

MARRIOTT INTERNATIONAL INC /MD/
Form DEF 14A
April 02, 2010
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SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Marriott International, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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“ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:
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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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4. Date Filed:

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Corporate Headquarters and Mailing Address:

10400 Fernwood Road

Bethesda, Maryland 20817

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD FRIDAY, MAY 7, 2010

To our Shareholders:

April 2, 2010

The 2010 annual meeting of shareholders of Marriott International, Inc. (the *Company*) will be held at the JW Marriott Hotel, 1331 Pennsylvania Avenue, N.W., Washington, D.C. 20004 on Friday, May 7, 2010, beginning at 10:30 a.m. Doors to the meeting will open at 9:30 a.m. At the meeting, shareholders will act on the following matters:

1. Election of the 11 director nominees named in the proxy statement;
2. Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2010; and
3. Any other matters that may properly be presented at the meeting.

Shareholders of record at the close of business on March 16, 2010, are entitled to notice of and to vote at this meeting.

For the convenience of our shareholders, proxies may be given either by telephone, electronically through the Internet, or by completing, signing, and returning the enclosed proxy card. In addition, shareholders may elect to receive future shareholder communications, including proxy materials, through the Internet. Instructions for each of these options can be found in the enclosed materials.

By order of the Board of Directors,
Bancroft S. Gordon
Secretary

**PLEASE REFER TO THE OUTSIDE BACK COVER FOR DIRECTIONS TO THE MEETING AND INFORMATION ON
PARKING, PUBLIC TRANSPORTATION AND LODGING.**

NOTICE: This is the first year that brokers are not permitted to vote on the election of directors without instructions from the beneficial owner, as discussed in more detail in the Proxy Statement. Therefore, if you hold your shares through a broker or other nominee, they will not be voted in the election of directors unless you affirmatively vote your shares in accordance with the voting instructions provided by that institution.

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MARRIOTT INTERNATIONAL, INC.

10400 FERNWOOD ROAD, BETHESDA, MARYLAND 20817

PROXY STATEMENT

Our Board of Directors (the *Board*) solicits your proxy for the 2010 annual meeting of shareholders of Marriott International, Inc. (*we*, *us*, *Marriott* or the *Company*) to be held on Friday, May 7, 2010, beginning at 10:30 a.m., at the JW Marriott Hotel, 1331 Pennsylvania Avenue, N.W., Washington, D.C. 20004, and at any postponements or adjournments of the meeting. This proxy statement is first being released to shareholders by the Company on or about April 2, 2010.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 7, 2010:

THE PROXY STATEMENT AND ANNUAL REPORT TO SHAREHOLDERS ARE AVAILABLE AT <http://bnymellon.mobular.net/bnymellon/mar>

QUESTIONS AND ANSWERS ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, shareholders will act upon the matters described in the accompanying notice of meeting. These actions include the election of the 11 director nominees listed below, ratification of the appointment of the independent registered public accounting firm (sometimes referred to as the *independent auditor*); and any other matters that may be properly presented at the meeting. In addition, our management will report on the Company's performance during fiscal 2009 and respond to questions from shareholders.

Who is entitled to vote?

Only shareholders of record at the close of business on the record date, March 16, 2010, are entitled to receive notice of and to vote at the meeting, or any postponement or adjournment of the meeting. Each outstanding share of the Company's Class A common stock entitles its holder to cast ten votes on each matter to be voted upon.

Who can attend the meeting?

All shareholders of record at the close of business on the record date, or their duly appointed proxies, may attend the meeting. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

You will find directions to the meeting, and information on parking, public transportation and lodging, on the back cover of this proxy statement.

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What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of Class A common stock of the Company outstanding on the record date and entitled to vote will constitute a quorum. A quorum is required for business to be conducted at the meeting. As of the March 16, 2010 record date, 360,632,034 shares of our Class A common stock were outstanding and entitled to vote. If you submit a properly executed proxy card, even if you abstain from voting, then you will be considered part of the quorum. Similarly, broker non-votes (described below) will be counted in determining whether there is a quorum.

How do I vote?

You may vote either by casting your vote in person at the meeting, or by marking, signing and dating each proxy card you receive and returning it in the prepaid envelope, by telephone, or electronically through the Internet by following the instructions included on your proxy card. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which are designed to comply with Delaware law, allow shareholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded.

If you hold your shares in street name through a broker or other nominee, you may be able to vote by telephone or electronically through the Internet in accordance with the voting instructions provided by that institution.

What does the Board recommend?

The Board's recommendations are set forth after the description of each item in this proxy statement. In summary, the Board recommends a vote:

- FOR election of the 11 director nominees (see Item 1 on page 5); and
- FOR ratification of the appointment of the independent auditor (see Item 2 on page 6).

Unless you give other instructions, the persons named as proxy holders on the proxy card will vote in accordance with the Board's recommendations.

How will my shares be voted?

Your shares will be voted as you indicate on the proxy card. If you return your signed proxy card but do not mark the boxes indicating how you wish to vote, your shares will be voted FOR the election of the 11 director nominees listed below and FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent auditor for 2010.

Can I change my vote or revoke my proxy after I return my proxy card, or after I vote by telephone or electronically?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised at the meeting. Regardless of the way in which you submitted your original proxy, you may change it by:

- (1) Returning a later-dated signed proxy card;
- (2) Delivering a written notice of revocation to BNY Mellon Shareowner Services, P.O. Box 358015, Pittsburgh, PA 15252-8015;

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- (3) Voting by telephone or the Internet; or
- (4) Voting in person at the meeting.

If your shares are held through a broker or other nominee, you will need to contact that institution if you wish to change your voting instructions.

How do I vote my 401(k) shares?

If you participate in the Company's Employees Profit Sharing, Retirement and Savings Plan and Trust (the "401(k) Plan") or the Sodexo Employee Savings Plan, you may give voting instructions as to the number of share equivalents allocated to your account as of the record date. You may provide voting instructions to the trustee under the applicable plan by completing and returning the proxy card accompanying this proxy statement. The trustee will vote your shares in accordance with your duly executed instructions if they are received by 11:59 p.m. Eastern Time, Tuesday, May 4, 2010. If you do not send instructions by this deadline or if you do not vote by proxy or return your proxy card with an unclear voting designation or no voting designation at all, the trustee will vote the number of shares equal to the share equivalents credited to your account in the same proportion that it votes shares for which it did receive timely instructions.

What vote is required to approve each item?

If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion on some of the items to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those items and will not be counted in determining the number of shares necessary for approval for each item.

In the election of directors, each nominee must receive more FOR votes than AGAINST votes in order to be elected as a director. Instructions to ABSTAIN and broker non-votes will have no effect on the election of directors. ***Beginning this year, your broker or nominee will not be permitted to vote on the election of directors without instructions from the beneficial owner. As a result, if you hold your shares through a broker or nominee, they will not be voted in the election of directors, unless you affirmatively vote your shares in accordance with the voting instructions provided by that institution.***

For ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm, the affirmative vote of the holders of a majority of the shares of Class A common stock represented in person or by proxy and entitled to vote on the item will be required for approval. Instructions to ABSTAIN with respect to this item will not be treated as votes cast, although they will be counted for purposes of determining the number of shares represented and entitled to vote. Accordingly, an abstention will have the effect of a vote AGAINST this item. Broker non-votes will not have any effect on the outcome of votes for this item.

Who will count the vote?

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Representatives of BNY Mellon Shareowner Services, our independent stock transfer agent, will count the votes and act as the inspector of election.

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What shares are included on my proxy card(s)?

The shares on your proxy card(s) represent ALL of your shares of Class A common stock that the Company's stock transfer records indicate that you hold, including (i) any shares you may hold through the BNY Mellon Shareowner Services Program for Marriott International, Inc. Shareholders administered by The Bank of New York Mellon; (ii) if you are a current or former Marriott employee, any shares that may be held for your account by The Northern Trust Company as custodian for the 401(k) Plan; and (iii) if you are a current or former Sodexo Inc. employee, any shares that may be held for your account by State Street Bank and Trust Company as trustee for the Sodexo Employee Savings Plan. If you have shares in the 401(k) Plan or the Sodexo Employee Savings Plan and do not vote by proxy, or return your proxy card with an unclear voting designation or no voting designation at all, then Northern Trust or State Street, as applicable, will vote your shares in proportion to the way the other 401(k) Plan participants or Sodexo Employee Savings Plan participants, as applicable, voted their shares. Shares that are held in street name through a broker or other nominee are not included on the proxy card(s) furnished by the Company, but the institution will provide you with a voting instruction form.

What does it mean if I receive more than one proxy card?

If your shares are registered under different names or are held in more than one account, you may receive more than one proxy card. To ensure that all your shares are voted, please sign and return all proxy cards, or if you choose, vote by telephone or through the Internet using the personal identification number printed on each proxy card. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting our transfer agent, BNY Mellon Shareowner Services, at (800) 311-4816.

How will voting on any other business be conducted?

Although we currently do not know of any business to be considered at the 2010 annual meeting other than the proposals described in this proxy statement, if any other business is properly presented at the annual meeting, your proxy gives authority to J.W. Marriott, Jr. and/or Arne M. Sorenson to vote on such matters at their discretion.

When are shareholder proposals for the 2011 annual meeting of shareholders due?

To be considered for inclusion in our proxy statement for the 2011 annual meeting of shareholders, shareholder proposals must be received at our offices no later than the close of business December 3, 2010. Proposals must comply with Rule 14a-8 under the Securities Exchange Act of 1934, and must be submitted in writing to the Corporate Secretary, Marriott International, Inc., Department 52/862, 10400 Fernwood Road, Bethesda, Maryland 20817.

In addition, our bylaws require that, if a shareholder desires to introduce a shareholder proposal or nominate a director candidate from the floor of the 2011 annual meeting of shareholders, the shareholder must submit such proposal or nomination in writing to the Company's Secretary at the above address after January 7, 2011 and no later than February 6, 2011. The written proposal or nomination must comply with our bylaws. The Chairman of the meeting may refuse to acknowledge or introduce any shareholder proposal or the nomination of any person made after February 6, 2011, or that does not comply with our bylaws. If a shareholder fails to meet these deadlines or satisfy the requirements of Rule 14a-4 under the Securities Exchange Act of 1934, the proxies we solicit allow us

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to vote on such proposals as we deem appropriate. You can find a copy of our bylaws in the Investor Relations section of the Company's website (www.marriott.com/investor) by clicking on Corporate Governance and then Governance Documents or you may obtain a copy by submitting a request to the Corporate Secretary, Marriott International, Inc., Department 52/862, 10400 Fernwood Road, Bethesda, Maryland, 20817.

How much did this proxy solicitation cost and who paid that cost?

The Company paid for this proxy solicitation. We hired MacKenzie Partners, Inc. to assist in the distribution of proxy materials and solicitation of votes for an estimated fee of \$6,500, plus reimbursement of certain out-of-pocket expenses. We also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders. Proxies will be solicited by mail, telephone, or other means of communication. Our directors, officers and regular employees who are not specifically employed for proxy solicitation purposes and who will not receive any additional compensation for such activities may also solicit proxies.

Can I receive future shareholder communications electronically through the Internet?

