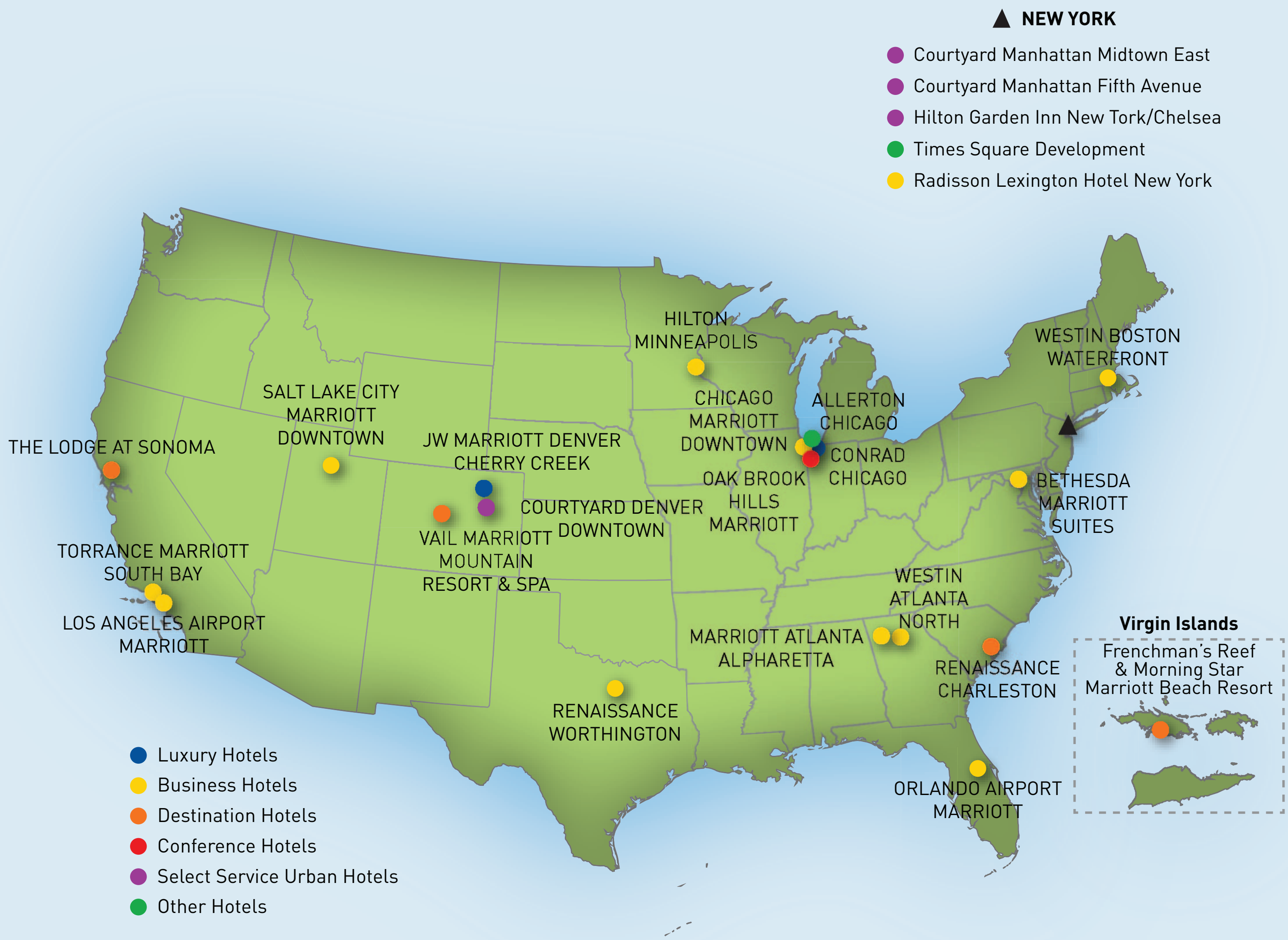
# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

**2011**

DIAMONDROCK HOSPITALITY




23 Hotels
10,406 Guest Rooms
8,581,166 Square Feet under Ownership
$638 million in 2011 Revenue
22 Employees
Above figures are as of 12/31/2011

# From our CEO

Dear Stakeholders,

It is with pleasure that I share with you this report—our first sustainability report, covering economic, environmental, social, and governance information for DiamondRock Hospitality Company (the "Company") during the 2011 calendar year.

Our mission is to deliver long-term stockholder returns through a combination of dividends and long-term capital appreciation, and we are committed to enhancing the value of our platform by being open and transparent in our communications with stakeholders. This report has been published to evidence, analyze and inform the Company's commitment to sustainability initiatives. We are also conscious of the investor community's increasing attention to, and requests for, Environmental, Social, and Governance (ESG) reporting.

We had several key accomplishments in 2011, including the acquisition of three high-quality hotel properties for a purchase price of approximately $450 million and the finalization of an agreement to acquire an exciting hotel in Times Square upon completion of its development. The Company also executed an agreement to sell three non-core hotel assets at an attractive valuation. We achieved solid growth in pro forma revenue per available room ("RevPAR") – a key industry statistic – of 6.3% over 2010. Our continued commitment to sensible capital allocation and aggressive asset management allowed us to return over $50 million to our stockholders through dividends.

In 2011, the Company exhibited its dedication to sustainability initiatives and shareholder returns by implementing programs designed to reduce energy consumption and increase profitability at our hotels. We identified a number of return-on-investment opportunities, the most significant being the $45 million repositioning of the Frenchman's Reef Marriott located in the United States Virgin Islands. The Frenchman's Reef project encompassed a complete upgrade of the resort, including the addition of a new luxury spa and resort pools and the implementation of a major sustainability initiative to significantly reduce energy consumption at the hotel.

We plan to realize our vision to be the leading allocator of capital in the lodging industry through continued execution of our thoughtful asset management strategy. As a lodging REIT, our success requires constant collaboration with our key stakeholders, and we will continue to work with our management companies and brands to identify opportunities to lower utility consumption and costs. We expect to spend upwards of $45 million on capital improvements over the next 2 years, including significant projects at the Conrad Chicago, Courtyard Midtown East, Renaissance Worthington, and Marriott Atlanta Alpharetta.

This report is the Company's first attempt at comprehensively analyzing sustainability performance indicators (including energy, water, waste, and greenhouse gas emissions). We perceive significant value in tracking these data, as the effects of climate change and resource scarcity may put increased pressures on hotel operating costs. However, we also see tangible opportunities to implement innovative efficiency technologies to tighten our budgets, drive guest preference and achieve real returns. We are also confident that our senior management team's broad network and extensive experience facilitates the incorporation of environmentally-friendly and socially-responsible products and services, in response to consumer demand, into our allocation of capital.

We welcome your feedback on the information presented in this report, as we seek to better understand the nature of stakeholders' ESG requests and analysis. With your input we hope to further advance the practice of evaluating performance data information in the lodging real estate market.

We hope that you will find the information in this report to be useful in understanding the Company's dedication to these important ESG issues.

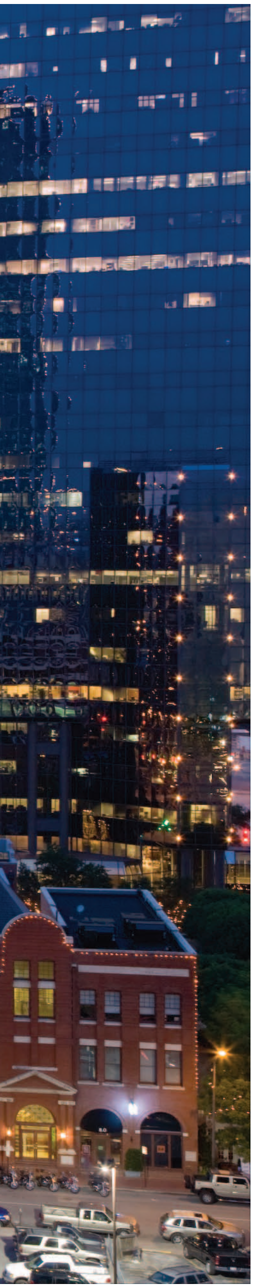
Sincerely,
Mark W. Brugger
Chief Executive Officer
DiamondRock Hotels Company

# About this Report

This is our first sustainability report, covering the economic, environmental, social, and governance information for DiamondRock Hospitality Company during the 2011 calendar year. We plan to publish a corporate sustainability report on a biennial cycle, releasing our next report in 2013. However, we may, from time to time, make other ESG disclosures or publish information relating to sustainability performance indicators through other media including the Company's Annual Report and 10-K.

We have used the Global Reporting Initiative (GRI) 3.1 guidelines to develop the content in this report, and are self-declaring an Application Level C. Our next report may follow the 3.1 guidelines or adhere to the G4 guidelines (scheduled for release in May 2013) depending on the degree of change in the guidelines and methodology.

Performance data and company disclosures are provided for the 2011 calendar year (up-to-date as of December 31, 2011), and are consistent with data appearing in our 2011 Annual Report and 10-K filing.



