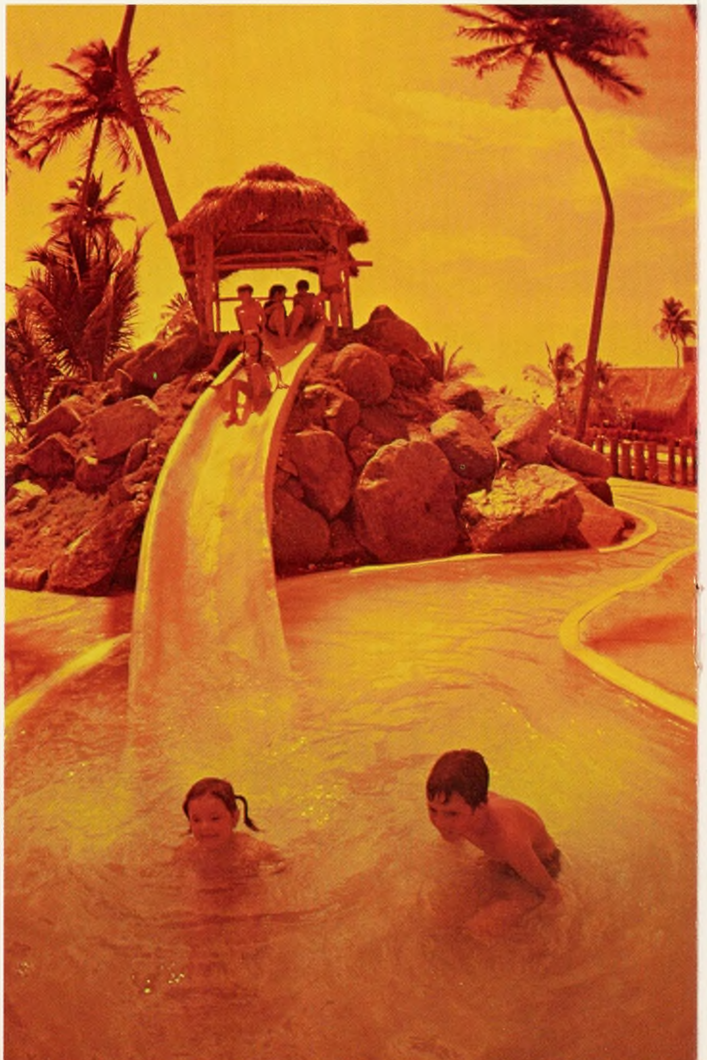
Many of the problems affecting Sun Line also penalized the Marriott World Travel division. Just when we expected to have this new business finally in the black, scheduled groups canceled their plans because of the uncertainty of charter plane availability due to the energy crisis. Losses were smaller than last year, however, and we expect fiscal 1975 to be our turn-around year.

INTERNATIONAL DEVELOPMENTS

Last year we advanced strongly on the international front with our new strategy of seeking foreign hotel management opportunities.

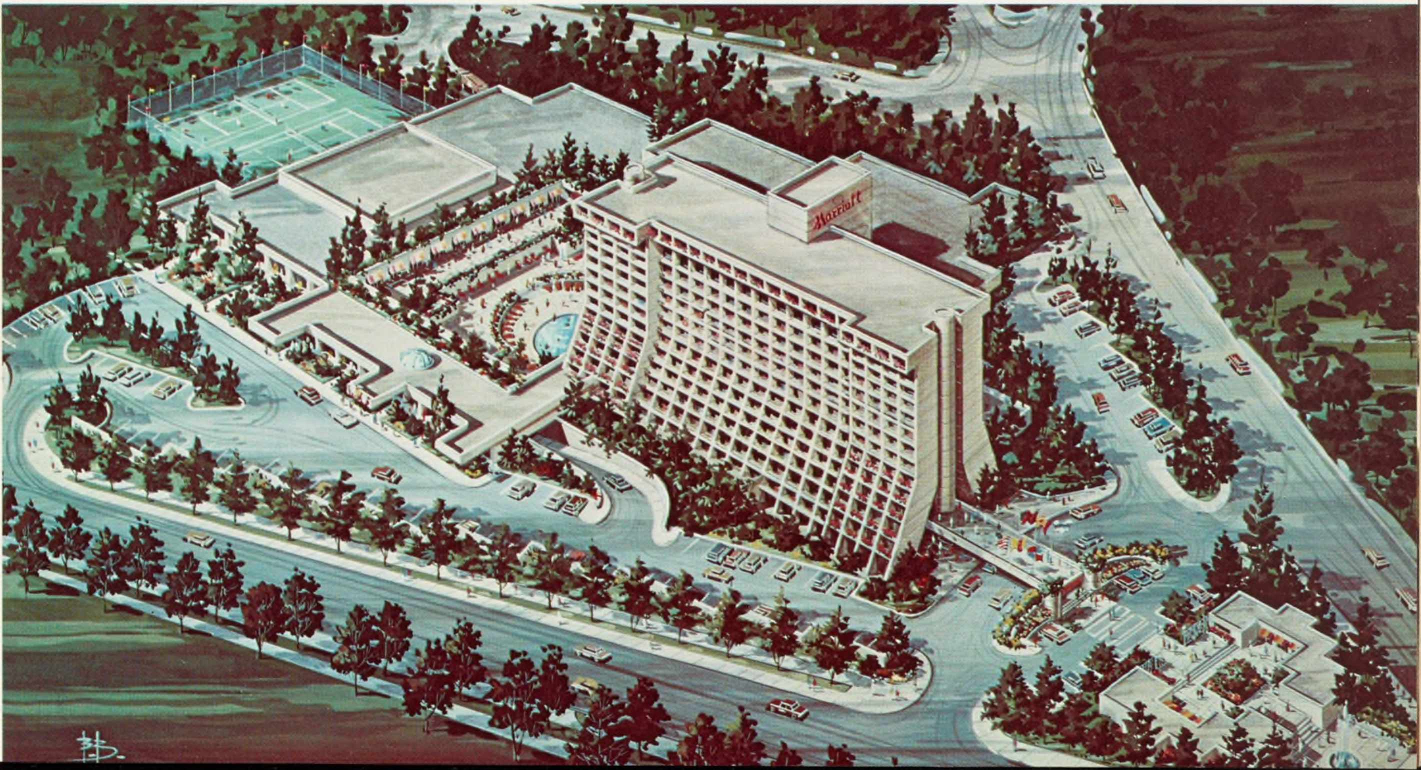
In Cairo we were proud to have been selected to manage a deluxe hotel for the Egyptian General Organization for Tourism and Hotels. Other projects have been announced for Cancun, Mexico, the developing resort area on the Yucatan peninsula; for Tehran, the capital of Iran, and for Acapulco. We will open our first European hotel—in Amsterdam—in early spring, 1975.

Other major business and travel centers of Europe, the Middle East, and the Far East are being evaluated for similar management contracts. World-wide positioning of the Marriott hotel name, on a selective basis, is very much in our future.