Yes. You may elect to receive future notices of meetings, proxy materials and annual reports electronically through the Internet. If you have previously consented to electronic delivery, your consent will remain in effect until withdrawn. To consent to electronic delivery:

- If your shares are registered in your own name, and not in street name through a broker or other nominee, simply log in to the Internet site maintained by our transfer agent, BNY Mellon Shareowner Services, at www.bnymellon.com/shareowner/isd and the step-by-step instructions will prompt you through enrollment.
- If your shares are registered in street name through a broker or other nominee, you must first vote your shares using the Internet, at www.proxyvote.com, and immediately after voting, fill out the consent form that appears on-screen at the end of the Internet voting procedure.

You may withdraw this consent at any time and resume receiving shareholder communications in print form.

PROPOSALS TO BE VOTED ON

ITEM 1 Election of Directors

All of our directors are standing for election at the 2010 annual meeting, and each director elected will hold office for a term expiring at the 2011 annual meeting of shareholders or until his or her successor is elected or appointed.

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The following current directors of the Company have been nominated for re-election as a director:

J.W. Marriott, Jr.
Mary K. Bush
Lawrence W. Kellner
Debra L. Lee

John W. Marriott III
George Muñoz
Harry J. Pearce
Steven S Reinemund

W. Mitt Romney
William J. Shaw
Lawrence M. Small

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You can find information on the director nominees beginning on page 8.

We do not know of any reason why any of the nominees would be unable to serve. However, if any of the nominees should become unable to serve as a director, the Board may designate a substitute nominee or reduce the size of the Board. If the Board designates a substitute nominee, the persons named as proxies will vote FOR that substitute nominee.

The Company's bylaws prescribe the voting standard for election of directors as a majority of the votes cast in an uncontested election, such as this one, where the number of nominees does not exceed the number of directors to be elected. Under this standard, a nominee must receive more FOR votes than AGAINST votes in order to be elected as a director. In a contested election, where the number of nominees exceeds the number of directors to be elected (which is not the case at the 2010 annual meeting), the directors will be elected by a plurality of the shares present in person or by proxy and entitled to vote on the election of directors. Under the Company's Governance Principles, if a nominee who already serves as a director is not elected, that nominee shall offer to tender his or her resignation to the Board. The Nominating and Corporate Governance Committee will then recommend to the Board whether to accept or reject the resignation, or whether other action should be taken. Within 90 days of the certification of election results, the Board will publicly disclose its decision regarding whether to accept or reject the resignation.

The Board recommends a vote FOR each of the 11 director nominees.

ITEM 2 Ratification of Appointment of Independent Registered Public Accounting Firm

The Audit Committee of the Board has appointed Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2010. Ernst & Young LLP, a firm of registered public accountants, has served as the Company's independent registered public accounting firm since May 3, 2002. Ernst & Young LLP will examine and report to shareholders on the consolidated financial statements of the Company and its subsidiaries.

Representatives of Ernst & Young LLP will be present at the annual meeting, will have an opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions. You can find information on pre-approval of independent auditor fees and Ernst & Young LLP's 2009 and 2008 fees beginning on page 20.

The Board has put this proposal before the shareholders because the Board believes that seeking shareholder ratification of the appointment of the independent auditor is good corporate practice. If the appointment of Ernst & Young LLP is not ratified, the Audit Committee will evaluate the basis for the shareholders' vote when determining whether to continue the firm's engagement.

The Board recommends a vote FOR ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2010.

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CORPORATE GOVERNANCE

Board Leadership Structure

The Company operates using a board leadership structure commonly used by other public companies in the United States. Under this structure, the chief executive officer also serves as chairman of the board. J.W. Marriott, Jr., the son of Company founder, J. W. Marriott, has served as the Chairman and CEO of the Company since 1985. Mr. Marriott is recognized as an iconic leader in the hospitality industry. The Board, as well as our investors and customers, recognizes that Mr. Marriott's association with the Company in that consolidated leadership capacity provides a unique, intrinsic value to the franchise that gives us a significant competitive advantage. Having one person serve as both the chairman and the CEO demonstrates to our employees, investors, customers and other constituents that the Company is under strong leadership with a single person having primary responsibility for management of our operations, under the oversight and review of the Board. A single leader also eliminates the potential for confusion or duplication of efforts and enables the Chairman and CEO to act as the key link between the Board and other members of management.

While the independent directors have not designated a lead independent director, the Chairman of our Nominating and Corporate Governance Committee fulfills the same responsibilities as the lead directors at many companies. These responsibilities include presiding over the meetings of the independent directors, coordinating the activities of the independent directors and facilitating communications between the Chairman and CEO and the other Board members. That person also is a standing member of the Company's two-person Executive Committee along with the Chairman and CEO. The Chairman of the Nominating and Corporate Governance Committee also coordinates the evaluation of Board and Committee performance, the assessment and evaluation of Board candidates, and the monitoring of corporate governance developments and recommendations for changes to the Company's governance practices. We believe that the role played by the Chairman of the Nominating and Corporate Governance Committee provides strong, independent Board leadership.

Eight of our 11 directors are independent, and the Audit, Compensation Policy and Nominating and Corporate Governance committees are comprised solely of independent directors. Consequently, the independent directors directly oversee such critical items as the Company's financial statements, executive compensation, the selection and evaluation of directors and the development and implementation of our corporate governance programs.

At least annually, the Board reviews our Board leadership structure as part of the succession planning process that is described in our Governance Principles (see discussion below under Governance Principles). We believe that our current leadership structure, in which the CEO serves as Chairman, together with an experienced and engaged Chairman of the Nominating and Corporate Governance Committee (who plays a role similar to that of lead director at many companies) and independent key committees, has been effective and remains the optimal structure for our Company and our shareholders at this time.

Selection of Director Nominees

The Nominating and Corporate Governance Committee will consider candidates for Board membership suggested by its members, other Board members, management and shareholders. As a shareholder, you may recommend any person for consideration as a nominee for director by writing to the Nominating and Corporate Governance Committee of the Board of Directors, c/o Marriott

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International, Inc., Department 52/862, 10400 Fernwood Road, Bethesda, Maryland 20817. Recommendations must include the name and address of the shareholder making the recommendation, a representation that the shareholder is a holder of record of Class A common stock, biographical information about the individual recommended and any other information the shareholder believes would be helpful to the Nominating and Corporate Governance Committee in evaluating the individual recommended.

Once the Nominating and Corporate Governance Committee has identified a candidate, the Committee evaluates the candidate against the qualifications set out in the Company's Governance Principles, including:

- character, judgment, personal and professional ethics, integrity, values, and familiarity with national and international issues affecting business;
- depth of experience, skills, and knowledge complementary to the Board and the Company's business; and
- willingness to devote sufficient time to carry out the duties and responsibilities effectively.

While the Company does not have a formal diversity policy relating to the selection of directors, the Committee also considers such other relevant factors as it deems appropriate, including the representation of diverse viewpoints. The Committee makes a recommendation to the full Board as to any persons it believes should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee. The procedures for considering candidates recommended by a shareholder for Board membership are consistent with the procedures for candidates recommended by members of the Nominating and Corporate Governance Committee, other members of the Board or management.

Our Board of Directors

Each of the following individuals presently serves on our Board and has a term of office expiring at the 2010 annual meeting. The age shown below for each director is as of May 7, 2010, which is the date of the annual meeting. Each director has been nominated to serve until the 2011 annual meeting of shareholders and until his or her successor is elected and qualified, or until such director's earlier death, resignation or removal. Set forth below is each director's biography as well as the qualifications and experiences each director brings to our Board, in addition to the general qualifications discussed above.

J.W. Marriott, Jr. (Chairman of the Board), age: 78. Mr. Marriott is Chairman of the Board of Directors and our Chief Executive Officer. He joined Marriott Corporation in 1956, became President in 1964, Chief Executive Officer in 1972 and Chairman of the Board in 1985. He serves on the board of trustees of The J. Willard & Alice S. Marriott Foundation, is a member of the Executive Committee of the World Travel & Tourism Council, and is a member of the National Business Council. Mr. Marriott has served as our Chairman and Chief Executive Officer since the Company's inception in

1997, and served as Chairman and Chief Executive Officer of the Company's predecessors since 1985. He is the father of John W. Marriott III, the Vice Chairman of the Company's Board of Directors. Mr. Marriott has been a director of the Company or its predecessors since 1964.

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As a result of his service as CEO of the Company for the past 39 years, Mr. Marriott brings to the Board extensive leadership experience with, and knowledge of, the Company's business and strategy as well as a historical perspective on the Company's growth and operations. Mr. Marriott's iconic status in the hospitality industry provides a unique advantage to the Company.

John W. Marriott III (Vice Chairman of the Board), age: 48. Mr. Marriott is Chief Executive Officer of JWM Family Enterprises, L.P., a private partnership which develops and owns hotels. He was appointed Vice Chairman of the Company's Board of Directors in October 2005. Until December 30, 2005, Mr. Marriott was the Company's Executive Vice President-Lodging and President of North American Lodging. Over the past 30 years, Mr. Marriott also served in a number of other positions with the Company and its predecessors, including Executive Vice President of Sales & Marketing, Brand Management, and Operations Planning and Support, Senior Vice President for

Marriott's Mid-Atlantic Region, Vice President of Development, Director of Finance, General Manager, Director of Food & Beverage, restaurant manager and cook. In April 2002, Mr. Marriott was named by the U.S. Department of Commerce and the Japanese government to co-chair a special task force to promote travel between the United States and Japan. In January 2004, he was named one of the most influential executives by Business Travel News. Mr. Marriott serves as Chairman of the Board of the National Zoo and is a director of the board of the Washington Airport Task Force. He is the son of J.W. Marriott, Jr. Mr. Marriott has been a director of the Company since 2002.

Mr. Marriott provides the Board with extensive executive and operations experience with the Company, international experience that provides insight into countries in which the Company operates, and significant knowledge of the Company's industry given his ongoing role as a CEO in the lodging sector of the hospitality industry.

Mary K. Bush, age: 61. The Honorable Mary K. Bush has served as President of Bush International, LLC, an advisor to U.S. corporations and foreign governments on international capital markets, strategic business and economic matters, since 1991. She has held several Presidential appointments including the U.S. Government's representative on the IMF Board and Director of Sallie Mae. She also was head of the Federal Home Loan Bank System during the aftermath of the Savings and Loan crisis and was advisor to the Deputy Secretary of the U.S. Treasury Department. Earlier in her career, she managed global banking and corporate finance relationships at New York money center

banks including Citibank, Banker's Trust, and Chase. In 2006, President Bush appointed her Chairman of the congressionally chartered HELP Commission on reforming foreign aid. In 2007, she was appointed by the Secretary of the Treasury to the U.S. Treasury Advisory Committee on the Auditing Profession. She is a member of the board of directors of Discover Financial Services, ManTech International Corporation, United Airlines, and the Pioneer Family of Mutual Funds. Ms. Bush also was a director of Briggs & Stratton, Inc. from 2004 to April 2009. She serves on the Kennedy Center's Community Advisory Board and on the U.S. Advisory Board of the Global Leadership Foundation. Ms. Bush has been a director of the Company since May 2008.

Ms. Bush brings to the Board extensive financial and governmental affairs experience, her knowledge of corporate governance and financial oversight gained from her membership on the boards of other public companies, knowledge of public policy matters and her significant experience providing strategic advisory services in the political and international arenas.

