The Walt Disney Company

ANNUAL REPORT 2002

CONTENT LISTING

FINANCIAL HIGHLIGHTS

(In millions, except per share data)	**2002**	2001
Revenues[1]	**$25,360**	$25,790
Segment operating income[1]	**2,826**	4,214
Diluted earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002, and gain on the sale of businesses[1]	**0.53**	0.97
Cash flow from operations	**2,286**	3,048
Borrowings		
Total	**14,130**	9,769
Net[2]	**12,891**	9,151
Stockholders' equity	**23,445**	22,672

[1] Pro forma revenues, segment operating income and earnings per share reflect the ABC Family Worldwide, Inc. acquisition, the conversion of the Internet group common stock, the closure of the Go.com portal business and the adoption of SFAS 142 as if these events occurred at the beginning of fiscal 2001.

[2] Net borrowings represent total borrowings less cash and cash equivalents.

Cover – Mission: SPACE, featuring next-generation technologies, was developed by Walt Disney Imagineers and debuts at Epcot in 2003.

LETTER TO SHAREHOLDERS

Top Row from Left: Lou Meisinger, Executive Vice President and General Counsel – Christine McCarthy, Senior Vice President and Treasurer – David Thompson, Senior Vice President, Assistant General Counsel and Corporate Secretary – Preston Padden, Executive Vice President, Worldwide Government Relations – Jack Garand, Executive Vice President, Planning and Control – Anne Buettner, Senior Vice President, Corporate Taxes – Salil Mehta, Executive Vice President, Corporate Business Development and Strategic Planning – Middle Row from Left: Wendy Webb, Senior Vice President, Investor Relations and Shareholder Services – John Renfro, Senior Vice President, Human Resources – Tom Staggs, Senior Executive Vice President and Chief Financial Officer – Roy Disney, Vice Chairman of the Board – Peter Murphy, Senior Executive Vice President and Chief Strategic Officer – Jody Dreyer, Senior Vice President, Disney Worldwide Outreach – Alan Braverman, Deputy General Counsel – Bottom Row from Left: Marsha Reed, Vice President, Governance Administration and Assistant Secretary – Bob Iger, President and Chief Operating Officer – Michael Eisner, Chairman and Chief Executive Officer – Valerie Cohen, Senior Vice President, Corporate Alliances – Zenia Mucha, Senior Vice President, Corporate Communications

TO FELLOW DISNEY OWNERS AND CAST MEMBERS:

Writing about our company's fiscal year that began 20 days after September 11, 2001, is challenging, but not as challenging as actually managing the company during this period. Helping to shepherd a company during boom times, during times of rapid growth in the economy and peace in the country is certainly more pleasant. But managing in difficult times is a real test of our 112,000 employees, a test of the very fabric of their talent and dedication. Whether keeping a smile on at our parks or presenting the news at ABC, or creating films and television shows or building attractions or stores or covering sporting events, our cast came through. The dedication of the working family of Disney was tremendous. And therefore in this annual report, I wanted to start by thanking everyone who works for your company for rising to the occasion. More than money was at stake. Reputation and responsibility and honesty had to take center stage. And they did.

Meanwhile, the fundamentals of The Walt Disney Company are sound and, despite the ramifications of terrorist threats, the fear of a war in Iraq and a very soft economy that affects all of our businesses, your company continues to generate outstanding creative product. The financial results are detailed in the pages that follow this letter. Suffice it to say that were the economy more robust and were the travel industry not in a slump, the numbers for 2002 would be much more positive. That said, and, based on all of the information at our disposal and barring a further downturn in the economy, we have projected 25-35 percent growth in earnings in 2003 and continued strong growth in 2004. This would put us soundly back on the growth track that our company is known for and that you, as shareholders, have every right to expect. We believe that this performance will result from the strategic action plan that was unanimously endorsed by the Disney Board of Directors in September. Central to the plan is a recognition of the enormous competitive advantage our company enjoys in the marketplace.