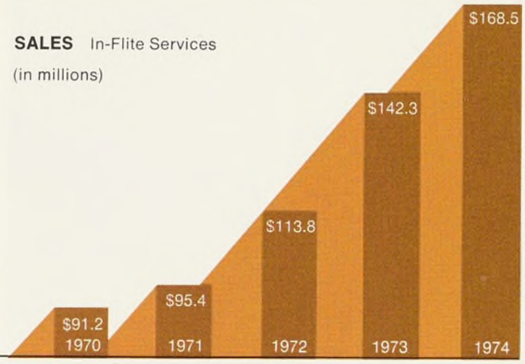
Management Contracts: Route to Expansion

Marriott's unique touch in hotel management spreads world-wide. New contracts are signed to jointly manage and operate two exciting Sea Pines resorts at Palmas del Mar, Puerto Rico (lower left), and Amelia Island at Jacksonville, Fla. (upper right), plus beautiful new hotels in growing travel centers of Cairo, Egypt (above) and Tehran, Iran (below).



In-Flite Services Overcomes Hurdles, Has Fine Fiscal '74

by J. O. Jarrard
President
Marriott In-Flite Services



With momentum provided from our continuing broad expansion program, Marriott In-Flite Services entered fiscal 1974 geared for solid growth. And grow we did — despite several unforeseen and major hurdles that affected much of the year.

One of our largest customers, TWA, suffered a system-wide six-week strike, and our results showed it—especially in Europe. Two important new kitchens, in Frankfurt and London, encountered protracted start-up difficulties that have been as troublesome as any we've seen. And, the energy crisis dictated changes in our operations that gave us some real problems for a while.

When these challenges surfaced, In-Flite responded rapidly—and decisively. Internally, we put into place a rigid austerity and efficiency program, and productivity not only was maintained, it improved. For example, through re-scheduling of personnel we cut labor costs materially. We modified inventory controls and purchasing procedures. We consolidated units at some locations and reorganized regional operations.

Externally, we sold ourselves to customers harder than ever. And we won many new accounts globally, including such major ones as Air France in New York, Braniff in Chicago, TWA in Las Vegas and Aeroperu in Lima. Our terminal restaurant business also improved significantly, thanks to a great extent to creative changes in food service concepts which have proven popular to travelers.

So we worked over and around the hurdles of fiscal '74 and came up with another record year. Total sales jumped 18 percent and the Group's overall profit margin improved. We're proud of this achievement, not only because of the many problems we were able to handle, but because inflationary costs far out-weighed the modest price relief we could obtain from our customers.

At fiscal year-end the In-Flite Group served 92 carriers at 56 airports around the globe. We added more new capacity and now have 2.2 million square feet of modern kitchen facilities.

BIG YEAR IN NORTH AMERICA

Fiscal 1974 was a benchmark year for Marriott In-Flite in North America. The management group dealt with serious obstacles and actually increased employee productivity.

Many positive factors were involved in In-Flite's domestic progress under the economic conditions that prevailed in the nation's airline industry the past year.

First, of course, was a gain in traffic. As the energy crisis unfolded, predictions from some quarters were for zero growth or less. We stood almost alone in the industry, however, forecasting about a 6% increase in traffic in calendar 1974. While enplanements did drop off this past summer, that 6% was just what U.S. records showed through May, and obviously this was a help to us in fiscal '74.

Then, the industry made substantial cuts in its number of flights. Many of those canceled were marginal from the standpoint of food service volume and profitability. And with a greater number of passengers concentrated on fewer flights, the result is higher efficiencies

(At right) Fine service by Marriott, for Eastern Air Lines and other great airlines of the U.S. and world

International Airlines: Looking to Marriott

Marriott In-Flite counts the world's great airlines as customers, and is moving into new markets around the globe. Over 52 million passengers were served in fiscal 1974, a large percentage from the 27 In-Flite kitchens outside the United States. Marriott trucks are a familiar sight now at these airports in some of the world's major markets.

in preparing and loading quantities of meals.

Certainly we benefited from our rigid austerity program and aggressive sales efforts as described previously.

And, finally, the Terminal Restaurant Division had a great year after a long struggle against poor results. A creative fast food "bazaar" has been successful at both the Pan American Terminal at New York's JFK Airport and in San Juan, now operating profitably. We are especially pleased with the strong volume and good returns at our new terminal operations for Eastern Air Lines in Boston. We recently contracted for restaurant operations at Dulles Airport near Washington, and look forward to other opportunities.

NEW BUSINESS VENTURES EXPANDING

The "Special Services" direction we have emphasized in recent years has been an important adjunct to our principal business of airline catering. Auto-Train, originally served by a Washington-area flight kitchen, required two facilities of its own this year to service its mushrooming Florida-bound traffic. One is at its terminal in Lorton, Virginia, south of Washington, and the other at Louisville, Kentucky, for its new route from there to Sanford, Florida. In-Flite now also is serving Amtrak in the nation's capital and all 11 Kaiser Hospitals from our Burlingame, California flight kitchen. Marriott Security Systems has more than doubled its sales and is making a good profit return, underscoring the need for quality loss-prevention services.

It should be noted that the performances from our newest operations have been generally excellent. During this past year new kitchens opened, and are doing well, in Salt Lake City, Boston, Newark, New York (JFK), the mammoth Dallas/Ft. Worth superport (two new facilities)—and two new markets for us, Las Vegas and New Orleans.

Early in fiscal 1975 we are beginning operations in two more new U.S. markets—Phoenix and Denver. Several other new facilities will be announced as the year progresses. This is part of our continuing strategy to establish kitchens at North American business and resort destinations that are experiencing long-term growth in air traffic. The success of this program has already been proved in such air travel centers as Acapulco, Hawaii, Tampa and Ft. Lauderdale, Barbados and San Juan.

IN-FLITE INTERNATIONAL

Foreign air travel, a growth business for many years, tapered off in fiscal 1974 as the energy crisis and sharply higher air fares took effect almost world-wide.

Traffic in Europe, and on the trans-Atlantic routes, has been particularly disappointing. However, sales at our European kitchens have risen more than 25% as airlines have been attracted to our new facilities which opened late in fiscal '73.

Reorganization and tight new controls have placed us in a much improved operating position in Northern Europe as we enter the new fiscal year. Unusual start-up difficulties which persisted at Frankfurt and London had a substantial negative impact on our Group's total results . . . but they are behind us now. And in Southern Europe, results were mixed.

We opened a second kitchen in Milan, Italy. Also opened in Europe the past year is the largest airport commissary/flight kitchen in the world, at the new Charles de Gaulle airport outside Paris. Marriott, in a joint venture with Air France, provides technical and advisory services for this "airport-of-the-future" facility.

GOOD YEAR IN SOUTH AMERICA

For the second consecutive year, sales and earnings in South America were up materially. Our kitchens there have the greatest sales per square foot of any of our world regions, and we are pleased with the efficiencies that our management and employees have been able to effect. We also are gratified at the results of our sales program. A third of the increase in South American sales came from new business, which is a tribute to our marketing people and our reputation as the premier airline caterer in South America.

