2000
ANNUAL REPORT



INTEGRATION
INNOVATION
LEADERSHIP

WESTIN HOTELS & RESORTS

Sheraton HOTELS & RESORTS

Four Points Sheraton

ST. REGIS Hotels & Resorts

THE LUXURY COLLECTION

W HOTELS

STARWOOD'S MISSION:

To our Shareholders, our goal is to grow EBITDA at least 8-10% per year and EPS at least 15% per year.

To our Customers, we want Starwood to be the easiest company with which to do business.

To our Employees, our commitment is to make Starwood a great place to work.

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COMBINED FINANCIAL HIGHLIGHTS

SHERATON®

The global upscale hotel brand that offers warm and caring service in a traditional, yet stylish environment.

W® HOTELS

A fresh alternative combining the personality and style of independent hotels with *whatever you want, whenever you want it* service.

THE LUXURY COLLECTION®

From old world grandeur to modern architectural design – an assembly of the world's finest hotels and resorts.

WESTIN®

The "upper upscale" brand with 115 hotels, including 34 world-class resorts, that is synonymous with The Heavenly Bed.

FOUR POINTS® BY SHERATON

All the services you'd expect from a full service hotel, for a moderate price.

ST. REGIS®

Delivering the most discreet, personalized and anticipatory level of service to each and every guest.

STARWOOD VACATION OWNERSHIP

Vacation ownership with the integrity of the industry's most renowned brands, the appeal of world-class resorts and the flexibility to go where you want when you want.

in millions, except per share amounts As of and for the year ended December 31,	**2000**	Pro Forma Comparable 1999[a]	1998[b]
OPERATING DATA			
Revenues	**$4,345**	$3,829	$3,281
Income from Continuing Operations	**401**	303	220
Net Income	**403**	303	1,302
DILUTED PER SHARE RESULTS			
Income from Continuing Operations	**$ 1.96**	$ 1.54	$ 1.05
BALANCE SHEET AND CASH FLOW DATA			
Total Assets	**$ 12,660**	$12,925	$13,417
Stockholders' Equity	**3,851**	3,690	4,456
Cash from (used for) Operating Activities	**854**	457	(253)

(a) The unaudited pro forma comparable results assume the disposition of the gaming segment and other non core assets had occurred at the beginning of the year and the exclusion of certain unusual items.

(b) Represents the results of ITT and the results of Starwood (inclusive of Westin) for the period from the closing of the ITT Merger (February 23, 1998) through December 31, 1998.



BARRY S. STERNLICHT
Chairman & Chief Executive Officer

As I closed my letter to you last year I wrote: “I look forward to an extraordinary 2000.” Well, 2000 was indeed an extraordinary year for our company. With the integration of ITT Corporation and Westin Hotels & Resorts Worldwide, Inc. behind us, and the completion of our exit from the gaming business, we entered into a period of innovation, a period of streamlining and improving our processes, our systems and ourselves as we march

“INTEGRATION IS BEHIND US, INNOVATION IS WHAT MAKES US DIFFERENT FROM OUR COMPETITORS TODAY AND INDUSTRY LEADERSHIP IS WHERE WE’RE HEADED.”

toward industry leadership. Your management team and the more than 120,000 associates at Starwood are extremely proud of 2000’s accomplishments and very optimistic about the future.

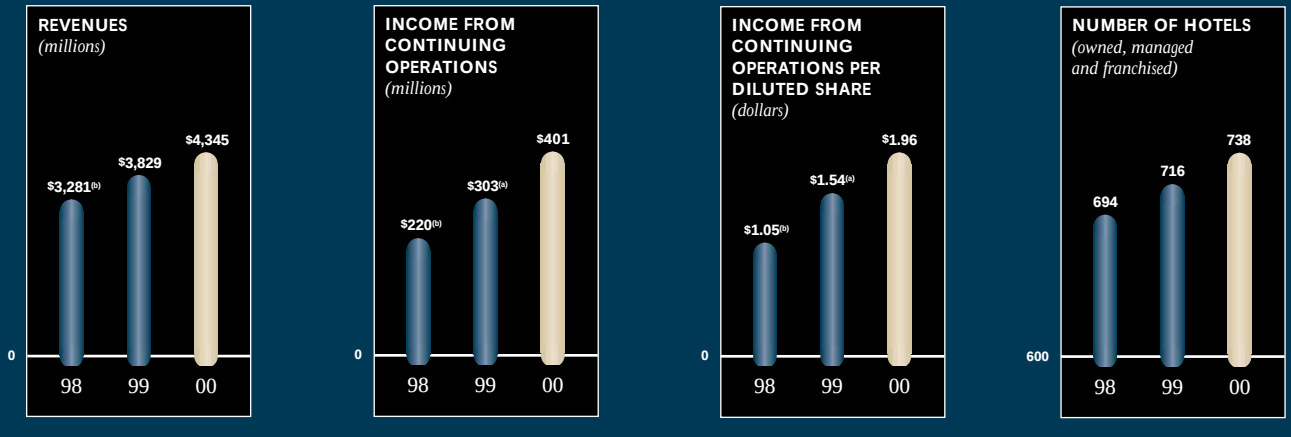
For 2000, revenues increased 13%, EBITDA increased more than $200 million or 16% and EPS increased from $1.54 (pro forma comparable) in 1999 to $1.96 (+27%). This industry leading performance lead to superior shareholder return of more than 50% while every major stock market index fell during the year. This was especially remarkable when considering that more than 25% of our hotel and resort business, the portion from our international operations, had almost no growth when translated into dollar terms. In Europe, very strong local currency profit growth was more than offset by the precipitous

decline of the euro. In Latin America, weak economies coupled with declining currencies made for a very difficult operating environment. And in Asia, where hotel operating fundamentals have markedly improved over the last two years, we suffered from a revolution in Fiji, where two of our three Asian owned hotels were effectively closed for most of the year, and in Australia, where our third Asian owned asset is located, our results were negatively impacted by the significant fall in value of that country's currency.

During 2000, we achieved an investment grade rating on our debt which will allow us to finance our business at significantly lower interest rates in the future. Further, in clear recognition of our global strength as well as organizational and operational progress, Starwood was added to the S&P 500. We installed thousands of Heavenly Beds in Westins around the world, renovated more than 10,000 Sheraton rooms and numerous lobbies, expanded the St. Regis brand, added dozens of Four Points hotels and continued to capitalize on what is arguably the most successful new brand launch in history – W hotels. Our timeshare business, Starwood Vacation Ownership (SVO, formerly Vistana) acquired new sites in Beaver Creek, Colorado, Scottsdale, Arizona and Ka'anapali in Maui, Hawaii, each of which is under construction in 2001, while launching new projects at The Westin Mission Hills, Rancho Mirage, California and Sheraton's Vistana Villages, Orlando, Florida.

Beyond the financial statistics we made significant progress strengthening our management team and solidifying our entrepreneurial corporate culture. Our worldwide employee satisfaction scores increased dramatically and our guest satisfaction scores are also on the rise. Community service remains a core feature of our corporate values and our efforts in 2000 are an extreme source of pride for me. Volunteerism by our associates contributed greatly to the success of City Cares projects all across the United States and our work for Juvenile Diabetes, Colin Powell's America's Promise plus hundreds of other organizations builds team spirit and makes our hotels glow within their communities. We care about the communities we serve.

REVENUES INCOME NUMBER OF HOTELS EBITDA REVPAR REVENUES INCOME



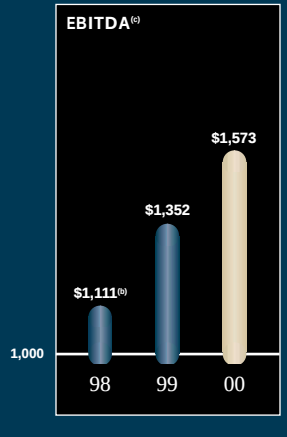
[a]Represents pro forma comparable results which assume the disposition of the gaming segment and other non core assets had occurred at the beginning of the year and the exclusion of certain unusual items.

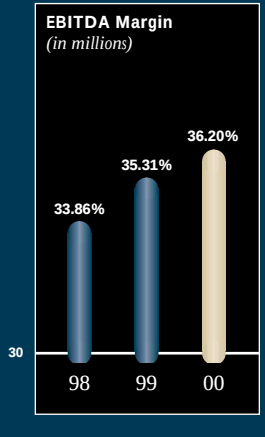
[b]Represents the results of ITT and the results of Starwood (inclusive of Westin) for the period from the closing of the ITT Merger (February 23, 1998) through December 31, 1998.

As we move through 2001, we continue to expect to produce superior REVPAR, EBITDA and EPS growth primarily as a result of the investment spending we've put in place over the last several years as well as our belief that the Starwood business model of hotel ownership in high barrier to entry markets combined with the full control we have over these assets plus the management and franchising expertise we possess is the right model for these times and a company of our scale. This is particularly true in the current economic environment which is highlighted by the tightest new hotel construction financing conditions we've ever seen. We like to say that "Control Matters", specifically control over our owned hotel portfolio matters as we work to enhance operating margins every day. Control allows us to effectively manage costs with no conflict between operating for revenue growth and producing profits for shareholder value. We feel we have significant potential upside to our operating margins which we plan to capture through improved asset utilization, the rollout of e-procurement and core process redesign. We expect to make significant progress in the "renovation" of our core processes to further streamline our business practices and to focus on what the customer wants – not what we think he or she wants. Accordingly, we've begun the implementation of Six Sigma at Starwood. Six Sigma is a tool kit that will provide us the language and infrastructure needed to create the framework to share best practices around the world, to improve feedback and communication throughout the organization, to embrace new technologies that can drive revenue and lower costs, to implement them quickly across our enterprise and, most importantly, to create a consistently superior guest experience in every stay in every brand.

"WE CARE ABOUT THE COMMUNITIES WE SERVE."

NUMBER OF HOTELS EBITDA REVPAR REVENUES INCOME NUMBER OF HOTELS







RESULTS AND GROWTH 2000

(c)EBITDA is defined as earnings before interest expense, income tax expense, depreciation and amortization. Non-recurring items and gains and losses from sales of real estate and investments are also excluded from EBITDA as these items do not impact operating results on a recurring basis. Management considers EBITDA to be one measure of the cash flows from operations of the Company before debt service that provides a relevant basis for comparison, and EBITDA is presented to assist investors in analyzing the performance of the Company. This information should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States, nor should it be considered as an indicator of the overall financial performance of the Company. The Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

* Revenue Per Available Room. REVPAR excludes 36 hotels under significant renovation or without comparable results, 4 hotels without prior year results and 12 hotels sold during 1999 and 2000.

We will continue to reward the loyalty of our guests with the best frequent stay program in the business – the award-winning Starwood Preferred Guest (SPG) program. More than 2.5 million new members joined SPG in 2000 as the benefits of more Hawaii, more Mexico, more Europe, more Asia, more golf and its Anytime, Anywhere redemption promise continues to resonate with frequent travelers.

We will also continue to put new focus on direct and interactive marketing, channel/distribution strategy, broadband networking and database management for the benefit of all our hotels through our newly launched Starwood Technology and Revenue Systems (STARS) group.



And we will continue to allocate capital to the highest return projects. In some cases, we'll recycle capital, sell under performing assets and re-deploy the proceeds to more attractive opportunities. In other cases, we'll attempt to exploit the tremendous hidden value of assets like the CIGA hotel portfolio in Europe. We have already announced our intention to market for sale these assets but importantly, we intend to retain the management contracts to keep these jewels within our distribution. Unfortunately to date our share price does not reflect the value of this truly spectacular international collection of museum quality properties. If the price is right, you would be better served by our re-deploying the more than one billion dollars of proceeds into other opportunistic growth initiatives or share repurchase.

Again, our integration is behind us, innovation is what makes us different from our competitors today and industry leadership is where we're headed.

I want to thank you, our shareholders, for your confidence. I also want to thank every one of the more than 120,000 Starwood associates and the significantly strengthened management team for their efforts. And, of course, I thank the Board of Directors for their commitment, expertise and their valuable time. I remain certain that the progress we've made and the strides we'll make in 2001 and beyond will have long and lasting benefits. We feel the momentum.



Barry S. Sternlicht
Chairman & CEO
Starwood Hotels & Resorts Worldwide, Inc.

WE SUCCEED ONLY WHEN WE MEET AND EXCEED THE EXPECTATIONS OF OUR CUSTOMERS, OWNERS AND SHAREHOLDERS.



WESTIN HOTELS & RESORTS

The momentum of Westin's award winning and highly publicized 1999 Heavenly Bed[SM] launch continued into 2000. Since the launch, Westin's average daily rate has risen significantly and guest satisfaction scores are also on the rise.

Westin strives for continued innovation of new products and has created an 'innovation pipeline process" to ensure that new ideas are constantly tested and evaluated. Consequently, a Westin retail program was created in late 2000, with an entire catalogue dedicated to the signature, all-white Heavenly Bed and all of its accoutrements. Westin is one of the first hotel brands to market its products in this way, and guests' response has surpassed initial expectations, with the sale of more than four beds per day.



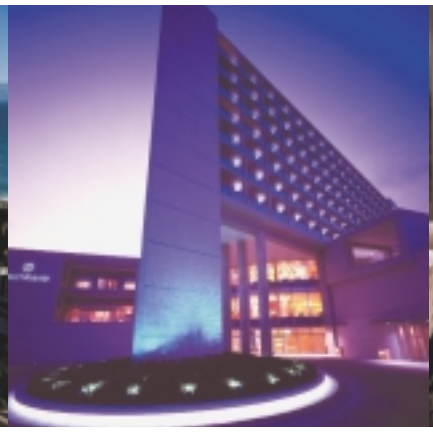
Adding to the brand's allure, Westin was honored in early 2000 and 2001 as the leader in the upper upscale category by *Business Travel News* magazine. More than 1,500 professional business travel decision-makers, most representing Fortune 500 companies, positioned Westin as number one.

Experiencing the largest growth year in its 70-year history, Westin welcomed 24 hotels to its portfolio in 2000, all exemplifying the brand's narrow band of superior quality. Starwood's rebranding of nine former Luxury Collection hotels early in the year gave Westin a world class presence in key European cities while further reinforcing Westin's stronghold as an upper upscale brand. Westin expansion included newly built hotels in Palo Alto, California; Westminster, Colorado; Jeddah, Saudi Arabia; Melbourne, Australia and Rotterdam, The Netherlands, among other locales.

Westin's collection of world-class resorts expanded to 34 this year with the addition of The Westin La Quinta Golf Resort in Marbella, Spain; The Westin Stonebriar Resort - North Dallas, Texas; and The Westin Resort & Spa, Whistler in B.C., Canada – heralded as the number one ski resort in North America by *Conde Nast Traveler* magazine, in its first year of operation. And for the avid golfer, the world-renowned Turnberry, A Westin Resort in Scotland underwent a $20 million expansion that included a new 18-hole golf course, the world's first Colin Montgomerie Links Golf Academy and 89 additional guest rooms.



The Westin Regina Resort
Puerto Vallarta, Mexico
(company owned property)



The Westin Awaji Island
Resort & Conference Center
Hyogo, Japan
(company managed property)



The Westin Melbourne, Guest Room
Melbourne, Australia
(company managed property)



The Westin Grand, Washington, D.C.
(company owned property)



Sheraton Park Central Hotel Dallas, Lobby, Dallas, Texas
(company managed property)

SHERATON HOTELS & RESORTS

Continuing one of the most aggressive renovation programs in history, Sheraton Hotels & Resorts has installed its new style guestroom in more than 10,000 rooms, incorporating dramatic sleigh beds, cozy chairs and oversized work areas.

With more than 375 hotels and resorts in 67 countries, Sheraton remains the largest, most profitable and most global of the Starwood brands and continues to grow at a rapid pace.

Setting a new benchmark in French Polynesia, the Sheraton Moorea Lagoon Resort and Spa, opened in October, providing the brand an incomparable hotel in one of the world's most desirable destinations.

Sheraton also continued its expansion into the Middle East with the management of two new hotels in Beirut: the Sheraton Sahara Hotel and Towers and the Sheraton Coral Beach Resort.

As the first international hotel company to enter China, Sheraton continued to make inroads, opening its eighth hotel in China last May, the Sheraton Chengdu Lido Hotel. Sheraton's other hotels in China include the Great Wall Sheraton Hotel, Sheraton Suzhou Hotel & Towers, Sheraton Tianjin Hotel, Sheraton Nanjing Kingsley Hotel & Towers, Sheraton Xian Hotel, Sheraton Wuxi Hotel & Towers and Sheraton Guilin Hotel.

Located in the world's most sought-after cities and resort destinations, Sheraton serves the needs of both business and leisure travelers with unique programs and unusual amenities designed to make travel hassle-free. Sheraton *Smart Rooms*® are designed to assist the business traveler with productivity while on the road. These rooms feature ergonomically designed chairs, ample task lighting, extra electrical outlets, computer/modem hook-up and a combination printer/copier/fax.