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Lawrence W. Kellner, age: 51. Mr. Kellner is President of Emerald Creek Group LLC, a private equity firm. He served as Chairman and Chief Executive Officer of Continental Airlines, Inc. from December 2004 through December 2009. He served as President and Chief Operating Officer of Continental Airlines from March 2003 to December 2004, as President from May 2001 to March 2003 and was a member of Continental Airlines' board of directors from May 2001 to December 2009. On the civic front, he is Vice Chairman of the board of directors for the Greater Houston Partnership and a member of the

board of directors of Methodist Hospital and the Spring Branch Education Foundation and is a member of the Boy Scouts of America National Executive Board and Sam Houston Area Council Board. Mr. Kellner has been a director of the Company since 2002.

Mr. Kellner brings to the Board and our Nominating and Corporate Governance Committee, of which he is Chairman, experience as CEO of one of the largest airline companies in the world with significant management, strategic and operational responsibilities in the travel and leisure industry. He also provides extensive knowledge in the fields of finance and accounting gained from his background as Chief Financial Officer at Continental and other companies.

Debra L. Lee, age: 55. Ms. Lee is Chairman and Chief Executive Officer of BET Networks, a media and entertainment subsidiary of Viacom, Inc. that owns and operates Black Entertainment Television and several other ventures. She joined BET in 1986 and served in a number of executive posts before ascending to her present position in January 2006, including President and Chief Executive Officer from June 2005, President and Chief Operating Officer from 1995 to May 2005, Executive Vice President and General Counsel, and Vice President and General Counsel. Prior to joining BET, Ms. Lee was an

attorney with Washington, D.C.- based law firm Steptoe & Johnson. She serves on the boards of directors of the following publicly traded companies: Eastman Kodak Company, WGL Holdings, Inc., and Revlon, Inc. She is also a director of the following professional and civic organizations: the National Cable & Telecommunications Association, Center for Communication, Girls, Inc., the Kennedy Center's Community & Friends, the National Symphony Orchestra, and the Alvin Ailey Dance Theater. She also is a Trustee at Brown University. Ms. Lee has been a director of the Company since 2004.

Ms. Lee provides our Board and our Committee for Excellence, which she chairs, with proven leadership and business experience as the CEO of a major media and entertainment company, extensive management and corporate governance experience gained from that role as well from her membership on the boards of other public companies, her legal experience, and insights gained from her extensive involvement in civic, community and charitable activities.

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George Muñoz, age: 58. Mr. Muñoz has been a principal in the Washington, D.C.-based firm Muñoz Investment Banking Group, LLC since 2001. He has also been a partner in the Chicago-based law firm Tobin, Petkus & Muñoz LLC since 2001. He served as President and Chief Executive Officer of Overseas Private Investment Corporation from 1997 to January 2001. Mr. Muñoz was Chief Financial Officer and Assistant Secretary of the U.S. Treasury Department from 1993 until 1997. Mr. Muñoz is a certified public accountant and an attorney. He is a director of the following publicly traded companies:

Altria Group, Inc. and Anixter International, Inc. He also serves on the board of trustees of the National Geographic Society. He was also a director of Esmark, Inc. from December 2006 to August 2008 and Archipelago Holdings Co. from August 2004 to May 2006. Mr. Muñoz has been a director of the Company since 2002.

Mr. Muñoz provides our Board and our Audit Committee, of which he is Chairman, with extensive knowledge in the fields of finance and accounting, his knowledge of investment banking, legal experience, corporate governance experience and audit oversight experience gained from his membership on the boards and audit committees of other public companies.

Harry J. Pearce, age: 67. Mr. Pearce served as Chairman of Nortel Networks Corporation from 2005 to 2009 and has served as Chairman of MDU Resources Group, Inc. since 2006. Mr. Pearce was a director of General Motors from 1996 to 2001 and served as Chairman of Hughes Electronics Corporation, a subsidiary of General Motors Corporation, from May 2001 until the sale by General Motors of its interest in Hughes in December 2003. He had served on the Hughes Electronics Corporation board since 1992. Mr. Pearce was General Counsel of General Motors from 1987 to 1994 and is a fellow of the American

College of Trial Lawyers and International Society of Barristers. Mr. Pearce is a member of the board of directors of The National Defense University Foundation. He also serves on the board of trustees of Northwestern University and The United States Air Force Academy Endowment. Mr. Pearce has been a director of the Company or its predecessors since 1995.

Mr. Pearce brings to the Board operating, business and management experience as Chairman of two major public companies, extensive management and corporate governance experience gained from those roles and membership on the boards of those and other public companies, and legal experience.

W. Mitt Romney, age: 63. Governor Romney most recently served as the Governor of the Commonwealth of Massachusetts from 2003 through 2007. He was also a candidate for the 2008 Republican presidential nomination. Prior to his time as Governor, he was President and Chief Executive Officer of the 2002 Winter Olympic Games in Salt Lake City. Gov. Romney started his career in business in 1978 as a Vice President of Bain & Company, Inc., a management consulting firm based in Boston, Massachusetts. In 1984, he left Bain & Company, Inc. to co-found a spin-off private equity investment company, Bain Capital, where he worked until 1998. Gov. Romney served as a director

of the Company or its predecessors from 1993 through 2002 and rejoined the Board in January 2009.

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Gov. Romney brings to our Board and our Finance Committee, of which he is Chairman, his unique blend of management experience in both the corporate and government sectors, knowledge of public policy matters as a result of his service as the Governor of the Commonwealth of Massachusetts and financial services experience from his positions with Bain & Company and Bain Capital.

Steven S Reinemund, age: 62. Mr. Reinemund has served as the Dean of Business and Professor of Leadership Strategy at Wake Forest University since July 2008. In 2007, Mr. Reinemund retired from Pepsico where he served as Chairman and Chief Executive Officer from 2001 until 2006 and Chairman until May 2007. He joined Pepsico in 1984 and held the positions of President and Chief Executive Officer Pizza Hut, Chairman and Chief Executive Officer Frito-Lay and President and Chief Operating Officer Pepsico. He was a director of Pepsico from 1996 until May 2007. He is a director of the following publicly traded companies: American Express Company and Exxon Mobil Corp. Mr. Reinemund is also a member of the board of directors of the United States

Naval Academy Foundation and the Cooper Institute. He was formerly a director of Johnson & Johnson from 2003 to 2008. Mr. Reinemund has been a director of the Company since 2007.

As a result of his background as Chairman and CEO of Pepsico, a Fortune 500 company, Mr. Reinemund brings to the Board and our Compensation Policy Committee, of which he is Chairman, demonstrated leadership capability and extensive knowledge of complex financial and operational issues facing large branded companies, as well as extensive management and corporate governance experience gained from that role and from membership on the boards of other public companies.

William J. Shaw, age: 64. Mr. Shaw became Vice Chairman of the Company on May 1, 2009. He previously served as President and Chief Operating Officer of the Company or its predecessors since 1997. He joined Marriott Corporation in 1974, was appointed Corporate Controller in 1979 and a Vice President in 1982. In 1986, Mr. Shaw was elected Senior Vice President-Finance and Treasurer of Marriott Corporation. He was appointed Chief Financial Officer and Executive Vice President of Marriott Corporation in April 1988. In 1992, he was named President of the Marriott Service Group. Mr. Shaw serves on the board of trustees of the University of Notre Dame and is a member of the

NCAA Leadership Advisory Board. He also serves on the board of directors of Washington Mutual Investors Fund and the United Negro College Fund. Mr. Shaw has been a director of the Company or its predecessors since 1997.

Mr. Shaw brings to the Board extensive management experience with the Company, his prominent status in the hospitality industry and a wealth of knowledge in dealing with financial and accounting matters as a result of his prior service as the Company's Chief Financial Officer.

Lawrence M. Small, age: 68. Mr. Small is the former Secretary of the Smithsonian Institution, a position he held from January 2000 to March 2007. Mr. Small previously had been President and Chief Operating Officer of Fannie Mae from 1991 to 2000. Before joining Fannie Mae, he served as Vice Chairman and Chairman of the executive committee of the boards of directors of Citicorp and Citibank, where he worked for 27 years. He currently also serves as a director on the boards of The Chubb Corporation and New York City's Spanish Repertory Theatre Company. Mr. Small has been a director of the Company or its predecessors since 1995.

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Mr. Small provides the Board with extensive management experience, which includes his former role as President and COO of a large financial services company, and his extensive management, finance and corporate governance experience gained from that role as well as from membership on the boards of other public companies.

Sterling D. Colton, a former director of the Company's predecessors, holds the title of director emeritus, but does not vote at or attend Board meetings and is not a nominee for election.

The Board met four times in person and once telephonically in 2009. The Company encourages all directors to attend the annual meeting of shareholders. All directors attended the Company's annual shareholders meeting in 2009. No director attended fewer than 75% of the total number of meetings of the Board and Committees on which such director served.

Governance Principles

The Board has adopted Governance Principles that meet or exceed the New York Stock Exchange (*NYSE*) Listing Standards. The portion of our Governance Principles addressing director independence appears below, and the full text of the Governance Principles can be found in the Investor Relations section of the Company's website (www.marriott.com/investor) by clicking on Corporate Governance, then Governance Documents and then View Governance Information. A copy may also be obtained upon request from the Company's Corporate Secretary. Our Governance Principles establish the limit on the number of board memberships for the Company's directors at three, including Marriott, for directors who are chief executive officers of public companies and five for other directors.

Director Independence

Our Governance Principles include the following standards for director independence:

5. **Independence of Directors.** At least two-thirds of the directors shall be independent, provided that having fewer independent directors due to the departure, addition or change in independent status of one or more directors is permissible temporarily, so long as the two-thirds requirement is again satisfied by the later of the next annual meeting of shareholders or nine months. To be considered independent, the board must determine that a director has no direct or indirect material relationship with Marriott. The board has established the guidelines set forth below to assist it in determining director independence. For the purpose of this section 5, references to Marriott include any of Marriott's consolidated subsidiaries:

a. A director is not independent if (i) the director is, or has been within the preceding three years, employed by Marriott; (ii) the director is a current partner or employee of Marriott's independent auditor, or was within the preceding three years a partner or employee of Marriott's independent auditor and personally worked on the audit of Marriott within that time; (iii) an immediate family member of the director is, or has been within the preceding three years, employed by Marriott as an executive officer; (iv) an immediate family member of the director is a current partner of Marriott's independent auditor, or is a current employee of Marriott's independent auditor and personally works on the audit of Marriott; (v) an immediate family member of the director was within the preceding three years a partner or employee of Marriott's independent auditor and personally worked on the audit of Marriott within that time; (vi) the director or an immediate family member is, or has

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been within the preceding three years, part of an interlocking directorate in which the director or an immediate family member is employed as an executive officer of another company for which a present executive officer of Marriott at the same time serves on the compensation committee of that other company; (vii) the director has received, or an immediate family member has received, during any 12-month period within the preceding three years, more than \$120,000 in direct compensation from Marriott, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); or (viii) the director is a current employee, or an immediate family member is a current executive officer, of another company that does business with Marriott where the annual sales to, or purchases from, Marriott are in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or two percent of the consolidated gross annual revenues of that other company.

b. The following commercial or charitable relationships are not material relationships that would impair a Marriott director's independence: (i) service as an executive officer of another company which is indebted to Marriott, or to which Marriott is indebted, where the total amount of either company's indebtedness to the other is less than two percent of the total consolidated assets of the other company; and (ii) service by a Marriott director or his or her immediate family member as an officer, director or trustee of a charitable organization, where Marriott's discretionary charitable contributions to that organization are in an amount equal to or less than the greater of \$1 million or two percent of that organization's consolidated gross annual revenues. The board annually reviews all commercial and charitable relationships of directors, and publishes whether directors previously identified as independent continue to satisfy the foregoing tests.

c. For relationships not covered by the guidelines in paragraph (b) above, the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, shall be made by the directors who satisfy the independence guidelines set forth in paragraphs (a) and (b) above.