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## Report Boundary

As a lodging REIT we are not permitted to participate in the management of hotels under ownership, and therefore we do not have operational control of our hotels, but we do exercise some financial control through approval of operating budgets and capital expenses for the hotels in our portfolio. Accordingly, we have used financial control as the basis for certain disclosures and performance indicators. Some economic and environmental data reported here will also be reported in financial and sustainability reports of the companies that manage our hotels, as these data also fall within their operational boundaries.

For the environmental information in this report, financial control pertains specifically to the capital expenditures and investments in the hotels and the performance of the equipment and systems in place. The environmental data boundary includes all hotels under ownership on December 31, 2011 with the exception of the Renaissance Waverly Hotel, Renaissance Austin Hotel, and Marriott Griffin Gate Resort which were held for sale as of December 31, 2011 and for which we will not be tracking data in the future as the sale of those hotels was completed in March 2012. In addition, we have included investments in efficiency projects that have been approved, are in progress, or have been completed since 2009 through the first quarter of 2012.

Our workforce boundary is limited to associates directly employed by DiamondRock Hospitality Company, as we have limited financial control over the workforce programs and operations of our management companies.

## Data and Assurance

The report's GHG emissions calculations follow the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. Emission factors used for fuel combustion were obtained from the World Resources Institute Stationary Combustion Tool 4.1. Emissions factors for mobile fuel combustion were calculated using the Energy Information Administration, Documentation for Emissions of Greenhouse Gases in the U.S., DOE/EIA-0638 (2005), October 2007, Tables 6-1, 6-4, and 6-5. Emission factors for purchased electricity were obtained from EPA eGRID 2010 year 2007, using regional emission factors. Purchased steam and chilled water emission factors were obtained from the US Energy Information Administration Form EIA-1605. Global Warming Potential (GWP) factors used for methane and nitrous oxide were 25 and 310, respectively. GWP factors for fugitive emissions from refrigerants were obtained from the World Resources Institute as compiled from IPCC Second Assessment Report or ASHRAE Standard 34. Renewable energy fuel mix of US eGRID regions was obtained using the EPA online tool: www.epa.gov/cleanenergy/energy-and-you/how-clean.html.

With respect to all information referenced in the Company's Annual Report and 10-K, KPMG LLP, an independent registered public accounting firm, has audited the Company's financial statements and issued an attestation report on the Company's internal control over financial reporting as of December 31, 2011. Environmental performance data including the GHG emissions inventory was calculated in conjunction with Greenview, LLC. No external assurance has been sought for environmental performance data or other data contained in this report that is not covered in the Company's 2011 10-K. Data were obtained through surveys of the Company's hotel managers and have not been independently verified.

## Special Note about Forward-Looking Statements

This report should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report and the Company's 2011 10-K. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Special Note About Forward-Looking Statements" and "Risk Factors" contained in our 2011 10-K and in our other reports that we file from time to time with the Securities and Exchange Commission.

# About DiamondRock

We are a lodging-focused Maryland corporation operating as a real estate investment trust (REIT). As of December 31, 2011, we owned a portfolio of 26 premium hotels and resorts across the United States and in the US Virgin Islands, containing 11,828 guest rooms. We also hold the senior note on a mortgage loan secured by another hotel and have the right to acquire, upon completion, a hotel under development. As an owner, rather than an operator, of lodging properties we receive all of the operating profits or losses generated by our hotels after we pay fees to our third-party hotel managers, which are based on the revenues and profitability of the hotels.

Our vision is to be the premier allocator of capital in the lodging industry. Our mission is to deliver long-term stockholder returns through a combination of dividends and enduring capital appreciation. Our strategy is to utilize disciplined capital allocation and focus on the acquisition, ownership and asset management of high quality, branded lodging properties with superior growth prospects in North American markets with high barriers to entry.

## High Quality Urban and Resort Focused Real Estate

As of December 31, 2011, we owned 26 premium hotels and resorts throughout North America. Our hotels and resorts are primarily categorized as upper upscale as defined by Smith Travel Research and are generally located in high barrier-to-entry markets with multiple demand generators.

Our properties are concentrated in four key gateway cities (New York City, Chicago, Los Angeles and Boston) and in destination resort locations (such as the U.S. Virgin Islands and Vail, Colorado). We consider lodging properties located in gateway cities and resort destinations to be the most capable of creating dynamic cash flow growth and achieving superior long-term capital appreciation. We also believe that these locations are better insulated from new supply due to relatively high barriers-to-entry, including expensive construction costs and limited development sites.

We critically evaluate each potential acquisition to insure that the prospective asset is aligned with the vision we have set forth, supports our mission and corresponds with our strategy. Furthermore, we regularly analyze our portfolio to identify weaknesses therein and to strategize for the disposition of non-core assets in order to recycle capital for additional acquisitions.

A core tenet of our strategy is to leverage the top global hotel brands. We strongly believe that the largest global hotel brands create significant value as a result of each brand's ability to produce incremental revenue and that, as a result, branded hotels are able to generate greater profits than similar unbranded hotels. The dominant global hotel brands typically have very strong reservation and reward systems and sales organizations, and most of our hotels are operated under a brand owned by one of the top global lodging brand companies (Marriott, Starwood or Hilton). Generally, we are interested in owning hotels that are currently operated under, or can be converted to, a globally recognized brand. However, we would own or acquire non-branded hotels in certain top-tier or unique markets if we believe that the returns on these hotels would be higher than if the hotels were operated under a globally recognized brand.

# Disciplined Capital Allocation

Our strategy is to utilize disciplined capital allocation and focus on acquiring, owning, and engaging in measured dispositions of high quality, branded lodging properties in North America with superior long-term growth prospects in markets with high barriers-to-entry for new supply. In addition, we are committed to enhancing the value of our platform by being open and transparent in our communications with investors, monitoring our corporate overhead and following sound corporate governance practices.

Since our formation in 2004, we have been committed to a conservative capital structure with prudent leverage. We believe that it is not tactical to increase the inherent risk of a highly cyclical business through a highly levered capital structure.

We prefer a relatively simple but efficient capital structure. We have not invested in joint ventures and have not issued any operating partnership units or preferred stock. We endeavor to structure our hotel acquisitions so that they will not overly complicate our capital structure; however, we will consider a more complex transaction if we believe that the projected returns to our stockholders will significantly exceed the returns that would otherwise be available.

*Our mission is to deliver long-term stockholder returns through a combination of dividends and long-term capital appreciation.*

*Our vision is to be the premier allocator of capital in the lodging industry.*

Consistent with our strategy, we continue to focus on opportunistically investing in premium full-service hotels and, to a lesser extent, premium, urban, limited-service hotels located throughout North America. Our portfolio is concentrated in key gateway cities and destination resort locations.

# Innovative Asset Management

We believe that we create significant value in our portfolio by utilizing our management team's extensive experience. Our senior management team has established a broad network of hotel industry contacts and relationships, including relationships with hotel owners, financiers, operators, project managers and contractors and other key industry participants.

We continue to explore strategic options to maximize the growth of revenue and profitability. We persist in impressing upon our hotel managers the importance of limiting increases in property-level operating expenses. We maintain our practice of working closely with managers to optimize business at our hotels in order to maximize revenue and we remain committed to the objective of maintaining conservative corporate expenses.

Under the federal income tax rules governing REITs, we are required to engage a hotel manager that is an eligible independent contractor to manage each of our hotels pursuant to a management agreement with one of our subsidiaries. Our philosophy is to negotiate management agreements that give us the right to exert significant influence over the management of our properties, annual budgets and capital expenditures (all, to the extent permitted under rules and regulations governing REITs), and then to use those rights to continually monitor and improve the performance of our properties.

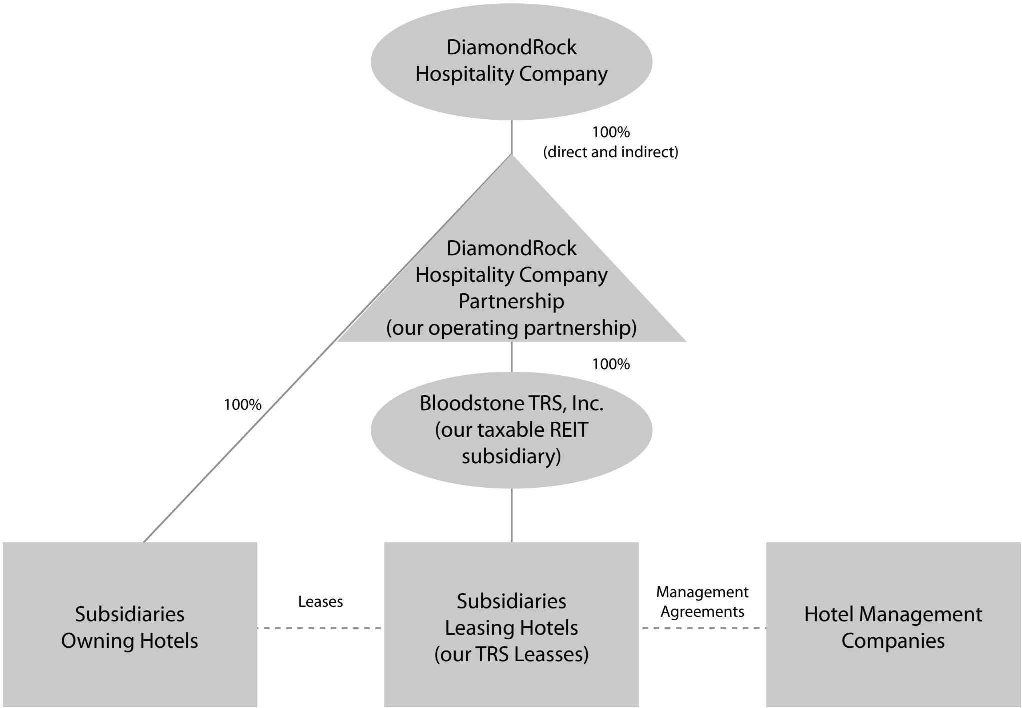
Equipment upgrades and retrofits will help to reduce our operating costs in addition to enhancing our environmental performance and efficiency. This year we have begun to track and monitor our carbon emissions, energy, water, and waste usage extensively across our portfolio. We cooperatively partner with our hotel managers in an attempt to increase operating results and long-term asset values at our hotels. Our operating partners have been influential in identifying and testing opportunities. In addition to working directly with the personnel at our hotels, our senior management team also has long-standing professional relationships with our hotel managers' senior executives, and we work directly with these senior executives to improve the performance of our portfolio.