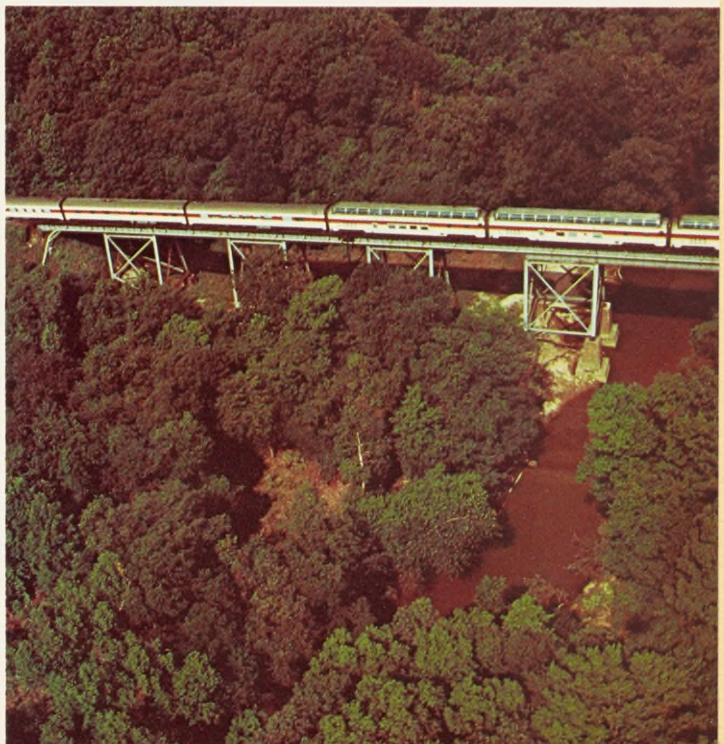
In both of these world regions, Europe and South America, inflation has been especially damaging. Wage costs, for instance, have skyrocketed. But we are managing our way around the problem, as reflected by our increasing productivity rates.

We remain confident in the future demand for our services at home and abroad even with the new variable of energy shortages. The major effect of the energy crunch on our industry is, of course, to inflate drastically the costs of fuel for our airline clients. In the sense that we really are a functional part of the airlines, we are working closely with them to help realize every reasonable economy without jeopardizing the quality of their food service.

Barring a world-wide economic decline and actual reduction in numbers of airline passengers, we look for important gains in fiscal '75.

In-Flite Domestically: A Strong Year

Good domestic growth in many markets, businesses was feature of In-Flite's strong fiscal 1974. Increases in airline traffic were a major factor. New "International Food Bazaar" restaurant at Pan American Terminal in New York (right) and other terminal operations—and special accounts like Auto-Train (lower right)—also were highlights of a good '74.

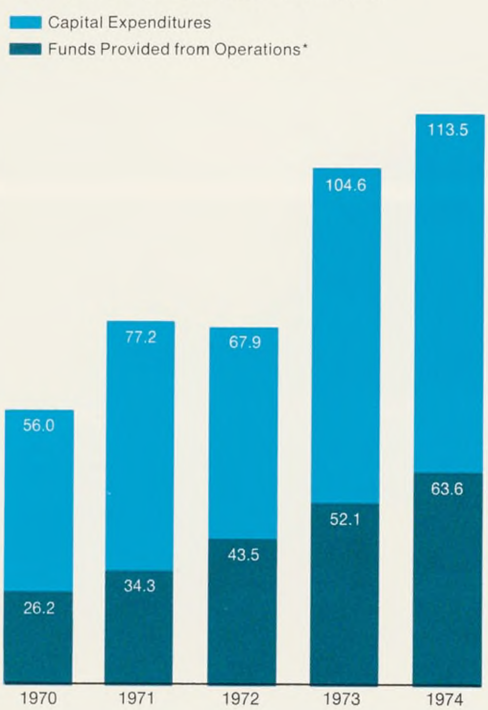


SALES AND OPERATING PROFITS BY GROUP

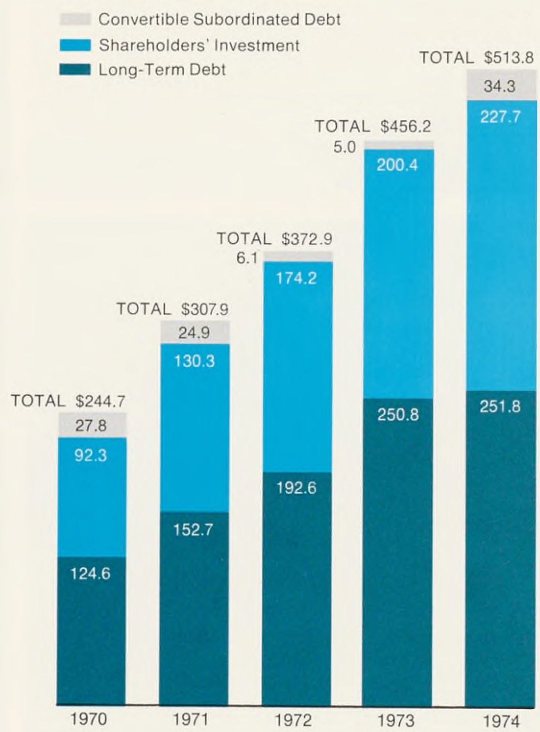
	% To Total Sales		% To Total Operating Profits	
	1974	1973	1974	1973
Restaurant Operations	42%	41%	40%	40%
In-Flite Services	26%	26%	28%	24%
Hotels	32%	33%	32%	36%
Total	100%	100%	100%	100%

Note: The relative contributions to operating profit are stated before income taxes and after allocating administrative, advertising and overhead costs, including an imputed rent charge on owned real estate, but do not include such financial and non-operating items as—
Imputed and actual rent profit on owned real estate
Interest expense less interest income
Franchise taxes, donations, and other miscellaneous items

CAPITAL EXPENDITURES AND FUNDS FROM OPERATIONS (in $ millions)



INVESTED CAPITAL (in $ millions)



* Note: Funds provided from operations consist of net income plus depreciation, deferred taxes and other expenses not requiring current outlay of working capital.

New Financial Strength, Consistency In Growth Accent Fiscal '74

by Robert E. Koehler
Vice President
Finance

Marriott's financial condition improved measurably in fiscal 1974 as a result of $64 million cash flow from operations (a 22% gain over 1973) and $30 million proceeds from the sale of convertible debentures and notes. These sources provided funds for the company's continued growth and expansion, including the following:

1. A net gain of 118 operating units (a 21% increase).
2. A $4.7 million increase in net working capital (to $14.5 million).
3. An $11.1 million increase in "pipeline" assets for future growth (land purchased for future operations or resale and construction in progress).

Total capitalization of $514 million is $58 million greater than last year with a strengthened capital structure:

	1974 Amount	1974 %	1973 %
Long-term debt	$251,783,000	49.0%	55.0%
Subordinated debt	34,300,000	6.7	1.1
Shareholders' investment	227,739,000	44.3	43.9
Total Capitalization	$513,822,000	100.0%	100.0%

Long-term debt maturity schedules have been leveled, and no more than $20 million is due in any one of the next three years.

Interest expense, net of interest income, was up 21.3% in 1974 after a 31.5% increase in 1973. Almost half the rise in 1974 was due to sharply higher rates while in 1973 the increase was due largely to more debt. Most economists expect interest rates to decline slightly during our next fiscal year, but we are budgeting for an increase in interest expense as our capital investments grow.

TOTAL ASSETS HIT $631 MILLION

We ended the year with total assets of $631 million. Inflation has increased the dollars required to maintain working capital and to replenish and expand our fixed assets, but at the same time the replacement value of the fixed assets expressed in inflated dollars would be much more than net book value.

Capital expenditures in fiscal 1974 were a record $113 million, and we project an increase to $140 to $150 million in fiscal 1975, of which $50 to $60 million will relate to theme park development. Although 1976 is a long way off, current indications are that capital expenditures will fall off considerably as the first two "Great America" theme parks are completed and our hotel expansion shifts away from owned properties to more management fee contracts.