The Board undertook its annual review of director independence in February 2010. As provided in the Governance Principles, the purpose of these reviews was to determine whether any such relationships or transactions were inconsistent with a determination that the director or nominee is independent.

During these reviews, the Board recognized the current or recent employment of J.W. Marriott, Jr., John W. Marriott III, and William J. Shaw and the family relationships of J.W. Marriott, Jr. and John W. Marriott III with other Company executives. The Board considered that most of the remaining director nominees each serve, or recently served, as directors or executive officers of companies that do business with Marriott and that in each case the payments to and from Marriott were significantly less than the two percent threshold in Marriott's Governance Principles. The Board further considered that some of the remaining nominees are also affiliated with charitable organizations that received contributions from Marriott and/or the J. Willard and Alice S. Marriott Foundation and that the contribution amounts were significantly below the charitable contribution threshold set forth in Marriott's Governance Principles.

Based on the standards set forth in the Governance Principles and after reviewing the relationships described above, the Board affirmatively determined that Mary K. Bush, Lawrence W. Kellner,

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Debra L. Lee, George Muñoz, Harry J. Pearce, Steven S Reinemund, W. Mitt Romney, and Lawrence M. Small are each independent of the Company and its management. J.W. Marriott, Jr., John W. Marriott III, and William J. Shaw are considered not independent as a result of their employment with the Company and/or family relationships.

Committees of the Board

The Board has six standing committees: Audit, Compensation Policy, Finance, Nominating and Corporate Governance, Committee for Excellence, and Executive. The Board has adopted a written charter for each committee, and those charters are available on the Investor Relations section of our website (www.marriott.com/investor) by clicking on Corporate Governance, then Governance Documents and then View Charters. Copies of the committee charters also may be obtained upon request from the Company's Corporate Secretary.

Audit Committee

Members: George Muñoz (Chair), Mary K. Bush, Lawrence W. Kellner (as of February 4, 2010) and Harry J. Pearce (through February 4, 2010).

- The members of the Committee are not employees of the Company. The Board of Directors has determined that the members of the Committee are independent as defined under our Governance Principles, the NYSE Listing Standards and applicable U.S. Securities and Exchange Commission (SEC) rules.
- The Audit Committee met four times in person and three times telephonically in 2009.
- There is unrestricted access between the Audit Committee and the independent auditor and internal auditors.
- The Board of Directors has determined that all current members of the Audit Committee (George Muñoz, Mary K. Bush and Lawrence W. Kellner) and Harry J. Pearce (during his tenure on the Committee) are financial experts as defined in SEC rules:

Responsibilities include:

- Appointing, retaining, overseeing, and determining the compensation and services of the Company's independent auditor.
- Pre-approving the terms of all audit services, and any permissible non-audit services, to be provided by the Company's independent auditor.
- Overseeing the independent auditor's qualifications and independence, including considering whether any circumstance, including the performance of any permissible non-audit services, would impair the independence of the Company's independent registered public accounting firm.

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- Overseeing the accounting, reporting, and financial practices of the Company and its subsidiaries, including the integrity of the Company's financial statements.
- Overseeing the Company's internal control environment and compliance with legal and regulatory requirements.
- Overseeing the performance of the Company's internal audit function and independent auditor.

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Compensation Policy Committee

Members: Steven S Reinemund (Chair), Mary K. Bush, Harry J. Pearce (as of February 4, 2010) and Lawrence M. Small.

- The members of the Committee are not employees of the Company. The Board has determined that the members of the Committee are independent as defined under our Governance Principles and the NYSE Listing Standards.
- The Compensation Policy Committee met four times in 2009.

Responsibilities include:

- Establishing the principles related to the compensation programs of the Company.
- Designing and recommending to the Board policies and procedures relating to senior officers' compensation and employee benefit plans.
- Setting the annual compensation for the Chairman of the Board and Chief Executive Officer and the President, including salary, bonus and incentive and equity compensation, subject to approval by the Board.
- Approving executive officer and senior management salary adjustments, bonus payments and stock awards.
- Designing and recommending to the Board the annual compensation of non-employee directors' compensation.

Finance Committee

Members: W. Mitt Romney (Chair), Lawrence W. Kellner, John W. Marriott III, and Lawrence M. Small.

- The members of the Committee are not employees of the Company. The Board has determined that the members of the Committee other than John W. Marriott III are independent as defined under our Governance Principles and the NYSE Listing Standards.
- The Finance Committee met five times in 2009.

Responsibilities include:

- Making recommendations to the Board for approval of an Annual Consolidated Budget and reviewing the Company's performance against such budget.

- Providing guidance to the Board and management on proposed mergers, acquisitions, divestitures and other significant transactions and investments that are required to be submitted for Board approval.
- Providing guidance to the Board and management on the Company's capital adequacy, credit rating, borrowing needs and proposed debt and equity programs.
- Providing guidance to the Board and management on the Company's shareholder distribution activities including dividend payments, share repurchases and similar activities.
- Providing guidance to the Board and management on the Company's corporate insurance coverage.

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Nominating and Corporate Governance Committee

Members: Lawrence W. Kellner (Chair), Debra L. Lee, and Steven S Reinemund.

- The members of the Committee are not employees of the Company. The Board has determined that the members of the Committee are independent as defined under our Governance Principles and the NYSE Listing Standards.
- The Nominating and Corporate Governance Committee met once in 2009.

Responsibilities include:

- Making recommendations to the Board regarding corporate governance matters and updates to the Governance Principles.
- Reviewing qualifications of candidates for Board membership.
- Advising the Board on a range of matters affecting the Board and its committees, including making recommendations with respect to qualifications of director candidates, selection of committee chairs, committee assignments and related matters affecting the functioning of the Board.
- Reviewing the Company's conflict of interest and related party transactions policies, and approving certain related party transactions as provided for in those policies.
- Resolving conflict of interest questions involving directors and senior executive officers.

Committee for Excellence

Members: Board members include Debra L. Lee (Chair), George Muñoz, Harry J. Pearce, and William J. Shaw. Company officer members include Raymond Bennett, Senior Vice President, Development; William Hartwig, Vice President, Supplier Relations; Stephanie Linnartz, Global Officer, Sales & Revenue Management; Kathleen Matthews, Executive Vice President-Global Communications and Public Affairs; Robert J. McCarthy, Group President, The Americas and Global Lodging Services; Amy McPherson, President and Managing Director, Europe; Jimmie W. Paschall, Global Diversity Officer & Senior Vice President, External Affairs; David A. Rodriguez, Executive Vice President-Global Human Resources; Linda Simon, Chief Learning Officer (Marriott International) and Chief Human Resources Officer (Marriott Vacation Club International); and Susan Thronson, Senior Vice President, Marketing.

- The members of the Committee consist of at least three members of the Board. The Committee may also consist of officers and employees of the Company who are not directors. At least one member of the Committee must be independent as defined under our Corporate Governance Principles and the NYSE Listing Standards. The Committee's charter provides that an independent director will always be the Chairman of the Committee.

- The Committee for Excellence met three times in 2009.

Responsibilities include:

- Identifying and encouraging efforts undertaken by the Company to promote and leverage the recruitment, retention, and advancement of women and minorities as employees of the Company.

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- Identifying and evaluating efforts undertaken by the Company to promote and leverage an increasingly diverse ownership, franchisee, customer, and vendor base of the Company.
- Enhancing the public's recognition of the Company's efforts and successes to promote diversity and value people of different backgrounds, experiences, and cultures to benefit Marriott's strategic competitive advantage.

Executive Committee

Members: J.W. Marriott, Jr. (Chair) and Lawrence W. Kellner.

- The Executive Committee did not meet in 2009.

Responsibilities include:

- Exercising the powers of the Board when the Board is not in session, subject to specific restrictions as to powers retained by the full Board. Powers retained by the full Board include those relating to amendments to the certificate of incorporation and bylaws, mergers, consolidations, sales or exchanges involving substantially all of the Company's assets, dissolution and, unless specifically delegated by the Board to the Executive Committee, those powers relating to declarations of dividends and issuances of stock.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Policy Committee is or has been an officer or employee of the Company or had any relationship that is required to be disclosed as a transaction with a related party.

Meetings of Independent Directors

Company policy requires that the independent directors meet without management present at least twice a year. In 2009, the independent directors met without management present three times. The Chairman of the Nominating and Corporate Governance Committee, currently Mr. Kellner, presides at the meetings of the independent directors.

Risk Oversight

The Board of Directors is responsible for overseeing the Company's processes for assessing and managing risk. The Board considers our risk profile when reviewing our annual business plan and incorporates risk assessment into its decisions impacting the Company. In performing its oversight responsibilities, the Board receives an annual risk assessment report from the Chief Financial Officer and discusses the most significant risks facing the Company.

The Board also has delegated certain risk oversight functions to the Audit Committee. In accordance with NYSE requirements and as set forth in its charter, the Audit Committee periodically reviews and discusses the Company's business and financial risk management and risk assessment policies and procedures with senior management, the Company's independent auditor and the Chief Audit Executive. The Audit Committee incorporates its risk assessment function into its regular reports to the Board.

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Shareholder Communications with the Board

Shareholders and others interested in communicating with the Chair of the Nominating and Corporate Governance Committee, the Audit Committee, the non-employee directors, or any of the employee directors may do so by e-mail to business.ethics@marriott.com or in writing to the Business Ethics Department, Department 52/924.09, 10400 Fernwood Road, Bethesda, Maryland 20817. All communications are forwarded to the appropriate directors for their review, except that the Board has instructed the Company not to forward solicitations, bulk mail or communications that do not address Company-related issues. The Company reports to the directors on the status of all outstanding concerns addressed to the non-employee directors, the Chair of the Nominating and Corporate Governance Committee, or the Audit Committee on a quarterly basis. The non-employee directors, the Chair of the Nominating and Corporate Governance Committee, or the Audit Committee may direct special procedures, including the retention of outside advisors or counsel, for any concern addressed to them.

Code of Ethics and Business Conduct Guide

The Company has long maintained and enforced an Ethical Conduct Policy that applies to all Marriott associates, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer and to each member of the Board. The Ethical Conduct Policy is available in the Investor Relations section of our website (www.marriott.com/investor) by clicking on Corporate Governance and then Governance Documents. Any future changes or amendments to our Ethical Conduct Policy, and any waiver of our Ethical Conduct Policy that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or a member of our Board, will promptly be posted to our Investor Relations website. The Company also maintains a Business Conduct Guide that is available at the same location on our Investor Relations website. A copy of both the Ethical Conduct Policy and the Business Conduct Guide may also be obtained upon request from the Company's Corporate Secretary.

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AUDIT COMMITTEE REPORT AND INDEPENDENT AUDITOR FEES

Report of the Audit Committee

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements, the reporting process and maintaining an effective system of internal controls over financial reporting. The Company's independent auditor is engaged to audit and express opinions on the conformity of the Company's financial statements to accounting principles generally accepted in the United States and the effectiveness of the Company's internal control over financial reporting.

In this context, the Audit Committee has reviewed and discussed the audited financial statements together with the results of management's assessment of the internal controls over financial reporting with management and the Company's independent auditor. The Audit Committee also discussed with the independent auditor those matters required to be discussed by the independent auditor with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board (*PCAOB*) and the Audit Committee received and discussed with the independent auditor its annual written report on its independence from the Company and the Company's management, as required by the PCAOB rules.

