CORPORATE EXPENSES, INTEREST AND TAXES

Corporate Expenses

	2001	2000	1999	Annual Change 2001/2000	Annual Change 2000/1999
($ in millions)					
Corporate expenses before restructuring costs and other charges	$117	$120	$164	–3%	–27%
Restructuring costs	18	—	—	nm	—
Other charges	22	—	—	nm	—
Corporate expenses, as reported	$157	$120	$164	+31%	–27%

2001 Compared to 2000

Corporate expenses increased $37 million reflecting the impact of restructuring charges of $18 million related to severance costs and facilities exit costs, and other charges related to the fourth quarter write-off of a $22 million investment in one of our technology partners. In addition to these items, we also recorded $8 million of foreign exchange losses and in prior quarters we recorded a $13 million write-off of two investments in technology partners. These charges were partially offset by $11 million in gains from the sale of affordable housing tax credit investments, the favorable impact of cost containment action plans, and the reversal of a long-standing $10 million insurance reserve related to a lawsuit at one of our managed hotels. The reversal of the insurance reserve was the result of us being approached in the first quarter by the plaintiffs' counsel, who indicated that a settlement could be reached in an amount that would be covered by insurance. We determined that it was no longer probable that the loss contingency would result in a material outlay by us and accordingly, we reversed the reserve during the first quarter of 2001.

2000 Compared to 1999

Corporate expenses decreased $44 million in 2000 to $120 million primarily due to a $39 million pretax charge in 1999 associated with a litigation settlement and systems-related costs associated with Year 2000 that were incurred in 1999, offset by costs incurred in 2000 associated with new corporate systems and a $3 million charge due to a change in our vacation accrual policy.

Interest Expense

2001 Compared to 2000

Interest expense increased $9 million to $109 million reflecting the impact of the issuance of Series E Notes in January 2001 and borrowings under our revolving credit facilities, partially offset by lower interest resulting from the payoff of commercial paper.

2000 Compared to 1999

Interest expense increased $39 million as a result of borrowings to finance growth outlays and share repurchases.

Interest Income and Income Tax

2001 Compared to 2000

Interest income increased $34 million, before reflecting reserves of $48 million for loans deemed uncollectible as a result of certain hotels experiencing significant declines in profitability and the owners not being able to meet debt service obligations. The change in interest income was impacted by income associated with higher loan balances, including the loans made to the Courtyard joint venture in the fourth quarter of 2000, offset by $5 million of expected guarantee fundings and the impact of $14 million of income recorded in 2000 associated with an international loan that was previously deemed uncollectible.

Our effective income tax rate decreased to 36.2 percent in 2001 from 36.8 percent in 2000 as a result of modifications related to our deferred compensation plan and the impact of increased income in countries with lower effective tax rates.

2000 Compared to 1999

Interest income increased $23 million primarily due to the collection of $14 million of interest associated with an international loan that was previously reserved for and increased advances and loan fundings made during 2000.

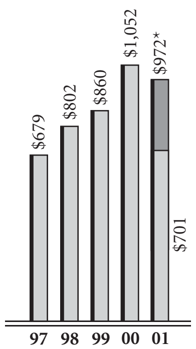
Our effective income tax rate decreased to approximately 36.8 percent in 2000 from 37.3 percent in 1999 primarily due to increased income in countries with lower effective tax rates.

LIQUIDITY AND CAPITAL RESOURCES

We have credit facilities which support our commercial paper program and letters of credit. At December 28, 2001, our cash balances combined with our available borrowing capacity under the credit facilities was nearly $2 billion. We consider these resources, together with cash expected to be generated by operations, adequate to meet our short-term and long-term liquidity requirements, to finance our long-term growth plans, and to meet debt service and other cash requirements. We expect that part of our financing and liquidity needs will continue to be met through commercial paper borrowings and access to long-term committed credit facilities. If the lodging industry recovers more slowly than we anticipate, our ability to obtain commercial paper borrowings at competitive rates may be impaired.

Cash from Operations

Cash from operations was $400 million in 2001, $850 million in 2000, and $711 million in 1999. Net income is stated after depreciation expense of $142 million in 2001, $123 million in 2000, and $96 million in 1999, and after amortization expense of $80 million in 2001, $72 million in 2000, and $66 million in 1999. While our timesharing business generates strong operating cash flow, annual amounts are affected by the timing of cash outlays for the acquisition and development of new resorts, and cash received from purchaser financing. We include timeshare interval sales we finance in cash from operations when we collect cash payments or the notes are sold for cash.



EBITDA
Earnings before interest expense, income taxes, depreciation and amortization
(millions)
**excluding restructuring and other charges*

Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) decreased to $701 million in 2001 compared to $1,052 million in 2000, and $860 million in 1999.