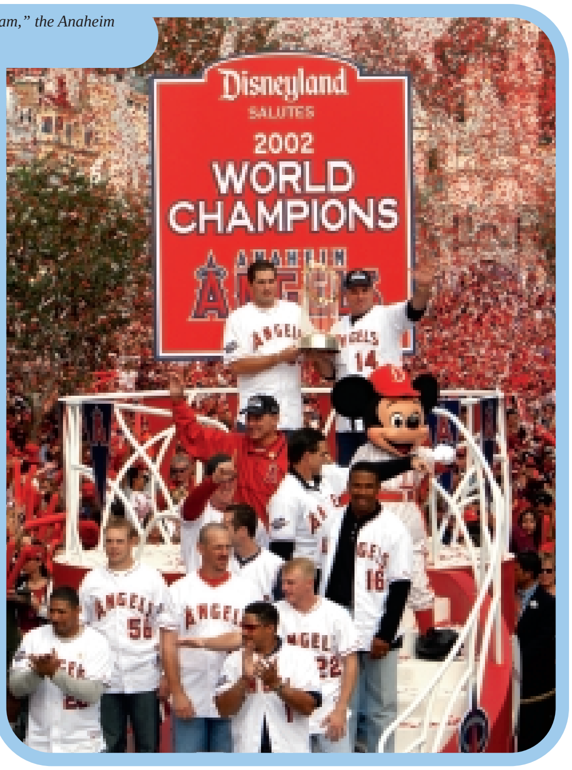
In business, competitive advantage can be established in a number of ways – by being a low-cost provider, by having a technological edge, by being first into a market or, at our company, by maintaining strong and differentiated brands, most notably the Disney and ESPN brands.

There are two principal attributes that make a brand powerful from a business perspective. It must be unique … and it must be relevant. Uniqueness is the quality that determines the ability to use the brand to differentiate one's products. In this sense, the Disney brand is truly unique. And ESPN, through considerable effort and investment, has also established its uniqueness despite the tough competition in the sports programming business. However, to be commercially powerful, a brand must also be relevant to consumers. Clearly, both Disney and ESPN pass this test. Disney is about family, fun and fantasy. ESPN embodies the edgy and irreverent excitement of sports.

All of this may seem obvious, but it is critical to understanding how we think about allocating time and capital in running our company. The past years have been disappointing in terms of earnings and stock price, but they have also been an exciting period of investment in our key brands … investment that I am confident will pay off well in the years ahead. These investments have protected, buttressed and built our Disney and ESPN brands to secure their competitive advantage for a very long time.

Let me give you one specific example. There is perhaps no single asset that is more symbolically significant than Disneyland. It was the first theme park and, in the eyes of many, it is still one of the best because of the wealth of experiences that await guests within its borders, delineated by its berm. However, outside the berm, development was chaotic. So, we started on a campaign to revitalize the resort district and to protect our surroundings through our government/business

At Disneyland, Mickey Mouse joins the ultimate "Cinderella team," the Anaheim Angels, in celebrating its first world championship.



partnership with Anaheim. We brought a hockey team to Anaheim, kept the Angels from moving to another city (and watched them become one of the all-time Cinderella teams!) and renovated the stadium in order to help the overall Anaheim economy and strengthen our relationship with the local community. These efforts helped make it possible for us to expand Disneyland into a full resort with a new theme park, new hotel, new shopping area and a garden district around these assets, complete with improved transportation access. It was a comprehensive solution, which is now in place and will allow the Disneyland Resort to thrive for as close to forever as we can foresee. And when you can count on a competitive advantage approaching "forever," you have laid the groundwork for serious long-term financial returns.

Here's a quick rundown of some of the other investments in our Disney brand that have been made:

- Since 1996, we've grown the Disney Channel from 15 million subscribers to more than 80 million. Internationally, we've nearly tripled our Disney Channel subscribers from just two channels in Taiwan and the United Kingdom to 18 million households, with 12 distinct channels reaching 55 countries.
- Toon Disney launched just four years ago. It is already in 34 million homes. Next up in our growing suite of Disney cable properties is Playhouse Disney, to be born out of a programming block that we've incubated on the Disney Channel over the past several years.
- Radio Disney, launched in 1997, is now heard on 51 stations in nearly 60 percent of the country.
- Disney Theatrical Productions has gone from one show – *Beauty and the Beast* – to four shows that can be seen in 16 productions in nine countries.