Furthermore, we believe we create significant value in our portfolio through innovative asset management strategies such as rebranding, renovating and repositioning. We are committed to regularly evaluating our portfolio to determine where we can employ these value-add strategies at our hotels.

# Governance

## Our Corporate Structure

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, in which our hotels are owned by subsidiaries of our operating partnership, DiamondRock Hospitality Limited Partnership. We are the sole general partner of our operating partnership and currently own, either directly or indirectly, all of the limited partnership units of our operating partnership. We have the ability to issue limited partnership units to third parties in connection with acquisitions of hotel properties. In order for the income from our hotel investments to constitute "rents from real property" for purposes of the gross income tests required for REIT qualification, we must lease each of our hotels to a wholly-owned subsidiary of our taxable REIT subsidiary, or TRS (each, a TRS lessee), or to an unrelated third party. We currently lease all of our domestic hotels to TRS lessees. In turn our TRS lessees must engage a third-party management company to manage the hotels. However, we may structure our properties that are not subject to U.S. federal income tax differently from the structures we use for our U.S. properties. For ex-



ample, Frenchman's Reef & Morning Star Marriott Beach Resort is held by a U.S. Virgin Islands corporation, which we have elected to be treated as a TRS.

## Our Board

We are managed under the direction of our Board of Directors. Our directors are: Daniel J. Altobello, Mark W. Brugger, W. Robert Grafton, Maureen L. McAvey, William W. McCarten, Gilbert T. Ray and John L. Williams. Mr. McCarten is the Chairman of our Board of Directors and Mr. Grafton is our lead independent director.

Our Board's responsibilities and objectives include the following:

- To review, approve and regularly monitor the effectiveness of the our fundamental operating, financial and other business plans, policies and decisions, including the execution of its strategies and objectives.
- To seek to enhance stockholder value over the long term.
- To consider the interests of its stockholders and, as appropriate, those of its debt-holders, customers, employees, suppliers and communities.
- To fulfill its obligations in alignment with legal, public policy and ethical standards.

Each of our seven directors stands for election annually. For new directors, our Nominating and Corporate Governance Committee identifies and recommends candidates based on skills and characteristics required of the members of our Board of Directors, which includes factors such as relevant experience, independence, commitment, diversity and understanding of DRHC's business.

*C=Chair M=Member*

# Our Corporate Governance Principles

Our business is built on relationships with our stakeholders - our investors, the global brand companies we utilize for our hotels, and the management companies who manage our hotels. We are committed to keeping our relationships strong by communicating openly about our business practices, being transparent about our performance and remaining accountable for our conduct.

At the core of these commitments, of course, is the role of our Board of Directors in overseeing the management of the Company's business and affairs. We believe that an active, informed, independent and active board is essential for ensuring our integrity, transparency and long-term strength. We believe that our Board of Directors embodies each of those characteristics. We have assembled a Board of Directors that is comprised of individuals with a breadth of experience including: a member with several decades of real estate experience; the retired chairman of Andersen Worldwide; a leading corporate lawyer; a retired chief executive officer, as well as our former Chief Executive Officer; our current Chief Executive Officer; and our President and Chief Operating Officer.

In December 2006, we adopted formal corporate governance guidelines (titled "DRHC Guidelines on Significant Governance Issues"), which are intended to support our Board of Directors' objectives to achieve superior business results and enhance long-term shareholder value. Our corporate governance guidelines set forth standards and processes to define our Board of Directors' structure, objectives, procedures, qualifications, compensation and committees. Specifically, our guidelines require that a majority of our Board of Directors be comprised of independent members as defined by stock exchange listing standards. In alignment with our corporate governance guidelines, our Board of Directors has three formal committees: our Audit, Compensation and Nominating and Corporate Governance Committees. Each committee is comprised entirely of independent directors, has defined responsibilities and reports regularly to the Board of Directors:

| Board Member | William W. McCarten | Daniel J. Altobello | Mark W. Brugger | W. Robert Grafton | Maureen L. McAvey | Gilbert T. Ray | John L. Williams |
|---|---|---|---|---|---|---|---|
| Independent Director | | • | | • | • | • | |
| Audit Committee Member | | M | | C | M | M | |
| Compensation Committee Member | | C | | M | M | M | |
| Nominating and Corporate Governance Committee Member | | M | | M | M | C | |

Our corporate governance guidelines are reviewed annually by our Board of Directors and are modified, as appropriate, to ensure that the guideline meet the needs of our organization and its stockholders. In 2011, our corporate governance guidelines were amended to include a clawback policy wherein past bonuses of our five most highly compensated executives will be reviewed in the event of a significant restatement of the Company's earnings.

Further information on how we follow through on our commitment to transparency and accountability by implementing what we believe are sound corporate governance practices can be found in our Corporate Governance Guidelines and current proxy statement.

## Code of Business Conduct and Ethics

All DiamondRock Hospitality Company directors, officers and employees are subject to our Code of Business Conduct and Ethics, which establishes standards for topics including compliance with applicable laws and regulations; conflicts of interests; anti-bribery and corruption; fair dealing with competitors, suppliers and customers; and protection and proper use of DiamondRock's assets.

All directors, officers and employees are supplied with a copy of the Code upon beginning service at our company, and must sign an acknowledgement of, and agreement to comply with, the Code. Our Board of Directors monitors compliance with our Code and the enforcement of appropriate disciplinary measures for violations. Our management reports to the Board of Directors periodically on alleged violations and actions taken in response to alleged violations. Addition- ally, our General Counsel serves as Chief Compliance Officer under the Code.

Our Code of Business Conduct and Ethics expressly encourages officers and employees to consult with their supervisors and our Chief Compliance officer regarding any questions related to our business conduct and ethics standards. Additionally, our Code of Business Conduct and Ethics expressly forbids retaliation and establishes disciplinary actions to prevent retaliation. We also provide an option to report business conduct and ethics violations anonymously.

Our Code of Business Conduct and Ethics was adopted in September 2004; and last reviewed in April 2011.

## Whistleblower Policy

Our Audit Committee has also established a whistleblower policy, which includes procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission of concerns by employees of the Company regarding questionable accounting or auditing matters. Furthermore, the policy sets forth that the Audit Committee, Nomination and Governance Committee, and General Counsel shall receive, retain, investigate and act on complaints and concerns regarding all accounting and auditing matters.

We provide these procedures through a third-party service provider, EthicsPoint, to receive and disseminate complaints and concerns from associates, business partners and shareholders. Any report, whether open, confidential or anonymous shall be made directly to EthicsPoint. Complaints can be made via their web site at:

*https://secure.ethicspoint.com/domain/en/report_company.asp or 1-(866)-293-2409.*

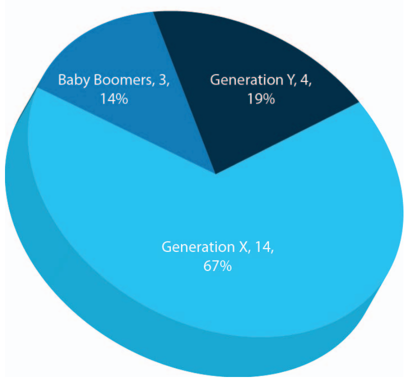
# Our Workforce

| Workforce | Management | Non-Management | Board of Directors |
|---|---|---|---|
| Full-time | 4 | 18 | N/A |
| Part-time | 0 | 0 | N/A |
| Male | 4 | 9 | 4 |
| Female | 0 | 9 | 1 |
| Ethnicity and Race | Management | Non-Management | Board of Directors |
| White | 4 | 15 | 4 |
| Asian | 0 | 2 | 0 |
| Black/African-American | 0 | 1 | 1 |

As of December 31, 2011 we employed 22 full-time employees, all of whom are based at our headquarters in Bethesda, Maryland. We are committed to maintaining responsible employment practices, achieving strong associate satisfaction levels and providing mechanisms for talent development. As such, all DiamondRock Hospitality Company employees receive at least one annual performance review.