Relying on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended January 1, 2010, for filing with the SEC. That filing occurred on February 12, 2010.

Members of the Audit Committee (as of February 3, 2010):

George Muñoz, Chair

Mary K. Bush

Harry J. Pearce

Pre-Approval of Independent Auditor Fees and Services Policy

The Audit Committee's Pre-Approval of Independent Auditor Fees and Services Policy provides for pre-approval of all audit, audit-related, tax and other permissible non-audit services provided by our principal independent auditor on an annual basis and additional services as needed. The policy also requires additional approval of any engagements that were previously approved but are anticipated to exceed pre-approved fee levels. The policy permits the Audit Committee Chair to pre-approve principal independent auditor services where the Company deems it necessary or advisable that such services commence prior to the next regularly scheduled meeting (provided that the Audit Committee Chair must report to the full Audit Committee on any pre-approval determinations).

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The following table presents fees for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements for fiscal 2009 and fiscal 2008 and fees billed for audit-related services, tax services and all other services rendered by our independent registered public accounting firm for fiscal 2009 and fiscal 2008. The Audit Committee approved all of the fees presented in the table below.

	Independent Registered Public Accounting Firm Fees Paid Related to Fiscal 2009 Ernst & Young LLP	Independent Registered Public Accounting Firm Fees Paid Related to Fiscal 2008 Ernst & Young LLP
Audit Fees:		
Consolidated Audit(1)	\$ 4,853,034	\$ 4,880,735
International Statutory Audits(2)	2,306,096	2,914,980
	7,159,130	7,795,715
Audit-Related Fees(3)	738,235	906,100
Tax Fees (primarily compliance work)(4)	1,104,655	1,473,067
Total Fees	\$ 9,002,020	\$ 10,174,882

(1) Principally fees for the audit of the Company's annual financial statements, the audit of the effectiveness of the Company's internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, the auditor's review of the Company's quarterly financial statements, and services provided in connection with the Company's regulatory filings.

(2) Fees for statutory audits of our international subsidiaries.

(3) Principally audits as required under our agreements with our hotel owners as well as audits of our employee benefits plans.

(4) Principally tax compliance services related to our international entities.

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EXECUTIVE AND DIRECTOR COMPENSATION

Report of the Compensation Policy Committee

The Compensation Policy Committee (the *Committee*), which is composed solely of independent members of the Board, assists the Board in fulfilling its responsibilities relating to executive compensation. The Committee is responsible for overseeing compensation programs that enable the Company to attract, retain and motivate executives capable of establishing and implementing business plans in the best interests of the shareholders. The Committee, on behalf of and in certain instances subject to the approval of the Board, reviews and approves compensation programs for certain senior officer positions. In this context, the Committee reviewed and discussed with management the Company's Compensation Discussion and Analysis required by Item 402(b) of SEC Regulation S-K. Following the reviews and discussions referred to above, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K and this proxy statement.

Members of the Compensation Policy Committee (as of February 3, 2010):

Steven S Reinemund, Chair

Mary K. Bush

Lawrence M. Small

Compensation Discussion and Analysis

This section explains the Company's executive compensation program for the following *Named Executive Officers*:

J.W. Marriott, Jr.	Chairman and Chief Executive Officer
William J. Shaw	Vice Chairman of the Company
Arne M. Sorenson	President and Chief Operating Officer
Robert J. McCarthy	Group President, The Americas and Global Lodging Services
Carl T. Berquist	Executive Vice President and Chief Financial Officer

Overview of 2009 Compensation

For 2009, the Named Executive Officers provided significant leadership through:

- a challenging business environment and turbulent stock market;

- continued uncertainty about the future impact of the economy on the hospitality industry;
- difficult decisions related to the Company's cost containment initiatives; and
- realignment efforts to expand the Company's global industry leadership and drive long-term profitability.

As part of the Company's realignment efforts and as a continuation of each executive's management development plans, effective May 1, 2009, the following changes were made to the Company's leadership:

- Mr. Shaw was named Vice Chairman of the Company;
- Mr. Sorenson was named President and Chief Operating Officer;

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- Mr. McCarthy was named Group President, The Americas and Global Lodging Services; and
- Mr. Berquist was named Executive Vice President and Chief Financial Officer.

Messrs. Sorenson, McCarthy and Berquist received salary adjustments (described in the *Base Salary* section below) and bonus opportunity adjustments that were solely attributable to their promotions and that were determined in the context of market data for their new positions and responsibilities, as well as pay equity among Marriott executives. Messrs. Shaw, Sorenson, McCarthy and Berquist also received supplemental stock awards of restricted stock units (RSUs) (described in the Stock Awards section below) in recognition of the changes described above.

During 2009, the Named Executive Officers demonstrated strong individual performance in meeting certain operational goals. However, the Company did not achieve certain financial goals that were established at the beginning of the year. In consideration of the economic climate, its impact on the Company and continued global business uncertainty in the hospitality industry, the Committee made the following decisions for 2009:

- **Base Salary:** None of the Named Executive Officers received regular annual salary increases.
- **Annual Bonus:** Management recommended and the Committee and the Board decided not to pay the portion of annual bonuses relating primarily to individual performance, notwithstanding strong individual performance. In addition, bonuses tied solely to corporate financial performance were not paid because the financial objectives for the year were not met. Thus, no bonuses were paid for fiscal 2009.
- **Equity Compensation:** In establishing equity compensation guidelines for 2009 awards, the Committee reduced by 20% the market value of long-term incentives that the Company otherwise would have referenced. In addition, Mr. Marriott declined to accept the equity compensation that the Board had authorized for him in February 2009.

These decisions align with shareholder interests of retaining a strong and consistent leadership team, while also adjusting compensation during a difficult economic period. In addition, our compensation practices continue to emphasize long-term performance and the long-term success of the company through the four-year vesting period for stock-based awards.

Philosophy

The Company believes that strong and consistent leadership are the keys to long-term success in the hospitality industry. Marriott has a long history of delivering results for shareholders by relying on talented, hard-working employees (associates) who uphold the Company's ideals and unique culture.

The Company believes that the Named Executive Officers should be paid in a manner that contributes to shareholder value. Therefore, compensation is designed to motivate the Named Executive Officers to perform their duties in ways that will help the Company achieve its short- and long-term objectives. In addition, each element of compensation and the balance of compensation elements are designed to provide the Company with the ability to both attract key talent from within and outside of our industry and to retain key talent at costs consistent with market practice.

This pay philosophy extends from senior management to front-line operations. The Named Executive Officers participate in the same retirement and health and welfare benefit plans and programs that are available to other Company associates throughout the organization. The Company

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does not provide the Named Executive Officers with a pension plan, single-trigger change in control payments or related tax gross-ups, nor does it have employment agreements with the Named Executive Officers.

The Company believes that providing consistent and competitive levels of compensation over the long term is necessary to sustain this culture and continuity of leadership. Therefore, recognizing that the Company’s annual financial results can fluctuate dramatically given the cyclical nature of the hospitality business and its sensitivity to the global economy, the Committee emphasizes a long-term perspective when determining the appropriate pay level and mix of pay, and may make adjustments to Named Executive Officer pay in its discretion to reflect one-time market events which otherwise could unduly enrich or penalize the Named Executive Officers.

In particular, the Company believes it is appropriate to emphasize equity (i.e., Marriott stock-based awards) as the primary long-term executive compensation vehicle. The Committee believes that the opportunity to receive a combination of stock appreciation rights (SARs) and RSUs provides the right mix of performance-based compensation and long-term retention to reward executives for business results. Stock awards are the most significant component of total pay opportunity for the Named Executive Officers.

In following this compensation philosophy, Named Executive Officer total compensation consists of the following key elements:

Element	Purpose
Base Salary	Provides the Named Executive Officers with a fixed level of compensation.
Annual Bonus	Encourages growth and profitability by rewarding the Named Executive Officers for their contributions to financial and operational goals.
Stock Awards	Aligns interests of the Named Executive Officers with those of shareholders and attracts and retains key talent.
Other Benefits	Attracts and retains key talent.

Risk Considerations

The Committee believes that our compensation programs encourage executives to remain focused on a balance of the short- and long-term operational and financial goals of the Company, and thereby help to mitigate the potential for actions that involve an excessive level of risk. Specifically, as part of its annual review of the compensation programs, the Committee considers risk and believes the following policies discourage unreasonable or excessive risk-taking by executives:

- Base salary levels are commensurate with the executives’ responsibilities (and the competitive market) so that the executives are not motivated to take excessive risks to achieve an appropriate level of financial security.
- Annual bonus plans include a diverse mix of corporate and individual performance metrics.
- Annual bonuses are capped to ensure that no payout exceeds a specified percentage of salary, thereby moderating the impact of short-term incentives.
-

Annual bonus payouts may be decreased by the Committee or the Board in its discretion, for example, if it believes the operational or financial results giving rise to those payouts are unsustainable or if it believes the payout would unfairly reward the Named Executive Officers for events that are unrelated to their performance.

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- The mix of short- and long-term incentives is balanced so that at least 50% of total opportunity is in the form of long-term equity awards.
- Annual stock awards are granted as an equal mix of SARs and RSUs that vest over four years which together encourage Named Executive Officers to focus on sustained stock price performance.
- In addition to the Chief Executive Officer and Chief Financial Officer being subject to the clawback provisions of the Sarbanes-Oxley Act of 2002, the Company may limit or eliminate the ability of any executive to exercise Options or SARs or to receive a distribution of Company stock under other types of equity awards if the executive engages in criminal or tortuous conduct that is injurious to the Company or engages in competition with the Company.
- Stock ownership guidelines align the long-term interests of Named Executive Officers with the interests of shareholders.

2009 Compensation Process

The Executive Vice President, Global Human Resources presented to the Committee a summary of market data, discussed in the Market Data section below, and recommendations for total compensation and each element of compensation. For annual stock awards, he recommended a dollar value for the awards which was later converted into a number of shares based on the value of a share of Company stock on the grant date of the award. In addition, he recommended plan threshold, target, and maximum payout targets for the fiscal year's annual bonus plans, stated as a percentage of base salary. Prior to making his recommendations to the Committee, the Executive Vice President, Global Human Resources consulted Mr. Marriott to take into consideration his extensive knowledge and historical perspective of the business community, the Company and the hotel industry. For example, Mr. Marriott historically has provided valuable insight on issues such as pay equity among executives, share usage and industry practice. Mr. Marriott also reviewed the achievements of each Named Executive Officer for the fiscal year and presented these reviews to the Committee.

The Committee reviewed the above recommendations, obtained further advice and recommendations from its compensation consultant, Pearl Meyer & Partners (the Compensation Consultant) (see the Compensation Consultant section below), and in its discretion determined compensation or compensation opportunities for each Named Executive Officer for the fiscal year. For Mr. Marriott's, Mr. Shaw's and Mr. Sorenson's (following his promotion to President and Chief Operating Officer) compensation, the Committee reported its recommendations to the full Board for approval (Messrs. Marriott, Shaw and John W. Marriott III abstain from Board votes regarding compensation decisions.) The Committee did not follow a specific formula for allocating the amount of compensation among each element of pay, but reviewed the value delivered through each element of pay and the mix of total compensation against the market data for the Named Executive Officers, and made adjustments in its discretion also taking into consideration the issues described above. For example, the Company does not offer a traditional pension plan.