Microsoft Chairman Bill Gates and Disney Chairman Michael Eisner, along with Minnie and Mickey, unveil the new family-friendly Internet service called Disney on MSN®.

- Disney Animation has released 13 animated sequels theatrically or direct to video since 1994. Combined, these pictures are expected to contribute profits of approximately $1 billion over their lifetime as well as generate significant double-digit returns.
- Disney Internet Group has established relationships to provide Disney-branded content to 22 major cellular telephone carriers in more than 20 countries around the world, including Japan, Taiwan, Germany, the United States and the United Kingdom. In the fourth quarter of 2002, the Disney Internet Group became one of the few Internet operations to be actually profitable. It has also embarked on an exciting new partnership with MSN.
- In Florida, we launched the Disney Cruise Line, which has an operating profit per passenger day that is among the highest in the industry and which generates some of our best guest-satisfaction ratings.
- Disney Consumer Products has developed the innovative Princess line of merchandise, which has gone from $100 million in retail sales in 2000 to $700 million in 2002.
- The Walt Disney Studios has broadened the audience for Disney live-action films with hits like *Remember the Titans, The Princess Diaries, The Rookie* and *The Santa Clause 2*.
- We have reached an agreement with Bank One and Visa to issue an innovative new credit card that will give cardholders the ability to accumulate Disney Dream Reward Dollars that can be redeemed for practically anything at Walt Disney World, Disneyland Resort, Disney Cruise Line, Disney Catalog, the Disney Store and DisneyStore.com.
- And, around the world, since 1996 we have opened four new theme parks and added 8,500 hotel rooms, with 115,000 square feet of convention space. Today, Walt Disney World is the number-one tourist attraction in North America; Disneyland Resort in Paris is

ESPN's distinctive sports programming continues to attract fans across the country and around the world.

the number-one tourist attraction in Europe; and Tokyo Disneyland Resort is the number-one attraction in Asia.

Just as we have expanded the Disney brand, we have worked equally hard to build ESPN's market position and brand power. To fully appreciate ESPN's strength, consider the fact that more than 87 million Americans aged 12-64 watch, listen, read or log onto ESPN-branded media in the average week, representing 44 percent of all people 12-64. The average American spends 43 minutes with ESPN media (TV, magazine, Internet or radio) in the average day. Male sports fans on average spend an hour and 44 minutes with ESPN media each day – 2.4 times that of the average person. Here are some of the things we've done in the last few years to make ESPN such a powerful presence in our lives:

- In 1996, ESPN had two domestic channels. Today, there are four ESPN channels and the subscriber base has grown by tens of millions. ESPN International now reaches 119 million homes in 140 countries and territories.
- ESPN.com is the leading stand-alone sports site.
- *ESPN The Magazine*, launched in 1998, reaches 2 million readers worldwide, representing growth of 370 percent.
- ESPN Radio, launched in 2000 with 175 stations, none of them full-time, has grown to more than 700 stations, including 215 affiliates broadcasting ESPN 24 hours per day.
- ESPN has developed the X Games and has helped popularize the Skins Game.
- Toward the end of 2002, we announced the launch of *ESPN Deportes*, a 24-hour, Spanish-language sports network scheduled for the third quarter of 2003, and ESPN HD.

What these expansions and investments in Disney and ESPN have in common is that they all build on the uniqueness and relevance of these brands. In so doing, they have created a protective moat around these assets. In the case of the Disneyland Resort and Walt Disney World, the moat is literal as well as figurative; but in every case, these assets are safer and more secure so they can thrive in the years to come.

Of course, we have businesses outside of Disney and ESPN. But they really must be considered in the context of these two main brands.

First and foremost is the ABC Television Network and our 10 owned stations. The network and our stations enhance our Disney and ESPN cable businesses, and vice versa.