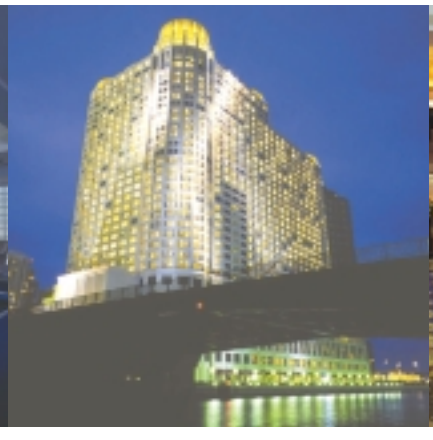


Sheraton also launched the new *Sheraton Cuisine Essentials* menu by taking its signature dishes, redeveloping them, and offering guests what research said they want – outstanding versions of each popular dish.

There is no question that guests have taken notice of Sheraton's strides and innovations in the past year as Europe-based *Business Traveller International* again named Sheraton "Best Hotel Chain in North America" as well as "Best Hotel Chain Worldwide".



Sheraton Buenos Aries Hotel & Convention Center
Buenos Aires, Argentina
(company owned property)



Sheraton Chicago Hotel & Towers
Chicago, Illinois
(company managed property)



Sheraton Boston Hotel, Lobby
Boston, Massachusetts
(company owned property)

FOUR POINTS BY SHERATON

Celebrating its fifth anniversary, 2000 was a significant year of expansion for Starwood's full-service, mid-tier brand, Four Points by Sheraton. Clearly no stranger to growth, the brand added 31 hotels to its portfolio in 2000, including the addition of 13 Four Points by Sheraton hotels in one day.

The momentum continued through the end of the year with the December opening of the brand's 140th hotel – Four Points by Sheraton New Orleans Airport. The brand is now positioned in 33 U.S. states, five Canadian provinces and is represented in 12 countries around the world, with a total of more than 27,000 guest rooms.



Why such aggressive growth? Four Points by Sheraton has staked out a unique niche in the mid-price market that a specific traveling demographic is finding attractive: a mid-price hotel that does not sacrifice service. All Four Points by Sheraton hotels are full service properties offering room service; on-premises restaurants; meeting rooms with catering capabilities and fitness facilities. Most other mid-price hotels cannot and do not offer these valuable services.

The world's fastest growing hotel brand also debuted its first official property in Asia-Pacific, Four Points by Sheraton Sydney, which opened immediately prior to the 2000 Sydney Olympic Games kicking off an energetic growth plan for the brand in this part of the world. Future expansion includes locations in Australia, Taiwan and key business centers in China.

With 20 new properties already in the pipeline for 2001, the brand will also continue to expand in Africa, India, the Middle East, Europe, Latin America as well as North America. This coupled with *Business Travel News* naming Four Points by Sheraton the number one mid-priced full-service hotel brand and an exciting new guest room design, bode well for the brand's future growth.



Four Points by Sheraton Rancho Bernardo
Rancho Bernardo, California
(company owned property)



Four Points by Sheraton Denver South East,
A Barceló Hotel
Denver, Colorado
(company managed property)



Four Points by Sheraton Burlington,
A Barceló Hotel
Burlington, Massachusetts
(company managed property)



Four Points by Sheraton Santa Monica, Santa Monica, California
(company managed property)



St. Regis Grand Rome, Royal Suite Studio, Rome, Italy
(company owned property)

ST. REGIS HOTELS & RESORTS

Since the first St. Regis hotel opened in New York in 1904, the St. Regis name has become synonymous with first-class quality and superlative service. With seven hotels currently open and four additional properties scheduled to open within the next two years, this prestigious hotel group has become a formidable force in the luxury hotel industry, setting new standards of elegance and guest satisfaction.

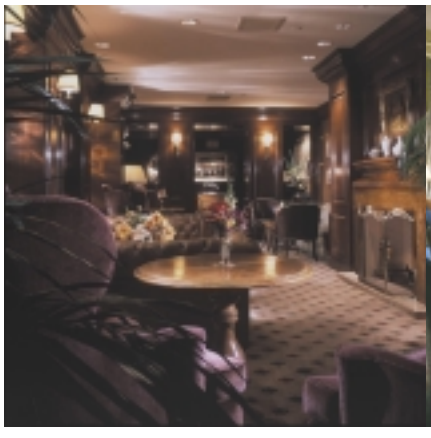
Each St. Regis is ideally situated in a prime destination to serve a diverse international clientele.



The past year was a period of growth for St. Regis Hotels & Resorts around the globe with the opening of The St. Regis, Beijing, the first international St. Regis hotel, followed closely by the reopening of the St. Regis Grand, Rome which underwent a spectacular year-long $34 million restoration. The St. Regis Los Angeles opened to glowing reviews, and played host to numerous dignitaries throughout the hotel and within its renowned Presidential Suite during the Democratic National Convention in August.

Several new St. Regis hotels and resorts were also announced in 2000. Currently under construction and slated to open this summer, The St. Regis Monarch Beach Resort, in Dana Point, California, will feature an unparalleled luxury beach club complex as well as the Robert Trent Jones, Jr. designed Monarch Links Golf Course. The 40-story St. Regis Shanghai will open in July 2001 in the "New Town" of this great Chinese metropolis and The St. Regis Hotel & Residences, Fort Lauderdale, Florida will become the first St. Regis property to offer exclusive residential condominium units when it opens in mid-2002. Currently under construction is San Francisco's thriving Yerba Buena Center, The St. Regis Museum Tower is scheduled to open in 2003. It, too, will feature condominium residences and will house the city's new African American Cultural Center.

With every guest stay anticipated and personalized, the St. Regis experience is one of comfort, attentive yet discreet service, and quiet elegance. A St. Regis property is more than a hotel – it is familiar surroundings for exceptional lives.



The St. Regis Houston, Bar Lounge
Houston, Texas
(company owned property)



The St. Regis New York,
Living Room of Grand Suite,
New York, New York
(company owned property)



The St. Regis Aspen
Aspen, Colorado
(company owned property)

THE LUXURY COLLECTION

Starwood's prestige group of 65 hotels and resorts in 25 countries had a notable year in 2000. The Luxury Collection continued to distinguish itself as a leader in the luxury hotel category and increased its distribution by nine properties, a 20% increase.

In Europe, two historic German hotels joined the group – the Hotel Fuërstenhof in Leipzig and the Hotel Elephant in Weimar which houses an outstanding contemporary art collection. In Austria, the distinguished Schlöss Fuschl Hotel in Salzburg became a member as well as the elegant Hotel Pulitzer in Amsterdam, The Netherlands. These hotels provide The Luxury Collection with a strong presence in Northern and Central Europe. The addition of the Hotel Excelsior in Naples early in 2001 rounded out its exclusive portfolio of Italian properties while the Villa Vedema Hotel on the scenic Greek Aegean island of Santorini joined the brand early in the year. In North America, the legendary Wigwam Resort in Arizona joined The Luxury Collection, adding its own signature brand of rustic Southwestern charm. Six spectacular new resort properties in Mexico were announced in February, including The Tamarindo Golf Resort and The Careyes Beach Resort, two beach resorts on the Pacific Gold Coast and four magnificently restored haciendas on the Yucatán Peninsula. On the continent of Africa, The Western Cape Hotel & Spa in South Africa was announced and is scheduled to open its doors in the summer of 2001.



The Luxury Collection continued its highly successful exclusive range of value-added worldwide leisure and holiday packages featuring combination stays at any two participating hotels and innovative new consumer incentive programs, such as the "Taste of Luxury" complimentary fourth night promotion during the summer. Business travelers were introduced to the "Executive Meeting Services" program, which includes highly personalized attention and a 24-hour, toll-free telephone number for service.

The Luxury Collection continues to be regarded by upscale travel consumers as among the best in the world. Many of its hotels and resorts were highly ranked by leading consumer magazine readership polls in *Travel & Leisure* and *Conde Nast Traveler*.



The Phoenician
Scottsdale, Arizona
(company owned property)



San Cristobal Tower, Presidential Suite
Santiago, Chile
(company owned property)



Hotel Gritti Palace, Lobby
Venice, Italy
(company owned property)



Hotel Principe di Savoia, Lobby, Milan, Italy
(company owned property)



W Sydney, W Cafe, Woolloomooloo, Australia
(company managed property)

W HOTELS

W Hotels has revolutionized the hospitality industry with its innovative style and unprecedented launch success. Since its late 1998 introduction, W has become a smash hit with savvy business travelers from around the world. W Hotels provide a comfortable and stylish place to sleep, a lively living room and bar atmosphere, and all the technological amenities one can use.

In just two years, the brand has multiplied to 13 hotels around the country and abroad. In the past year, W has taken a leadership role by breaking through in new suburban markets such as Newark, California and also opening a hotel in a mixed-use development at the Wharf in Woolloomooloo, Australia, the brand's first overseas hotel. Another fete for W in 2000 was the transformation of a famous New York City landmark, the Guardian Life Building, into what is now the brand's fourth property in New York, W Union Square. Additionally, 2001 will see the complete repositioning of two existing owned hotels to W in Chicago, and a fifth New York City property in Times Square, that when open, will be the brand's flagship hotel. Near term future addition plans also include properties in Mexico City, Philadelphia, Miami and San Diego.



W's success is also reflected in the abundance of inquiries received regarding W's uniquely designed rooms, an outgrowth of which came the W retail catalogues. The latest catalogue, introduced in early 2001, further expands the brand's innovative spirit and makes it simple for guests to take the signature W items home.

W's style combined with luxurious comfort has turned the hotel industry upside down and will continue to delight guests and remain a step ahead of the competition with its witty personality, warm and welcoming atmosphere, and wired accoutrements.



W Suites Newark
Newark, California
(company managed property)



W New York-Times Square
New York, New York
(company leased property)



W New York-The Court, Living Room
New York, New York
(company owned property)

STARWOOD VACATION OWNERSHIP, INC.

Since the acquisition of Vistana, Inc. in late 1999, Starwood has worked to develop synergies that benefit customers and owners. In 2000, Vistana was renamed Starwood Vacation Ownership, Inc. (SVO) and began branding existing resorts and new properties under the Sheraton Vacation Ownership Resort and Westin Vacation Ownership Resort brands.

In 2000, Starwood Vacation Ownership, Inc. added 505 units to its portfolio and now has a total of 2,710 units completed. Future phases at announced vacation ownership resorts have the capacity to add 3,146 units. SVO now has more than 120,000 owners from 100 countries. And, in 2000, SVO again achieved record revenues while opening new resorts and developing new programs that will shape its future.



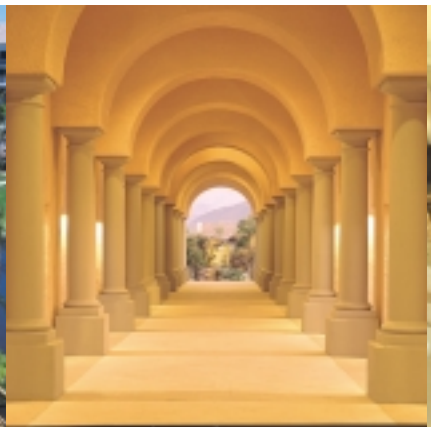
One of SVO's more significant accomplishments during 2000 was the development and launch of the most innovative internal exchange program in the industry. The *Starwood Vacation Network* offers interval owners the ability to trade within the Starwood Vacation Ownership, Inc. family of resorts, and, through the Starwood Preferred Guest program, to exchange their intervals for stays at more than 725 Starwood hotels and resorts around the world. The brand loyalty and incremental income expected to be achieved through this program is extremely exciting.

Starwood Vacation Ownership, Inc. opened two new resorts in 2000: Sheraton's PGA Vacation Resort in Port St. Lucie, Florida and Sheraton's Vistana Villages in Orlando, Florida. The latter resort is the company's second large-scale resort in the industry's most important market and will add 1,450 units upon completion.

Three resorts are under development that will open in late 2001 or early 2002. The second Westin Vacation Ownership Resort, Westin Mission Hills Resort Villas, is currently under way in Rancho Mirage, California adjacent to The Westin Mission Hills Resort. SVO also purchased 14 beachfront acres in Maui, Hawaii to build a 280-villa resort in one of the most desirable tourist destinations in the world. Sheraton's Mountain Vista, an 85-unit resort in Avon, Colorado will open in 2001 and other exciting locations, most of which capitalize on the infrastructure already in place at existing Starwood hotels and resorts, are currently being evaluated for development in 2001 and beyond.



Sheraton's Vistana Villages
Orlando, Florida



The Westin Mission Hills Resort
Rancho Mirage, California



Sheraton's Desert Oasis, Guest Room
Scottsdale, Arizona



The Westin St. John Resort Villas, St. John, USVI

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RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for the years ended December 31, 2000, 1999 and 1998.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Continuing Operations

REVENUES

Total revenues increased 13.5% to $4.345 billion for the year ended December 31, 2000 when compared to the corresponding period in 1999. The increase in revenues was due to the 7.9% increase in revenues for the Company's owned, leased and consolidated joint venture hotels to $3.659 billion for the year ended December 31, 2000 when compared to $3.391 billion in the corresponding period of 1999 and the increase in other hotel and leisure revenues to $686 million for the year ended December 31, 2000 when compared to $438 million in the corresponding period of 1999.

The increase in revenues from owned, leased and consolidated joint venture hotels is due primarily to the increased revenues at the Company's 158 hotels (excluding 16 hotels sold or without comparable results during 1999 and 2000) ("Comparable Owned Hotels") and the addition of four hotels, including a full year of operations at the W hotels in San Francisco, California and Seattle, Washington, which opened in May 1999 and September 1999, respectively. These increases were offset by the loss of revenues on 12 hotels sold since April 1999 and the impact of hotels with rooms out of service due to significant renovations. The increase in revenues was further offset by currency weaknesses, primarily in the Euro.

Revenues at the Company's Comparable Owned Hotels increased 6.7% to $3.527 billion for the year ended December 31, 2000 when compared to the same period of 1999 due primarily to an increase in revenue per available room ("REVPAR"). REVPAR at the Company's 122 owned, leased and consolidated joint venture hotels (excluding 36 hotels under significant renovation in 2000, 4 hotels without prior year results and 12 hotels sold during 1999 and 2000) ("Same-Store Owned Hotels") increased 7.3% to $114.90 for the year ended December 31, 2000 when compared to the corresponding 1999 period. The increase in REVPAR at these hotels was attributed to the increase in average daily rates ("ADR") of 4.5% to $160.55 for the year ended December 31, 2000 when compared to the corresponding 1999 period. Occupancy for these 122 Same-Store Owned Hotels rose to 71.6% from 69.7% in the year ended December 31, 2000 when compared to the same period in 1999. REVPAR at Same-Store Owned Hotels in North America increased 11.0% for the year ended December 31, 2000 when compared to the same period of 1999. REVPAR at the Company's international Same-Store Owned Hotels, which decreased by 0.3% for the year ended December 31, 2000 when compared to the same period of 1999, was impacted primarily by the unfavorable effect of foreign currency translation.

The increase in other hotel and leisure revenues resulted primarily from the acquisition of Starwood Vacation Ownership, Inc. (formerly Vistana, Inc.) ("SVO") in October 1999. The increase is also due to the addition of hotels to the Company's management and franchise system and the stronger performance at the Company's existing managed and franchised hotels.

EBITDA [1]

EBITDA for the Company's owned, leased and consolidated joint venture hotels increased $148 million or 13.7% to $1.226 billion for the year ended December 31, 2000 when compared to $1.078 billion in the corresponding period in 1999. This increase was primarily due to an increase in EBITDA at the Company's Comparable Owned Hotels, which increased $115 million or 10.7% to $1.186 billion. These results were strongest in North America, where the Company has its largest concentration of hotels, offset by weak results internationally due primarily to unfavorable political and economic conditions. The addition of four hotels, including a full year of operations at the W hotels in San Francisco, California and Seattle, Washington, which opened in May 1999 and September 1999, respectively, contributed to the overall increase, offset by the sale of seven hotels since December 31, 1999.

(1) EBITDA is defined as earnings before interest expense, income tax expense, depreciation and amortization. Non-recurring items and gains and losses from sales of real estate and investments are also excluded from EBITDA as these items do not impact operating results on a recurring basis. Management considers EBITDA to be one measure of the cash flows from operations of the Company before debt service that provides a relevant basis for comparison, and EBITDA is presented to assist investors in analyzing the performance of the Company. This information should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States, nor should it be considered as an indicator of the overall financial performance of the Company. The Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

SELLING, GENERAL, ADMINISTRATIVE AND OTHER

Selling, general, administrative and other expenses were $403 million and $220 million for the years ended December 31, 2000 and 1999, respectively. The increase in selling, general, administrative and other expenses is due primarily to a full year of costs associated with the vacation ownership operations due to the acquisition of SVO in October 1999.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased to $391 million and $90 million, respectively, in the year ended December 31, 2000 compared to $370 million and $82 million, respectively, in the corresponding period of 1999. The increases in depreciation and amortization expense for the year ended December 31, 2000 was primarily attributable to the acquisition of SVO in October 1999, the addition of four new hotels, including a full year of depreciation on the W hotels in San Francisco, California and Seattle, Washington, which opened in May 1999 and September 1999, respectively, and the additional depreciation resulting from an extensive renovation program, offset, in part, by the suspension of depreciation on hotels held for sale and hotels sold during the year.