In considering the market data, the Committee referred to the total compensation of executives between the 50th and 75th percentiles of a broad-based and select group of companies (as described below) as a general guideline for setting Named Executive Officer total compensation. In our experience, this range of total compensation opportunity typically is sufficient to attract and retain key executive talent. However, the Committee retains discretion to deviate from this range in the event of

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superior Company or individual performance or competitive recruiting pressures. In addition, in reviewing the market data, the Committee may utilize discretion in determining the relevance of each survey.

For example, when reviewing the market data for the position of Chief Financial Officer prior to Mr. Sorenson's promotion, the Committee made adjustments for the fact that the data did not reflect his additional responsibilities as President Continental European Lodging Operations. In addition, the Committee considered adjustments for the fact that the survey data does not reflect Mr. McCarthy's additional Global Brand and Sales and Marketing responsibilities. Also, there is not a relevant market data position match for Vice Chairman of the Company. The Committee, with Board approval, left Mr. Shaw's pay unchanged except for an additional stock award to account for his new role overseeing Global Finance, Information Resources, Owner & Franchise Services and Architecture & Construction. After these considerations, total compensation opportunity for the Named Executive Officers for 2009 after adjustments was within or approximately within the 50th to 75th percentile range. Actual compensation levels varied from the market percentiles based on performance and, as a result of 2009 compensation decisions, actual compensation fell below total compensation opportunity for the Named Executive Officers.

In its final determination, the Committee is not constrained by rigid, categorical guidelines or formulae to determine the elements and levels of compensation for the Named Executive Officers. It relies upon its collective judgment as applied to the challenges confronting the Company as well as subjective factors such as leadership ability, individual performance, retention needs and future potential as part of the Company's management development and succession planning process.

Base Salary

The Committee reviews individual base salaries for the Named Executive Officers each February for the current fiscal year, with any adjustments being retroactive to the first day of the fiscal year. The Human Resources Department recommended no annual salary increases for the Named Executive Officers for 2009 in light of ongoing economic conditions and their impact on the Company. This was consistent with the practice of many other consumer product and services companies for 2009. The Compensation Consultant reviewed and supported the recommendation which was approved by the Committee and by the Board for Messrs. Marriott and Shaw.

In May 2009, the Committee revisited individual base salaries for Messrs. Shaw, Sorenson, McCarthy, and Berquist as a result of their significant promotions or new responsibilities. The Human Resources Department presented market data on base salary levels to the Committee for each new position and recommended base salary increases for Messrs. Sorenson, McCarthy and Berquist effective May 1, 2009. The Compensation Consultant reviewed and supported the recommendations. Based on these recommendations and a consideration of pay equity among the executives, the Committee (with Board approval) determined that Mr. Shaw would not receive an increase in salary and the Committee (and the Board for Mr. Sorenson) approved the following base salary levels effective May 1, 2009:

Name	Base Salary before	Base Salary after
	May 1, 2009 (\$)	May 1, 2009 (\$)
Arne M. Sorenson	\$ 670,000	\$ 950,000
Robert J. McCarthy	\$ 574,750	\$ 700,000
Carl T. Berquist	\$ 465,631	\$ 630,000

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Annual Bonuses

To promote growth and profitability, the Company maintains two annual cash bonus plans: the Marriott International, Inc. Executive Officer Incentive Plan (*Incentive Plan*), which focuses primarily on an annual earnings per share (*EPS*) objective, and the Marriott International, Inc. Executive Officer Individual Performance Plan (*Individual Plan*), which targets several other financial, operational and human capital objectives for the year. Together, the plans are designed to provide executives with appropriate compensation incentives to achieve identified annual corporate objectives.

Each February, the Committee approves specific performance objectives for the current fiscal year under each bonus plan. In the following February or March after the release of the fiscal year audited financial results, the Committee reviews each individual's performance against the stated performance objectives to determine the actual bonus payments. The bonus payments, if any, are made as a percentage of salary within a range that corresponds to a threshold (if applicable), target (expressed as *norm*) or maximum level of performance determined to have been achieved for the year. All of the Committee decisions regarding annual bonuses for Messrs. Marriott, Shaw, and Sorenson were subject to Board approval.

In May 2009, following the February approval of the bonus plans, the Board and the Committee approved adjusted threshold, target and maximum payout opportunities for Messrs. Sorenson, McCarthy and Berquist for the portion of the year following their promotions. As discussed below, no bonuses were paid for 2009, and therefore these adjustments had no effect on total compensation for the year.

Incentive Plan

The Incentive Plan rewards executives for the Company's achievement of pre-established Company financial objectives. The Incentive Plan payout represents 60% of the executive's total annual bonus opportunity under the combined Incentive Plan and Individual Plan. In recent years including 2009, the Incentive Plan has focused entirely on earnings per share performance, except that Mr. McCarthy's objectives include a combination of EPS and operating profit from the North American Lodging Operations division (*NALO*), his primary area of responsibility. NALO operating profit is the sum of the results for North American Full Service and North American Limited-Service segments reported in the Company's 2009 Form 10-K.

The Company places a heavy emphasis on EPS as a performance measure because EPS is an important indicator of Company profitability and aligns the interests of management with that of shareholders. For the purpose of the Incentive Plan, the Company uses EPS as reported under U.S. GAAP, as may be modified during the goal setting process (no such modifications were made for 2009) for items that are not expected to have a direct impact on the business going forward. For 2009, the company established the EPS and NALO operating profit goals primarily through an extensive annual budgeting process whereby each hotel, timeshare property and individual corporate unit developed and submitted a budget. The Company then developed a consolidated Company budget considering the external market factors such as global and domestic economic forecasts and lodging industry outlook, as well as internal factors such as current revenue from group bookings, expected unit growth for the year, and expected capital needs. The budget was reviewed and approved by the Board. Considering these factors, the Committee set the EPS goal for 2009 at a level that the Committee believed was achievable but not certain to be met. For 2009, the Incentive Plan's EPS performance goal was \$1.09 and Mr. McCarthy's NALO operating profit goal was \$668 million.

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For 2009, each Named Executive Officer was eligible to receive a bonus based on his achieved level of performance and its corresponding bonus level for the relevant performance goal, as follows:

EPS		NALO Operating Profit		
Achievement vs. Goal	Achievement vs. Goal	Bonus Award	Payout as % of Norm	
Below 85%	Below 85%	No Bonus	0%	
85%	85%	Threshold Bonus	25%	
95%	97.5%	Norm Bonus	100%	
102%	102%	Maximum Bonus	150 to 155%	

Under the Incentive Plan, if the achievement falls between two of the stated performance achievement levels, the bonus payment is interpolated between the corresponding bonus levels. The specific performance level percentages were set by the Committee in consultation with the Compensation Consultant based on competitive market data as well as the Committee's subjective judgment. For 2009, the Company's EPS as reported under GAAP was (\$0.97), which was less than the achievement level for a threshold bonus. Consequently for 2009, none of the Named Executive Officers received a bonus for the EPS portion of the Incentive Plan. In addition, NALO operating profit was \$537 million, which was less than the achievement level for a threshold bonus. Therefore, Mr. McCarthy did not receive a payout for the NALO Operating Profit portion of the Incentive Plan.

Individual Plan

The Individual Plan emphasizes individual executive performance as well as measures of business/operating unit financial and operational performance such as revenue growth relating to newly developed rooms and customer, owner/franchisee and associate satisfaction. The Company believes that these factors are critical to achieving success within the hospitality and service industry. However, for 2009, the Committee did not utilize owner/franchisee and associate satisfaction metrics as performance criteria for the Individual Plan since, as a part of the Company's cost containment strategy, the Company did not conduct its traditional formal survey in these areas. Nevertheless, management and the Committee consider owner/franchisee satisfaction to be an important contributor to the Company's success and for 2009 management maintained strong relationships with owners/franchisees and regularly solicited informal feedback on satisfaction levels. In addition, the Company conducted a survey at hotel properties to solicit associate feedback. The portion of the bonus potential related to owner/franchisee satisfaction was reallocated to guest satisfaction, and, for Mr. McCarthy, the percentage that was allocated to associate satisfaction was reallocated to the EPS portion of the Incentive Plan.

The Individual Plan payout represents 40% of the executives' total annual bonus opportunity. As indicated in the chart below, the weighting of each performance factor varies slightly among the eligible executives by position due to differences in accountability and responsibility. These performance factors reflect subjective assessment by the Committee and, like the EPS goal, are intended to establish high standards consistent with the Company's quality goals which are achievable but not certain to be met. The Committee assesses each individual's achievement of Individual Plan components and determines whether it is appropriate to pay out at or in between the threshold, norm or maximum award levels. The Committee's recommendation regarding each Individual Plan component for Messrs. Marriott, Shaw, and Sorenson are subject to approval by the Board.

The potential awards under the Incentive Plan and Individual Plan for 2009 are reported in dollars in the Grants of Plan-Based Awards for Fiscal 2009 table, following this Compensation Discussion and Analysis section. The respective weightings of the relevant performance measures and the aggregate target and actual payments for 2009 under the combined Incentive Plan and Individual Plan are

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displayed in the table below. As reflected in the table, target awards range from 125% of salary for Mr. Marriott to 50% of salary for Mr. Berquist (for the period before his promotion). The Committee determined the differences in the target award percentages by reviewing market data for each position and by considering internal factors, including pay equity with other executives, differences in responsibilities, significant promotions and future potential. The threshold award for each component is equal to 25% of the target award. The maximum award for each component is between 150% and 155% of the target award. For Messrs. Sorenson, McCarthy and Berquist, threshold, target and maximum payment opportunities are reported for the periods before and after their May promotions.

Name		Incentive Plan		Individual Plan			Total
		Earnings Per Share	Operating Profit-NALO	Individual Achievement	Room Growth	Guest Satisfaction	
J.W. Marriott, Jr.	Weight of Total Award (%)	60	n/a	20	10	10	100
	Target Award as % of Salary	75	n/a	25	12.5	12.5	125
	Actual Payout as % of Salary	0	n/a	0	0	0	0
William J. Shaw	Weight of Total Award (%)	60	n/a	20	10	10	100
	Target Award as % of Salary	54	n/a	18	9	9	90
	Actual Payout as % of Salary	0	n/a	0	0	0	0
Arne M. Sorenson (Jan. 3 April 30)	Weight of Total Award (%)	60	n/a	20	10	10	100
	Target Award as % of Salary	45	n/a	15	7.5	7.5	75
	Actual Payout as % of Salary	0	n/a	0	0	0	0
Arne M. Sorenson (May 1 Jan. 1)	Weight of Total Award (%)	60	n/a	20	10	10	100
	Target Award as % of Salary	54	n/a	18	9		
Earnings before minority interest		909	1,035		(367)		1,577
Minority interest		73	155		(123)		h 105
Net earnings from continuing operations		836	880		(244)		1,472
Loss on discontinued operations, net of tax			8				8
Net earnings		836	872		(244)		1,464
Dividends on preferred shares			17		(17)		j
Net earnings applicable to common shares		\$ 836	\$ 855		\$ (227)		\$ 1,464
Net earnings per common share							
Basic		\$ 4.41					\$ 3.80
Diluted		\$ 3.75					\$ 3.48

INCO LIMITED
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(tabular amounts in millions of US dollars, except per share amounts)

1. BASIS OF PRESENTATION

The unaudited pro forma consolidated financial statements of Inco Limited (Inco) have been prepared in accordance with generally accepted accounting principles in Canada. These unaudited pro forma consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Inco as at and for the year ended December 31, 2005, and the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2006 including the related notes thereto.