IMPROVING CASH FLOW PROJECTED

Our projections indicate our growth program will continue to be financed from expanding cash flow plus regular sources of long-term mortgage debt. Next year we anticipate continued growth of cash flow and a net increase of $70 million in fixed rate mortgage debt, over half of which is already committed.

Over the last four years, cash flow from operations has more than doubled. At the same time long term debt has increased less than two times.

GROWTH CONTINUING DESPITE PROBLEMS

The costs of unexpected problems resulting from external forces such as record high interest rates, the energy crisis, double-digit inflation, etc. . . . the costs for pre-opening, startup and development of new facilities . . . and our investment in the pipeline for future growth have restrained profit margins and returns on shareholders' equity, and have masked to some degree the true operating performance which is very good and which we carefully measure and control.

Marriott's consistent growth record, which now spans 45 consecutive fiscal quarters, has been achieved in spite of these difficulties. In fiscal 1975 we will continue to give our attention to our growth performance and the strength of our balance sheet.

Consolidated Balance Sheet

Marriott Corporation and Subsidiaries July 26, 1974 and July 27, 1973

	1974	1973
ASSETS		
CURRENT ASSETS		
Cash and certificates of deposit (Note 5)	$ 14,592,000	$ 10,322,000
Marketable securities, at cost (approximates market)	9,189,000	12,601,000
Accounts receivable	46,690,000	36,024,000
Inventories, at lower of average cost or market	27,298,000	21,216,000
Prepaid expenses	3,266,000	3,312,000
Total current assets	101,035,000	83,475,000
CONDOMINIUM UNITS HELD FOR SALE, at cost, including deferred marketing costs (Note 1)	15,368,000	5,393,000
PROPERTY AND EQUIPMENT, at cost (Notes 1, 5 & 6)		
Land	49,632,000	50,230,000
Buildings and improvements	158,105,000	156,627,000
Leasehold improvements	117,027,000	89,309,000
Furniture and equipment	137,061,000	114,437,000
Cruise ships	11,000,000	11,000,000
Land purchased for future operations or resale	26,862,000	22,932,000
Construction in progress	71,265,000	64,118,000
	570,952,000	508,653,000
Depreciation and amortization	(103,360,000)	(84,844,000)
	467,592,000	423,809,000
OTHER ASSETS (Note 1)		
Cost in excess of net assets of businesses acquired	16,667,000	15,030,000
Investments in and advances to affiliates (Note 3)	10,848,000	9,295,000
Deferred pre-opening costs	4,948,000	4,783,000
Other	15,043,000	12,725,000
	47,506,000	41,833,000
	$631,501,000	$554,510,000

The accompanying notes are an integral part of this balance sheet.

	1974	1973
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Short term loans	$ 3,763,000	$ 3,808,000
Accounts payable	34,249,000	21,737,000
Accrued liabilities	35,663,000	38,289,000
Current portion of debt	12,842,000	9,870,000
Total current liabilities	86,517,000	73,704,000
DEBT, excluding convertible subordinated debt (Note 5)		
Interim construction financing	25,360,000	34,383,000
Mortgage notes payable, excluding current portion	136,323,000	183,479,000
Unsecured notes payable, excluding current portion	90,100,000	32,930,000
	251,783,000	250,792,000
DEFERRED INCOME TAXES (Note 1)	28,392,000	21,132,000
MINORITY INTEREST AND OTHER LIABILITIES	2,770,000	3,522,000
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3 & 6)		
CONVERTIBLE SUBORDINATED DEBT (Note 5)	34,300,000	5,000,000
SHAREHOLDERS' INVESTMENT (Notes 5 & 7)		
Common stock	31,183,000	30,273,000
Capital surplus	155,113,000	139,407,000
Net deferred compensation payable in common stock	2,891,000	2,455,000
Retained earnings	38,552,000	28,225,000
Total shareholders' investment	227,739,000	200,360,000
	$631,501,000	$554,510,000

Consolidated Income

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 26, 1974 and July 27, 1973

	1974	1973
SALES BY OPERATING GROUPS		
Restaurant operations	$265,218,000	$221,185,000
In-Flite services	168,500,000	142,255,000
Hotels and related operations	206,721,000	174,753,000
Total sales	640,439,000	538,193,000
DEDUCTIONS (Note 1)		
Cost of sales and operating expenses	456,049,000	383,949,000
Administrative and general expenses	27,095,000	23,185,000
Rent (Note 6)	32,168,000	25,510,000
Depreciation and amortization of property and equipment	26,040,000	21,705,000
Taxes—payroll, real estate and other	24,590,000	19,280,000
Interest expense, net of interest income	16,092,000	13,261,000
Advertising and sales promotion expenses	8,404,000	8,255,000
Pre-opening and development expenses	4,346,000	3,661,000
Profit sharing retirement contributions	3,535,000	3,109,000
	598,319,000	501,915,000
INCOME BEFORE INCOME TAXES	42,120,000	36,278,000
UNITED STATES AND FOREIGN INCOME TAXES (Notes 1 & 4)		
Current	12,683,000	13,227,000
Deferred	6,742,000	3,126,000
Investment tax credit	(2,050,000)	(1,715,000)
	17,375,000	14,638,000
NET INCOME	$ 24,745,000	$ 21,640,000
EARNINGS PER SHARE OF COMMON STOCK (Note 1)	$ .80	$ .70

The accompanying notes are an integral part of this statement.

Consolidated Changes in Financial Position

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 26, 1974 and July 27, 1973

	1974	1973
SOURCES OF FUNDS		
Net income	$ 24,745,000	$ 21,640,000
Add expenses not requiring current outlay of working capital—		
Depreciation and amortization of property and equipment	26,040,000	21,705,000
Deferred income taxes	6,742,000	3,126,000
Cost of condominium units sold	2,946,000	2,869,000
Other	3,119,000	2,739,000
From operations	63,592,000	52,079,000
New financing—		
Mortgages and notes	97,879,000	85,199,000
Convertible subordinated notes	30,000,000	—
Interim construction financing, net change	(9,023,000)	15,814,000
	118,856,000	101,013,000
Less maturities and prepayments of mortgages and notes	(88,565,000)	(41,437,000)
From financing	30,291,000	59,576,000
Common stock issued	2,150,000	2,796,000
Treasury shares issued	—	1,247,000
Sale/leaseback of Los Angeles Hotel	32,000,000	—
Disposals of property and equipment	4,023,000	2,061,000
Total sources	132,056,000	117,759,000
APPLICATIONS OF FUNDS		
Additions to property and equipment	93,097,000	82,655,000
Theme park expenditures	20,371,000	15,629,000
Acquisition of Houston Hotel	—	6,282,000
Acquisitions of businesses	5,743,000	1,276,000
Investments in and advances to affiliates	1,553,000	2,304,000
Other	6,545,000	9,434,000
Total applications	127,309,000	117,580,000
INCREASE IN WORKING CAPITAL	$ 4,747,000	$ 179,000
SUMMARY OF CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets		
Cash and marketable securities	$ 858,000	$ 8,218,000
Accounts receivable	10,666,000	6,467,000
Inventories	6,082,000	5,541,000
Prepaid expenses	(46,000)	1,267,000
(Increase) decrease in current liabilities		
Short term loans	45,000	(2,518,000)
Accounts payable and accrued liabilities	(9,886,000)	(14,942,000)
Current portion of debt	(2,972,000)	(3,854,000)
Increase in Working Capital	$ 4,747,000	$ 179,000

The accompanying notes are an integral part of this statement.