None of our employees is a member of any union; however, the employees of our hotel managers at the Lexington Hotel New York, Courtyard Manhattan/Fifth Avenue, Frenchman's Reef & Morning Star Marriott Beach Resort, Westin Boston Waterfront Hotel and Hilton Minneapolis are currently represented by labor unions and are subject to collective bargaining agreements.

Associates by Generation




# Community Giving

Since 2010 we have been participating in local community activities through the local, non-governmental organization Bethesda Cares. Each month our associates volunteer at the Lunchtime Workers program. In 2011 we also supported the organization with a contribution of $35,200 to the program.

DiamondRock has also supported 20 other organizations through corporate giving programs since 2007.

| Organizations Receiving Charitable Donations, 2007-2011 | |
|---|---|
| Marriott Foundation | Lab School |
| Achievement Trust | Service Source Foundation |
| New York University | US Chamber of Commerce |
| Catholic Charities | Game On Inc. |
| Boys Club of America | Jubilee Support Alliance |
| Friendship Public Charter School | Round Up River Ranch |
| Save the Bay - Sponsorship | |

*Located in Bethesda, Maryland, Bethesda Cares, Inc. offers creative responses to problems related to homelessness and poverty for those living on the street from the DC Metro area. Homeless prevention is available for residents of Montgomery County. Eviction prevention keeps people from becoming homeless and is a high priority of Bethesda Cares in stopping the creation of homeless people. For more information visit www.bethesdacares.com.*

# Our Stakeholders

Our primary stakeholder groups are our stockholders, our employees, our management companies and our brand companies. Additionally, we consider the needs of our suppliers and communities and we engage with industry stakeholders including trade associations and peer lodging REITs.

We operate within the REIT lodging industry whereby federal income tax rules require that we engage, through one of our subsidiaries, a hotel manager that is an eligible independent contractor to manage each of our owned hotels pursuant to a management agreement. As such, our business model is concentrated around four central players:

## Owner

The entity that owns the real estate that constitutes the hotel building and much of its equipment. The owner is responsible for capital expenditures related to major renovation and equipment replacement, as well as approval of operating budgets.

## Operating Tenant

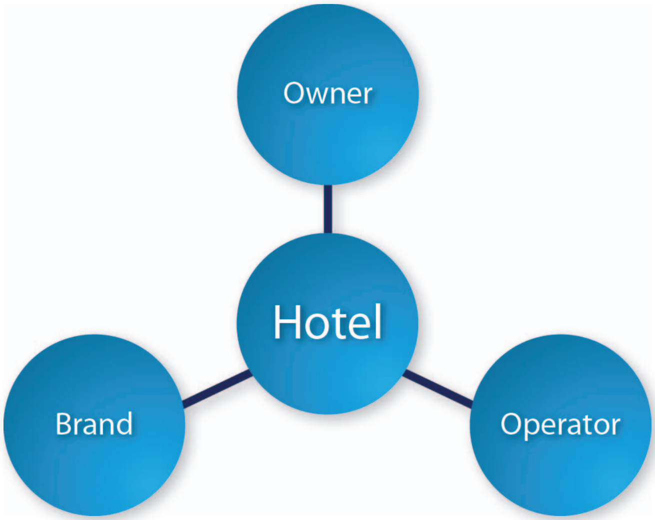
The entity that leases the real estate from the owner. The operating tenant is responsible for engaging the third-party manager to operate the hotel.

## Operator

The entity that manages the daily operations of the hotel, including staff and guest services. The operator is responsible for preparing budgets and executing projects within the property, as well as daily upkeep of the buildings' fixtures, furnishings, and equipment.

## Brand

The entity that owns the brand, or flag, carried by the hotel. The brand may grant a license or franchise to the operating tenant to operate the hotel under one of its brands or may enter into a management agreement with the operating tenant to brand and manage the hotel, thereby eliminating the need for a separate operator.



A breakdown of our portfolio of hotels as of December 31, 2011 (but excluding the 3 hotels that were held for sale as of such date) is as follows:

| Hotel | Brand Company | Operator/Operating Tenant |
|---|---|---|
| Atlanta Westin North at Perimeter | Starwood | Davidson Hotels & Resorts |
| Bethesda Marriott Suites | Marriott | Marriott |
| Chicago Marriott | Marriott | Marriott |
| Conrad Chicago | Hilton | Hilton |
| Courtyard Denver Downtown | Marriott | Sage Hospitality |
| Courtyard Manhattan/Fifth Avenue | Marriott | Marriott |
| Courtyard Manhattan/Midtown East | Marriott | Marriott |
| Frenchman's Reef & Morning Star Marriott Beach Resort | Marriott | Marriott |
| Hilton Garden Inn Chelsea/New York City | Hilton | Alliance Hospitality Management |
| Hilton Minneapolis | Hilton | Hilton |
| JW Marriott Denver at Cherry Creek | Marriott | Sage Hospitality |
| Los Angeles Airport Marriott | Marriott | Marriott |
| Marriott Atlanta Alpharetta | Marriott | Marriott |
| Oak Brook Hills Marriott Resort | Marriott | Marriott |
| Orlando Airport Marriott | Marriott | Marriott |
| Lexington Hotel New York | Carlson | Highgate Hotels |
| Renaissance Charleston | Marriott | Marriott |
| Renaissance Worthington | Marriott | Marriott |
| Salt Lake City Marriott Downtown | Marriott | Marriott |
| The Lodge at Sonoma | Marriott | Marriott |
| Torrance Marriott South Bay | Marriott | Marriott |
| Vail Marriott Mountain Resort & Spa | Marriott | Vail Resorts |
| Westin Boston Waterfront Hotel | Starwood | Starwood |
| Westin Boston Waterfront Hotel | Starwood | Starwood |

Other players and structures exist which may be separate, such as the developer of a hotel under construction. There are also instances when the hotel ground is owned by another entity and is subject to a ground lease, or certain aspects of a hotel's operations may be managed by a third party separate from the management company engaged to manage the hotel.

The main players (hotel owners, operating companies, management companies, and brand companies) may be separate entities in a hotel, or one entity may play multiple roles. In our portfolio, 6 hotels are managed by a management company that is separate from the brand company. Collaboration among management companies and brand companies is critical in informing our decisions as to how to allocate capital to our properties. This is a process involving constant engagement with our brands and managers, and continuous review of risk assessment and financial results. Given the incentive fee structure of our managers to increase productivity. For example, during 2011, we spent approximately $55 million on capital improvements. Of that amount, approximately $32 million was funded from corporate cash and the balance from reserves held by our hotel managers (including a $5.3 million contribution from Marriott towards the capital investment program at Frenchman's Reef & Morning Star Marriott Beach Resort).

# Key ESG Issues

In our 2011 Annual Report, we identify several key regulatory, physical and business issues and risks to our business. Oo  Of these, several are worth highlighting due to their relationship to ESG considerations, such as:

- Energy Use and Climate Regulations;
- Ensuring Health and Safety Compliance;
- Environmental Risks In Key Markets;
- Resiliency Planning for Extreme Environmental and Socio-Political Events;
- Relationship Between Sustainability, Competitive Advantage and Customer Demand;
- Responding to Business Travel Trends; and
- Strategically Managing Ongoing Need for Capital Improvements and Renovations.

In alignment with our vision to be the premier allocator of capital in the lodging industry and our fundamental objective to deliver long term stockholder value, we continue to manage and monitor key ESG risks and opportunities within the boundaries of our influence. Additionally, our awareness of key ESG risks and opportunities informs our management approach and strategic focus on environmental sustainability.

## Energy Use and Climate Change Regulation

Numerous treaties, laws and regulations have been enacted to regulate or limit carbon emissions. Changes in the regulations and legislation relating to climate change, and complying with such laws and regulations, may require us to make significant investments in our hotels and could result in increased energy costs at our properties which could have a material adverse effect on our results of operations and our ability to pay dividends to our stockholders.

For example, our hotels in the state of California and city of New York are currently subject to regulatory requirements related to energy management and disclosure:

| IInstances of Company-Owned Hotels under Municipal and State Regulation involving Energy Efficiency, Environmental Data Disclosure, and EPA ENERGY STAR Portfolio Manager Use[1] | | |
|---|---|---|
| California | Assembly Bill 1103, Nov. 2007 | Assembly Bill 1103 requires that as of January 1, 2009, electric and gas utilities maintain and make available to building owners the energy consumption data of all nonresidential buildings in a format compatible with the ENERGY STAR Portfolio Manager tool. It also requires, as of January 1, 2010, that a nonresidential building owner or operator disclose Portfolio Manager benchmarking data and scores to prospective parties as part of a whole-building transaction. |
| New York, NY | Local Law 84, Dec. 2009 | Local Law 84, part of the Greener, Greater Buildings Plan, requires public and private buildings in New York City to track energy and water consumption using the ENERGY STAR Portfolio Manager tool. City buildings larger than 10,000 square feet will be required to benchmark energy and water use starting in 2010, and private buildings larger than 50,000 square feet will be required to do so starting in 2011. New York City will be publishing performance metrics for eligible buildings on a publicly available online database. |

*[1] All information contained in this table was copied directly from the EPA Publication "Federal, State, and Local Governments Leveraging Energy Star" Updated May 23, 2012*

## Environmental Risks in Key Markets

Increased costs from resource scarcity or municipal regulation in our key markets could increase our operating costs. As such, the operations of these hotels – particularly the operations of our New York City and California properties – will have a material impact on our overall results of operations. Some of our key markets are in coastal areas, which may be affected by increased adverse weather patterns and climate disruption.