NET INTEREST EXPENSE

Interest expense for the years ended December 31, 2000 and 1999, which is net of interest income of $19 million and $16 million, respectively, and discontinued gaming operations allocations of $6 million and $163 million, respectively, decreased to $420 million from $484 million. This decrease was due primarily to the paydown of debt with approximately $3.3 billion of cash proceeds from the Caesars World, Inc. ("Caesars") and the Desert Inn Resort & Casino (the "Desert Inn") sales (interest reflected in discontinued operations and thereby excluded from net interest expense in 1999 was limited to $2.1 billion of allocated debt) and cash repatriation from overseas, partially offset by additional borrowings during 1999 and 2000 for Share repurchases, capital expenditures and the acquisition of the CIGA S.p.A. ("CIGA") minority interest.

INCOME TAX EXPENSE

The effective income tax rate for 2000 was 33%. As a result of the reorganization of Starwood, the tax provision for the year ended December 31, 1999 included a $936 million one-time charge to establish a deferred tax liability related to the difference between the book and tax basis in the assets of the Trust. Excluding this charge, a one-time tax benefit of $37 million attributable to the resolution of certain employment related contingencies and other one-time pro forma comparable adjustments, the Company's effective tax rate for the year ended December 31, 1999 was 36.5%. The Company's effective income tax rate is determined by the level and composition of pretax income subject to varying foreign, state and local taxes and other items.

MINORITY EQUITY IN NET INCOME

In June 2000, the Company completed the acquisition of the minority ownership interest of CIGA not previously owned by Starwood. The aggregate purchase price of the incremental shares was approximately $312 million. This acquisition resulted in an increase in net income of $10 million in 2000 when compared to 1999, excluding the minority interest in the gain on the sale of CIGA's investment in Lampsa, SA, a Greek company that owned the Grande Bretagne Hotel in Athens, Greece.

Discontinued Operations

During the first quarter of 1999, the Company provided for estimated after-tax losses on the gaming dispositions of $180 million ($158 million pretax), which included anticipated operating results through the expected closing date. In addition, the Company recorded, on an after-tax basis, a $173 million gain on the sale of the Company's remaining interest in ITT Educational Services, Inc. ("Educational Services") during the first quarter of 1999.

Due to the sale of Caesars in December 1999 and the Desert Inn in June 2000, results for the Company's gaming operations are included in discontinued operations in the years ended December 31, 1999 and 2000. Results for the Desert Inn are included in discontinued operations through June 23, 2000 and for Caesars through December 30, 1999. The gaming operations net loss was $8 million and $27 million for the years ended December 31, 2000 and 1999, respectively, including the allocation of pretax corporate interest expense of $6 million and $163 million, respectively.

Gaming revenues decreased to $57 million for the year ended December 31, 2000 when compared to $1.541 billion in the corresponding period of 1999, and operating income (loss) for year ended December 31, 2000 decreased to a loss of $3 million when compared to operating income of $154 million for the same period of 1999. The decreases in 2000 were due to the sales of Caesars and the Desert Inn in December 1999 and June 2000, respectively.

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Continuing Operations

REVENUES

Revenues increased 16.7% to $3.829 billion for the year ended December 31, 1999 when compared to the corresponding period in 1998. The increase was primarily due to the 13.7% increase in revenues for the Company's owned, leased and consolidated joint venture hotels to $3.391 billion for the year ended December 31, 1999 when compared to the corresponding period of 1998. The increase resulted primarily from the 5.3% increase in revenues at the Company's Comparable Owned Hotels to $3.335 billion for the year ended December 31, 1999 when compared to $3.167 billion in the same period of 1998. The increase also resulted from the acquisition, in July 1999, of the Westin hotel in Maui, Hawaii (the Company previously had a 95% non-controlling interest in this property), the opening of the 423-room W hotel in San Francisco, California in May 1999 and the 426-room W hotel in Seattle, Washington in September 1999 and the reopening of the W hotel in New York, New York in December 1998, which was partially closed during most of 1998 due to significant renovation and conversion from the former Doral Inn. The increase in revenues for the year ended December 31, 1999 was offset, in part, by a $39 million decrease in revenues as a result of the sale of nine hotels in May 1998 and the sales of The Westin Central Park South in New York, New York in July 1999 and the Ritz Carlton in Kansas City, Missouri in November 1999. The increase in revenues at the Same-Store Owned Hotels resulted from an increase in REVPAR at these hotels of 4.3% to $106 for the year ended December 31, 1999 when compared to the same period of 1998. The increase in REVPAR at these hotels was attributed to an increase in ADR of 3.1% to $150 for the year ended December 31, 1999 when compared to the corresponding 1998 period. Occupancy for Same-Store Owned Hotels rose to 70.7% from 69.9% in the year ended December 31, 1999 when compared to the same period in 1998. REVPAR at Same-Store Owned Hotels in North America increased 4.9% for the year ended December 31, 1999 when compared to the same period of 1998. REVPAR at the Company's international owned, leased and consolidated joint venture hotels increased 3.0% for the year ended December 31, 1999 when compared to the same period of 1998.

Other hotel and leisure revenues increased by $140 million for the year ended December 31, 1999 to $438 million. The increase was primarily due to the acquisition of SVO on October 1, 1999. Vacation ownership interest ("VOI") sales in the fourth quarter of 1999 increased 4.9% when compared to VOI sales reported by SVO in the same period of 1998.

EBITDA

EBITDA at the Company's owned, leased and consolidated joint venture hotels rose approximately 13.1% to $1.078 billion for the year ended December 31, 1999 when compared to the same period in 1998. This increase is due, in part, to the addition of the Westin hotel in Maui, Hawaii and the W hotels in San Francisco, California and Seattle, Washington and the reopening of the W hotel in New York, New York discussed previously, offset by an approximate $13 million reduction in EBITDA as a result of the sale of nine hotels in May 1998 and The Westin Central Park South in New York, New York in July 1999 and the Ritz Carlton in Kansas City, Missouri in November 1999. EBITDA for the Company's Same-Store Owned Hotels increased to $924 million for the year ended December 31, 1999 from $849 million for the year ended December 31, 1998. The EBITDA improvement at the Same-Store Owned Hotels was due primarily to the increase in ADR discussed previously.

SELLING, GENERAL, ADMINISTRATIVE AND OTHER

Selling, general, administrative and other expenses increased 4.8% to $220 million for the year ended December 31, 1999 when compared to $210 million in the corresponding period of 1998, due primarily to the acquisition of SVO in October 1999.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased to $370 million and $82 million, respectively, in the year ended December 31, 1999 compared to $297 million and $81 million, respectively, in the corresponding period of 1998. The increase in depreciation expense for the year ended December 31, 1999 was primarily attributed to the addition of the Westin hotel in Maui, Hawaii and the opening of the W hotels in San Francisco, California and Seattle, Washington, offset by a reduction in depreciation expense as a result of the sale of nine hotels in 1998 and two hotels in 1999. The increase in depreciation expense for the year ended December 31, 1999 was also attributed to the completion, in December 1998, of a significant renovation of the W hotel in New York, New York.

NET INTEREST EXPENSE

Interest expense for the years ended December 31, 1999 and 1998, which is net of interest income of $16 million and $26 million, respectively, and discontinued operations allocations of $163 million and $175 million, respectively, was $484 million and $424 million, respectively. The increase relates primarily to the full year of interest on debt incurred to finance the acquisition of ITT Corporation, currently Sheraton Holding Corporation ("Sheraton Holding"), (the "ITT Merger") and the acquisition of Westin Hotels & Resorts Worldwide, Inc. and certain of its affiliates ("Westin") (the "Westin Merger") and the repurchase of Shares and capital expenditures, offset by the reduction in debt with approximately $6.8 billion in proceeds from dispositions of non-core assets since February 1998. In addition, 1998 interest expense included a $40 million non-recurring charge associated with the settlement of certain forward interest rate swap agreements.

Discontinued Operations

Results for the Company's gaming operations and former investments in ITT World Directories ("WD") and Educational Services are included in discontinued operations in the years ended December 31, 1999 and 1998. Net loss from discontinued operations was $0 and $80 million for the years ended December 31, 1999 and 1998, respectively. These results include the allocation of pretax corporate interest expense of $163 million and $175 million in the years ended December 31, 1999 and 1998, respectively.

The after-tax loss on the disposition of discontinued operations for the year ended December 31, 1999 was $71 million and includes, on an after-tax basis, a $173 million gain on the sale of the Company's remaining interest in Educational Services, offset by a $183 million loss on the sale of Caesars and an estimated $61 million loss on the planned disposition of the Desert Inn. After-tax gains of $1.162 billion were recognized in the year ended December 31, 1998 in connection with the majority sale of Educational Services and the disposition of WD.

Revenues from discontinued gaming operations increased 11.9% to $1.541 billion for the year ended December 31, 1999 when compared to the corresponding period of 1998. Costs and expenses from discontinued gaming operations for the year ended December 31, 1999 increased 3.0% to $1.191 billion when compared to the same period of 1998. Costs and expenses in 1998 include a third quarter restructuring charge of $55 million relating to a write-down of certain receivables and an investment in a shared services center established by Sheraton Holding. The increase in revenues and costs and expenses resulted primarily from the opening of Caesars Indiana in November 1998. The results of the discontinued gaming operations from April 1, 1999 (date of announcement of the formal plan to dispose of gaming operations) through December 31, 1999 are included in the net loss on the disposition of discontinued operations for the year ended December 31, 1999 as noted previously.

EBITDA from discontinued gaming operations for the year ended December 31, 1999 was $350 million compared to $276 million in the corresponding period of 1998. EBITDA excludes the third quarter 1998 restructuring charge of $55 million discussed above. The increase in gaming EBITDA resulted from improved performance at Caesars Atlantic City and the opening of Caesars Indiana.

Liquidity and Capital Resources

Capital Expenditures

Starwood incurs capital expenditures for upgrading and, in some cases, repositioning its owned hotels and for ongoing maintenance of acquired and existing hotels in accordance with the Company's standards. During the year ended December 31, 2000, the Company spent approximately $544 million on improving and upgrading its owned hotels and resorts, as well as the acquisition of land for vacation ownership development in Maui, Hawaii and Scottsdale, Arizona.

Cash Flow from Operating Activities

Cash flow from operating activities is the principal source of cash to be used to fund the Company's operating expenses, interest expense, capital expenditures and distributions. Starwood anticipates that cash flow provided by operating activities will be sufficient to service short-term indebtedness, fund maintenance capital expenditures and meet operating cash requirements, including distributions to shareholders.

Cash Flow from Investing and Financing Activities

In addition to cash flow from operating activities, Starwood intends to finance the acquisition of, or investment in, additional hotels and resorts, hotel renovations and capital improvements and provide for general corporate purposes through the Company's credit facilities described below, through dispositions of certain non-core assets and, when market conditions warrant, through the issuance of additional equity or debt securities. The Company has announced the expectation to market the CIGA portfolio of 22 hotels for sale, potentially encumbered by the Company's management agreements, in whole or in part during 2001. Since February 1998 through the date of this filing, Starwood has completed over $7.1 billion of asset sales and dispositions, the proceeds of which were used primarily to reduce debt. During 2000, net cash used for financing activities included the $700 million paydown of the Sheraton Holding public debt.

LOANS AND CREDIT FACILITIES

Following is a summary of the Company's debt portfolio as of December 31, 2000:

(Dollars in millions)	Amount Outstanding at December 31, 2000	Interest Terms	Interest Rate at December 31, 2000	Average Maturity
FLOATING RATE DEBT				
Senior Credit Facility:				
Five-Year Term Loan	$ 925	LIBOR+0.625%	7.19%	2.1 years
Term Loan Add-on	173	LIBOR+1.25%	7.81%	2.1 years
Revolving Credit Facility	620	LIBOR+0.625%	7.19%	2.1 years
Senior Secured Notes Facility:				
Tranche II Loans	1,000	LIBOR+2.75%	9.31%	2.1 years
Mortgages and other	613	Various	6.91%	2.5 years
Interest rate swaps	(1,052)		7.19%	—
Total/average	$2,279		8.09%	2.2 years
FIXED RATE DEBT				
Sheraton Holding public debt	$1,296		7.08%	10.2 years
Mortgages and other	915		7.32%	11 years
Interest rate swaps	1,052		6.56%	—
Total/average	$3,263		6.98%	10.5 years
TOTAL DEBT				
Total debt and average terms	$5,542		7.44%	5.5 years

In December 2000, the Company increased the amount available under the Senior Credit Facility by $172.5 million ("Term Loan Add-on"). Additionally, in January 2001, the Company further increased the amount available under the Senior Credit Facility by an additional $150 million. The proceeds from the Term Loan Add-on were used to further reduce the amount outstanding under the Company's Revolving Credit Facility.

In July 2000, the Company entered into a one-year, Euro 270 million loan (approximately $252 million based on exchange rates at the time) at an initial average interest rate of Euribor plus 112.5 basis points for the first six months and increasing to Euribor plus 137.5 basis points for the remaining six months. The proceeds from this loan were used to reduce the amount outstanding under the Company's Revolving Credit Facility.

In January 1999, the Company completed a $542 million long-term financing (the "Mortgage Loan"), secured by mortgages on a portfolio of 11 hotels. The Mortgage Loan is due in February 2009 and the proceeds from the Mortgage Loan were used to pay down the one-year term loan under the Senior Credit Facility.

On February 23, 1998, Starwood entered into two credit facilities ($5.6 billion in total) with Lehman Brothers, Bankers Trust Company, The Chase Manhattan Bank and other financial institutions to fund the cash portion of the ITT Merger consideration, to refinance a portion of the Company's existing indebtedness and to provide funds for general corporate purposes. The Senior Credit Facility and the Senior Secured Notes Facility comprise Starwood's primary existing credit facilities. In September 1998, the Company increased its borrowings under the Senior Secured Notes Facility with a $1 billion, five-year term borrowing facility ("Tranche II Loans"). Starwood completed the sale of Caesars on December 30, 1999 and completed the sale of the Desert Inn on June 23, 2000 for aggregate net proceeds of approximately $3.3 billion. The proceeds from these sales were used to repay $2.5 billion of the Senior Secured Notes Facility and to reduce the amount outstanding under the Revolving Credit Facility.

Starwood has a substantial amount of indebtedness and a working capital deficiency of $757 million at December 31, 2000, including $585 million of current maturities of long-term debt. Based upon the current level of operations, management believes that the Company's cash flow from operations, together with available borrowings under the Senior Credit Facility (approximately $435 million at December 31, 2000) and capacity with additional borrowings, will be adequate to meet the Company's anticipated requirements for working capital, capital expenditures, marketing and advertising expenditures, program and other discretionary investments, interest payments and scheduled principal payments for the foreseeable future, including at least the next three years. There can be no assurance, however, that the Company's business will continue to generate cash flow at or above current levels or that currently anticipated improvements will be achieved. If Starwood is unable to generate sufficient cash flow from operations in the future to service the Company's debt, the Company may be required to sell assets, reduce capital expenditures, refinance all or a portion of its existing debt or obtain additional financing. The Company's ability to make scheduled principal payments, to pay interest or to refinance the Company's indebtedness depends on its future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the hotel and leisure industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond the Company's control. There can be no assurance that sufficient funds will be available to enable Starwood to service its indebtedness or to make necessary capital expenditures, marketing and advertising expenditures and program and other discretionary investments. See risk relating to debt financing.

During each of the quarters of 2000, the Trust paid a distribution of $0.1725 per Share. The Trust's annual dividend increased 16% in February 2001 to an annual rate of $0.80 per Share. Total dividends paid in 2000 and 1999 were $134 million and $116 million, respectively.

Stock Sales and Repurchases

At December 31, 2000, Starwood had approximately 194 million Shares, 7.7 million partnership units and 3.6 million exchangeable preferred shares outstanding.

In 1998, the Board of Directors of the Company approved the repurchase of up to $1 billion of Shares under a Share repurchase program (the "Share Repurchase Program"). Pursuant to the Share Repurchase Program, in 2000, Starwood repurchased 2.5 million Shares in the open market for an aggregate cost of $69 million. As of December 31, 2000, approximately $230 million remains available under the Share Repurchase Program.

During 2000, the Trust consented to the exchange of approximately 508,000 shares of Class B Exchangeable Preferred Shares ("Class B EPS") into an equal number of shares of Class A Exchangeable Preferred Shares ("Class A EPS"). Additionally, the Trust consented to the exchange of approximately 3.1 million shares of Class A EPS for an equal number of Shares.