Consolidated Shareholders' Investment

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 26, 1974 and July 27, 1973

	Common Stock ($1.00 par value)	Capital Surplus	Net Deferred Stock Compensation	Retained Earnings
BALANCE, JULY 28, 1972	**$29,389,000**	**$112,184,000**	**$1,975,000**	**$30,673,000**
Net income	—	—	—	21,640,000
Common stock issued—				
2½% stock dividend at market	737,000	23,351,000	—	(24,088,000)
Redemption of convertible debt	57,000	972,000	—	—
Employee stock purchase plan	75,000	1,836,000	—	—
Treasury shares issued (cost $134,000)—				
Satisfaction of a portion of profit sharing contributions	—	766,000	—	—
Acquisition of interest in company	—	310,000	—	—
Deferred stock compensation plans and stock issuance expenses	15,000	(12,000)	480,000	—
BALANCE, JULY 27, 1973	**30,273,000**	**139,407,000**	**2,455,000**	**28,225,000**
Acquisition of companies (Note 2)	50,000	646,000	—	23,000
Net income	—	—	—	24,745,000
Common stock issued—				
2½% stock dividend at market	759,000	13,682,000	—	(14,441,000)
Employee stock purchase plan	76,000	1,355,000	—	—
Deferred stock compensation plans and stock issuance expenses	25,000	23,000	436,000	—
BALANCE, JULY 26, 1974	**$31,183,000**	**$155,113,000**	**$2,891,000**	**$38,552,000**

The accompanying notes are an integral part of this statement.

Auditors' Report

To the Shareholders of Marriott Corporation:

We have examined the consolidated balance sheet of MARRIOTT CORPORATION (a Delaware corporation) and Subsidiaries as of July 26, 1974, and July 27, 1973, and the related statements of consolidated income, shareholders' investment and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Marriott Corporation and Subsidiaries as of July 26, 1974, and July 27, 1973, and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Washington, D. C.,
September 6, 1974.

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include accounts of the Company and all subsidiaries. Investments in companies representing 20% to 50% interests are accounted for under the equity method. All material intercompany transactions and balances have been eliminated.

The financial statements have been reclassified to be consistent with the captions used in 1974. The 1973 balance sheet amounts for leasehold interest under lease purchase obligations have been reclassified to the respective property categories and the related obligations have been reclassified to mortgage notes payable.

Foreign Operations:

The consolidated financial statements include net assets of foreign subsidiaries of $16,680,000 at July 26, 1974 and $12,806,000 at July 27, 1973. Foreign sales and net income, as a percent of consolidated sales and net income after tax, were 11% and 3% in 1974 and were 10% and 11% in 1973, respectively.

Financial statements of foreign subsidiaries have been translated into U.S. dollars as follows: current assets, long-term receivables and all liabilities at year end rates of exchange; property, equipment and depreciation reserves and expense at the rates of exchange in effect when the respective assets were acquired; and sales and expenses (except depreciation) at the average rates in effect during the year. Exchange adjustments resulting from the translation of construction loans are credited or charged to the related property account; other adjustments are charged or credited to income and are not significant.

Condominium Sales:

Sales of condominium units are recorded when both parties are bound by terms of sales contracts and all conditions precedent to closing have been performed, including receipt of appropriate down payments. The Company had condominium sales of $5,469,000 and $5,036,000 in 1974 and 1973, respectively.

Land Purchased for Future Operations or Resale:

In connection with the development of properties, the Company often acquires land to be used for future operations and/or for eventual resale. Carrying costs are capitalized to the extent estimated realizable value exceeds land costs and accumulated carrying costs.

Construction Financing and Capitalized Interest:

Interest of $5,144,000 in 1974 and $2,802,000 in 1973 was capitalized as part of construction cost or carrying cost of land purchased for future operations or resale. See Note 5 for description of accounting for construction financing.

Income Taxes:

United States and foreign income taxes are based on reported income. Deferred income taxes are recorded for timing differences between book and taxable income, principally depreciation, interest during construction, deferred stock compensation and lease costs.

Investment tax credits are on the "flow-through" method and are recognized in the year the related property and equipment are placed in service.

Provision for United States taxes has not been made on unremitted earnings of foreign subsidiaries as these earnings are considered to be permanently invested. The Company's equity in unremitted earnings of foreign subsidiaries, which are considered to be permanently invested, aggregated $6,628,000 at July 26, 1974. If this amount were distributed, United States taxes would be reduced by foreign tax credits.

Deferred Management Stock Compensation:

Compensation for deferred stock bonus awards is recorded in the year in which the bonus is earned, adjusted for anticipated forfeitures, and is based on quoted market price at the date awarded.

Computation of Earnings Per Share:

Earnings per share of common stock are based on the weighted average number of shares outstanding during each year, which was 31,090,751 for 1974 and 30,917,633 for 1973 (adjusted for 1974 2½% stock dividend). Conversion of subordinated debt and distribution of shares reserved would not have a material effect on earnings per share.

Cost in Excess of Net Assets of Businesses Acquired:

Of the cost in excess of net assets of businesses acquired, $13,595,000 relates to companies acquired prior to October 31, 1970 and is not being amortized. The remaining $3,072,000 is being amortized over periods up to 40 years.

Deferred Pre-Opening Costs and Other Deferred Costs:

Costs incurred prior to the opening of certain operations are deferred and amortized, following dates of opening, as follows: hotels—three years; theme parks—five years; and other major operations—one year. Such costs for smaller operations are expensed as incurred.

Deferred financing costs are amortized over the term of the related loan. Other deferred charges are amortized over periods of up to five years.

Costs of developing data processing systems and research and development costs are expensed as incurred.

Depreciation and Amortization:

Depreciation and amortization are calculated on the straight-line method for financial statement purposes based on the following lives:

Buildings and improvements	25 to 45 Years
Leasehold improvements	Shorter of life of lease or asset
Furniture and equipment	2 to 20 Years
Cruise ships	20 Years

Maintenance and repairs are expensed. Replacements and improvements, including costs of converting units, are capitalized. Costs of replaced property less accumulated depreciation and salvage are charged or credited to income.

Royalty and Franchise Fees:

Royalty fees are accrued on a monthly basis. Initial franchise fees are not significant.

2. ACQUISITIONS:

During 1974, the Company acquired either the principal assets or stock of the Manners Restaurants Division of Consolidated Foods Corporation (operator of 38 Big

Boy units), A-M Food Services, Inc. (operator of 11 Farrell's units) and three other companies for 50,000 shares of common stock and $5,159,000. One acquisition was accounted for as a pooling of interests and four acquisitions were accounted for as purchases. The purchase price of the four acquisitions accounted for as purchases was $849,000 in excess of net assets of businesses acquired. The companies had combined sales of $10,236,000 and net income of $318,000 reflected in the statement of income. Results of their operations for years prior to 1974 are not significant.

3. INVESTMENTS:

The Company has a 49% equity interest (with 50% voting rights) in Duman Investments, Inc., the landlord of the New Orleans Marriott Hotel, which is leased to the Company for 55 years including renewal options, with rentals based on profits. At July 26, 1974, Duman had total assets of $31,745,000 and total liabilities of $28,243,000, of which $1,108,000 are current liabilities, including $400,000 advanced by the Company. The Company has guaranteed a $5,000,000 bank loan due in 1977 for Duman.