Consider, for example, the programming match between our cable networks and specific businesses of the ABC Television Network. Children's programming on Saturday morning and *The Wonderful World of Disney* on Sunday relate to the Disney Channel and Toon Disney. ABC's hugely successful daytime dramas made it possible to launch and program SOAPnet. ABC Sports is an important promotional and programming partner with ESPN. The two, in tandem, strengthen each other, as evidenced by the companion programming of the Super Bowl. We think ownership of both ABC Family and the network provides exciting possibilities of using network primetime programming in a way that builds viewer awareness and excitement about a program and enhances the success of both platforms.

In short, thanks to our remarkable wealth of complementary cable assets, we have been able to create a fundamentally new model for managing the ABC Network that advantageously integrates the broadcast world with the cable world.

It is important when considering ABC to keep this model in mind. It should allow us to optimize any success that the network achieves. And, success is what we're beginning to see. After…let's be frank, after a lousy 2001-2002 season, the new primetime season is very encouraging. *8 Simple Rules for Dating My Teenage Daughter, Life with Bonnie*, *Less Than Perfect* and *The Bachelor* are solid successes, and *Monday Night Football* has seen consistently higher ratings since the pairing of John Madden with Al Michaels in the broadcast booth. *My Wife and Kids, The George Lopez Show, Alias* and *The Practice* are showing solid performance and staying power; and *NYPD Blue* remains a great TV franchise.

Looking ahead, let me first state the truism that lean times make for lean organizations. During the last few years, we have instituted a number of initiatives that have resulted in substantial savings … savings that will power growth in the future.

And, guided by our action plan, solid and steady growth is what we envision. The plan continues to emphasize the importance of our brands, but it represents a fundamental shift of emphasis from our company's recent history. Whereas the hallmark of the last five years has been investment, the next five years will be primarily about reaping the fruits of that investment. One natural outgrowth should be a strong increase in free cash flow. Needless to say, we will continue to put resources in new opportunities as they emerge, but we now have a wide-ranging infrastructure supporting Disney and ESPN that will allow us to hold down capital expenditures while we seek to increase cash flow by building the audiences for the branded businesses we have created.

Within these businesses, we will continue to work at creating the finest content possible. After all, it's called the Entertainment Industry for a reason. We're here to entertain people. If we continue to do this, we will be successful.

The holiday season is upon us as I write this letter. I am thankful that my entire extended family is in good health, that the company is in good health, and that my three sons are all working. They are no longer part of the home laboratory of children that I have used for the last 18 years to stay on top of pop culture. I now await grandchildren for the lab to be replenished.

I am very excited about the company and the progress we've made in the last six months. Of course, just when I thought everything was moving forward perfectly, the animated movie *Treasure Planet* did not meet our expectations at the box office. It's really a very good movie that never punched through in the crowded movie marketplace to get noticed. Either we mis-marketed it, or the idea wasn't appealing, or the stars were not aligned. But one thing it did teach us: the entertainment business is fickle. Failure is educational. It keeps one humble. We must and do learn from these failures; they instruct the future. But our job is to produce success, and success will remain our singular focus and defining measure of performance.

The cover of this annual report provides one dramatic example of the kind of entertainment that people can get only from Disney. It is the *Mission: SPACE* pavilion at Epcot. This attraction, opening in 2003, will provide guests with sensations of lift-off, weightlessness and re-entry that, until now, were experienced only by astronauts and cosmonauts. Sponsored by Compaq, this will be a spectacular and unique entertainment experience … unless you can book a flight on the Space Shuttle. I've almost gotten up the courage to go on it.

Across our company, you can expect similar innovations in entertainment. The Studios will be releasing films like *Pirates of the Caribbean, The Alamo* and *The Haunted Mansion*. Walt Disney Animation is creating some of its best productions ever, from such theatrical releases as Disney/Pixar's *Finding Nemo* and *Bears* to the inventive TV fare of *Kim Possible* and *Teacher's Pet*. ABC has a number of great new shows for the midseason and fall of 2003. ESPN will be expanding on the kind of original entertainment it launched with 2002's highly successful *A Season on the Brink*. Our parks will continue to be "plussed" by wonderful new attractions, such as *Twilight Zone Tower of Terror,* coming to Disney's California Adventure in 2004 and, of course, *Mission: SPACE*, plus the addition of an entirely new theme park, Hong Kong Disneyland, for which we're breaking ground in January. Disney Consumer Products is creating a tremendous line of inventive toys that would be great for anybody's children or grandchildren.