The unaudited pro forma consolidated financial statements have been prepared assuming that the acquisition of Falconbridge Limited (Falconbridge) had been completed as of January 1, 2005 for the consolidated statements of earnings and as of March 31, 2006 for the consolidated balance sheet.

These unaudited pro forma consolidated financial statements are not intended to reflect the financial position and results of operations which would have actually resulted had the transaction and other adjustments been effected on the dates indicated. Further, the pro forma results of operations are not necessarily indicative of the results of operations that may be obtained by Inco in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited pro forma consolidated financial statements have been compiled using the significant accounting policies as set out in the audited consolidated financial statements of Inco for the year ended December 31, 2005 which, based on publicly available information, are assumed to be substantially similar to the significant accounting policies as set out in the audited consolidated financial statements of Falconbridge for the year ended December 31, 2005 and the unaudited consolidated financial statements for the three months ended March 31, 2006. Upon consummation of the transaction, the accounting policies will be formally conformed and it is possible that adjustments may result.

3. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

The pro forma consolidated financial statements include the following pro forma assumptions and adjustments:

- (a) The acquisition is accounted for using the purchase method of accounting, whereby Falconbridge's assets and liabilities are revalued to their fair value and its shareholders' equity is eliminated. Inco's assets and liabilities are not revalued. The pro forma adjustments reflect Inco's acquisition of 100 per cent of Falconbridge's net assets at their fair values as at March 31, 2006 and the accounting for Falconbridge as a wholly-owned subsidiary. Falconbridge's interests in joint ventures in which it has joint control are reflected using the proportionate consolidation method.

The determination of the purchase price, based on management's preliminary estimate, is as follows:

Purchase Price

Consideration in Inco common shares	\$ 13,009
Consideration in Inco options issued	91
Cash	4,328
Transaction costs	125
Total	\$ 17,553

The purchase price was calculated using a price of \$66.29 for each Inco common share issued which represents the weighted average Inco share price over the five day period extending from May 11, 2006 to May 16, 2006, the two days before and the two days after the date of announcement. The cash portion of the purchase price will be financed through committed loan facilities.

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The allocation of the purchase price, based on management's preliminary estimate, is as follows:

Allocation of Purchase Price

	Book Value	Fair Value Increment	Purchase Price Allocation
Assets			
Cash and cash equivalents	\$ 1,066	\$	\$ 1,066
Accounts receivable	1,269		1,269
Inventories	1,788	465	2,253
Unallocated purchase price		4,508	4,508
Property, plant and equipment and other non-current assets	8,819	11,200	20,019
Total assets	\$ 12,942	\$ 16,173	\$ 29,115
Liabilities			
Long-term debt due within one year	\$ 853	\$	\$ 853
Other current liabilities	1,668	125	1,793
Long-term debt	2,910	129	3,039
Deferred income and mining taxes	1,264	3,085	4,349
Other long-term liabilities	651	495	1,146
Minority interest	382		382
Total liabilities	\$ 7,728	\$ 3,834	\$ 11,562
Total net assets purchased	\$ 5,214	\$ 12,339	\$ 17,553

The book value of Falconbridge, as shown above:

Reflects Falconbridge's stated book values as at March 31, 2006.

Reflects the assumed exercise of vested stock options; and

Reflects the reclassification of the equity portion of preferred shares to minority interest.

Due to limited publicly available information, this allocation is based upon preliminary estimates and certain assumptions with respect to the fair value increment associated with the assets to be acquired and the liabilities to be assumed. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed above in the assumed pro forma purchase price allocation due to the changes in fair values of the assets and liabilities between March 31, 2006 and the date of the transaction, and as further analysis is completed. The actual allocation of the purchase price may result in different adjustments being expensed in the consolidated statement of earnings.

To the extent that the unallocated purchase price is not allocated to the assets acquired and liabilities assumed in the final purchase price allocation, the balance will represent goodwill. This goodwill reflects the substantial synergies available to Inco as a result of the acquisition.

- (b) The adjustment to cost of sales and other expenses reflects the elimination of deferred gains on derivative contracts on the pro forma consolidated statements of earnings. The deferred gains arise from derivative

contracts that qualified for hedge accounting and were realized as a reduction of the cost of operations over the original delivery schedule of contracts. The gains would not have been realized in the year ended December 31, 2005 and the three months ended March 31, 2006 since the purchased derivative contracts would have been fair valued as of January 1, 2005.

- (c) The adjustment to cost of sales and other expenses reflects the elimination of amortized past service costs and amortized net actuarial losses relating to post retirement benefits which were expensed in the year ended December 31, 2005 and the three months ended March 31, 2006.
- (d) Represents the amortization of the preliminary fair value increment allocated to operating capital assets. The pro forma amortization excludes the total amount of the purchase price allocation not subject to amortization of approximately \$5.5 billion representing the unallocated purchase price and amounts allocated to non-operating assets. On finalization of the purchase price allocation, if this amount is allocated to operating assets, pro forma amortization would change by approximately \$239 million, before taxes, for the year ended December 31, 2005 and by \$60 million for three months ended March 31, 2006. Pro forma amortization and the above noted sensitivity have been based on a remaining weighted average estimated economic life of 23 years, and a reduction of one year in the weighted average estimated economic life would alter pro forma amortization by \$18 million, before taxes, for the year ended December 31, 2005 and by \$5 million for three months ended March 31, 2006.
- (e) The adjustment to selling, general and administrative expenses reflects the expense relating to the unvested stock options to be issued pursuant to the acquisition of Falconbridge.
- (f) The adjustment to cost of sales and other expenses reflects the amortization of the allocation of the purchase price to equity accounted investments.

- (g) The adjustment to interest expense reflects the issuance of CDN\$4.8 billion of debt in connection with the acquisition of Falconbridge and the amortization of the fair market value increment related to the Falconbridge debt.
- (h) The adjustment reflects the elimination of the Falconbridge minority interest in earnings assuming that Falconbridge and Noranda were amalgamated at January 1, 2005.
- (i) The adjustment reflects the tax effect on the above adjustments.
- (j) The adjustment reflects the reclassification of preferred share dividends to minority interest.

4. ITEMS NOT ADJUSTED

The pro forma consolidated financial information does not reflect and does not give effect to (1) any special items such as payments pursuant to change of control provisions or integration costs which may be incurred as a result of the acquisition, (2) operating efficiencies, cost savings and synergies that are expected to result from the acquisition, or (3) the impact of undertakings that Inco is prepared to make in order to address regulatory clearance requirements, as there are no current agreements providing for implementation of such undertakings which, however, are expected to be carried out after the completion of the Offer, and no adjustments have been made to eliminate historical sales between Inco and Falconbridge as the amounts are not considered significant.

5. PRO FORMA EARNINGS PER SHARE

Earnings per share computation for the three months ended March 31, 2006

Basic pro forma earnings per share computation

Numerator:

Pro forma net earnings	\$ 587
Pro forma earnings applicable to common shares	\$ 587

Denominator (thousands of shares):

Inco shares outstanding	192,704
Common shares issued to Falconbridge shareholders	196,246
Pro forma weighted-average common shares outstanding	388,950

Basic pro forma earnings per common share **\$ 1.51**

Diluted pro forma earnings per share computation

Numerator:

Pro forma net earnings	\$ 587
Dilutive effects of convertible debentures	2
Pro forma net earnings applicable to common shares, assuming dilution	\$ 589

Denominator (thousands of shares):

Pro forma Inco shares outstanding	388,950
Dilutive effect of securities:	
Convertible debentures	27,718
Stock options	1,049
Warrants	5,022
Stock options issued on transaction	179

Pro forma weighted-average common shares outstanding	422,918
Diluted pro forma earnings per share	\$ 1.39

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*Earnings per share computation for the year ended December 31, 2005***Basic pro forma earnings per share computation**

Numerator:

Pro forma net earnings	\$ 1,464
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Pro forma earnings applicable to common shares	\$ 1,464
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Denominator (thousands of shares):

Inco shares outstanding	189,425
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Common shares issued to Falconbridge shareholders	196,246
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Pro forma weighted-average common shares outstanding	385,671
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Basic pro forma earnings per common share	\$ 3.80
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Diluted pro forma earnings per share computation

Numerator:

Pro forma net earnings	\$ 1,464
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Dilutive effects of convertible debentures	6
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Pro forma net earnings applicable to common shares, assuming dilution	\$ 1,470
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Denominator (thousands of shares):

Pro forma Inco shares outstanding	385,671
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Dilutive effect of securities:

Convertible debentures	31,349
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Stock options	1,008
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Warrants	4,218
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Stock options issued on transaction	141
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Pro forma weighted-average common shares outstanding	422,387
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Diluted pro forma earnings per share	\$ 3.48
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6. SUBSEQUENT EVENT

On March 16, 2006, Falconbridge announced its intention to redeem \$500 million of its junior preference shares (Series 1, 2 and 3). The junior preference shares were redeemed on April 26, 2006 from holders of record on March 22, 2006.

On May 18, 2006, Falconbridge announced that it intends to redeem the remaining balance of its outstanding junior preference shares (Series 1, 2 and 3) for a total of approximately \$253 million. The junior preference shares will be redeemed on June 28, 2006. Internal cash resources are intended to be used to fund the redemption.

In the pro forma consolidated balance sheet as at March 31, 2006 there is \$750 million of junior preference shares (series 1, 2 and 3) in long-term debt.

The Depository for the Offer is:
CIBC MELLON TRUST COMPANY

By Mail

P.O. Box 1036
Adelaide Street Postal Station
Toronto, ON M5C 2K4

By Registered Mail, by Hand or by Courier

199 Bay Street
Commerce Court West
Securities Level
Toronto, ON M5L 1G9

Telephone: (416) 643-5500
Toll Free: 1-800-387-0825
E-Mail: inquiries@cibcmellon.com
The Dealer Manager for the Offer is:
RBC CAPITAL MARKETS

In Canada

RBC Dominion Securities Inc.

200 Bay Street, 4th Floor
Royal Bank Plaza, South Tower
Toronto ON M5J 2W7
Canada

Telephone: (416) 842-7519
Toll Free: 1-888-720-1216

In the United States

RBC Capital Markets Corporation

Two Embarcadero Center
Suite 1200
San Francisco, California 94111
U.S.A.

Toll Free: 1-888-720-1216

The Information Agent for the Offer is:
105 Madison Avenue
New York, New York 10016
proxy@mackenziepartners.com
(212) 929-5500 (call collect)

or

Toll-Free: (800) 322-2885 (English)
(888) 405-1217 (French)

Any questions and requests for assistance may be directed by holders of Falconbridge Shares to the Depository, the Dealer Manager or the Information Agent at their respective telephone numbers and locations set out above. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

May 29, 2006

Dear Falconbridge Shareholder:

On behalf of the Board of Directors and management of Inco Limited, we are pleased to send you our increased offer to purchase all of the outstanding common shares of Falconbridge Limited.

Increased Inco Offer

In recognition of Falconbridge's strong financial performance in the period since the announcement of our original offer, we agreed with the Falconbridge Board of Directors to increase our original offer to purchase your Falconbridge common shares. Under the increased Inco Offer, you will be entitled to receive either: (i) Cdn.\$51.17 in cash; or (ii) 0.6927 of an Inco common share plus Cdn.\$0.05 in cash for each of your Falconbridge common shares, at your election, subject to proration and the maximum cash and maximum share amounts, as described in the accompanying Notice of Variation.