The Company has a 45% equity interest in Sun Line Greece Special Shipping Company, Inc., the owner of a cruise ship (M.S. Stella Solaris) which was chartered to the Company until March 31, 1974. At its fiscal year end (March 31, 1974), Sun Line had total assets of $22,340,000 and total liabilities of $17,532,000, including $10,663,000 of debt and $4,000,000 advanced by the stockholders, of which $1,800,000 was the Company's share. The Company has guaranteed 45% of the debt.

The excess of the Company's investment over the underlying net assets of minority owned affiliates is $3,387,000 and is being amortized over periods up to 40 years.

4. INCOME TAXES:

The provision for United States and foreign income taxes for 1974 was less than the statutory rate of 48.0% due to the following:

	Amount	Rate
Computed tax expense	$20,218,000	48.0%
Increases (decreases) in taxes resulting from:		
Investment tax credit	(2,050,000)	(4.9)
Foreign income subject to foreign taxes and not expected to be subject to U.S. tax in foreseeable future	(722,000)	(1.7)
State and local income taxes, net of U.S. tax benefit	1,254,000	3.0
Other items	(1,325,000)	(3.1)
Total tax expense	$17,375,000	41.3%

Deferred income tax provision for 1974 consists of:

Excess of tax over book deduction—	
Depreciation	$2,838,000
Interest	2,458,000
Other items, net	1,446,000
	$6,742,000

5. DEBT:

Maturities of Debt at July 26, 1974:

Fiscal Year	Mortgage Notes And Interim Construction Financing	Unsecured Notes And Convertible Subordinated Debt	Total
Interest Rates	4.5%-10.0%	4.25%-12.0%	
1976	$ 8,903,000	$ 9,809,000	$ 18,712,000
1977	8,695,000	6,052,000	14,747,000
1978	8,708,000	18,989,000	27,697,000
1979	7,546,000	19,644,000	27,190,000
to 1997	127,831,000	69,906,000	197,737,000
	$161,683,000	$124,400,000	$286,083,000

The Company has debt of $97,428,000 and $105,623,000 as of July 26, 1974 and July 27, 1973, respectively, at interest rates which vary based on the prime lending rate.

Summary of Pledging of Assets:

As of July 26, 1974, property and equipment, at cost excluding land purchased for future operations or resale, totals $544,090,000, of which $237,171,000 is pledged.

Construction Financing:

As of July 26, 1974, the Company has expended $60,164,000 on major construction projects which will be completed over the next two years at a total estimated cost of $157,612,000. The Company has obtained permanent mortgage loan commitments of $45,300,000 on projects aggregating $66,356,000. In addition, the Company has $54,000,000 available under revolving loan commitments.

During construction, the Company uses interim financing consisting of revolving loan commitments and short term loans, including commercial paper. Such financing is classified in the consolidated balance sheet as non-current indebtedness to the extent that the loans and/or commitments mature beyond the permanent mortgage take-out. In 1974, this interim financing averaged $19,716,000 (weighted average interest rate of 9%) with a maximum loan balance of $39,417,000. The above maturity table reflects the maturities of construction financing on the basis of the permanent loan payment schedule. At July 26, 1974, the Company's bank credit lines aggregated $80,000,000 under which $17,000,000 has been borrowed.

Revolving Loan Agreements:

As of July 26, 1974, the Company has commitments of $100,000,000 under five revolving loan agreements against which $46,000,000 has been borrowed and is included in unsecured notes payable. These agreements revolve through June 30, 1977, at which time they convert to term loans. They bear interest based on the prime rate or the London Euro-dollar Interbank rate. The rate on these borrowings at July 26, 1974 was 12%, the existing prime rate.

These agreements require the Company to maintain minimum working capital, net worth, a debt to equity ratio (as defined) and the payment of a commitment fee of up to a maximum of ½ of 1% per year on the unused portion of these commitments.

Convertible Subordinated Debt:

4¼% Convertible Subordinated Notes due 1992, convertible at $42.53 per share	$ 5,000,000
5½% Convertible Subordinated Note due 1988, convertible at $32.20 per share	15,000,000
5% Convertible Subordinated Debentures due 1988, convertible at $32.20 per share	14,300,000
	$34,300,000

Conversion prices are subject to anti-dilution provisions. The agreements have cash dividend restrictions, but at July 26, 1974, all retained earnings are unrestricted.

Short Term Loans:

The short term loans of $3,763,000 at July 26, 1974 are foreign overdraft accounts. During the year, short term bank loans, including U. S. borrowings for working capital purposes, averaged $13,120,000 (weighted average interest rate of 10%) with a maximum outstanding balance of $29,656,000.

Compensating Balances:

All compensating balance agreements are informal and do not legally restrict withdrawal of funds. Under certain bank agreements in effect at July 26, 1974, the Company maintains average compensating balances of $8,948,000 after adjustment for estimated average bank float. These informal agreements are equal to a percentage (5% to 20%) of the amount of the bank line of credit or the amount borrowed under such bank lines.

6. LEASES:

The Company has 480 noncancelable leases (primarily real estate and shopping center space) which have not been capitalized. Minimum annual rentals under such leases are:

Fiscal Year	*Financing Leases (as defined by the SEC)*	*Other Leases*
1975	$ 9,583,000	$ 5,360,000
1976	9,695,000	3,993,000
1977	9,761,000	3,646,000
1978	9,733,000	3,362,000
1979	9,721,000	3,095,000
1980-1984	47,280,000	11,536,000
1985-1989	43,231,000	7,004,000
1990-1994	29,202,000	5,001,000
Thereafter	36,164,000	3,096,000
Total	$204,370,000	$46,093,000

Minimum annual rentals on non-capitalized financing leases (as defined by the SEC) were $7,888,000 in 1974 and $4,745,000 in 1973. Certain leases require additional rentals based on sales. These additional rentals were $16,723,000 in 1974 and $14,234,000 in 1973, including $2,076,000 in 1974 and $1,760,000 in 1973 on non-capitalized financing leases. Most leases contain one or more renewal options, generally for five or ten year periods.

If non-capitalized financing leases were capitalized, the present values of the minimum lease commitments would be $93,755,000 at July 26, 1974 and $53,557,000 at July 27, 1973. Present values are computed by discounting net lease payments at the interest rate implicit at the time of entering into the lease. These rates ranged from 4.4% to 9.9% with a weighted average rate of 8.0%.

If non-capitalized financing leases were capitalized and the related property was amortized on a straight-line basis and interest was accrued on the basis of the outstanding lease liability, net income would have been reduced $1,071,000 ($.03 per share) in 1974 and $557,000 ($.02 per share) in 1973.

Included above is the lease of the Los Angeles Marriott Hotel which the Company sold for $32,000,000 and leased back in October 1973. The Company has an option to repurchase the hotel at any time prior to July 1993, at a purchase price of the higher of lessor's mortgage balance or net book value (as defined).

7. CAPITAL STOCK:

1,000,000 shares of preferred stock, without par value, are authorized. As of July 26, 1974, no preferred shares have been issued.

45,000,000 shares of common stock, with a par value of $1 per share, are authorized, of which 31,183,063 and 30,272,896 were issued and outstanding at July 26, 1974 and July 27, 1973, respectively.