## Ensuring Health and Safety Compliance

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, asbestos, lead-based paint, mold and mildew and waste management. Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance. Some of these environmental laws restrict the use of a property or place conditions on various activities. For example, certain laws require that a business using chemicals, such as swimming pool chemicals at a hotel property, manage them in accordance with specific regulations and notify local officials that such chemicals are in use. Prior to closing any property acquisition, we also obtain Phase I environmental assessments in order to attempt to identify potential environmental concerns.

## Resiliency Planning for Extreme Environmental and Socio-Political Events

In the event of natural disasters, terrorist attacks, significant military actions, outbreaks of contagious diseases or other events for which we may not have adequate insurance, our operations may suffer. One of our major hotels, Frenchman's Reef & Morning Star Marriott Beach Resort, is located on the side of a cliff facing the ocean in the U.S. Virgin Islands, which is in the so-called "hurricane belt" in the Caribbean. The hotel was partially destroyed by a hurricane in the mid-1990's and since then has been damaged by subsequent hurricanes, including Hurricane Earl in 2010. In addition, four of our hotels, the Los Angeles Airport Marriott, the Torrance Marriott South Bay, The Lodge at Sonoma, a Renaissance Resort & Spa and the Renaissance Charleston Historic District, are located in areas that are seismically active. Finally, eleven of our hotels are located in metropolitan markets that have been, or may in the future be, targets of actual or threatened terrorist attacks, including New York City, Chicago, Boston and Los Angeles. These hotels are material to our financial results, having constituted approximately 64% of our total revenues in 2011. Additionally, even in the absence of direct physical damage to our hotels, the occurrence of any natural disasters, terrorist attacks, significant military actions, outbreaks of diseases, such as H1N1, SARS, the avian bird flu or Legionnaires disease, or other casualty events, may have a material adverse effect on business and commercial travelers and tourists, the economy generally and the hotel and tourism industries in particular. While we cannot predict the impact of the occurrence of any of these events, such impact could result in a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We have acquired and intend to maintain comprehensive insurance on each of our hotels, including liability, terrorism, fire and extended coverage, of the types and amounts we believe are customarily obtained for or by hotel owners. We cannot assure that such coverage will be available at reasonable rates or with reasonable deductibles. For example, Frenchman's Reef & Morning Star Marriott Beach Resort has a high deductible if it is damaged due to a named wind storm. Various types of catastrophic losses, like earthquakes, floods, losses from foreign terrorist activities, or losses from domestic terrorist activities may not be insurable or are generally not insured because of economic infeasibility, legal restrictions or the policies of insurers.

## Sustainability, Competitive Advantage and Customer Demand

Currently, the markets where our hotels are located are very competitive. To respond to customer interest in sustainability and establish competitive advantages, hotels are quickly introducing new programs and even brands to address customer interest in environmental sustainability, social responsibility, and Lifestyles of Health and Sustainability (LOHAS). Hotels that do not demonstrate these related commitments or services may become less marketable than their competitors to these customer segments   This is a trend that we continue to monitor in collaboration with our brands and management companies.

## Responding to Business Travel Trends

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate in meetings without traveling to a centralized meeting location. To the extent that such technologies play an increased role in day business and the necessity for business-related travel decreases travel decreases, hotel room demand may decrease and our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders may be adversely affected.  We continue to monitor this trend as corporations seek to decrease their Scope 3 emissions associated with business travel.

## Strategically Managing Ongoing Need for Capital Improvements and Renovations

Increased municipal, state and federal regulations may require us to incur costs and experience delays that could have a material adverse effect on occupancy rates, revenues and profits at our hotels. We continue to monitor the trend of emerging state and municipal green building codes with associated energy, environmental, health and safety requirements. We mitigate and manage associated risks and opportunities by maintaining our focus on increasing environmental efficiency and maximizing operational performance across our portfolio of hotels.

# Environmental Sustainability

Our Company does not have a long history, having been in operation since 2006. As an organization highly focused on asset management, we have traditionally allocated capital to improve profitability, and certain of those capital allocations designed to reduce costs have also reduced utility consumption. More recently we have been focused on opportunities to increase efficiency in our buildings. As an owner, we do not have operational control of our hotels and we do not participate in the management of day-to-day operations. Our influence is thus concentrated in capital expenditures that improve the building's environmental performance in key areas such as heating, cooling, air conditioning, ventilation, and lighting; water usage in guestroom and food and beverage outlets; specifications of furniture, fixtures and equipment (FF&E); and internal waste infrastructure. To a lesser extent, we exert influence with our management companies by approving budgets which encourage managers to be responsible and incorporate operating procedures that may increase efficiency. We work in collaboration with our stakeholders to focus and improve in these areas.

This year we performed a comprehensive environmental data analysis of energy, water, waste, and carbon emissions for our entire portfolio. This will enable us to understand the individual and collective environmental impacts of our hotels, and to track year-over-year performance improvements as we continue to invest in capital projects that increase efficiency and provide sound returns.

The following section highlights the environmental performance of our owned hotels through 2011 and provides insight to our data tracking procedures we put in place, followed by the projects undertaken in recent years to improve efficiency and profitability.

## Energy, Water, Waste, and Carbon Emissions

Energy and water usage represent approximately 6% of our hotels' operating costs. While generally minor in comparison to the investments required for upkeep of the hotel's furnishings (to remain competitive in the lodging marketplace), they do represent significant opportunity for return on investment for related capital expenditures. In addition, our hotels occasionally have instances of large equipment replacement, which represents significant Company investment.

We track our properties' energy, water, and waste consumption by type, with an analysis of the renewable energy in the fuel mix and the resulting greenhouse gas emissions of our portfolio. We are tracking our energy usage and carbon emissions using four different energy metrics of intensity in order to better understand the relationship and effects that room count, square footage and occupancy have on our consumption.

| | |
|---|---|
| Direct Energy (kWh) | 190,948,676 |
| Indirect Energy (kWh) | 147,235,383 |
| Total Energy (kWh) | 338,184,059 |
| Energy Intensity | |
| kWh per available room | 88,94 |
| kWh per occupied room | 117,8 |
| kWh per $Ft^2$ | 39,41 |
| kWh per key (room) | 32,465 |

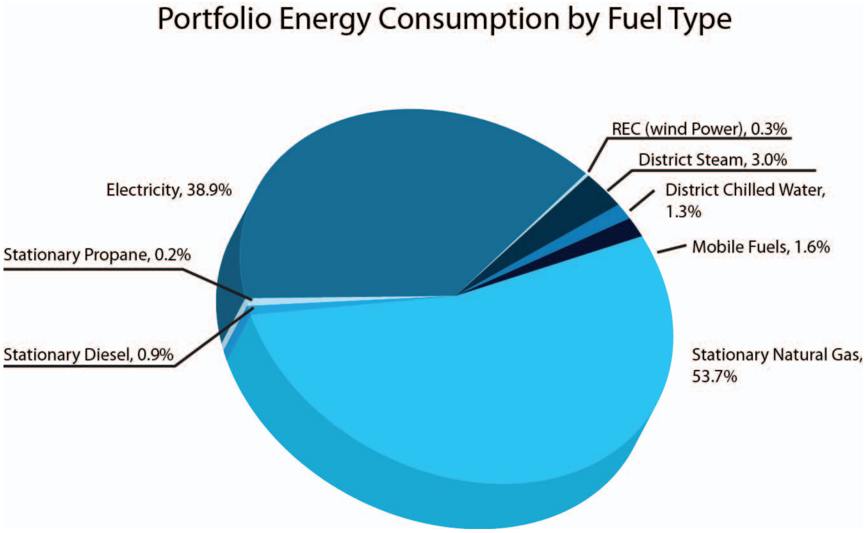
## Renewable Energy

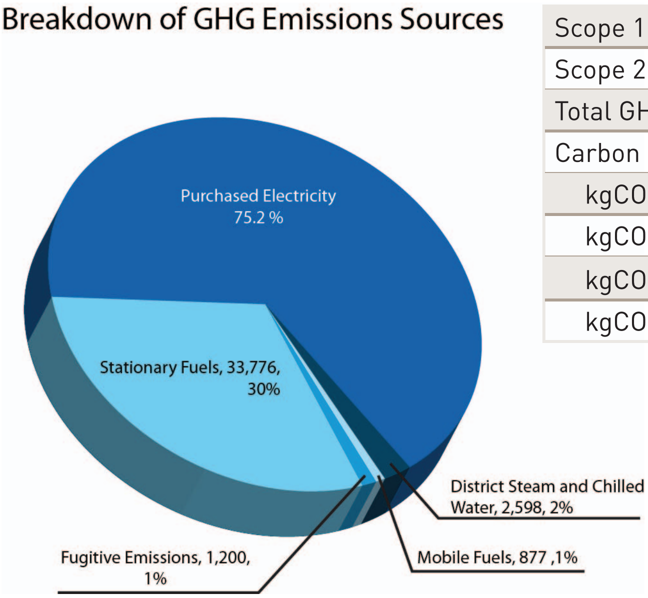
Two of our hotels purchase offsite renewable energy. The Westin Boston Waterfront purchases 10% of its energy from wind power Renewable Energy Certificates (RECs), representing 0.33% of total portfolio energy consumption. The Vail Marriott Mountain Resort is managed by Vail Resorts, which purchases RECs for a portion of energy consumption at each of the properties it manages. Including EPA data on the fuel mix of each eGRID region for purchased electricity, the