All of these plans, strategies, and trends combine to make me as bullish about the company's prospects as I've been since arriving at Disney. I came to the company at a time when the market did not fully appreciate the potential of this company. I believe that we are once again at a point where there is a disconnect between Disney's underlying strength and potential and the market's perception of its strength and potential. Indeed, today Disney has far greater reach and depth as a media and entertainment company than at any time in its extraordinary existence.

To help make sure that The Walt Disney Company continues to serve the best interests of its shareholders, we are instituting new rules for board governance, which will reduce the number of board members and enhance the independence of the board. This should further enhance accountability and encourage the flow of fresh ideas at the highest levels of our company. The steps we took along these lines in 2002 earned praise from a number of business analysts, including *BusinessWeek*. We intend to maintain a leadership position in this all-important area.

I am pleased to institute these board governance reforms because, after all, I am a Disney shareholder too. By far, my largest personal holdings are in Disney stock, and I added a considerable amount to these holdings during the past year. I did so quite simply because I believe in this company. And, as a fellow shareholder, my interests are quite literally your interests in seeing Disney achieve sustainable long-term growth reflected in a steady appreciation of the company's share price.

Toward this end, of great importance to us as shareholders is the fact that Disney has a healthy and very transparent balance sheet. As the integrity of our products has always earned the faith and trust of consumers, so too should the integrity of our business practices earn the faith and trust of investors. Combine this with an increasingly lean and cost-conscious culture, a management team that boasts both strength and depth, and brands that give us a clear, sustainable competitive edge. The result is a company in a class of its own that is poised to renew the kind of historical growth that has also been in a class of its own.

Overseeing this great company is a team of executives that is second to none in the entertainment industry. Most of these talented colleagues are not known to you, so we are using this year's annual report as a way to highlight some of them. As you will see, along with the discussions of each business unit are pictured the most senior executives who drive the decisions of The Walt Disney Company. Even when Walt Disney was in charge, this company was never about a single person. Rather, it was about a team of individuals with complementary talents. I'm afraid we can't include the names and photos of all 112,000 people who make up the full Disney team, so instead we thought you'd appreciate getting to know a portion of the managers who are responsible and accountable for the performance of your company.

The team that guides this company is hopeful that the recent worldwide down cycle is nearing its end and that soon our financial results will no longer be adversely affected by conditions outside of our control. As for the trends within our control, they are moving in the right direction. With this in mind, let me say that it has been a privilege once again to serve this extraordinary enterprise and I look forward to writing you next year with a report that I strongly expect will highlight the return to the steady and profitable growth for which Disney has long been known.

Sincerely,

Michael D. Eisner

Chairman and CEO

December 16, 2002

FINANCIAL REVIEW

OVERVIEW

The Walt Disney Company's primary financial goals are to maximize earnings and cash flow from existing businesses and to allocate capital profitably toward growth initiatives. In pursuing these goals, management is focused on the continued development of the company's powerful brands in order to maintain the ongoing competitive advantage they confer. In this way, Disney constantly strives to maximize long-term value to shareholders. Management measures each of its businesses by its contribution to cash flow growth, return on investment and profitability. Management also evaluates allocation of capital to existing businesses, new initiatives, stock repurchases and acquisitions on the basis of their long-term contribution to shareholder value. At the same time, the company adheres to a strong ethical code of conduct, with sensitivity to all of its stakeholders – including shareholders, cast members, suppliers and the communities in which it operates.

RECENT PERFORMANCE

In order to manage successfully through the challenges that 2002 presented, Disney remained focused on growing the strength of its brands and share of market and on delivering outstanding creative content within an appropriate financial framework.[1]

Despite the economic downturn, 2002 represented a positive turning point for Disney, marking both the end of a five-year period of aggressive capital investment in theme parks and the point when longstanding efforts to strengthen key business segments, including Studio Entertainment and Consumer Products, began to bear fruit.