Other Matters

European Union Currency Conversions

On January 1, 1999, 11 of the 15 member countries of the European Union (the "Participating Countries") established fixed conversion rates between their existing sovereign currencies and the Euro. Following the introduction of the Euro, the legacy currencies of the Participating Countries will remain legal tender during a transition period ending on January 1, 2002. During the transition period, both the legacy currency and the Euro will be legal tender in the respective Participating Countries. During the transition period, currency conversions will be computed by a triangulation with reference to conversion rates between the respective currencies and the Euro. The Company currently operates in substantially all of the Participating Countries. The effect on the Company of the adoption of the Euro by the Participating Countries in which it operates is currently uncertain. However, it is possible that the Euro adoption will result in increased competition within the European market. In addition, a number of the Company's information systems are not currently Euro compliant. The Company is currently in the process of updating its information systems to make them Euro compliant. As of the date of this filing, five properties have converted to the Euro without any significant impact to the properties' operations or information systems; however, there is no assurance that the Company or third-party vendors of applications used by the Company will successfully bring all of its systems into compliance. Failure of the Company to do so could result in disruptions in the processing of transactions in Euros or computed by reference to the Euro.

STARWOOD HOTELS & RESORTS WORLDWIDE, INC.
CONSOLIDATED BALANCE SHEETS

December 31, *(In millions, except share data)*	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 189	$ 436
Accounts receivable, net of allowance for doubtful accounts of $45 and $62	502	468
Inventories	238	167
Prepaid expenses and other	119	92
Total current assets	1,048	1,163
Investments	412	442
Plant, property and equipment, net	7,889	7,787
Goodwill and intangible assets, net	2,881	2,872
Other assets	430	557
Net assets of discontinued operations	—	104
	$12,660	$12,925
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 585	$ 988
Accounts payable	186	205
Accrued expenses	544	655
Accrued salaries, wages and benefits	164	157
Accrued taxes and other	326	300
Total current liabilities	1,805	2,305
Long-term debt	4,957	4,643
Deferred income taxes	1,444	1,470
Other liabilities	438	434
	8,644	8,852
Minority interest	48	228
Equity put options	—	19
Class B exchangeable preferred shares of the Trust, at redemption value of $38.50	117	136
Commitments and contingencies		
Stockholders' equity:		
Class A exchangeable preferred shares of the Trust; $0.01 par value; authorized 30,000,000 shares; outstanding 609,576 and 3,669,546 shares at December 31, 2000 and 1999, respectively	—	—
Corporation common stock; $0.01 par value; authorized 1,050,000,000 shares; outstanding 194,485,448 and 189,271,522 shares at December 31, 2000 and 1999, respectively	2	2
Trust Class B shares of beneficial interest; $0.01 par value; authorized 1,000,000,000 shares; outstanding 194,485,448 and 189,271,522 shares at December 31, 2000 and 1999, respectively	2	2
Additional paid-in capital	4,796	4,785
Deferred compensation	(4)	(5)
Cumulative translation and marketable securities adjustments	(353)	(238)
Accumulated deficit	(592)	(856)
Total stockholders' equity	3,851	3,690
	$12,660	$12,925

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31, *(In millions, except per Share data)*	2000	1999	1998
REVENUES			
Owned, leased and consolidated joint venture hotels	$3,659	$3,391	$2,983
Other hotel and leisure	686	438	298
	4,345	3,829	3,281
COSTS AND EXPENSES			
Owned, leased and consolidated joint venture hotels	2,433	2,313	2,030
Selling, general, administrative and other	403	220	210
Restructuring and other special charges	—	3	149
Depreciation	391	370	297
Amortization	90	82	81
	3,317	2,988	2,767
Operating income	1,028	841	514
Interest expense, net of interest income of $19, $16 and $26	(420)	(484)	(424)
Gain on sales of real estate and investments, net	2	191	55
Miscellaneous expense	—	(15)	—
	610	533	145
Income tax benefit (expense)	(201)	(1,076)	89
Minority equity in net income	(8)	(95)	(14)
Income (loss) from continuing operations	401	(638)	220
Discontinued operations:			
Loss from operations, net of tax benefit (expense) of $0, $0 and $31	—	—	(80)
Gain (loss) on dispositions, net of tax and minority interest of $2, $125 and $621	5	(71)	1,162
Extraordinary item, net of tax benefit	(3)	(32)	—
Net income (loss)	$ 403	$ (741)	$1,302
EARNINGS PER SHARE — BASIC			
Continuing operations	$ 2.03	$(3.41)	$ 1.06
Discontinued operations	0.02	(0.38)	5.64
Extraordinary item	(0.01)	(0.17)	—
Net income (loss)	$ 2.04	$(3.96)	$ 6.70
EARNINGS PER SHARE — DILUTED			
Continuing operations	$ 1.96	$(3.41)	$ 1.05
Discontinued operations	0.02	(0.38)	5.58
Extraordinary item	(0.01)	(0.17)	—
Net income (loss)	$ 1.97	$(3.96)	$ 6.63
Weighted average number of Shares	196	189	192
Weighted average number of Shares assuming dilution	205	189	194

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31, *(In millions)*	2000	1999	1998
Net income (loss)	$ 403	$(741)	$1,302
Other comprehensive income (loss):			
Foreign currency translation adjustments —			
Foreign currency translation arising during the period	(104)	(128)	(18)
Reclassification adjustment for losses included in net income (loss)	—	1	32
Unrealized gains (losses) on securities, net —			
Unrealized holding gains (losses) arising during the period	(11)	9	1
	(115)	(118)	15
Comprehensive income (loss)	$ 288	$(859)	$1,317

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF EQUITY

(in millions)	Forward Equity Contracts and Equity Put Options	Class B EPS Shares	Class B EPS Amount	Class A EPS Shares	Class A EPS Amount	Shares[a] Shares	Shares[a] Amount	Additional Paid-in Capital	Deferred Compensation	Cumulative Translation and Marketable Securities Adjustments	Retained Earnings (Accumulated Deficit)
Balance at December 31, 1997	$—	—	$—	—	$—	127	$2	$2,934	$—	$(135)	$(57)
Net income	—	—	—	—	—	—	—	—	—	—	1,302
Sheraton Holding reverse purchase	125	5	212	6	—	57	2	4,022	—	—	—
Cash dividend to Sheraton Holding stockholders	—	—	—	—	—	—	—	(2,144)	—	—	(890)
Stock option and restricted stock award transactions, net	—	—	—	—	—	1	—	32	(1)	—	—
Share repurchases	—	—	—	—	—	(10)	—	(371)	—	—	—
Issuance of forward equity contracts	245	—	—	—	—	8	—	—	—	—	—
Settlement of forward equity contracts	(370)	—	—	—	—	(10)	—	—	—	—	—
Issuance of equity put options	32	—	—	—	—	—	—	(30)	—	—	—
Conversion and cancellation of Class A EPS, Class B EPS and Partnership Units	—	(1)	(63)	(2)	—	3	—	50	—	—	—
Change in minority interest	—	—	—	—	—	—	—	78	—	—	—
Foreign currency translation	—	—	—	—	—	—	—	—	—	14	—
Unrealized gain on securities, net	—	—	—	—	—	—	—	—	—	1	—
Dividends declared	—	—	—	—	—	—	—	—	—	—	(353)
Balance at December 31, 1998	32	4	149	4	—	176	4	4,571	(1)	(120)	2
Net loss	—	—	—	—	—	—	—	—	—	—	(741)
Stock option and restricted stock award transactions, net	—	—	—	—	—	1	—	12	(4)	—	—
Issuance of equity put options	19	—	—	—	—	—	—	(13)	—	—	—
Settlement of equity put options	(32)	—	—	—	—	—	—	17	—	—	—
Share repurchases	—	—	—	—	—	(3)	—	(64)	—	—	—
Conversion and cancellation of Class A EPS, Class B EPS and Partnership Units	—	—	(13)	—	—	5	—	14	—	—	—
SVO acquisition	—	—	—	—	—	10	—	248	—	—	—
Foreign currency translation	—	—	—	—	—	—	—	—	—	(127)	—
Unrealized gain on securities, net	—	—	—	—	—	—	—	—	—	9	—
Dividends declared	—	—	—	—	—	—	—	—	—	—	(117)
Balance at December 31, 1999	19	4	136	4	—	189	4	4,785	(5)	(238)	(856)
Net income	—	—	—	—	—	—	—	—	—	—	403
Stock option and restricted stock award transactions, net	—	—	—	—	—	2	—	47	1	—	—
Settlement of equity put options	(19)	—	—	—	—	—	—	13	—	—	—
Share repurchases	—	—	—	—	—	(3)	—	(69)	—	—	—
Conversion and cancellation of Class A EPS, Class B EPS and Partnership Units	—	(1)	(19)	(3)	—	6	—	20	—	—	—
Foreign currency translation	—	—	—	—	—	—	—	—	—	(104)	—
Unrealized loss on securities, net	—	—	—	—	—	—	—	—	—	(11)	—
Dividends declared	—	—	—	—	—	—	—	—	—	—	(139)
Balance at December 31, 2000	$—	3	$117	1	$—	194	$4	$4,796	$(4)	$(353)	$(592)

[a]Represents common stock of Sheraton Holding prior to the ITT Merger and the Corporation's common stock and the Trust's shares of beneficial interest subsequent to the ITT Merger.

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, *(In millions)*	2000	1999	1998
OPERATING ACTIVITIES			
Net income (loss)	$ 403	$ (741)	$ 1,302
Exclude:			
Discontinued operations, net	(5)	71	(1,082)
Extraordinary item, net	3	32	—
Income (loss) from continuing operations	401	(638)	220
Adjustments to income (loss) from continuing operations:			
Depreciation and amortization	481	452	378
Amortization of deferred loan costs	11	16	22
Non-cash portion of restructuring and other special charges	—	7	85
Non-cash portion of Reorganization	—	936	—
Provision for doubtful accounts	19	9	13
Minority equity in net income	8	95	14
Equity income, net of dividends received	13	(6)	13
Gain on sales of real estate and investments, net	(2)	(191)	(55)
Changes in working capital:			
Accounts receivable	10	21	(36)
Inventories	(62)	(17)	(4)
Accounts payable	(15)	37	(2)
Accrued expenses	(10)	(65)	(641)
Accrued and deferred income taxes	22	8	(50)
Other, net	(25)	(93)	86
Cash from continuing operations	851	571	43
Cash from (used for) discontinued operations	3	(114)	(296)
Cash from (used for) operating activities	854	457	(253)
INVESTING ACTIVITIES			
Purchases of plant, property and equipment	(544)	(521)	(427)
Proceeds from asset sales, net	261	3,853	2,854
Issuance/collection of notes receivable, net	(12)	78	156
Acquisitions, net of acquired cash	(284)	(111)	(60)
Investments	(45)	(107)	—
Other, net	(34)	(20)	(183)
Cash from (used for) investing activities	(658)	3,172	2,340
FINANCING ACTIVITIES			
Revolving credit facility and short-term borrowings, net	547	(620)	487
Long-term debt issued	231	681	4,143
Long-term debt repaid	(1,015)	(3,165)	(2,785)
Settlement of forward equity contracts	(6)	(16)	(125)
Dividends paid	(134)	(116)	(3,357)
Share repurchases	(69)	(64)	(371)
Other, net	26	(35)	(48)
Cash used for financing activities	(420)	(3,335)	(2,056)
Exchange rate effect on cash and cash equivalents	(23)	(15)	—
Increase (decrease) in cash and cash equivalents	(247)	279	31
Cash and cash equivalents — beginning of period	436	157	126
Cash and cash equivalents — end of period	$ 189	$ 436	$ 157
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest	$ 403	$ 651	$ 445
Income taxes, net of refunds	$ 179	$ 132	$ 63

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS
CONSOLIDATED BALANCE SHEETS

December 31, *(In millions, except share data)*	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9	$ 1
Receivable, Corporation	34	34
Prepaid expenses and other	4	7
Total current assets	47	42
Investments, Corporation	848	848
Investments	35	47
Plant, property and equipment, net	4,260	4,293
Long-term receivables, net, Corporation	1,604	1,658
Goodwill and intangible assets, net	239	246
Other assets	15	16
	$7,048	$7,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5	$ 5
Accrued expenses	57	65
Short-term borrowings and current maturities of long-term debt	35	105
Total current liabilities	97	175
Long-term debt	483	496
	580	671
Minority interest	39	32
Class B exchangeable preferred shares, at redemption value of $38.50	117	136
Commitments and contingencies		
Stockholders' equity:		
Class A exchangeable preferred shares; $0.01 par value; authorized 30,000,000 shares; outstanding 609,576 and 3,669,546 shares at December 31, 2000 and 1999, respectively	—	—
Class A shares of beneficial interest; $0.01 par value; authorized 5,000 shares; outstanding 100 shares at December 31, 2000 and 1999	—	—
Trust Class B shares of beneficial interest; $0.01 par value; authorized 1,000,000,000 shares; outstanding 194,485,448 and 189,271,522 shares at December 31, 2000 and 1999, respectively	2	2
Additional paid-in capital	7,630	7,612
Accumulated deficit	(1,320)	(1,303)
Total stockholders' equity	6,312	6,311
	$7,048	$7,150

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)	Year Ended December 31, 2000	1999	Period from February 23, 1998 to December 31, 1998
REVENUES			
Unconsolidated joint ventures and other	$ 3	$ 4	$ 3
Rent and interest, Corporation	692	787	590
	695	791	593
COSTS AND EXPENSES			
Selling, general and administrative	3	5	22
Depreciation	183	169	123
Amortization	7	6	5
	193	180	150
	502	611	443
Interest expense, net of interest income of $0, $0 and $6	(39)	(47)	(20)
Gain (loss) on sales of real estate and investments	1	(137)	—
Income tax expense	(1)	(2)	(1)
Minority equity in net income	(3)	(2)	(10)
Net income	$460	$423	$412

The accompanying notes to financial statements are an integral part of the above statements.

STARWOOD HOTELS & RESORTS
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2000	1999	Period from February 23, 1998 to December 31, 1998
OPERATING ACTIVITIES			
Net income	$ 460	$ 423	$ 412
Adjustments to net income:			
Depreciation and amortization	190	175	128
Minority equity in net income	3	2	10
Equity income, net of dividends received	3	1	5
(Gain) loss on sales of real estate and investments	(1)	137	—
Changes in working capital:			
Receivable, Corporation	—	2	(8)
Accounts payable	—	(2)	1
Accrued expenses	(14)	33	(17)
Other, net	—	1	72
Cash from operating activities	641	772	603
INVESTING ACTIVITIES			
Additions to plant, property and equipment	(204)	(271)	(177)
Proceeds from asset sales, net	54	126	282
Acquisitions, net of cash acquired	—	—	(13)
Investments	(1)	(6)	—
Collections on notes receivable	—	56	—
Long-term receivables, Corporation	73	60	488
Other, net	10	(1)	(325)
Cash from (used for) investing activities	(68)	(36)	255
FINANCING ACTIVITIES			
Revolving credit facility and short-term borrowings, net	—	(421)	1
Long-term debt issued	23	291	319
Long-term debt repaid	(106)	(7)	(546)
Settlement of forward equity contracts	—	—	(88)
Dividends paid	(134)	(116)	(278)
Dividends paid to Corporation	(338)	(470)	—
Other, net	(10)	(24)	(254)
Cash used for financing activities	(565)	(747)	(846)
Increase (decrease) in cash and cash equivalents	8	(11)	12
Cash and cash equivalents — beginning of period	1	12	—
Cash and cash equivalents — end of period	$ 9	$ 1	$ 12
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest	$ 35	$ 36	$ 21
Income taxes	$ 1	$ 2	$ 1

The accompanying notes to financial statements are an integral part of the above statements.

Note 1. Basis of Presentation

The accompanying consolidated balance sheets as of December 31, 2000 and 1999 and the consolidated statements of operations, comprehensive income, equity and cash flows for the years ended December 31, 2000, 1999 and 1998 represent (i) Starwood Hotels & Resorts Worldwide, Inc. (the "Corporation") and its subsidiaries, including Sheraton Holding Corporation and its subsidiaries ("Sheraton Holding") (formerly ITT Corporation) and Starwood Hotels & Resorts and its subsidiaries (the "Trust" and, together with the Corporation, "Starwood" or the "Company"), and (ii) the Trust. Because the Company's acquisition of Sheraton Holding (the "ITT Merger") was treated as a reverse purchase for financial accounting purposes, the statements of operations, comprehensive income, equity and cash flows for the year ended December 31, 1998 include the accounts of the Company and the Trust for the period from the closing of the ITT Merger on February 23, 1998 through December 31, 1998 and the accounts of Sheraton Holding for the year ended December 31, 1998.