We believe, and the Falconbridge Board of Directors agrees, that the reasons for combining Inco and Falconbridge are even more compelling today than when we made our original offer. The value of the synergies we've identified by combining our two companies has increased significantly. And given today's strong metals markets, and the outstanding prospects for nickel and copper, shareholders in the New Inco have the opportunity to participate in a company with truly outstanding earning potential both in the near and long term. The New Inco will be a true mining powerhouse, with a substantial resource base and impressive growth prospects, and we believe that it will be one of the most attractive mining companies for investors on a global basis.

Xstrata's Competing Offer

On May 18, 2006, a wholly-owned subsidiary of Xstrata plc filed a take-over bid circular relating to an unsolicited, competing offer to purchase all of the outstanding common shares of Falconbridge that it does not already own for Cdn\$52.50 in cash per share. You may already have received Xstrata's offer in the mail. We believe that our offer provides significant advantages over the Xstrata offer in that it provides for Falconbridge shareholders the opportunity (i) to remain invested in a large portfolio of world-class mining assets on a tax-effective basis at a time of robust metal market performance, and (ii) to participate in the realization of expected synergies and growth opportunities in the New Inco.

We urge you to **REJECT** the Xstrata Offer and **ACCEPT** the increased Inco Offer.

Creation of a World-class Metals and Mining Company

Inco's combination with Falconbridge offers a unique opportunity to create a much larger nickel and copper company and to create real shareholder value. New Inco will be a truly formidable player on the world mining stage. It will be the world's number one producer in nickel and a strong producer of copper, with first-class operations around the world. And it will have one of the best project pipelines in the mining business, with the world's best portfolio of properties and growth projects in nickel and copper, arguably the two metals with best prospects going forward.

Updated Synergies Estimate

Bringing together Inco and Falconbridge will accomplish what no other combination of companies can, which is to unlock the significant value of the synergies in our Canadian nickel and copper operations, particularly in the Sudbury basin. We also believe that the value of those synergies is significantly greater than our original estimate.

We now estimate that the average annual pre-tax run-rate of the New Inco synergies would be approximately \$550 million, with a net present value of approximately \$3.5 billion on an after-tax basis, using a 7% discount rate. Inco believes it should be able to achieve synergies approaching the average annual pre-tax run-rate by approximately 24 months after the completion of the Inco-Falconbridge transaction. The estimated synergies figure has increased as a result of seven months of working closely with Falconbridge on how to maximize synergies and the impact of higher commodity price assumptions. Through this process we have identified several additional opportunities to accelerate and increase production utilizing New Inco's resources and infrastructure, which are described in the Notice of Variation.

Regulatory Update

Our offer for Falconbridge has experienced delays due to the pending regulatory clearances from the U.S. Department of Justice and European Commission in respect of antitrust concerns that each has raised in respect of certain segments of the

nickel markets. Inco has been pursuing these clearances since October 2005 and is working towards a final resolution of the remaining clearances as soon as possible, with an expectation of conclusion by not later than mid-July 2006.

Xstrata's offer is also conditional upon receipt of anti-trust and other regulatory approvals. Since Xstrata is a non-Canadian entity, an acquisition of Falconbridge by Xstrata will also require pre-clearance and approval of the Minister of Industry under the *Investment Canada Act*, based on the Minister being satisfied that Xstrata's acquisition of Falconbridge would be of net benefit to Canada.

Reasons to Accept the Increased Inco Offer and Benefits of the Combination

We believe the increased Inco Offer represents a unique and compelling opportunity for you to realize fair value for your Falconbridge common shares and that all Falconbridge shareholders should accept the increased Inco Offer. Moreover, we believe that the combination of Inco and Falconbridge will produce significant benefits including the creation of:

the world's largest nickel producer, with production expected to increase by approximately 39% from 2005 to 2009;

a leading copper producer, with production expected to increase by approximately 86% from 2005 to 2011;

a world-leading position in nickel reserves and an enviable portfolio of brownfield and greenfield projects for further expansion;

a globally diverse company with extensive operations in North and South America, Asia, the South Pacific and Europe;

a financially robust company, with pro forma combined revenues of approximately U.S.\$4 billion for the three months ended March 31, 2006; and

a best-in-class management team and global workforce.

We encourage you to read the terms and conditions of the increased Inco Offer as set out in the Notice of Variation. To help you understand the increased Inco Offer, we also encourage you to consult with your financial advisor.

We want you to make an informed choice because we believe the more that you know about Inco and the opportunities for the combined company, the more you will want to take advantage of the increased Inco Offer.

Together with the Notice of Variation, the Board of Directors of Falconbridge has delivered to you a Notice of Change to Directors' Circular with respect to the increased Inco Offer. Your Falconbridge Board of Directors unanimously recommends that Falconbridge shareholders accept our increased Offer.

To accept the increased Inco Offer, you will need to complete the Letter of Transmittal and Election Form (printed on blue paper) or a facsimile that accompanied our original offer, and return it in the envelope provided with our original offer such that it is received by the expiry time. A shareholder wishing to accept the increased Inco Offer whose Falconbridge common shares are held in the name of a nominee should request the broker, investment dealer, bank, trust company or other nominee to deposit the shareholder's common shares.

We urge you to accept our increased Offer and invite you to join us in building a strong, competitive, valuable, international and pre-eminent metals and mining company.

Yours very truly,

Scott M. Hand
Chairman and Chief Executive Officer

INCO LIMITED, 145 King Street West, Suite 1500, Toronto, Ontario M5H 4B7

PART II
INFORMATION NOT REQUIRED TO BE SENT TO SHAREHOLDERS

The following are filed as exhibits to this Schedule:

- 1.1 Certificate and Consent of Qualified Person for Robert A. Horn (Goro) (1)
 - 1.2 Certificate and Consent of Qualified Person for Dr. Wm. Gordon Bacon (Goro) (1)
 - 1.3 Certificate and Consent of Qualified Person for Dr. Wm. Gordon Bacon (Voisey s Bay) (1)
 - 1.4 Certificate and Consent of Qualified Person for Lawrence B. Cochrane (Voisey s Bay) (1)
 - 2.1 Reserved
 - 2.2 Material change report of the Bidder filed October 12, 2005 concerning the entering into by the Bidder and Falconbridge Limited of the Support Agreement (1)
 - 2.3 Material change report of the Bidder filed August 9, 2005 concerning the appointment of a new Executive Vice-President and Chief Financial Officer of the Bidder effective November 1, 2005 (1)
 - 2.4 Material change report of the Bidder filed April 19, 2005 concerning the approval of the reinstatement of a quarterly cash dividend on the Bidder s common shares and declaration of a quarterly dividend of \$0.10 per share, payable June 1, 2005 to the Bidder s shareholders of record as of May 16, 2005 (1)
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- 2.5 Annual report of the Bidder on Form 10-K for the year ended December 31, 2005 (Commission File No. 001-01143) filed March 16, 2006
 - 2.6 Audited consolidated financial statements of the Bidder, including the notes thereon, and together with the auditor's report, as at and for each of the financial years ended December 31, 2005, 2004 and 2003, incorporated by reference to Item 8 of Form 10-K (Commission File No. 001-01143) filed March 16, 2006
 - 2.7 Management's discussion and analysis of financial condition and results of operations of the Bidder for the year ended December 31, 2005, incorporated by reference to Item 7 of Form 10-K (Commission File No. 001-01143) filed March 16, 2006
 - 2.8 Proxy circular and statement of the Bidder dated February 17, 2006 in connection with the annual and special meeting of shareholders held on April 20, 2006 (excluding the sections entitled "Report on Executive Compensation", "Comparative Shareholder Return" and "Corporate Governance"), incorporated by reference to Exhibit 99 to Form 10-K (Commission File No. 001-01143) filed March 16, 2006
 - 2.9 Audited consolidated financial statements of Falconbridge Limited, including notes thereto, as at December 31, 2005 and 2004 and for each of the years then ended, together with the auditors' report thereon, incorporated by reference to Exhibit 99.1 to Form 6-K (Commission File No. 001-11284) filed by Falconbridge Limited on March 24, 2006
 - 2.10 Management's discussion and analysis of financial condition and results of operations of Falconbridge Limited for the fiscal year ended December 31, 2005, incorporated by reference to Exhibit 99.1 to Form 6-K (Commission File No. 001-11284) filed by Falconbridge Limited on March 24, 2006
 - 2.11 Unaudited consolidated financial statements of Falconbridge Limited, including notes thereto, as at March 31, 2006 and for the three -month periods ended March 31, 2006 and 2005, incorporated by reference to Exhibit 99.1 to Form 6-K (Commission File No. 001-11284) filed by Falconbridge Limited on May 3, 2006
 - 2.12 Management's discussion and analysis of financial condition and results of operations of Falconbridge Limited for the three -month period ended March 31, 2006, incorporated by reference to Exhibit 99.2 to Form 6-K (Commission File No. 001-11284) filed by Falconbridge Limited on May 3, 2006
 - 2.13 Unaudited consolidated financial statements of the Bidder, including the notes thereto, as at March 31, 2006 and December 31, 2005, and for the three-month periods ended March 31, 2006 and 2005, incorporated by reference to Item 1 of Form 10-Q (Commission File No. 001-01143) filed May 10, 2006
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2.14 Management's discussion and analysis of financial condition and results of operations of the Bidder for the three-month period ended March 31, 2006, incorporated by reference to Item 2 of Form 10-Q (Commission File No. 001-01143) filed May 10, 2006

- (1) Previously filed with the Bidder's Schedule 14D-1F (File No. 005-62437) filed October 25, 2005.

PART III
UNDERTAKINGS AND CONSENT TO SERVICE OF PROCESS

1. Undertakings

- (f) The Bidder undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to this Schedule or to transactions in said securities.
- (g) The Bidder undertakes to disclose in the United States, on the same basis as it is required to make such disclosure pursuant to applicable Canadian federal and/or provincial or territorial laws, regulations or policies, or otherwise discloses, information regarding purchases of the issuer's securities in connection with the cash tender or exchange offer covered by this Schedule. Such information shall be set forth in amendments to this Schedule.
- (h) The Bidder undertakes to disclose in the United States, on the same basis as it is required to make such disclosure pursuant to any applicable Canadian federal and/or provincial or territorial law, regulation or policy, or otherwise discloses, information regarding purchases of the issuer's or Bidder's securities in connection with the offer.

2. Consent to Service of Process

- (a) On October 25, 2005 the Bidder filed with the Commission a written irrevocable consent and power of attorney on Form F-X.
- (b) Any change to the name or address of a registrant's agent for service shall be communicated promptly to the Commission by amendment to Form F-X referencing the file number of the registrant.
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**PART IV
SIGNATURES**

By signing this Schedule, the Bidder consents without power of revocation that any administrative subpoena may be served, or any administrative proceeding, civil suit or civil action where the cause of action arises out of or relates to or concerns any offering made or purported to be made in connection with the filing on this Amendment No. 4 to Schedule 14D-1F or any purchases or sales of any security in connection therewith, may be commenced against it in any administrative tribunal or in any appropriate court in any place subject to the jurisdiction of any state or of the United States by service of said subpoena or process upon its designated agent.

INCO LIMITED

By: /s/ Simon A. Fish
Simon A. Fish, Esq.
Executive Vice-President, General Counsel and
Secretary

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

/s/ Simon A. Fish
Simon A. Fish, Esq.
Executive Vice-President, General Counsel and
Secretary
May 31, 2006