The company's efforts to rationalize its cost base, coupled with a focus on the creation of shareholder value, also established 2002 as the starting point for the next phase of Disney's growth. As the economy rebounds, management believes that the company is in a strong position to deliver growing earnings and cash flow as well as steady increases in capital returns. In fact, the company expects to deliver earnings growth for 2003 that is 25-35 percent above the $0.53[2] posted in fiscal 2002.

STRENGTHENED ASSET BASE / CAPITAL INVESTMENT

Since 1996, the company has invested significant capital to either buy or build assets to fortify the leading market position of its key Disney and ESPN businesses, and to effectively safeguard both the uniqueness and the relevance of these key branded products.

This capital investment has created a large-scale infrastructure to support both Disney and ESPN operations. Going forward, the company expects that the competitive advantage these investments yield – and the associated extension of the company's branded operations such as new theme parks, hotels, cable networks, radio networks and a cruise line – will enhance Disney's ability to deliver greater investment returns in the future.

Having largely completed its cycle of capital investment in theme parks, the company's overall capital spending for 2002 declined to approximately $1.1 billion from $1.8 billion in 2001. In theme parks alone, capital spending decreased by more than $600 million.

[1] A more detailed description of 2002 results can be found in the section of this Annual Report titled Management's Discussion and Analysis of Financial Condition and Results of Operations.
[2] Pro forma, excluding one-time charges.

CAPITAL EXPENDITURES

in millions

Additionally, the company's successful efforts to maintain reduced film investment levels continued into 2002. The total of Disney's direct production costs, overhead and promotion and advertising spending for its 2002 live-action slate across all of its film labels, including Miramax, was roughly $300 million below the company's peak levels in 1998.

The adoption of new digital techniques that greatly streamline the production process has also resulted in reduced costs in Disney's animation division. Given the long production lead time on these films, management expects to see the full impact of these cuts over the next several years. While total film development expenditures for the Studios segment will vary year to year depending upon the mix of films released, the company is targeting an ongoing investment level for Studio Entertainment that is roughly in line with 2002 figures.

With the completion of most large-scale discretionary capital spending at theme parks and ongoing control of investment spending at the Studios and in other operations, management anticipates improved asset utilization and strong free cash flow in the years to come.

OPERATING EFFICIENCY

Management continues to instill a fundamental attitude about efficiency and cost containment throughout the company's businesses and to weave this attitude into the fabric of day-to-day operations. Despite continued upward pressure on costs, over the past several years the company has undertaken initiatives that account for more than $1 billion in annualized cost cuts.

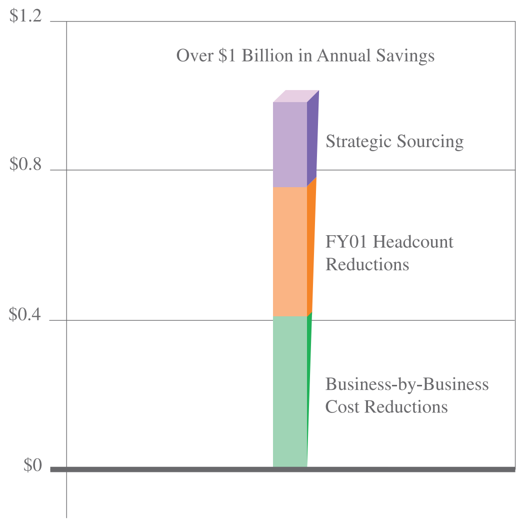
One of the largest-single contributors to this effort was Disney's Strategic Sourcing and Procurement group, established in 1999 to leverage Disney's buying power and increase the sophistication of its supply chain and procurement practices. Strategic Sourcing passed the target of $300 million in annualized savings in 2002, more than a year ahead of schedule. The company expects the impact of Strategic Sourcing and Procurement on Disney's cost structure to continue to grow as this discipline becomes increasingly pervasive across a larger percentage of company spending with suppliers. As a result, cost savings will continue to increase over the next several years.