| Property | Rooms | Gross Floor Area | Occ (%) | ADR | RevPAR | Total Energy (kWh) | Energy kWh PAR | Energy kWh PSF | Total Carbon (MTCO2e) | Carbon kg PAR | Carbon kg PSF | Total Water (Gal) | Water L PAR | Water L PSF |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chicago Marriott | 1,198 | 949,942 | 72.80 | 191.48 | 139.43 | 38,314,747 | 87.62 | 40.33 | 16,079 | 36.77 | 16.93 | 74,601,000 | 646 | 297 |
| Los Angeles Airport Marriott | 1,004 | 664,172 | 84.60 | 104.15 | 88.12 | 18,038,783 | 49.22 | 27.16 | 4,426 | 12.08 | 6.66 | 30,194,101 | 311.90 | 172.09 |
| Hilton Minneapolis | 821 | 712,813 | 73.70 | 142.22 | 104.87 | 12,086,481 | 40.33 | 16.96 | 9,378 | 31.29 | 13.16 | 52,583,564 | 664.24 | 279.25 |
| Westin Boston Waterfront Hotel | 793 | 990,000 | 69.70 | 197.64 | 137.69 | 20,598,491 | 71.17 | 20.81 | 5,519 | 19.07 | 5.57 | 26,301,506 | 343.98 | 100.57 |
| Radisson Lexington Hotel New York | 712 | 291,062 | 95.50 | 200.70 | 191.72 | 10,231,477 | 39.37 | 35.15 | 2,460 | 9.47 | 8.45 | 29,452,826 | 429.01 | 383.05 |
| Salt Lake City Marriott Downtown | 510 | 313,000 | 59.40 | 127.40 | 75.64 | 10,652,149 | 57.34 | 34.03 | 3,059 | 16.47 | 9.77 | 28,744,000 | 585.67 | 347.63 |
| Renaissance Worthington | 504 | 555,000 | 71.90 | 157.00 | 112.83 | 18,509,894 | 100.62 | 33.35 | 7,507 | 40.81 | 13.53 | 26,727,312 | 549.98 | 182.30 |
| Frenchman Morning Star Marriott Beach Resort | 502 | 320,931 | 81.80 | 229.24 | 187.53 | 12,319,723 | 66.97 | 38.39 | 5,521 | 30.01 | 17.20 | 22,994,500 | 473.17 | 271.22 |
| Torrance Marriott South Bay | 487 | 365,000 | 81.20 | 105.31 | 85.46 | 7,241,366 | 40.74 | 19.84 | 1,906 | 10.72 | 5.22 | 17,005,032 | 362.13 | 176.36 |
| Orlando Airport Marriott | 485 | 321,000 | 74.90 | 99.05 | 74.19 | 13,943,504 | 78.77 | 43.44 | 5,058 | 28.57 | 15.76 | 20,397,000 | 436.16 | 240.53 |
| Oak Brook Hills Marriott Resort | 386 | 369,000 | 54.30 | 115.30 | 62.64 | 20,210,368 | 143.45 | 54.77 | 7,671 | 54.44 | 20.79 | 16,311,000 | 438.24 | 167.33 |
| Atlanta Westin North at Perimeter | 372 | 285,107 | 69.60 | 108.94 | 75.82 | 8,761,180 | 64.52 | 30.73 | 4,114 | 30.30 | 14.43 | 16,777,880 | 467.75 | 222.76 |
| Vail Marriott Mountain Resort Spa | 344 | 331,467 | 61.10 | 218.23 | 133.33 | 92,403,439 | 723.31 | 278.77 | 19,980 | 156.40 | 60.28 | 15,426,253 | 457.10 | 176.17 |
| Marriott Atlanta Alpharetta | 318 | 206,356 | 67.80 | 132.24 | 89.70 | 6,712,020 | 57.83 | 32.53 | 3,821 | 32.92 | 18.52 | 10,665,000 | 347.82 | 195.64 |
| Courtyard Manhattan/ Midtown East | 312 | 214,000 | 83.50 | 262.99 | 219.68 | 5,480,272 | 48.12 | 25.61 | 1,384 | 12.15 | 6.47 | 22,386,203 | 744.13 | 395.99 |
| Conrad Chicago | 311 | 365,000 | 83.90 | 198.14 | 166.33 | 8,318,805 | 73.28 | 22.79 | 2,318 | 20.42 | 6.35 | 22,441,558 | 748.36 | 232.74 |
| Bethesda Marriott Suites | 272 | 220,176 | 64.40 | 169.54 | 109.20 | 4,388,935 | 44.21 | 19.93 | 2,003 | 20.17 | 9.10 | 9,179,000 | 349.98 | 157.81 |
| JW Marriott Denver at Cherry Creek | 196 | 184,286 | 72.80 | 230.29 | 167.59 | 11,219,635 | 156.83 | 60.88 | 4,286 | 59.90 | 23.25 | 8,721,877 | 461.50 | 179.16 |
| Courtyard Manhattan/ Fifth Avenue | 185 | 232,500 | 86.90 | 260.09 | 226.07 | 1,082,565 | 15.69 | 4.66 | 344 | 4.98 | 1.48 | 8,929,000 | 489.96 | 145.38 |
| The Lodge at Sonoma | 182 | 392,040 | 70.40 | 217.76 | 153.32 | 6,000,759 | 90.33 | 15.31 | 1,371 | 20.64 | 3.50 | 8,970,000 | 511.14 | 86.61 |
| Courtyard Denver Downtown | 177 | 127,400 | 81.20 | 151.30 | 122.84 | 4,435,886 | 68.66 | 34.82 | 2,636 | 40.80 | 20.69 | 6,592,000 | 386.25 | 195.87 |
| Hilton Garden Inn Chelsea/ New York City | 169 | 69,541 | 92.60 | 213.29 | 197.42 | 2,462,612 | 39.92 | 35.41 | 634 | 10.28 | 9.12 | 4,502,323 | 276.29 | 245.08 |
| Renaissance Charleston | 166 | 101,373 | 84.60 | 167.50 | 141.74 | 4,770,968 | 78.74 | 47.06 | 2,185 | 36.06 | 21.56 | 6,129,166 | 382.92 | 228.87 |
| Total | 10,406 | 8,581,166 | | | | 338,184,059 | | | 113,657 | | | 486,032,100 | | |
| Mean | 400 | 373,094 | 73.90 | 162.53 | 120.10 | 14,703,655 | 89.04 | 39.41 | 4,942 | 29.92 | 13.24 | 21,131,830 | 483.70 | 214.10 |

overall percentage of fuel generated from renewables for our portfolio is 3.87%[4].

| Fuel Mix Composition and GHG emissions Intensity in Key Markets of Ownership[3] | | |
|---|---|---|
| Region | % Renewable Fuels | Lbs CO2e/ kWh |
| New York City | 1.0% | 0.71 |
| Boston | 13.2% | 0.83 |
| Chicago | 2.2% | 1.56 |
| Denver/Vail | 9.5% | 1.92 |
| Los Angeles/Sonoma | 12.8% | 0.68 |
| Atlanta | 7.0% | 1.50 |
| US Average | 10.4% | 1.30 |




| | |
|---|---|
| Scope 1 GHG Emissions ($MTCO_2e$) | 35,854 |
| Scope 2 GHG Emissions ($MTCO_2e$) | 77,804 |
| Total GHG Emissions ($MTCO_2e$) | 113,657 |
| Carbon Emissions Intensity | |
| kgCO2e per available room | 29.89 |
| kgCO2e per occupied room | 39.59 |
| kgCO2e per $Ft^2$ | 13.24 |
| kgCO2e per key (room) | 10,911 |

*4 Figure does not include Vail Marriott Mountain Resort as Vail Resorts' purchase is outside DiamondRock financial and operational control. Figure does not include potential renewable energy used to generate district steam or chilled water. Nuclear power is not included as a renewable energy source in this figure.*

*3 Sources: EPA eGRID 2010 year 2007, EPA Clean Energy*

We also track our water consumption through varied metrics, as we believe monitoring water efficiency may represent an opportunity for lowering operating costs in water-stressed areas.

| | |
|---|---|
| Total Water Consumption (Gal) | 486,032,100 |
| Water Intensity | |
| Liters per available room | 127.83 |
| Liters per occupied room | 169.30 |
| Liters per $Ft^2$ | 56.64 |
| Liters per key (room) | 46,658 |

Through 2011, 70% of our hotels had recycling programs in place and we achieved a portfolio-wide waste diversion rate of 23.2%[4]. Waste is generated primarily at food and beverage outlets.

| | |
|---|---|
| Total Waste (Tons) | 8,314 |
| Total Diverted Waste (Tons) | 1,928 |
| Diversion Rate | 23.2% |
| Waste Intensity | |
| Lbs. per available room | 4.82 |
| Lbs. per occupied room | 6.38 |
| Lbs. per $Ft^2$ | 2.14 |
| Lbs. per key (room) | 1,756 |

# Renovations and Efficiency Projects

We began tracking the environmental benefits associated with our capital expenditures for property upgrades and efficiency projects beginning in 2009. Believing that utility costs may continue to rise in key markets in the coming years, we began identifying potential opportunities to mitigate cost increases by introducing efficiency projects at certain hotels. By partnering with our management companies and brand companies, we have been able to identify numerous prospects and implement a number of significant efficiency projects. One of the primary examples of this collaborative, cost-savings effort is the Frenchman's Reef & Morning Star Marriott Beach Resort repositioning project carried out in 2011.