The Company is one of the largest hotel companies in the world and the Trust is one of the largest real estate investment trusts ("REITs") in the United States. The Company's principal business is hotels and leisure, which is comprised of a worldwide hospitality network of more than 700 full-service hotels as well as vacation ownership resorts primarily serving two markets: luxury and upscale. The Company's hotel operations are represented in nearly every major world market.

The Trust was formed in 1969 and elected to be taxed as a REIT under the Internal Revenue Code (the "Code"). In 1980, the Trust formed the Corporation and made a distribution to the Trust's shareholders of one share of common stock, par value $0.01 per share, of the Corporation (a "Corporation Share") for each common share of beneficial interest, par value $0.01 per share, of the Trust (a "Trust Share"). Until January 6, 1999, the Corporation Shares and Trust Shares were paired on a one-for-one basis and, pursuant to an agreement between the Corporation and the Trust, could be held or transferred only in units ("Paired Shares") consisting of one Corporation Share and one Trust Share.

At December 31, 1998, the combined Corporation and Trust entity was a "paired share REIT" under the grandfathering provisions of the Code. During 1998, Congress enacted tax legislation that has the effect of eliminating this grandfathering for certain interests in real property acquired after March 26, 1998. In response to this legislation, a reorganization of the Corporation and the Trust (the "Reorganization") was proposed by the Company and was approved by the Corporation and Trust shareholders on January 6, 1999. As a result of the Reorganization, the Trust became a subsidiary of the Corporation, which indirectly holds all outstanding shares of the new Class A shares of beneficial interest in the Trust ("Class A Shares"). Each outstanding Trust Share was converted into one share of the new non-voting Class B shares of beneficial interest in the Trust (a "Class B Share"). The Corporation Shares and the Class B Shares trade together on a one-for-one basis, and pursuant to an agreement between the Corporation and the Trust, may be transferred only in units ("Shares") consisting of one Corporation Share and one Class B Share. The Reorganization was accounted for as a reorganization of two companies under common control. As such, there was no revaluation of the assets and liabilities of the combining companies. Unless otherwise stated herein, all information with respect to Shares refers to Shares on or since January 6, 1999 and to Paired Shares for periods before January 6, 1999.

During the first quarter of 1999, the Company recorded pretax charges of $15 million for costs directly attributable to the Reorganization, such as legal, accounting and investment banking fees. As a result of the Reorganization, the Company also recorded a one-time charge of $936 million to establish a deferred tax liability relating to the difference between the book and tax basis in the assets of the Trust.

The Corporation, through its subsidiaries, is the general partner of, and held, as of December 31, 2000, an aggregate 95.3% partnership interest in, SLC Operating Limited Partnership (the "Operating Partnership"). The Trust, through its subsidiaries, is the general partner of, and held an aggregate 96.3% partnership interest in, SLT Realty Limited Partnership (the "Realty Partnership" and, together with the Operating Partnership, the "Partnerships") as of December 31, 2000. The units of the Partnerships ("LP Units") held by the limited partners of the respective Partnerships are exchangeable on a one-for-one basis for Shares. At December 31, 2000, there were approximately 7.7 million LP Units outstanding (including 4.3 million LP Units held by the Corporation). For all periods presented, the LP Units are assumed to have been converted to Shares for purposes of calculating basic and diluted weighted average Shares outstanding.

Note 2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of the Company and the Trust and their subsidiaries include the assets, liabilities, revenues and expenses of majority-owned subsidiaries over which the Company and/or the Trust exercise control, and for which control is other than temporary. Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are comprised principally of vacation ownership interests ("VOIs") and hotel operating supplies. VOI inventory is carried at cost, which is lower than fair value less cost to sell. Operating supplies are generally valued at the lower of cost (first-in, first-out) or market. Potential losses from obsolete and slow-moving inventories are provided for in the current period.

Investments

Investments in partnerships and joint ventures are accounted for using the equity method of accounting when the Company has a 20% to 50% ownership interest or exercises significant influence over the venture. If the Company's interest exceeds 50% and the Company exercises control over the venture, the results of the partnership or joint venture are consolidated herein. All other investments are generally accounted for under the cost method.

Equity in earnings of unconsolidated subsidiaries accounted for on the equity basis were $37 million, $32 million and $20 million in 2000, 1999 and 1998, respectively.

The fair market value of investments is based on the market prices for the last day of the period if the investment trades on quoted exchanges. For non-traded investments, fair value is estimated based on the underlying value of the investment. The carrying value of other investments approximates fair value based on market prices and the value of the underlying collateral.

Plant, Property and Equipment

Plant, property and equipment, including capitalized interest of $3 million, $8 million and $14 million in 2000, 1999 and 1998, respectively, applicable to major project expenditures, are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful economic lives of 15 to 40 years for buildings and improvements; 3 to 10 years for furniture, fixtures and equipment; and the lesser of the leasehold term or 40 years for leasehold improvements. Gains or losses on the sale or retirement of assets are included in income when the assets are sold provided there is reasonable assurance of the collectibility of the sales price and any future activities to be performed by the Company relating to the hotel assets sold are insignificant.

The Company evaluates the carrying value of each of the Company's assets for impairment. For assets in use, the expected undiscounted future cash flows of the assets are compared to the net book value of the assets. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value is charged to current earnings. When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of such assets. If, in management's opinion, the fair value of the assets which have been identified for sale is less than the net book value of the assets, a loss reserve is established. Fair value is determined based upon discounted cash flows of the assets at rates deemed reasonable for the type of property and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers.

Goodwill and Intangible Assets

Goodwill and intangible assets arose in connection with acquisitions, including the acquisition of management contracts, and are amortized using the straight-line method over 2 to 40 years. Accumulated amortization was $249 million and $154 million at December 31, 2000 and 1999, respectively. The Company continually reviews the carrying value of goodwill and intangible assets to assess recoverability from future operations using undiscounted cash flows. Impairments would be recognized in operating results if a permanent diminution in value is deemed to have occurred.

Frequent Guest Program

The Company accrues for the cost of redeeming points awarded to members of the frequent guest program at the time the points are awarded. This accrual is based on the discounted expected costs of redemption. The liability for this program is included in other long-term liabilities and accrued expenses in the accompanying consolidated balance sheets. Revenue is recognized by participating hotels and resorts when the points are redeemed for hotel stays.

Derivative Financial Instruments

The Company enters into interest rate swap agreements to manage interest rate exposure. The differential to be paid or received under these agreements is accrued consistent with the terms of the agreements and is recognized in interest expense over the term of the related debt using a method that approximates the effective interest method (the accrual accounting method). The related amounts payable to or receivable from counterparties are included in other liabilities or assets.

The Company enters into foreign currency forward contracts and foreign currency swaps as a means of hedging exposure to foreign currency fluctuations. All foreign currency forward contracts have an inverse correlation to the hedged items and are designated as, and considered effective as, hedges of the underlying assets or liabilities. Changes in the value of the derivative instruments designated as hedges of foreign currency denominated assets and liabilities are classified in the same manner as the classification of the changes in the underlying assets and liabilities. Discounts or premiums related to the contracts are recognized into income over the life of the contract.

The Company does not enter into these derivative financial instruments for trading or speculative purposes and closely monitors the financial stability and credit standing of its counterparties.

Foreign Currency Translation

Balance sheet accounts are translated at the exchange rates in effect at each year-end and income and expense accounts are translated at the average rates of exchange prevailing during the year. The national currencies of foreign operations are generally the functional currencies. Gains and losses from foreign currency translation and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are generally included as a separate component of stockholders' equity. Gains and losses from foreign currency transactions are reported currently in costs and expenses and were insignificant for all periods presented.

Income Taxes

Under the asset and liability method of accounting for income taxes, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets, including net operating loss carryforwards, and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the new rate is enacted.

The Trust has elected to be treated as a REIT under the provisions of the Code beginning with the 1995 calendar year. As a result, the Trust will not be subject to federal income tax on its taxable income at corporate rates provided it distributes annually 100% of its taxable income to its shareholders and complies with certain other requirements.

Earnings Per Share

The following reconciliation of basic earnings per Share to diluted earnings per Share for income (loss) from continuing operations assumes the conversion of LP Units to Shares (in millions, except per Share data):

Year Ended December 31,	2000 Earnings	2000 Shares	2000 Per Share	1999 Earnings	1999 Shares	1999 Per Share	1998 Earnings	1998 Shares	1998 Per Share
Income (loss) from continuing operations	$401			$(638)			$220		
Dividends on Class A EPS and Class B EPS	(4)			(5)			(17)		
Basic earnings (loss)	397	196	$2.03	(643)	189	$(3.41)	203	192	$1.06
Effect of dilutive securities:									
Employee stock options	—	3		—	—		—	2	
Class A EPS and Class B EPS	4	6		—	—		—	—	
Diluted earnings (loss)	$401	205	$1.96	$(643)	189	$(3.41)	$203	194	$1.05

Employee stock options totaling approximately 1 million Shares were not included in the computation of diluted earnings per Share for the year ended December 31, 1999 as the effects were antidilutive. Class A Exchangeable Preferred Shares ("Class A EPS") and Class B Exchangeable Preferred Shares ("Class B EPS") of the Trust totaling approximately 8 million Shares were not included in the computation of diluted earnings per Share for the years ended December 31, 1999 and 1998 as the effects were antidilutive. Additionally, equity put options totaling approximately 1 million Shares were not included in the computation of diluted earnings per Share for the year ended December 31, 1998 as the effects were antidilutive.

Revenue Recognition

Generally, revenues are recognized when the services have been rendered. The following is a description of the composition of revenues for the Company:

- Owned, Leased and Consolidated Joint Ventures — Represents revenue primarily derived from hotel and leisure operations, including the rental of rooms and food and beverage sales, from a worldwide network of owned, leased or consolidated joint venture hotels and resorts operated primarily under the Company's proprietary brand names including Sheraton, Westin, St. Regis, The Luxury Collection, Four Points by Sheraton and W.

- Management and Franchise Fees — Represents fees earned on hotels managed worldwide, usually under long-term contracts with the hotel owner, and franchise fees received in connection with the franchise of the Company's Sheraton, Westin and Four Points by Sheraton brand names. Management fees are generally based on a combination of a percentage of gross revenues and an incentive fee, and franchise fees are generally based on a percentage of hotel room revenues.

- Other — Represents primarily the Company's interest in unconsolidated joint ventures and the sale and financing of VOIs. VOI sales are included in revenue when minimum down payment requirements (at least 10%) have been met.

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," in December 1999. SAB 101 summarizes certain of the SEC staff's views in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. The Company adopted SAB 101, as amended, in the fourth quarter of 2000 and determined that it did not have a material impact on annual earnings or the timing of revenue and profit recognition between quarters during the year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation, including the reclassification of equity earnings from joint ventures in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-1, "Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures."

Impact of Recently Issued Accounting Standard

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137, which deferred the effective date of SFAS No. 133. This was followed in June 2000 by the issuance of SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amends SFAS No. 133. SFAS No. 133 and SFAS No. 138 establish new accounting rules and disclosure requirements for most derivative instruments and hedging activities. SFAS No. 133 and SFAS No. 138 require all derivatives to be recognized as assets or liabilities at fair value. Fair value adjustments are made either through earnings or equity, depending upon the exposure being hedged and the effectiveness of the hedge. The Company has adopted these standards effective January 1, 2001. The initial adoption of these standards will result in a reduction of other comprehensive income of approximately $6.2 million. The adoption will also impact asset and liabilities recorded on the balance sheet; however, it will not impact earnings.

Note 3. Acquisitions

Acquisition of CIGA S.p.A

In June 2000, the Company completed the acquisition of the minority ownership interest of CIGA S.p.A. ("CIGA") not previously owned by Starwood. The aggregate purchase price of the incremental shares was approximately $312 million. The Company accounted for the acquisition of the outstanding CIGA shares as a step acquisition in accordance with Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," resulting in a preliminary allocation to property and goodwill of approximately $102 million.

Acquisition of Starwood Vacation Ownership, Inc.

On October 1, 1999, the Company completed the acquisition of Starwood Vacation Ownership, Inc. (formerly Vistana, Inc.) ("SVO"), whereby SVO merged with and into a subsidiary of the Corporation and thereby became a wholly owned subsidiary of the Corporation. The Company financed the acquisition of SVO with cash of approximately $110 million, the assumption of approximately $280 million of debt and the issuance of approximately 10.1 million Shares. SVO's principal operations include the acquisition, development and operation of vacation ownership resorts; marketing and selling VOIs in the resorts; and providing financing to customers who purchase such interests. The Company accounted for the acquisition of SVO as a purchase in accordance with APB Opinion No. 16. As such, the carrying values of the assets acquired (including net cash of approximately $35 million) and liabilities assumed were recorded at fair market value, resulting in goodwill of approximately $256 million. The results of SVO's operations have been included in the accompanying financial statements since the acquisition date. The pro forma effect on the Company's revenues, net income and earnings per Share for 1999 and 1998, as though the acquisitions occurred as of January 1 of each year, was not material.

ITT and Westin Mergers

On January 2, 1998, Starwood acquired Westin Hotels & Resorts Worldwide, Inc. and certain of its affiliates ("Westin") for approximately $2.0 billion in cash and debt assumed (the "Westin Merger"). On February 23, 1998, pursuant to an Amended and Restated Agreement and Plan of Merger dated as of November 12, 1997, the Company acquired Sheraton Holding. The aggregate value of the Sheraton Holding acquisition in cash, Shares and assumed debt was approximately $14.6 billion.

The Company accounted for the ITT Merger as a reverse purchase in accordance with APB Opinion No. 16. Although the Company issued Shares to Sheraton Holding stockholders and survived the ITT Merger, the Trust and the Corporation are considered the acquired companies for accounting purposes since the prior Sheraton Holding stockholders held a majority of the outstanding Shares immediately after the ITT Merger was consummated. As such, the carrying value of the assets and liabilities of the Corporation and Trust (inclusive of Westin) was recorded at fair market value, resulting in goodwill and identified intangibles of approximately $2.5 billion.

Because the ITT Merger was treated as a reverse purchase for financial accounting purposes, the statements of operations, comprehensive income and cash flows for the year ended December 31, 1998 include the accounts of the Trust and the Corporation for the period from the closing of the ITT Merger on February 23, 1998 through December 31, 1998 and the accounts of Sheraton Holding for the entire year ending December 31, 1998. Historical stockholders' equity of the Company prior to the ITT Merger has been retroactively restated for the equivalent number of shares received in the ITT Merger after giving effect to the difference in par value between Starwood's and Sheraton Holding's stock. Unless otherwise indicated, all references herein to the number of Shares and per Share amounts have been restated to reflect the impact of the reverse acquisition at the conversion factor of 1.543 Shares for each Sheraton Holding share acquired. Additionally, each Sheraton Holding stock option ("Sheraton Stock Option") became a fully exercisable option pursuant to the number of Shares determined by applying the 1.543 conversion factor.

Unaudited Pro Forma Results

The following unaudited pro forma information reflects the ITT Merger, the Westin Merger and certain asset sales as if they occurred at the beginning of each period presented and does not purport to present what actual results would have been had such transactions, in fact, occurred at the beginning of each period presented, or to project results for any future period (in millions, except per Share data):

Year Ended December 31,	1999	1998
Revenues	$3,829	$3,542
Income (loss) from continuing operations	$ (550)	$ 164
Net income (loss)	$ (653)	$1,246
Basic income (loss) from continuing operations per Share	$ (2.94)	$ 0.76
Diluted income (loss) from continuing operations per Share	$ (2.94)	$ 0.75

Note 4. Dispositions

In September and October of 1999, the Company sold its 52.8% stake in Lampsa, SA, a Greek company that owns the Grande Bretagne Hotel in Athens, Greece. The Company owned its interest in Lampsa, SA through its then 70.3% ownership of CIGA. The Company received gross proceeds (before minority interest) of approximately $287 million as a result of this sale and recorded a pretax gain (before minority interest) of $276 million.

Note 5. Discontinued Operations

Gaming

On December 30, 1999, the sale of Caesars World, Inc. ("Caesars") was completed. On June 23, 2000, the sale of the Desert Inn Resort & Casino (the "Desert Inn") was completed (together with the sale of Caesars, the "Gaming Dispositions"). The Company received approximately $3.3 billion in proceeds from the Gaming Dispositions which was used to pay off $2.5 billion of increasing rate notes and to reduce its bank revolver. These sales constituted the disposition of Starwood's gaming operations.