Total common stock shares reserved at July 26, 1974:

Conversions of convertible subordinated debt	1,027,502
1974 employee stock option plan	900,000
Deferred stock compensation programs	676,958
Employee qualified stock purchase plan	177,984
Exercise of warrant at $23.80 per share	12,607
Total shares reserved	2,795,051

In 1974, the Board of Directors approved, subject to shareholders' approval, the 1974 Employee Stock Option Plan, under which 900,000 shares have been reserved. Under the plan, key employees will receive options to purchase stock at 100% of the fair market value on the date of grant and options are exercisable over ten years after a one year waiting period. Options totaling 634,000 shares were granted at $11.56 per share, subject to approval of the plan by shareholders.

The Company has a number of deferred stock compensation programs. Contracts for 676,958 shares of common stock have been awarded of which 326,197 shares are fully vested at July 26, 1974. Under some programs, shares are issued after the period earned; under other programs, restricted shares are issued prior to the period earned. As of July 26, 1974, the amounts payable in the future in stock and the unamortized compensation for shares already issued are:

Stock payable in future	$ 3,465,000
Unamortized compensation	(574,000)
Net	$ 2,891,000

The purchase price for the shares reserved under the qualified stock purchase plan is the market value at January 2, 1974 ($18.41 per share, adjusted for the 1974 stock dividend) or 100% of the market value at the purchase date (January 31, 1975), whichever is less.

10 Year Financial History

(Dollars in Thousands)

	1974	1973	1972	1971	1970
					(53 Weeks)
OPERATIONS					
Sales	**640,439**	538,193	422,928	351,929	318,324
Percent increase for the year	**19.0%**	27.3%	20.2%	10.6%	23.0%
Income before income taxes	**42,120**	36,278	30,635	25,472	19,534
Per sales dollar	**6.6%**	6.7%	7.2%	7.2%	6.1%
United States and foreign income taxes	**19,425**	16,353	14,251	11,730	9,230
Percent to income before income taxes	**46.1%**	45.1%	46.5%	46.1%	47.3%
Investment tax credit	**2,050**	1,715	1,350	35	795
Net Income	**24,745**	21,640	17,734	13,777	11,099
Percent increase for the year	**14.3%**	22.0%	28.7%	24.1%	23.8%
Per sales dollar	**3.9%**	4.0%	4.2%	3.9%	3.5%
Return on beginning shareholders' investment	**12.4%**	12.4%	13.6%	14.9%	13.9%
Funds provided from operations (Note C)	**63,592**	52,079	43,531	34,294	26,224
Capital expenditures	**113,468**	104,566	67,952	77,204	56,042
ASSETS EMPLOYED					
Net working capital	**14,518**	9,771	9,592	8,585	12,008
Fixed assets	**467,592**	423,809	349,398	286,348	218,473
Other assets	**62,874**	47,226	38,789	30,236	28,173
DEBT AND EQUITY					
Mortgages and notes	**226,423**	216,409	174,054	145,056	104,702
Construction financing	**25,360**	34,383	18,569	7,680	19,850
Deferred income taxes	**28,392**	21,132	22,898	17,297	13,978
Convertible subordinated debt	**34,300**	5,000	6,066	24,879	27,840
Shareholders' investment	**227,739**	200,360	174,230	130,257	92,284
PER SHARE DATA (Note A)					
Net income	**.80**	.70	.59	.48	.41
Stock dividends					
Percent	**2.5%**	2.5%	—	2.5%	2.5%
Cash equivalent	**.48**	.80	—	.43	.37
Shareholders' investment	**7.30**	6.46	5.66	4.46	3.41
Quoted market price at year end	**17.38**	29.15	33.55	20.88	11.26
OTHER DATA (Note A)					
Weighted average shares outstanding	**31,090,751**	30,917,633	30,107,335	28,531,046	27,016,089
Shares outstanding	**31,183,063**	31,029,718	30,770,437	29,228,495	27,086,377
Number of shareholders	**38,900**	37,000	32,400	27,900	26,500
Number of employees	**43,400**	38,700	34,100	27,300	26,000
Number of operating units	**688**	570	508	419	382

	1969	1968	1967	1966	1965	1964	10 Year Compound Growth
0							
eks)				(53 Weeks)			
24	258,741	197,498	146,349	123,933	98,843	84,726	22.4%
%	31.0%	35.0%	18.1%	25.4%	16.7%	13.6%	
34	16,015	13,362	10,820	9,121	7,394	5,555	22.4%
%	6.2%	6.8%	7.4%	7.4%	7.5%	6.6%	
30	8,040	6,770	5,233	4,391	3,388	2,510	
%	50.2%	50.7%	48.4%	48.1%	45.8%	45.2%	
95	988	827	462	380	169	155	
99	8,963(B)	7,419	6,049	5,110	4,175	3,200	22.7%
%	20.8%	22.6%	18.4%	22.4%	30.5%	29.5%	
%	3.5%	3.8%	4.1%	4.1%	4.2%	3.8%	
%	15.3%	16.3%	19.6%	19.5%	19.0%	17.0%	
24	20,548	16,302	12,920	10,759	7,510	6,658	25.3%
42	57,912	41,882	26,024	24,815	7,133	5,915	
08	7,376	7,579	4,559	6,872	9,576	10,247	
73	174,374	124,510	86,717	59,728	41,370	21,788	
73	21,976	12,159	6,810	1,066	864	520	
02	75,628	65,976	44,965	31,090	21,241	6,895	
50	9,720	2,500	—	—	—	—	
78	10,454	7,215	7,667	5,697	4,388	3,659	
40	28,000	10,000	—	—	—	—	
84	79,924	58,557	45,454	30,879	26,181	22,001	26.2%
.41	.34(B)	.29	.26	.22	.18	.14	19.0%
.5%	2.5%	3.0%	4.0%	4.0%	4.0%	4.0%	
.37	.37	.27	.22	.28	.16	.09	
.41	2.96	2.28	1.81	1.32	1.11	.93	22.9%
.26	14.11	13.04	7.14	5.47	4.87	2.19	23.0%
089	26,117,098	25,519,469	23,575,929	23,499,300	23,564,804	23,604,394	
377	26,968,798	25,721,847	25,175,463	23,468,693	23,529,909	23,599,701	
500	24,000	20,700	15,767	13,150	9,668	7,572	17.8%
000	24,300	19,700	15,600	12,500	10,000	9,600	16.3%
382	324	256	206	150	127	120	19.1%

NOTES:

(A) Per share data is based on weighted average shares outstanding during the year (except for shareholders' investment which is based on total shares outstanding), adjusted for stock dividends and for 2-for-1 splits in April 1965, March 1968, and March 1972.

(B) Net income in 1969 excludes extraordinary gains on sales of properties ($1,274,000 net of $483,000 tax or $.05 per share).

(C) Funds provided from operations consist of net income plus depreciation, deferred taxes and other expenses not requiring current outlay of working capital.

Board of Directors

J. Willard Marriott *
Chairman of the Board

Don G. Mitchell *†
Vice Chairman of the Board

* *Executive Committee of the Board*
† *Audit Committee*

Jorge Bird
Legislator and Advisor on Tourist Development, Puerto Rico

Alice S. Marriott
Vice President

J. W. Marriott, Jr.*
President and Chief Executive Officer

Woodrow D. Marriott
Senior Vice President

Harry L. Vincent, Jr.*†
Executive Vice President
Booz, Allen & Hamilton, Inc.