## Frenchman's Reef

The Frenchman's Reef & Morning Star Marriott Beach Resort is a 17-acre resort hotel located in St. Thomas, U.S. Virgin Islands. The hotel is located on a hill overlooking Charlotte Amalie Harbor and the Caribbean Sea. The hotel has 502 guestrooms, including 27 suites, and approximately 60,000 square feet of meeting space. The hotel caters primarily to tourists, but also attracts group business travelers. We acquired a fee simple interest in the hotel in 2005.

The Frenchman's Reef section of the resort was built in 1973 and the Morning Star section of the resort was built in 1984. Following severe damage from a hurricane, the entire resort was substantially rebuilt in 1996 as part of a $60 million capital improvement project.

4 *Diversion rate for reporting hotels, which does not include JW Marriott Denver, Radisson Lexington, and Frenchman's Reef.*

In 2011, we substantially completed a $45 million renovation and repositioning program at Frenchman's Reef, which included:

- Major redesign of the pool;
- Spa upgrade and expansion;
- New central chilled water plant;
- Electricity self-generation plant;
- Replacement of guestroom PTAC air conditioners with chilled water fan coil units;
- Fresh air ventilation systems;
- Replacement of the majority of the common area air handling systems with chilled water air handling units;
- Improvement of indoor air quality and humidity control due to implementation of chilled water air handling units;

The total investment relating to increased energy efficiency was $13.3 million, with an estimated annual savings of $2.8 million and 2.2 million kWh[5].

## Efficiency Retrofits With Environmental Benefits

| Hotel | Year | Status | Description | Total Investment | Payback (yrs) | Energy Savings (kWh) | % Total Energy Savings | GHG Reductions (MT-$CO_2$e) | Water Usage (Gal) | % Total Water Reduction | Waste Usage (Tons) | % Total Waste Reduction |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Frenchman Morning Star | 2012 | In Progress | Upgrade of chiller, guestroom PTAC, and air handling. Improvement in indoor air quality also. | $13,320,000 | 4.75 | 2,200,000 | 20.0% | 1,177.1 | | | | |
| Hilton Minneapolis | 2011 | Completed | HVAC install Variable Frequency Drives (VFDs), lighting upgrade, building automation system, chiller replacement. | $257,375 | 0.8 | 1,491,472 | 12.3% | 1,172.0 | | | | |
| Westin Boston | 2009 | Completed | Replaced thermostats with Incomm which have occupancy sensors and automatic adjustment controls through EMS. | $248,685 | 3.1 | 1,647,879 | 8.0% | 623.6 | | | | |
| Westin Boston | 2009 | Completed | Replacing ballasts and relamping throughout hotel. | $205,044 | 1.6 | 947,909 | 13.0% | 358.7 | | | | |
| Salt Lake City Marriott Downtown | 2011 | Completed | Replaced cooling tower with VFDs. | $117,000 | N/A | 3.3 | 1.0% | 0,001 | | | | |
| The Lodge at Sonoma | 2011 | Completed | Split units to chill equipment rooms with chilled water, 2 VFDs installed on air handlers. | $54,900 | 1.5 | 76,953 | 11.5% | 23.9 | | | | |
| Westin Boston | 2009 | Completed | Added control system to kitchen hoods to slow exhaust fans when not in use. | $44,227 | 0.8 | 35,371 | 0.2% | 13.4 | | | | |

*5 Annual savings based on 20% reduction in usage, and 25% reduction in cost of electricity due to self-generation plant. Annual savings are based on comparison to current local utility company rate of $0.44/KWH. Twenty percent savings in power consumption based upon efficiency of proposed systems vs. current systems. Self-generation power plant savings are based on fuel consumption and efficiency of generators.*

| Hotel | Year | Status | Description | Total Investment | Payback (yrs) | Energy Savings (kWh) | % Total Energy Savings | GHG Reductions (MT-$CO_2$e) | Water Usage (Gal) | % Total Water Reduction | Waste Usage (Tons) | % Total Waste Reduction |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Torrance Marriott South Bay | 2012 | In Progress | Replace generator motors with high-speed motors for elevator modernization. Also generates less heat in machine room. | $30,000 | 1.2 | 214.276 | 4.8% | 66.4 | | | | |
| Courtyard Denver Downtown | 2011 | Completed | 2 240 HP VFDs were purchased. The electric motors are controlled by these inverters to create proper air volume in the air handling system. | $20,482 | 3.3 | 102,000 | 3.8% | 88.6 | | | | |
| Torrance Marriott South Bay | 2009 | Completed | Composter dehydrates 200lbs of food at a time, producing dirt. | $18,000 | 6 | | | | | | 384 | 22% |
| The Lodge at Sonoma | 2011 | Completed | Outsourced laundry to LEED facility with closed cycle water and environmentally safe chemicals. | $11,807 | 1.5 | 39,643 | 8.1% | 0.2 | | | | |
| Alpharetta Marriott | 2011 | Completed | Replacing showerheads with more efficient ones (2.5 to 2.0 GPM). Also includes operational procedures of checking for leaks, and replacing urinal diaphragms and kitchen sprayheads. | $10,998 | 1.6 | | | | | | | |
| Torrance Marriott South Bay | 2012 | Approved | Replace 400W bulbs in pool and spa with LEDs. | $4,000 | 2.2 | 12,264 | 0.3% | 3.8 | | | | |
| Westin Boston | 2011 | Completed | Aerators replaced, improving efficiency from 2.2 GPM to .5 GPM. | $3,200 | 0.3 | | | | | | | |
| Torrance Marriott South Bay | 2010 | Completed | Replaced toilets reducing flow rate of 3GPF to 1.6GPF. Funded with rebates via Metropolitan Water District (funding approved each year). | $- | N/A | | | | 144,600 | 12.0% | | |
| Oak Brook Hills Marriott | 2010 | Completed | Comprehensive laundry system upgrade. | $- | N/A | 90,977 | 0.5% | 2.2 | 1,852.988 | 11.4% | | |
| Conrad Chicago | 2011 | Completed | HVAC install VFDs, lighting upgrade, building automation system, green roof. | N/A | N/A | 1,746,949 | 21.0% | 1,236.1 | | | | |
| Salt Lake City Marriott Downtown | 2011 | Completed | Replaced cooling tower with variable frequency drives | $117,000 | N/A | 3.3 | 1.0% | 0.001 | | | | |

| | |
|---|---|
| 2009-2011 Efficiency Project Investments | $14,088,343 |
| Average payback | 2.3 years |
| Estimated annual cost savings | $3,190,715 |
| Estimated annual energy reduction (kWh) | 8,506.696 |
| Estimated annual GHG emissions reduction (MT$CO_2$e) | 4,766 |
| Estimated annual water reduction (Gal) | 1,997,588 |
| Estimated annual waste reduction (Tons) | 384 |

From 2009-2011, four energy efficiency projects received rebates as incentives, totaling $198,552. Some hotel equipment such as boilers, cooling towers, chillers and general HVAC

6 *See 2011 10-K page 51 note 4 for an explanation of EBITDA*

systems may have lifecycles upwards of 20 years, which is often longer than an owner of lodging real estate may own the property. Incentives and rebates from utilities offer incentives to expedite capital investments in equipment upgrades.

# Our Path Forward

We plan to realize our vision to be the leading allocator of capital in the lodging industry through continued execution of our innovative asset management, disciplined capital structuring and commitment to fiscally responsible and sustainable practices . We will continue to partner with our management companies and brands to identify opportunities to lower utility consumption and costs, provide social benefits to our employees and the community, and maintain sound corporate governance practices to deliver long-term stockholder value.

In the next few years, we expect to spend upwards of $45 million on capital improvements, $16 million of which is expected to be funded from corporate cash. Significant projects planned for 2012 and 2013 include the following:

- Conrad Chicago. We expect to spend $3.5 million to add 4,100 square feet of new meeting space, reposition the food and beverage outlets and re-concept the hotel lobby;
- Courtyard Midtown East. We expect to spend approximately $2.0 million to renovate the lobby and restaurant, as well as relocate the fitness center and add 5 additional rooms at the hotel;
- Renaissance Worthington. We expect to spend $1.2 million over the next two years to undertake a comprehensive repair of the concrete façade of the hotel;
- Marriott Atlanta Alpharetta. We expect to spend $2.4 million to renovate the guestrooms at the hotel;
- Lexington Hotel, New York City. We have planned a comprehensive renovation of the hotel, including the lobby, corridors, guest rooms and guest bathrooms, in connection with the hotel's rebranding.