As a result of the Gaming Dispositions, the accompanying consolidated financial statements have been restated to reflect the results of operations and net assets of the gaming segment as a discontinued operation. This restatement includes the allocation of long-term debt of $165 million and $2.1 billion for the years ended December 31, 1999 and 1998, respectively, and the related interest expense of $6 million, $163 million and $161 million, for the years ended December 31, 2000, 1999 and 1998, respectively, to the discontinued gaming operations. These allocations were based upon the ratio of net gaming segment assets to the Company's total capitalization. During the first quarter of 1999, the Company provided for estimated after-tax losses on the disposal of the discontinued gaming operations of $180 million ($158 million pretax), which included anticipated operating income of approximately $50 million prior to the disposal. In the fourth quarter of 1999, the Company provided for additional losses on the sale of its gaming operations in the amount of $55 million (including tax of $9 million), primarily due to the delay in the closing of the sale, lower than estimated operating profits prior to the sale and certain adjustments to the sale price made at closing. Additionally, the Company provided for additional losses on the disposal of the Desert Inn of $9 million (net of a $5 million tax benefit), primarily as a result of additional anticipated operating losses prior to the sale. Summary financial information of the discontinued gaming operations is as follows (in millions):

	December 31, 1999
BALANCE SHEET DATA	
Total assets	$ 269
Total liabilities	—
Debt allocated or attributed to discontinued operations	(165)
Net assets of discontinued operations	$ 104

	Period From January 1, 2000 to June 23, 2000	Year Ended December 31, 1999	1998
INCOME STATEMENT DATA			
Revenues	$ 57	$1,541	$1,377
Restructuring and other special charges	$ —	$ —	$ (55)
Operating income (loss)	$ (3)	$ 154	$ 64
Interest expense, including allocated interest	$ (6)	$ (174)	$ (166)
Income tax benefit (expense)	$ 1	$ (11)	$ 19
Minority equity in net loss	$ —	$ 4	$ 11
Loss from discontinued operations	$ (8)	$ (27)	$ (72)

ITT Educational Services, Inc.

In June 1998, the Company sold approximately 13.0 million shares of ITT Educational Services, Inc. ("Educational Services") in a public offering for net proceeds of approximately $304 million. The Company recorded a gain of $253 million before income taxes of $93 million. Subsequent to this sale, the Company was a minority holder in Educational Services and, as such, accounted for its remaining interest under the equity method by recording its proportionate share of net losses totaling $1 million for the period from June 1, 1998 to December 31, 1998. Summary financial information of Educational Services is as follows (in millions):

	Five Months Ended May 31, 1998
INCOME STATEMENT DATA	
Revenues	$114
Operating income	$ 12
Interest income	$ 2
Income tax expense	$ (6)
Minority equity in net income	$ (1)
Income from discontinued operations	$ 7

In February 1999, the Company completed the sale of its remaining interest in Educational Services, selling 8.0 million shares of common stock of Educational Services in an underwritten public offering at a price per share of $34.00 and sold 1.5 million shares of common stock at $32.73 per share directly to Educational Services. Starwood received aggregate net proceeds of approximately $310 million from these transactions, which were used to repay a portion of the Company's outstanding debt. The Company recognized a gain of $272 million, before income taxes of $99 million, on the sale.

ITT World Directories

In February 1998, the Company disposed of ITT World Directories ("WD"), the subsidiary through which Sheraton Holding conducted its telephone directories publishing business, to VNU International B.V., a leading international publishing and information company based in the Netherlands, for gross consideration of $2.1 billion. The Company recorded a gain of $1.0 billion, net of income taxes of $514 million, on the disposition. Interest expense and debt related to the disposition of WD was allocated to discontinued operations. Summary financial information of WD is as follows (in millions):

	Period from January 1, 1998 to February 19, 1998
INCOME STATEMENT DATA	
Revenues	$ 8
Operating loss	$ (8)
Interest expense, including allocated interest	$(14)
Income tax benefit	$ 7
Minority equity in net income	$ 1
Loss from discontinued operations	$(14)

Note 6. Extraordinary Item

During the first quarter of 2000, the Company prepaid $28.4 million on a mortgage loan resulting in an extraordinary loss on the early extinguishment of debt of $3 million (pretax).

In December 1999, the Company used the proceeds from the sale of Caesars to pay off $2.5 billion of increasing rate notes. This early extinguishment of debt required termination fees of $38 million and the write-off of $10 million of deferred loan fees associated with this debt. This $48 million (pretax) charge was recorded in December 1999 as an extraordinary loss on the early extinguishment of debt.

In August 1999, Caesars redeemed its senior subordinated notes for an aggregate payment of $152 million, recognizing an extraordinary pretax loss of $3 million.

Note 7. Restructuring and Other Special Charges

At December 31, 2000, the Company has remaining accruals related to restructuring and other special charges, described below, of $100 million, $22 million of which is included in other long-term liabilities in the accompanying balance sheet. These accruals consist of $72 million for certain litigation costs and $28 million primarily related to remaining lease commitments which expire through 2006.

1999 Restructuring and Other Special Charges (Credits)

During 1999, the Company recorded restructuring charges of $5 million (pretax) attributed to the rationalization of one of its technology centers. In addition, the Company recorded other special charges of $13 million attributed to severance benefits for the former President and Chief Operating Officer of the Corporation and $75 million attributed primarily to an accrual for certain litigation costs related to an unfavorable judgment in a matter involving the former Sheraton hotel in Washington, D.C. (see Note 18).

ITT Merger-Related Charges (Credits)

In connection with the ITT Merger, the Company recorded restructuring and other special charges totaling $172 million (pretax) in 1998 for ITT Merger-related costs and the write-down of certain assets. During 1999, the Company reversed $8 million of these charges as the ITT Merger costs were less than originally anticipated.

In addition, during the third quarter of 1998, the Company recorded a non-recurring charge to selling, general and administrative expense of approximately $30 million primarily associated with the vesting, during the quarter, of certain restricted stock granted earlier in the year to the then President and Chief Operating Officer of the Corporation in connection with his appointment.

During 1997, Sheraton Holding recorded special charges as a result of the ITT Merger for conversion of the accounting of Sheraton Holding's stock option plan to variable accounting due to limited stock appreciation rights subject to exercise and related charges for tax reimbursements to employees of $404 million. During 1998 and 1999, the Company reversed approximately $23 million and $50 million, respectively, in accruals related to the resolution of certain employment related contingencies.

Other Sheraton Holding Restructuring and Other Special Charges (Credits)

During 1997, Sheraton Holding recorded pretax charges totaling $236 million to restructure and rationalize operations at its World Headquarters and the headquarters of its field operations. During 1999, the Company reversed $32 million of these charges as the costs were less than anticipated.

Note 8. Plant, Property and Equipment

Plant, property and equipment consisted of the following (in millions):

December 31,	2000	1999
Land and improvements	$1,395	$1,416
Buildings and improvements	6,265	6,066
Furniture, fixtures and equipment	1,603	1,345
Construction work in process	113	93
	9,376	8,920
Less accumulated depreciation and amortization	(1,487)	(1,133)
	$7,889	$7,787

As of December 31, 2000, the Company identified six hotels totaling $70 million as non-core assets and classified them as held for sale. These hotels are included in plant, property and equipment in the accompanying 2000 consolidated balance sheet.

Note 9. Income Taxes

Income tax data from continuing operations of the Company is as follows (in millions):

Year Ended December 31,	2000	1999	1998
Pretax income			
U.S.	$437	$ 277	$ 35
Foreign	173	256	110
	$610	$ 533	$145
Provision (benefit) for income tax			
Current:			
U.S. federal	$ 71	$ 65	$ 34
State and local	9	13	6
Foreign	95	95	43
	175	173	83
Deferred:			
U.S. federal	19	718	(189)
State and local	—	180	—
Foreign	7	5	17
	26	903	(172)
	$201	$1,076	$ (89)

No provision was made for U.S. taxes payable on undistributed foreign earnings amounting to approximately $32 million since these amounts are permanently reinvested.

Deferred income taxes represent the tax effect of the differences between the book and tax bases of assets and liabilities. Deferred tax assets (liabilities) include the following (in millions):

December 31,	2000	1999
Plant, property and equipment	$ (779)	$ (757)
Intangibles	(335)	(342)
Allowances for doubtful accounts and other reserves	139	121
Employee benefits	36	29
Deferred gain	(524)	(524)
Net operating loss and tax credit carryforwards	188	161
Deferred income	(115)	(87)
Transaction costs	22	23
Other	(11)	(11)
	(1,379)	(1,387)
Less valuation allowance	(65)	(83)
Deferred income taxes	$(1,444)	$(1,470)

At December 31, 2000, the Company has net operating loss and tax credit carryforwards of approximately $478 million and $22 million, respectively, for federal income tax purposes. Substantially all operating loss carryforwards, which are expected to provide future tax benefits, expire in 2018.

A reconciliation of the tax provision of the Company at the U.S. statutory rate to the provision for income tax as reported is as follows (in millions):

Year Ended December 31,	2000	1999	1998
Tax provision at U.S. statutory rate	$ 214	$ 187	$ 51
U.S. state and local income taxes	6	8	6
Exempt Trust income	(49)	(41)	(147)
Tax on repatriation of foreign earnings	21	16	(5)
Foreign tax rate differential	14	(5)	8
Non-deductible goodwill	16	14	19
Reorganization	—	936	—
Transaction costs	—	(58)	(21)
Deferred asset valuation allowance	(18)	5	—
Other	(3)	14	—
Provision (benefit) for income tax	$ 201	$1,076	$(89)

Note 10. Debt

Long-term debt and short-term borrowings consisted of the following (in millions):

December 31,	2000	1999
Senior Credit Facility:		
Five-year term loan, interest at LIBOR+0.625%		
(7.19% at December 31, 2000), maturing through 2003	$ 925	$1,000
Term Loan Add-on, interest at LIBOR+1.25%		
(7.81% at December 31, 2000), maturing through 2003	173	—
Revolving Credit Facility, interest at LIBOR+0.625%		
(7.19% at December 31, 2000), maturing through 2003	620	336
Senior Secured Notes Facility:		
Tranche II Loans, interest at LIBOR+2.75%		
(9.31% at December 31, 2000), maturing through 2003	1,000	1,000
Sheraton Holding public debt, interest rates ranging from		
6.25% to 7.75%, maturing through 2025	1,296	1,995
Mortgages and other, interest rates ranging from 4.5% to 11.5%	1,528	1,465
	5,542	5,796
Less indebtedness classified in discontinued operations	—	(165)
Less current maturities	(585)	(988)
Long-term debt	$4,957	$4,643

Aggregate debt maturities for each of the years ending December 31 are as follows (in millions):

2001	$ 585
2002	296
2003	2,723
2004	57
2005	502
Thereafter	1,379
	$ 5,542

In December 2000, the Company increased the amount available under the Senior Credit Facility by $172.5 million ("Term Loan Add-on"). Additionally, in January 2001, the Company further increased the amount available under the Senior Credit Facility by an additional $150 million. The proceeds from the Term Loan Add-on were used to further reduce the amount outstanding under the Company's Revolving Credit Facility.

On July 25, 2000, the Company entered into a one-year, Euro 270 million loan (approximately $252 million). The interest rate on this loan at December 31, 2000 was Euribor plus 112.5 basis points. The proceeds from the loan were used to reduce the amount outstanding under the Company's Revolving Credit Facility.

In January 1999, the Company completed a $542 million long-term financing (the "Mortgage Loan"), secured by mortgages on a portfolio of 11 hotels. The Mortgage Loan bears interest at a blended rate of 6.98%. The Mortgage Loan is due in February 2009 and the proceeds from the Mortgage Loan were used to pay down the one-year term loan under the Senior Credit Facility.

On February 23, 1998, Starwood entered into two credit facilities ($5.6 billion in total) with Lehman Brothers, Bankers Trust Company, The Chase Manhattan Bank and other financial institutions to fund the cash portion of the ITT Merger consideration, to refinance a portion of the Company's existing indebtedness and to provide funds for general corporate purposes. The Senior Credit Facility and the Senior Secured Notes Facility comprise Starwood's primary existing credit facilities. In September 1998, the Company increased its borrowings under the Senior Secured Notes Facility with a $1 billion, five-year term borrowing facility ("Tranche II Loans"). Starwood completed the sale of Caesars on December 30, 1999 and completed the sale of the Desert Inn on June 23, 2000 for aggregate net proceeds of approximately $3.3 billion in cash from these dispositions. The proceeds from the sales were used to repay $2.5 billion of the Senior Secured Notes Facility and to reduce the amount outstanding under the Revolving Credit Facility.

Repayment of amounts borrowed under the Senior Credit Facility is guaranteed by the Trust, the Company and substantially all their respective significant subsidiaries (including the Partnerships) other than foreign subsidiaries and joint venture entities (the "Guarantor Subsidiaries") to the extent such entities are not borrowers or co-borrowers, and is secured by a pledge of all the capital stock, partnership interests and other equity interests of the Guarantor Subsidiaries.

The Company maintains lines of credit under which bank loans and other short-term debt are drawn. In addition, smaller credit lines are maintained by the Company's foreign subsidiaries. The Company had approximately $435 million of available borrowing capacity under the Revolving Credit Facility as of December 31, 2000.

The Company is subject to certain restrictive debt covenants under its short-term borrowing and long-term debt obligations including defined financial covenants, escrow account funding requirements for capital purchases and tax payments and insurance premiums, limitations on capital expenditures and on the Company's right to incur further debt and restrictions on transactions with affiliates and related persons, among other restrictions. The Company was in compliance with all of the short-term borrowing and long-term debt obligation covenants at December 31, 2000.

The weighted average interest rate for short-term borrowings was 6.04% and 6.47% at December 31, 2000 and 1999, respectively, and their fair values approximated carrying value given their short-term nature. These average interest rates are composed of interest rates on both U.S. dollar and non-U.S. dollar denominated indebtedness.

For adjustable rate debt, fair value approximates carrying value due to the variable nature of the interest rates. For fixed rate debt, fair value is determined based upon discounted cash flows for the debt at rates deemed reasonable for the type of debt and prevailing market conditions and, if appropriate, the length to maturity for the debt. The estimated fair value of long-term debt at December 31, 2000 and 1999 was $5.4 billion and $5.6 billion, respectively, and was determined based on quoted market prices and/or discounted cash flows using the Company's incremental borrowing rates for similar arrangements.

Note 11. Employee Benefit Plans

Pension and Postretirement Benefit Plans

The Company and its subsidiaries sponsor numerous pension plans, including the ITT Corporation Salaried Retirement Plan and the ITT Sheraton Corporation Pension Plan for Hourly Employees ("ITT Plans"), and the Westin Supplemental Executive Retirement Plan. The ITT Plans are funded, except in some countries outside the U.S. where funding is not required. The ITT Plans' assets are comprised primarily of fixed income investments. The Westin Supplemental Executive Retirement Plan is a non-contributory, non-qualified plan that provides benefits for certain executives. The plan is unfunded apart from general assets of the Company.

The Company also sponsors the ITT Sheraton Post-Retirement Welfare Program. The plan provides health care and life insurance benefits for certain eligible retired employees. The Company has prefunded a portion of the health care and life insurance obligations through trust funds where such prefunding can be accomplished on a tax effective basis. The Company also funds the health plan on a pay-as-you-go basis.

Effective January 1, 2000, the ITT Plans were merged and the ITT Corporation Salaried Retirement Plan ("Salaried Plan") name was retained. Immediately after the merger, the merged Plans spun off an allocated portion of assets and liabilities to form the ITT Sheraton Corporation Ongoing Retirement Plan ("Ongoing Plan"). Additionally, the Company filed a request for an Internal Revenue Service determination letter concerning the termination of the Salaried Plan as of July 31, 2000. Since the Internal Revenue Service has not yet approved the request, the plan termination has not been reflected below. The Ongoing Plan purchased a group annuity for all participants retired prior to January 1, 2000, for approximately $80.9 million. The ending balance of the fair value of plan assets for the Salaried and Ongoing Plans reflects lump sum payments made to former terminated vested participants in 2000. The total payment was approximately $23.6 million from the Salaried Plan. As of December 31, 2000, the Ongoing Plan assets included approximately 348,000 Shares of the Company's common stock.

The following table sets forth the benefit obligation, fair value of plan assets, and the funded status of the Company's pension and other benefit plans, amounts recognized in the Company's consolidated balance sheets at December 31, 2000 and 1999, and the principal weighted average assumptions inherent in their determination (amounts are in millions).