A largely voluntary reduction of roughly 4,000 employees in 2001 also helped Disney's cost containment into 2002. The company currently benefits from approximately $350 million in annual savings as a result of this reduction in workforce.

Similarly, other business-by-business cost-containment efforts have yielded more than $400 million in additional annual savings over the last three years.

COST REDUCTIONS

annual impact in billions



In addition to the more than $1 billion of permanent reductions cited above, in 2002 business units also worked to reduce variable operating expenses to mitigate the effects of a slower U.S. economy and disruptions in travel and tourism.

At Parks and Resorts, several hundred cost-containment programs were put into place at Walt Disney World and at Disneyland, yielding a reduction in operating expenses of almost a quarter of a billion dollars in 2002. These programs included freezing hiring and salary increases, voluntarily reducing hours worked and closing selected entertainment and food and beverage offerings in response to lower demand.

Although the majority of these savings were volume-related and therefore temporary, the success of these programs reflects both the flexibility of Disney's theme park operations and the company's commitment to making effective cost control a fundamental part of its business culture. Disney will manage its cost base aggressively and anticipates that these efforts will continue to be an essential element in improving the company's profitability.

SHAREHOLDER VALUE

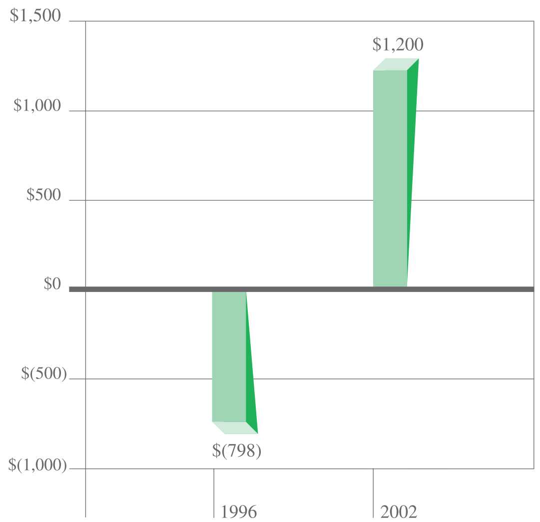
Management is committed to running its businesses with a day-to-day focus on creating long-term value for shareholders. The company's objectives in this regard include not only growth in earnings, but also improved cash flow and return on investment.

Disney pursues this vision as an integral part of the annual plan process by identifying and budgeting for key drivers of shareholder value for each business. Senior management receives monthly reports tracking performance against budget for each business, and evaluates cash flow measures every month and in the company's annual and five-year plans. The company believes that this focus on the fundamental drivers of shareholder value has improved its ability to deliver future earnings growth and steady improvement in return on invested capital and return on equity.

Overall, since the acquisition of Capital Cities/ABC in 1996, operating cash flow has increased at a compound annual growth rate of 16 percent and free cash flow has grown from roughly negative $800 million in 1996 to positive $1.2 billion in 2002, nearly as much as the company generated in 2001, despite this year's challenging environment.

FREE CASH FLOW

in millions



BALANCE SHEET

Throughout the recent economic downturn, Disney has maintained a strong balance sheet and liquidity, allowing the company to borrow at attractive rates and creating value for shareholders by reducing the company's cost of capital. As of the end of fiscal year 2002, Disney maintained net borrowings of $12.9 billion. While management believes that current debt levels allow for sufficient financial flexibility to borrow should sound business opportunities present themselves, the company still seeks to improve its credit statistics by reducing debt somewhat, in conjunction with an improvement in operating and free cash flow.

FINANCIAL REPORTING

The company strives to make its financial statements both complete and clear and to apply the same standards of quality and integrity to accounting practices that are applied to the protection and development of the Disney brand itself.

As part of its ongoing effort to make the company's reporting ever more helpful to investors, management took steps in 2002 to further enhance the level of disclosure and detail for items like investment and interest income, film costs, pension fund accounting, debt schedules and stock options.

SHAREHOLDER RETURNS

Disney regularly returns value to shareholders through dividend distribution and share repurchase. Over time, Disney has distributed significant amounts of capital to shareholders through cash dividends, including over $430 million in dividends to be paid to shareholders in January 2003.