2011 marks our first year of reporting our energy, emissions, water and waste performance. Going forward, we hope to be able to leverage data collected over a number of years to better quantify the returns achieved through our efficiency investments, and augment our ability to identify additional opportunities to control utility charges, reduce operating costs and minimize environmental risks. The ability to more accurately assess year-over-year ESG data will enable us to better evaluate our performance and will ultimately enhance our decision-making and asset management activities.

Finally, we are open to incorporating stakeholder feedback on our sustainability reporting and ESG practices to advance our core investment strategies and the strength of our organization, in addition to supporting and enhancing our commitment to transparency and open dialogue.

We look forward to partnering and collaborating with our investors, employees, management companies, brand companies, suppliers, industry and communities to respond to emerging challenges and opportunities in the arenas covered by this report. It is our intention to continue to identify, investigate and pursue responses that positively, responsibly and sustainably impact our stakeholders and the community.

# Consolidated 2011 ESG Data

| 2011 ESG Performance and Results | |
|---|---|
| **Economic** | **2011** |
| # Properties | 23 (26) |
| # Guestrooms | 10,406 (11,828) |
| Total square footage under ownership | 8,581,866 (8,597,408) |
| Revenue ($M) | $638,2 |
| Adjusted EBIDTA[6] | $149,676 |
| Total Assets ($M) | $2,798,64 |
| Average Daily Rate (ADR) | $162,53 |
| Occupancy | 73.9% |
| Revenue Per Available Room (RevPAR) | $120,10 |
| Total Investment[7] ($M) | $2,816,7 |
| Investments on environmental efficiency ($M)[8] | $14.09 |
| Utility Consumption as a % of Hotel Operating Costs | 6% |
| **Social and Governance** | **2011** |
| Corporate Giving and Charitable Donations | 35,200 |
| # Employees | 22 |
| # Independent Board Members | 4 |
| % of Female Employees | 40% |
| % of Female Board Members | 14% |
| % of Employees Receiving Annual Performance Reviews | 100% |
| % of Employees Subject to our Code of Business Conduct and Ethics | 100% |
| **Environmental[9]** | **2011** |
| Total Energy (kWh) | 340,012,167 |
| Energy Intensity (kWh/Ft$^2$) | 39.55 |
| Total Water (Gal)[10] | 487,493,774 |
| Water Intensity (Liters/Ft$^2$) | 21434 |
| Total Waste (Tons)[11] | 8,446 |
| Waste Diversion Rate | 23.2% |
| Landfilled Waste Intensity (Lbs./Ft$^2$) | 1.67 |
| Scope 1 GHG Emissions (MTCO$_2$e) | 36,433 |
| Scope 3 GHG Emissions (MTCO$_2$e) | 78,076 |
| Total GHG Emissions (MTCO$_2$e) | 114,509 |
| Total GHG Emissions per square foot | 13.32 |

*7 Total investment represents our initial investment in the hotel plus any owner-funded capital expenditures since acquisition.*
*8 Includes investments from 2009 and approved or in progress through December 31, 2011*
*9 Does not include consumption and waste generation from our corporate headquarters, which is estimated at less than 1% of the total figures*
*10 Includes data from 22 hotels and extrapolated value for 1 hotel.*
*11 Includes data from 20 hotels and extrapolated values for 3 hotels.*

# GRI Content Index

| Ref | Description | Location | Coverage |
|---|---|---|---|
| 1.1 | Statement from the most senior decision-maker of the organization. | p.5 | Fully |
| 1.2 | Description of key impacts, risks, and opportunities. | 2011 AR, pp. 21-23 | Partially |
| 2.1 | Name of the Organization. | 2011 AR, cover | Fully |
| 2.2 | Primary brands, products, and/or services. | 2011 AR, pp. 3,12, 20 | Fully |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | 2011 AR, pp. 3,12-15, 20 | Fully |
| 2.4 | Location of Organization's headquarters. | Back Cover | Fully |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered. | 2011 AR, pp. 3,12 | Fully |
| 2.6 | Nature of ownership and legal form. | 2011 AR, pp. 3,12-15 | Fully |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | 2011 AR, pp. 3,12, 20 | Fully |
| 2.8 | Scale of the Organization. | 2012 PS, pp. 3,12,18, 20, 31 | Fully |
| 2.10 | Awards received in the reporting period. | GRI Footnote 1 | Fully |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | pp. 6,10 | Fully |
| 3.2 | Date of most recent previous report (if any). | p. 6 | Fully |
| 3.3 | Reporting cycle (annual, biennial, etc.). | p. 6 | Fully |
| 3.4 | Contact point for questions regarding the report or its contents. | Back cover | Fully |
| 3.5 | GRI Process for defining report content. | pp. 6, 10 | Fully |
| 3.6 | Boundary of the report. | p. 10 | Fully |
| 3.7 | Any specific limitations on the scope or boundary of the report. | p. 10 | Fully |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | p. 10 | Fully |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | p. 10 | Fully |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement. | GRI Footnote 2 | Fully |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | GRI Footnote 2 | Fully |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | pp. 32-34 | Fully |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | p. 10, 2011 AR pp. F-2 to F-4 | Fully |
| 4.1 | Governance structure of the organization. | GRI Footnote 3 | Fully |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | GRI Footnote 4 , 2012 PS p.9 | Fully |
| 4.3 | Number of members of the highest governance body that are independent and/or non-executive members. | 2012 PS p.5 | Fully |

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| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | 2012 PS pp.1-3 | Fully |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | CBC p.6, CGG Section 2.2.7 | Fully |
| 4.7 | Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | CGG Section 1.3 | Fully |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | CBC, 2011 AR | Fully |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | CBC, CGG | Fully |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | CGG Sections 2.6, 4.1-4.2 | Fully |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | GRI Footnote 9 | Fully |
| 4.14 | List of stakeholder groups engaged by the organization. | p. 16-20 | Fully |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | p. 16-20 | Fully |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | 2011 AR, pp. 3, 12, 18, 28-31 | Partially |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | 2011 AR, pp. 21-23 | Partially |
| EC4 | Significant financial assistance received from government. | GRI Footnote 6 | Partially |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | pp. 18, 31 | Fully |
| EN1 | Materials used by weight or volume. | GRI Footnote 5 | Fully |
| EN2 | Percentage of materials used that are recycled input materials. | GRI Footnote 5 | Fully |
| EN3 | Direct energy consumption by primary energy source. | pp. 24-26, 31 | Fully |
| EN4 | Indirect energy consumption by primary source. | pp. 24-26, 31 | Fully |
| EN5 | Energy saved due to conservation and efficiency improvements. | pp. 28, 29 | Fully |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | pp. 28, 29 | Fully |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | pp. 27-29 | Fully |
| EN8 | Total water withdrawal by source. | pp. 27, 31 | Fully |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | p. 26, 31 | Fully |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | pp. 27-29 | Fully |
| EN23 | Total number and volume of significant spills. | GRI Footnote 6 | Fully |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | pp. 26-29 | Fully |

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| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | GRI Footnote 5 | Fully |
| LA1 | Total workforce by employment type, employment contract, and region. | p. 18 | Fully |
| LA4 | % of employees covered by collective bargaining agreements. | 2011 AR, GRI Footnote 7 | Fully |
| LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. | GRI Footnote 7 | Fully |
| LA6 | Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs. | GRI Footnote 7 | Fully |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | GRI Footnote 8 | Fully |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | GRI Footnote 7 | Fully |
| LA12 | Percentage of employees receiving regular performance and career development reviews, by gender. | p. 18 | Fully |
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | pp.15-16, 18, 31, 2012 PS | Fully |
| HR4 | Total number of incidents of discrimination and corrective actions taken. | GRI Footnote 6 | Fully |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | GRI Footnote 5 | Fully |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | GRI Footnote 5 | Fully |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | GRI Footnote 5 | Fully |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. | GRI Footnote 5 | Fully |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | GRI Footnote 8 | Fully |

2011 AR = 2011 Annual Report and 10-K
CGG = Corporate Governance Guidelines
2012 PS = 2012 Proxy Statements
CBC = Code of Business Conduct

GRI Footnotes

*i. No awards were received during the period.*
*ii. This disclosure is not applicable as this is the Company's first GRI report.*
*iii. The Company's Board, which includes Audit, Compensation, and Governance and Nominating Committees, is the highest governance body responsible for setting strategy and providing organization oversight.*
*iv. During the reporting period, the Chairman of our Board was not an executive officer.*
*v. Due to the nature of our business as an owner of lodging real estate in the United States that does not sell products or operate its properties, we do not consider this performance indicator to be material to our core business and do not track this information. We do support our operators wherever possible to improve their performance.*
*vi. There were no incidences or occurrences within the reporting period, within the reporting boundary of our directly employed workforce and offices.*
*vii. The Company's employees are not unionized, and therefore we do not have information to report on this indicator.*
*viii. We do not track this performance indicator*
*ix. While the Company does not have mechanisms in place to use the precautionary principle in evaluating our own buildings, we rely on external stakeholder input to identify and eliminate chemicals of concern either through regulatory compliance or management company initiative.*

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT
2011

CORPORATE HEADQUARTERS:
DIAMONDROCK HOSPITALITY COMPANY
3 BETHESDA METRO CENTER, SUITE 1500
BETHESDA, MD 20814
(240) 744-1150

DIAMONDROCK HOSPITALITY