	Pension Benefits		Foreign Pension Benefits		Other Benefits	
	2000	1999	2000	1999	2000	1999
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation at beginning of year	$240	$271	$ 53	$80	$ 31	$ 36
Service cost	—	3	1	1	—	—
Interest cost	15	17	3	3	2	2
Actuarial (gain) loss	31	(34)	4	(4)	—	(5)
Acquisitions	—	—	37	7	—	—
Divestitures	—	—	—	(30)	—	—
Settlements	(105)	—	2	—	—	—
Effect of foreign exchange rates	—	—	(4)	(1)	—	—
Benefits paid	(1)	(17)	(2)	(3)	(2)	(2)
Benefit obligation at end of year	$180	$240	$ 94	$53	$ 31	$ 31
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	242	$240	63	$47	22	$ 20
Actual return on plan assets	31	18	6	12	—	2
Employer contribution	1	1	1	—	2	2
Acquisitions	—	—	37	8	—	—
Settlements	(105)	—	2	—	—	—
Effect of foreign exchange rates	—	—	(4)	(1)	—	—
Benefits paid	(1)	(17)	(2)	(3)	(2)	(2)
Fair value of plan assets at end of year	$168	$242	$103	$63	$ 22	$ 22
Funded status	$ (12)	$ 2	$ 9	$10	$ (9)	$ (9)
Unrecognized net actuarial gain	(20)	(43)	(4)	(6)	(3)	(6)
Unrecognized prior service cost	—	—	—	—	(1)	(1)
Accrued benefit cost	$ (32)	$ (41)	$ 5	$ 4	$(13)	$(16)
Amounts recognized in the consolidated balance sheets consist of:						
Prepaid benefit cost	$ —	$ 3	$ 8	$ 7	$ —	$ —
Accrued benefit cost	(32)	(44)	(3)	(3)	(13)	(16)
Net amount recognized at end of year	$ (32)	$ (41)	$ 5	$ 4	$(13)	$(16)

	Pension Benefits		Foreign Pension Benefits		Other Benefits	
	2000	1999	2000	1999	2000	1999
WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31,						
Discount rate	7.25%	7.25%	6.63%	6.02%	7.25%	7.25%
Expected return on plan assets	7.00%	7.00%	8.11%	7.00%	9.75%	7.00%
Rate of compensation increase	N/A	N/A	4.51%	4.52%	N/A	N/A

For measurement purposes, a 6.10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5.00% in 2002 and remain at that level thereafter. Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would not have a material effect on the total of service and interest cost components or on the postretirement benefit obligation.

	Pension Benefits			Foreign Pension Benefits			Other Benefits		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
COMPONENTS OF NET PERIODIC BENEFIT COST									
Service cost	$ —	$ 3	$ 15	$ 1	$ 1	$ 6	$ —	$ —	$ 1
Interest cost	15	17	18	3	3	5	2	2	2
Expected return on plan assets	(14)	(20)	(18)	(5)	(3)	(5)	(2)	(2)	(2)
Amortization of:									
Prior service cost	—	—	1	—	—	—	(1)	(1)	—
Actuarial (gain) loss	(1)	—	1	—	—	—	—	—	—
SFAS 87 cost/SFAS 106 cost	—	—	17	(1)	1	6	(1)	(1)	1
SFAS 88 charges:									
Special termination benefit charge (credit)	—	—	(1)	—	—	—	—	—	—
Curtailment charge (credit)	—	—	4	—	—	(1)	—	—	—
Settlement charge (credit)	(8)	—	—	—	—	5	—	—	—
Net periodic benefit cost	$ (8)	$ —	$ 20	$(1)	$ 1	$ 10	$ (1)	$ (1)	$ 1

	Pension Benefits		Foreign Pension Benefits	
	2000	1999	2000	1999
Plans with ABO exceeding assets at end of year:				
ABO	$12	$12	$ 1	$ 3
PBO	$—	$—	$ 1	$ 3
Fair value of plan assets	$—	$—	$—	$ 2

Defined Contribution Plans

The Company sponsors the Starwood Hotels & Resorts Worldwide, Inc. Savings and Retirement Plan, which is a voluntary defined contribution plan allowing participation by domestic employees that meet certain age and service requirements. Each participant may contribute on a pretax basis between 1% and 18% of his or her compensation to the plan. The plan also contains additional provisions for matching contributions to be made by the Company which are based on a portion of a participant's eligible compensation. The amount of expense for matching contributions totaled $17 million in 2000, $19 million in 1999 and $15 million in 1998.

Note 12. Leases and Rentals

At December 31, 2000, the Trust owned equity interests in 99 hotels, of which 90 properties were owned and 9 were held pursuant to long-term leases.

All of the Trust's hotels are leased to the Corporation as of December 31, 2000. The leases between the Trust and the Corporation are generally long-term and provide for annual base, or minimum rents, plus contingent, or percentage rents based on the gross revenues of the properties and are accounted for as operating leases. The leases are "triple-net" in that the lessee is generally responsible for paying all operating expenses of the properties, including maintenance, insurance and real property taxes. The lessee is also generally responsible for any payments required pursuant to underlying ground leases. Total rental expense incurred by the Corporation under such leases was approximately $520 million for the year ended December 31, 2000, of which approximately $169 million related to percentage rent.

The Corporation's minimum future rents (inclusive of various ground leases) at December 31, 2000 payable under non-cancelable operating leases with the Trust and with others for the years ended December 31 are as follows (in millions):

	2001	2002	2003	2004	2005	Thereafter
Trust	$ 27	$ 14	$ 9	$ 9	$ 9	$ 28
Other	63	50	47	46	42	463
Total	$ 90	$ 64	$56	$55	$51	$491

The Corporation and the hotels lease certain equipment and facilities for the hotels' operations under various lease agreements. The leases extend for varying periods through 2038 and generally are for a fixed amount each month. Future minimum lease payments under the non-cancelable operating leases are included in the other minimum future rents above.

Rent expense under other non-cancelable operating leases was $64 million, $41 million and $37 million in 2000, 1999 and 1998, respectively.

The Trust's rents receivable from the Corporation relating to leased hotel properties at December 31, 2000 and 1999 was $34 million.

Note 13. Equity Put Options

As a part of its Share repurchase program (see Note 14), the Company sold equity put options during 1998 for $1.8 million, which entitled the holder, at the expiration date, to sell one million Shares to the Company at contractually specified prices. During 1999, the Company repurchased 500,000 Shares for $16 million under a portion of the equity put option contracts and the remaining equity put option contracts expired.

In November 1999, in connection with the termination of a certain executive's employment, the Company granted this executive the option to cause the Company to purchase from the executive 566,166 Shares for a purchase price of $34.25 per Share. This option was exercisable in the fourth quarter of 2000 at which time the executive sold 366,166 of these Shares on the open market and put the remaining 200,000 Shares to the Company at a total cost of $6.9 million. The Company recorded the fair market value of the options as compensation expense of $6.7 million in 1999.

Note 14. Stockholders' Equity

Share Repurchases

In 1998, the Board of Directors of the Company approved the repurchase of up to $1 billion of Shares under a Share repurchase program (the "Share Repurchase Program"). Pursuant to the Share Repurchase Program, through December 31, 2000, Starwood has repurchased 15.8 million Shares (including 500,000 Shares of equity put option contracts) in the open market for an aggregate cost of $521 million. Additionally, the Company repurchased 6.8 million Shares for an aggregate cost of $385 million as settlement of the forward equity transactions described below.

Forward Equity Transactions

Pursuant to a Purchase Agreement dated October 10, 1997, the Company sold to UBS Limited ("UBS Ltd.") 2.185 million Shares ("UBS Shares") at a cash price of $57.25 per Share, and paid to Warburg Dillon Read LLC (formerly UBS Securities LLC), an affiliate of UBS Ltd., a placement fee equal to 2.5% of the gross proceeds to the Company from such sale of Shares. Concurrently therewith, the Company entered into an agreement that provided for a settlement payment to be made, in the form of Shares or cash, by the Company to an affiliate of Union Bank of Switzerland, London Branch, or by that affiliate to the Company, based on the market price of the Shares over a specified "unwind period," as compared to a "forward price." The Company settled its obligations under this agreement in September 1998 by repurchasing the UBS Shares for approximately $130 million in cash. As a result of this settlement, the Company has no further obligations under this agreement and Shares were reduced by approximately 2.185 million.

On February 24, 1998, the Company sold an aggregate of 4.641 million Shares to Merrill Lynch International, NMS Services, Inc., Lehman Brothers Inc. and certain affiliates for a cash purchase price per Share of $52.798, which price reflected a 2% discount from the last reported sale price of the Shares on the date of the purchase. Concurrently with these sales, the Company entered into three separate agreements with these purchasers and/or certain of their affiliates pursuant to which each of these purchasers or their respective affiliates agreed to sell, as directed by the Company in an underwritten fixed price offering or other specified methods, a sufficient number of the Shares to achieve net sales proceeds equal to the aggregate market value of the Shares purchased in February 1998, plus a forward accretion component, minus an adjustment for dividends paid on the purchased Shares. Additional Shares were required to be delivered by the Company as security in the event the market prices of the Shares dropped below certain specified levels. In October 1998, the Company settled its obligations under these agreements by repurchasing all of the Shares issued to these purchasers for an aggregate of approximately $255 million in cash. As a result of this settlement, the Company has no further obligations under these agreements and Shares outstanding were reduced by approximately 7.379 million (4.641 million original Shares issued and 2.738 million Shares previously issued as security).

Exchangeable Preferred Shares

During 1998, 6.3 million shares of Class A EPS and 5.5 million shares of Class B EPS were issued by the Trust in connection with the Westin Merger. Class A EPS have a par value of $0.01 per share and are convertible on a one-for-one basis (subject to certain adjustments) to Shares. Class B EPS have a liquidation preference of $38.50 per share and provide the holders with the right, from and after the fifth anniversary of the closing date of the Westin Merger, to require the Trust to redeem such shares at a price of $38.50. Shares of Class B EPS are convertible on a one-for-one basis (subject to certain adjustments) to Class A EPS. During 2000, the Trust consented to the conversion of approximately 508,000 shares of Class B EPS by certain stockholders into an equal number of shares of Class A EPS. Additionally, the Trust consented to the exchange of approximately 3.0 million shares of Class A EPS into an equal number of Shares. At December 31, 2000, the Trust had 150 million preferred shares authorized and 610,000 and 3.0 million of Class A EPS and Class B EPS outstanding, respectively.

Note 15. Stock Incentive Plans

In 1999, the Company adopted the 1999 Long-Term Incentive Compensation Plan ("1999 LTIP") which superseded the 1995 Share Option Plan (the "1995 LTIP") and provides for the purchase of Shares by Directors, officers, employees, consultants and advisors, pursuant to option grants. Although no additional awards will be granted under the 1995 LTIP, the 1995 LTIP will continue to govern awards that have been granted and remain outstanding under the 1995 LTIP. The aggregate number of Shares subject to non-qualified or incentive stock options, performance shares, restricted stock or any combination of the foregoing which are available to be granted under the 1999 LTIP at December 31, 2000 was approximately 15.9 million.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations; accordingly, compensation cost is not recognized for grants of stock options at market price. Had compensation cost for grants been determined based on the fair value of the options at the grant dates consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income would have been reduced by $92 million ($0.47 per basic Share), $76 million ($0.40 per basic Share) and $86 million ($0.46 per basic Share) in 2000, 1999 and 1998, respectively. The fair value of each option grant used in the 2000, 1999 and 1998 pro forma amounts was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998, respectively: dividend yield of 2.4%, 2.9% and 2.6%, expected volatility of 46.1%, 41.9% and 47.6%, risk-free interest rates of 6.5%, 6.3% and 4.5% and an expected life of three years for all options.

The following table summarizes stock option activity for the Company, including stock options granted to the gaming operation employees:

	Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 1997	13,268,977	$ 29.29
Granted[a]	19,783,847	43.18
Exercised[b]	(12,536,071)	28.45
Forfeited	(2,393,977)	44.61
Outstanding at December 31, 1998	18,122,776	43.80
Granted	9,155,246	23.76
Exercised	(346,575)	22.46
Forfeited	(6,009,005)	50.41
Outstanding at December 31, 1999	20,922,442	34.26
Granted	10,614,800	24.22
Exercised	(1,682,653)	21.10
Forfeited	(1,689,378)	33.96
Outstanding at December 31, 2000	28,165,211	$ 31.33
Exercisable at December 31, 1999	10,443,940	$ 35.36
Exercisable at December 31, 2000	13,362,454	$ 37.00

(a) Represents Company options of 17,055,147 outstanding at February 23, 1998 (the ITT Merger date) and shares granted by the Company during 1998.

(b) Represents options exercised during 1998, including the Sheraton Stock Options which were exercised upon the occurrence of the accelerated exercisability event (the ITT Merger).

The following table summarizes information about outstanding stock options at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price/Share	Number Exercisable	Weighted-Average Exercise Price/Share
$11.00 - $15.33	1,147,225	4.77	$15.17	1,147,225	$15.17
$17.41 - $21.81	2,023,460	8.76	21.40	768,960	21.22
$22.00 - $23.92	2,938,057	6.33	23.21	2,314,057	23.39
$24.00 - $24.00	11,340,093	8.75	24.00	1,068,122	24.00
$24.25 - $36.38	2,617,578	7.68	29.62	1,241,261	31.33
$36.54 - $47.00	2,005,319	6.92	40.35	1,563,894	39.79
$49.19 - $53.94	2,500,780	6.74	50.58	1,955,104	50.69
$54.63 - $58.81	3,592,699	7.10	54.70	3,303,831	54.69
Total/average	28,165,211	7.72	31.33	13,362,454	37.00

During 2000, the Company granted restricted stock awards for 197,089 Shares. Total restricted stock awards outstanding as of December 31, 2000 totaled 434,323 Shares, and approximately 44,948 Shares were vested. The remaining restricted stock awards vest at varying rates over four years from the award grant date. Compensation expense of approximately $3.8 million, $0.6 million and $16 million was recorded during 2000, 1999 and 1998, respectively, related to restricted stock awards.

Note 16. Derivative Financial Instruments

The Company enters into interest rate swap agreements to manage interest rate fluctuations of its variable rate debt. The Company currently has five outstanding interest rate swap agreements under which the Company pays a fixed rate and receives variable rates of interest. The aggregate notional amount of these interest rate swaps was approximately $1.052 billion and the estimated unrealized loss on these interest rate swaps was approximately $3.2 million at December 31, 2000. The unrealized loss represents the amount the Company would pay upon the termination of the swap agreements based on market rates.

The Company enters into forward foreign exchange contracts to hedge the foreign currency exposure associated with the Company's foreign currency denominated assets and liabilities. The Company currently has four forward foreign exchange contracts outstanding with a dollar equivalent of the contractual amounts of these hedges at December 31, 2000 of approximately $44 million. These contracts mature in 2001.

During 1998, the Company delayed a long-term debt offering due to market conditions and the Reorganization. As a result, certain of the Company's forward interest rate swaps with a notional amount of $500 million no longer correlated with this anticipated indebtedness. In accordance with the Company's accounting policies, these forward interest rate swaps were marked to market by the Company and, as such, the Company recognized a loss of $40 million during 1998, which is included in interest expense. These contracts were terminated by the Company in 1998.

Note 17. Related Party Transactions

General

Barry S. Sternlicht, Chairman, Chief Executive Officer and a Director of the Corporation, and Chairman, Chief Executive Officer and a Trustee of the Trust, controls and has been the President and Chief Executive Officer of Starwood Capital Group, L.L.C. ("Starwood Capital") since its formation in 1991. In addition, Madison F. Grose is a Senior Managing Director of, and holds direct and indirect interests in Starwood Capital and Jonathan D. Eilian (a former Director of the Corporation and Trustee of the Trust), holds direct and indirect interests in Starwood Capital. Prior to joining Starwood, Steven R. Goldman was an employee of Starwood Capital, and he continues to own an interest in certain portfolio investments of Starwood Capital.

Trademark License

An affiliate of Starwood Capital has granted to Starwood, subject to Starwood Capital's unrestricted right to use such name, an exclusive, non-transferable, royalty-free license to use the "Starwood" name and trademarks in connection with the acquisition, ownership, leasing, management, merchandising, operation and disposition of hotels worldwide, and to use the "Starwood" name in its corporate name worldwide, in perpetuity.

Starwood Capital Noncompete

In connection with the Restructuring, Starwood Capital agreed that, with certain exceptions, Starwood Capital would not compete directly or indirectly with the Company within the United States and would present to the Company all opportunities presented to Starwood Capital to acquire fee interests in hotels in the United States and debt interests in hotels in the United States where it is anticipated that the equity will be acquired by the debt holder within one year from the acquisition of such debt (the "Starwood Capital Noncompete"). During the term of the Starwood Capital Noncompete, neither Starwood Capital nor any of its affiliates is permitted to acquire any such interest, or any ground lease interest or other equity interest, in hotels in the United States. The Starwood Capital Noncompete continues until no officer, director, general partner or employee of Starwood Capital is on either the Board of Directors of the Corporation or the Board of Trustees of the Trust (subject to exceptions for certain restructurings, mergers or other combination transactions with unaffiliated parties). Several properties managed by the Company, including the Westin Innisbrook Resort ("the Innisbrook"), the Westin Savannah Harbor Resort and the Turnberry Hotel, were opportunities presented to the Company by Starwood Capital. With the approval in each case of the Audit Committee of the Board of Directors of the Corporation and the Board of Trustees of the Trust, from time to time the Company has waived the restrictions of the Starwood Capital Noncompete in whole or in part with respect to particular acquisition opportunities in which the Company had no interest.