C. Robert Yeager †
Chairman of the Board
L. G. Balfour Company

Officers of the Corporation

CHAIRMAN OF THE BOARD

J. Willard Marriott

PRESIDENT AND CHIEF EXECUTIVE OFFICER

J. W. Marriott, Jr.

GROUP PRESIDENTS AND CORPORATE VICE PRESIDENTS

James E. Durbin
President, Marriott Hotels

G. Michael Hostage
President, Marriott Restaurant Operations

Jerald O. Jarrard
President, Marriott In-Flite Services

CORPORATE OFFICERS

Alice S. Marriott
Vice President

Woodrow D. Marriott
Senior Vice President

Robert Barrie
Executive Vice President
Domestic Hotel Operations
Marriott Hotels

Fred Boulineau
Vice President, Business Development;
President, Marriott Condominium Development Corporation

David L. Brown III
Group Vice President, Theme Parks
Restaurant Operations

Thomas E. Burke
Vice President, Corporate Affairs

Francis W. Cash
Vice President, Corporate Controller

Sterling D. Colton
Vice President, General Counsel

Angus Cotton
Executive Vice President
International Hotel Operations
Marriott Hotels

John F. Davis
Vice President, Finance and Administration
Restaurant Operations

J. Robert Droege
Vice President, Corporate Real Estate

Robert E. Farrell
President, Farrell's Division
Restaurant Operations

Elmo Geoghegan
Executive Vice President
Big Boy Restaurants of America
Restaurant Operations

W. W. Grice
Senior Vice President
Marriott Hotels

Robert E. Koehler
Vice President, Finance

Foster M. Kunz
Vice President, Industrial Relations

Leonard W. Lefeve
Group Vice President, Restaurant Group
Restaurant Operations

Frank R. Lyons, Jr.
Group Vice President, Food Service Management
Restaurant Operations

Richard E. Marriott
Vice President, Property Development
Marriott Hotels

Fred J. Martin
Vice President, North American Operations
In-Flite Services

Robert B. Morris
Corporate Secretary

John R. O'Bryan
Vice President and Controller
In-Flite Services

James H. Pflaging
Vice President, Marketing
In-Flite Services

Peter H. Plamondon
Group Vice President, Fast Foods
Restaurant Operations

M. O. Ryan, Jr.
Vice President
Marriott Hotels

Robert A. Seubert
Vice President and Controller
Marriott Hotels

George A. Stewart
Executive Vice President
Fairfield Farm Kitchens
Restaurant Operations

Gary L. Wilson
Vice President, Corporate Treasurer

Shareholder Information

INTERNATIONAL HEADQUARTERS
5161 River Road
Washington, D.C. 20016
Area Code 301 - 986-5000

REGISTRARS
Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

American Security & Trust Company
15th Street & Pennsylvania Avenue, N.W.
Washington, D.C. 20013

TRANSFER AGENTS
Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

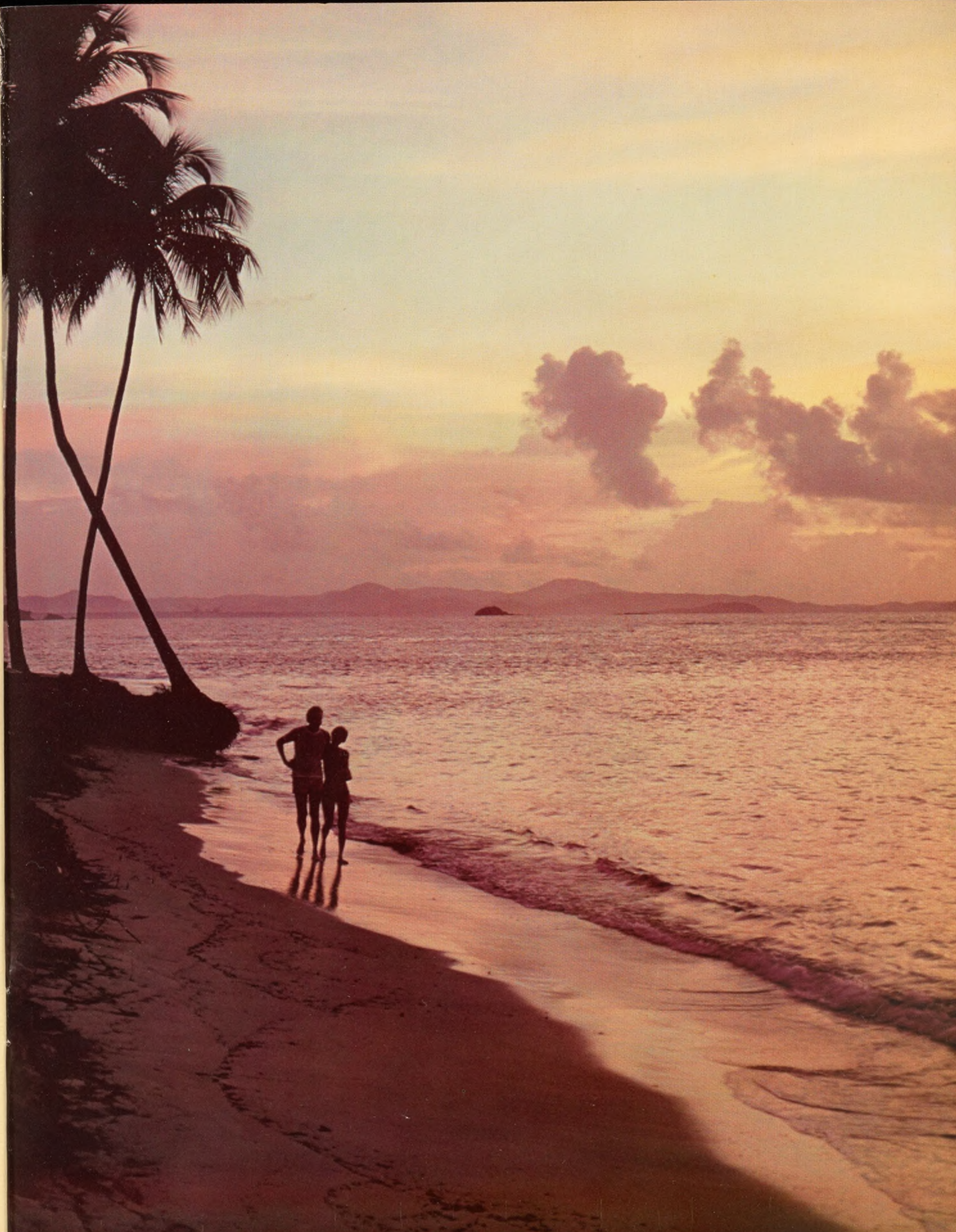
The Riggs National Bank of Washington, D.C.
800 17th Street, N.W.
Washington, D.C. 20013

AUDITORS
Arthur Andersen & Co.
1666 K Street, N.W.
Washington, D.C. 20006

1974 ANNUAL MEETING
The 1974 Annual Meeting of Shareholders will take place at 10 a.m. Tuesday, November 19 at Shady Grove Music Fair in Rockville, Maryland near Gaithersburg. The theatre is located at the Shady Grove Road exit off of Interstate Highway 70-S.

CENTRAL RESERVATIONS
Call toll free, 800/228-9290 for reservations at any Marriott Hotel or Inn . . . or for Sun Line Cruise Ships

(At right) Palmas del Mar, large and superb Sea Pines resort in Puerto Rico—with management by Marriott



Marriott
CORPORATION

5161 RIVER ROAD, WASHINGTON, D.C. 20016

Litho in U.S.A.