Portfolio Investments

An affiliate of Starwood Capital holds an approximately 25% non-controlling interest in a golf course management company that currently manages over 40 golf courses, including seven golf courses that are amenities to resorts that the Company manages. An entity in which Messrs. Sternlicht, Eilian and Grose have indirect interests owns the common area of the Sheraton Tamarron Resort which the Company manages. In addition, an affiliate of Starwood Capital has an indirect interest of approximately 50% in an entity that manages over 40 health clubs, including health club and spa space in a hotel owned by the Company.

Other Management-Related Investments

Individuals affiliated with Starwood Capital, including Messrs. Sternlicht, Eilian and Grose, own indirect interests in an entity (the "Innisbrook Entity") that owns the common area facilities and certain undeveloped land at the Innisbrook. In May 1997, the Innisbrook Entity entered into a management agreement for the Innisbrook property with Westin, which was then a privately held company partly owned by Starwood Capital and Goldman, Sachs & Co. When the Company acquired Westin in January 1998, it acquired Westin's rights and obligations under this management agreement. The Company is currently attempting to resolve a disagreement with the Innisbrook Entity relating to various payment and other provisions of the management agreement.

Aircraft Lease

In February 1998, the Company leased a Gulfstream III Aircraft from Star Flight LLC, an affiliate of Starwood Capital. The term of the lease was one year and automatically renews for one-year terms thereafter until either party terminates the lease upon 90 days' written notice. The rent for the aircraft, which was set at approximately 90% of fair market value (based on two estimates from unrelated third parties), is (i) a monthly payment of 1.25% of the lessor's total costs relating to the aircraft (approximately $123,000 at the beginning of the lease with this amount increasing as additional costs are incurred by the lessor), plus (ii) $300 for each hour that the aircraft is in use.

Employee and Officer Loans

In connection with specific employees' and officers' relocation to Starwood headquarters in 2000, 1999 and 1998, Starwood made non-interest bearing loans to certain individuals. The original loan amounts totaled approximately $15 million and the amount outstanding at December 31, 2000 was approximately $13 million. These loans are generally due five years from the date of issuance or upon the individual's termination.

Note 18. Commitments and Contingencies

Litigation

The Sheraton Corporation ("Sheraton Corp.") (formerly ITT Sheraton Corporation), a subsidiary of the Company, is a defendant in certain litigation relating to Sheraton Corp.'s management of a hotel. The case is titled *2660 Woodley Road Joint Venture v. ITT Sheraton Corporation*, Civil Action No. 97-450-JJF (U.S.D.C., D. Del.). In December 1999, following trial, the jury returned a verdict finding that Sheraton Corp. had violated its contractual obligations to the hotel owner and awarded contractual damages totaling $11 million. The jury also found for plaintiff on certain common law and other claims and awarded compensatory and other damages of $2 million and punitive damages of $38 million. The jury found for Sheraton Corp. and rejected plaintiff's additional claims that Sheraton Corp. had violated the Racketeer Influenced and Corrupt Organizations Act, and that Sheraton Corp. had engaged in fraud. Sheraton Corp. believes that the jury's determination against it on liability issues was erroneous as a matter of law, and that the damage awards were excessive and not supported by the evidence. Sheraton Corp. has sought to have the verdict set aside in the trial court and, if necessary, will appeal to the United States Court of Appeals. There can be no assurance that Sheraton Corp. will be successful in having the verdict set aside or overturned or reduced on appeal, or that other owners of properties managed by Sheraton Corp. will not seek to assert similar claims.

The Company is involved in various other legal matters that have arisen in the normal course of business, some of which include claims for substantial sums. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While the ultimate results of claims and litigation cannot be determined, the Company does not expect that the resolution of all legal matters will have a material adverse effect on its consolidated results of operations, financial position or cash flow.

Environmental Matters

The Company is subject to certain requirements and potential liabilities under various federal, state and local environmental laws, ordinances and regulations. Such laws often impose liability without regard to whether the current or previous owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Although the Company has incurred and expects to incur remediation and other environmental costs during the ordinary course of operations, management anticipates that such costs will not have a material adverse effect on the operations or financial condition of the Company.

Captive Insurance Company

Through its captive insurance company, which was acquired in connection with the Westin Merger, the Company provides insurance coverage for workers' compensation, property and general liability claims arising at hotel properties owned or managed by the Company through policies written directly and through assumed reinsurance arrangements. Estimated insurance claims payable represent outstanding claims and those estimated to have been incurred but not reported based upon historical loss experience. Actual costs may vary from estimates based on trends of losses for filed claims and claims estimated to be incurred but not yet filed.

Estimated insurance claims payable at December 31, 2000 was $33 million. At December 31, 2000, standby letters of credit amounting to $25 million had been issued to provide collateral for the estimated claims. The letters of credit are guaranteed by the predecessor owner of Westin and Bankers Trust Company.

Guaranteed Loans and Commitments

The Company issues guarantees to lenders and other third parties in connection with financing transactions and other obligations. These guarantees were limited, in the aggregate, to approximately $82 million at December 31, 2000, including guarantees involving major customers. Additionally, the Company manages certain hotels for others under agreements that provide for payments or loans to the hotel owners if stipulated levels of financial performance are not maintained.

ITT Industries

In 1995, the former ITT Corporation, renamed ITT Industries, Inc. ("ITT Industries"), distributed to its stockholders all of the outstanding shares of common stock of ITT Corporation, then a wholly owned subsidiary of ITT Industries (the "Distribution"). In connection with this Distribution, ITT Corporation, which was then named ITT Destinations, Inc., changed its name to ITT Corporation.

For purposes of governing certain of the ongoing relationships between the Company and ITT Industries after the Distribution and spin-off of ITT Corporation and to provide for an orderly transition, the Company and ITT Industries have entered into various agreements including a spin-off agreement, Employee Benefits Services and Liability Agreement, Tax Allocation Agreement and Intellectual Property Transfer and License Agreements. The Company may be liable to or due reimbursement from ITT Industries relating to the resolution of certain pre-spin-off matters under these agreements.

Note 19. Business Segment and Geographical Information

The Company has one operating segment, hotels and leisure. The hotels and leisure segment represents a worldwide network of owned, leased and consolidated joint venture hotels, VOIs and resorts operated primarily under the Company's proprietary brand names including Sheraton, Westin, The Luxury Collection, St. Regis, W and Four Points by Sheraton hotels and resorts which are managed or franchised under these brand names in exchange for fees. Also included are earnings and losses from the Company's interest in unconsolidated joint ventures.

The performance of the hotels and leisure segment is evaluated primarily on operating profit before corporate selling, general and administrative expense, interest, gains on the sale of real estate, investments and restructuring and other special charges. The Company does not allocate these items to the segment.

The following table presents revenues, operating profit, assets and capital expenditures for the Company's reportable segment (in millions):

	2000	1999	1998
Revenues	$ 4,345	$ 3,829	$ 3,281
Operating profit[a]	$ 1,118	$ 921	$ 753
Depreciation and amortization	$ 481	$ 452	$ 378
Assets:			
Hotel and leisure	$12,529	$12,653	$11,827
Corporate	131	168	487
Discontinued operations	—	104	1,103
	$12,660	$12,925	$13,417
Capital expenditures:			
Hotel and leisure	$ 544	$ 521	$ 427

(a) The following costs are not allocated to hotel and leisure in evaluating operating profit (in millions):

	2000	*1999*	*1998*
Corporate selling, general and administrative	*$ 90*	*$ 77*	*$ 90*
Restructuring and other special charges	*$ —*	*$ 3*	*$149*

	Revenues			Long-Lived Assets		
(In millions)	2000	1999	1998	2000	1999	1998
United States	$ 3,230	$ 2,705	$ 2,180	$ 6,362	$ 6,329	$ 6,242
All other international	1,115	1,124	1,101	1,939	1,900	2,014
Total	$ 4,345	$ 3,829	$ 3,281	$ 8,301	$ 8,229	$ 8,256

There were no individual international countries which comprised over 10% of the total revenues and long-lived assets of the Company as of December 31, 2000, 1999 or 1998.

Note 20. Quarterly Results (Unaudited)

The following unaudited quarterly results for 2000 and 1999 have been restated from amounts previously reported by the Company for the reclassification in accordance with EITF Issue No. 00-1 (see Note 2).

	Three Months Ended				
(In millions, except per Share data)	March 31	June 30	September 30	December 31	Year
2000					
Revenues	$ 996	$1,142	$1,102	$ 1,105	$ 4,345
Costs and expenses	$ 811	$ 857	$ 834	$ 815	$ 3,317
Income from continuing operations	$ 53	$ 114	$ 103	$ 131	$ 401
Discontinued operations	$ —	$ 5	$ —	$ —	$ 5
Extraordinary item	$ (3)	$ —	$ —	$ —	$ (3)
Net income	$ 50	$ 119	$ 103	$ 131	$ 403
Earnings per Share:					
Basic —					
Income from continuing operations	$ 0.26	$ 0.58	$ 0.51	$ 0.66	$ 2.03
Discontinued operations	$ —	$ 0.02	$ —	$ —	$ 0.02
Extraordinary item	$ (0.01)	$ —	$ —	$ —	$ (0.01)
Net income	$ 0.25	$ 0.60	$ 0.51	$ 0.66	$ 2.04
Diluted —					
Income from continuing operations	$ 0.26	$ 0.56	$ 0.50	$ 0.64	$ 1.96
Discontinued operations	$ —	$ 0.02	$ —	$ —	$ 0.02
Extraordinary item	$ (0.01)	$ —	$ —	$ —	$ (0.01)
Net income	$ 0.25	$ 0.58	$ 0.50	$ 0.64	$ 1.97
1999					
Revenues	$ 842	$ 960	$ 948	$ 1,079	$ 3,829
Costs and expenses	$ 702	$ 689	$ 736	$ 861	$ 2,988
Income (loss) from continuing operations	$ (925)	$ 142	$ 44	$ 101	$ (638)
Discontinued operations	$ (7)	$ —	$ —	$ (64)	$ (71)
Extraordinary item	$ —	$ —	$ (2)	$ (30)	$ (32)
Net income (loss)	$ (932)	$ 142	$ 42	$ 7	$ (741)
Earnings per Share:					
Basic —					
Income (loss) from continuing operations	$ (4.86)	$ 0.76	$ 0.23	$ 0.51	$ (3.41)
Discontinued operations	$ (0.04)	$ —	$ —	$ (0.33)	$ (0.38)
Extraordinary item	$ —	$ —	$(0.01)	$ (0.15)	$ (0.17)
Net income (loss)	$ (4.90)	$ 0.76	$ 0.22	$ 0.03	$ (3.96)
Diluted —					
Income (loss) from continuing operations	$ (4.86)	$ 0.73	$ 0.23	$ 0.50	$ (3.41)
Discontinued operations	$ (0.04)	$ —	$ —	$ (0.32)	$ (0.38)
Extraordinary item	$ —	$ —	$(0.01)	$ (0.15)	$ (0.17)
Net income (loss)	$ (4.90)	$ 0.73	$ 0.22	$ 0.03	$ (3.96)

Note 21. Supplementary Financial Information (Unaudited)

The following table presents a reconciliation of operating income to EBITDA[1] (in millions):

Year Ended December 31,	2000	1999	1998
Operating income	$1,028	$ 841	$ 514
Depreciation[2]	418	394	318
Amortization	90	82	81
Interest expense of unconsolidated joint ventures	18	16	23
Interest income	19	16	26
Restructuring and other special charges	—	3	149
EBITDA	$1,573	$1,352	$ 1,111

(1) EBITDA is defined as income before interest expense, income tax expense and depreciation and amortization. Non-recurring items and gains and losses from sales of real estate and investments are also excluded from EBITDA as these items do not impact operating results on a recurring basis. Management considers EBITDA to be one measure of the cash flows from operations of the Company before debt service that provides a relevant basis for comparison, and EBITDA is presented to assist investors in analyzing the performance of the Company. This information should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States, nor should it be considered as an indicator of the overall financial performance of the Company. The Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

(2) Includes depreciation expense of unconsolidated joint ventures.

**To Starwood Hotels & Resorts Worldwide, Inc.
and Starwood Hotels & Resorts:**

We have audited the accompanying consolidated balance sheets of Starwood Hotels & Resorts Worldwide, Inc. (a Maryland corporation) and its subsidiaries (the "Company") and Starwood Hotels & Resorts (a Maryland real estate investment trust) and its subsidiaries (the "Trust") as of December 31, 2000 and 1999, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2000 of the Company and the consolidated statements of operations and cash flows for the years ended December 31, 2000 and 1999 and the period from February 23, 1998 to December 31, 1998 of the Trust. These financial statements are the responsibility of the Company's and Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Trust at December 31, 2000 and 1999, and the results of the Company's operations and cash flows for each of the three years in the period ended December 31, 2000 and the Trust's operations and cash flows for the years ended December 31, 2000 and 1999 and the period from February 23, 1998 to December 31, 1998 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

New York, New York
February 7, 2001

Starwood Hotels & Resorts Worldwide, Inc.
Starwood Hotels & Resorts

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Trust Company of the West

Bruce W. Duncan
Private Investor

Madison F. Grose
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Daniel W. Yih
Principal, Portfolio Management
GTCR Golder Rauner, LLC

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Pharos Capital Group, L.L.C.

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Executive Vice President, Chief Financial Officer

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Executive Vice President, Acquisitions and Development

David K. Norton
Executive Vice President, Human Resources

Kenneth S. Siegel
Executive Vice President, General Counsel and Secretary

Corporate Officers

James Hyman
Executive Vice President, Six Sigma

Jonathan Browning
Senior Vice President, Design

Jeff S. Drew
Senior Vice President, Corporate Finance and Treasurer

F. Daniel Gibson
Senior Vice President, Corporate Affairs

Robert C. Moore
Senior Vice President, Global Sales

William G. Oates
Senior Vice President and Chief Information Officer

James H. Sabatier
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Alan M. Schnaid
Senior Vice President and Corporate Controller

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President, North American Hotel Operations

Steven M. Hankin
President, STARS

Roeland Vos
President, Europe

Osvaldo V. Librizzi
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Miguel Ko
President, Asia Pacific

Sami H. Zoghbi
President, Africa, India, Middle East

Raymond L. Gellein, Jr.
Chairman and Chief Executive Officer
Starwood Vacation Ownership, Inc.

Jeffrey A. Adler
President and Co-Chief Executive Officer
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Starwood Vacation Ownership, Inc.
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Corporate rates available for Starwood shareholders through SPG membership

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Independent Auditors
Arthur Andersen LLP
New York, NY

Stock Registrar & Transfer Agent
Shareholders with questions concerning stock certificates, account information, dividend payments or stock transfers should contact our transfer agent.

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Form 10-K and Other Investor Information
A copy of the Joint Annual Report of Starwood Hotels & Resorts and Starwood Hotels & Resorts Worldwide, Inc. on Form 10-K filed with the Securities and Exchange Commission may be obtained by shareholders of record of the Corporation and the Trust without charge by calling 914-640-8100 or upon written request to:

Investor Relations
Starwood Hotels & Resorts Worldwide, Inc.
777 Westchester Avenue
White Plains, NY 10604
914-640-8100

Securities Information
The Shares of Starwood Hotels & Resorts Worldwide, Inc. are listed on the New York Stock Exchange under the symbol "HOT."

The following tables set forth, for the calendar quarters indicated, the high and low closing prices of the Shares as reported by the New York Stock Exchange and the dividends declared by the Trust per Share for such calendar quarter. The Corporation has not paid any dividends in the periods set forth in the table.

2000	High	Low	Dividends
Fourth Quarter	$37.50	$25.56	0.1725
Third Quarter	$35.18	$28.26	0.1725
Second Quarter	$33.14	$22.88	0.1725
First Quarter	$27.11	$19.30	0.1725

1999	High	Low	Dividends
Fourth Quarter	$24.50	$19.50	0.15
Third Quarter	$31.00	$21.75	0.15
Second Quarter	$37.75	$28.00	0.15
First Quarter	$34.19	$22.69	0.15

As of March 23, 2001 there were approximately 21,000 holders of record of Starwood Hotels & Resorts Worldwide, Inc. Shares.

(Note: This Annual Report contains certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated at the time the forward-looking statements are made, including, without limitation, risks and uncertainties associated with the following: the continued ability of Starwood Hotels and Resorts (the "Trust") to qualify for taxation as a REIT; Starwood's ability to attract and retain personnel; completion, terms and timing of future acquisitions and dispositions, the availability of capital for acquisitions and for renovations; execution of hotel renovation and expansion programs; the ability to maintain existing management, franchise or representation agreements and to obtain new agreements on favorable terms; competition within the lodging industry and from emerging technologies, the cyclicality of the real estate business; and the hotel business; foreign exchange fluctuations and exchange control restrictions; general real estate and national and international economic conditions; political, financial and economic conditions and uncertainties in countries in which Starwood owns property or operates; and the other risks and uncertainties set forth in the quarterly and current reports and proxy statements of the Trust and Starwood. Starwood undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.)

Design: SGI, New York, NY
Photography: Frank White, cover, pg 2; Michael O'Neill, page 7

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