Additionally, Disney has managed its capital base and returned value to shareholders through stock repurchases. Since 1984, Disney has invested $4.4 billion to buy back nearly 550 million shares at an average price of under $8 per share.

As it has for nearly eight decades, The Walt Disney Company continues to pursue steady earnings growth through prudent investment, effective cost management and fiscal responsibility. This philosophy has served the company and its long-term investors well through both difficult and prosperous times. Disney has responded to the challenges of 2002 with a keen focus on managing every aspect of its business to further improve shareholder value, earnings and cash flow. As the economy returns to prosperity, Disney is well positioned to continue to build on its historical success.

DISNEY HAND

Worldwide Outreach for The Walt Disney Company

Dedicated to making the dreams of families and children a reality through public service initiatives, community outreach and volunteerism in the areas of learning, compassion, the arts and the environment.

Mission Statement
DisneyHand

The Santa Clause 2 *World Premiere continued a 55-year relationship between Disney and Toys for Tots that began with Walt Disney. Walt designed the logo still in use today by Toys for Tots, and this past year Disney donated over 100,000 toys.*

"We couldn't be more pleased that Disney has recognized the value of volunteerism and has selflessly offered its valuable time and resources, and its respected brand, to promote service to the community."

-Robert K. Goodwin, President and CEO of the Points of Light Foundation

More than 2,000 Disney VoluntEARS participated in CHOC Walk for the Children's Hospital of Orange County. For the first time, this annual fund-raising event took place at the Disneyland Resort.

Mary Poppins visits with a Make-A-Wish child. A Disney-related experience is the first choice of families benefiting from the Make-A-Wish Foundation. Through the Foundation, children with life-threatening illnesses – and their families – visit Disney parks or enjoy other Disney experiences.

"Nothing could prepare us for the magic our Make-A-Wish trip brought to our family. The kindness that all of the Disney employees showed to my daughter, Laura, was unbelievable. They say that there are 'defining moments' in one's life that are so powerful they have an everlasting impact. Our trip to Disney was definitely a 'defining moment.' It was the day I saw my little girl's eyes shine without fear again!"

-Mother of a Make-A-Wish child

"I thank The Walt Disney Company for being at the forefront of spending time, money and energy - and daring to do for my beloved profession."

-A Disney's American Teacher Awards Honoree

Children from a New York neighborhood, in partnership with Disney VoluntEARS and CITYArts, spent the summer painting a mural honoring New York's heroes while beautifying their local playground.

Local school children were invited to the launch of Reading Together at the U.S. Coast Guard Base in Los Angeles Harbor.

At the Siyazama Daycare Center in Hout Bay, South Africa, Disney VoluntEARS renovated the rundown center to create a better environment for the children. This is one of more than 1,000 Disney VoluntEAR projects and programs conducted globally last year in which Disney Cast Members contributed more than 350,000 hours of service to the community.

"On behalf of First Book and the children we serve, thank you for your support of First Book through Reading Together. Disney has always been a wonderful part of growing up in America, and we are proud to be part of your continuing efforts to brighten the future of the next generation. Because of our work together, children across the country will have the chance to own books that can help them dream, explore and imagine."

-Kyle Zimmer, President of First Book

Putting a smile on a child's face, creating magical experiences for families and providing creative voyages into the world of the imagination are all part of the Disney legacy. DisneyHand, along with many compassionate cast members – the Disney VoluntEARS – takes the magic of The Walt Disney Company to those in need.

Compassion at DisneyHand can take many forms: cheering on an athlete at the Special Olympics, holding a party at a children's hospital, granting the wishes of children with life-threatening illnesses, "adopting" disadvantaged families and giving them a truly memorable holiday, or providing support for families in crisis, including those of the victims of the September 11, 2001, attacks.

Years ago, The Walt Disney Company partnered with Toys for Tots in the launch of the first Toys for Tots campaign. During 2002, Disney announced renewal of its relationship with Toys for Tots to help ensure that as many children as possible receive a toy during the holiday season.

During 2002, DisneyHand launched its Reading Together program to encourage parents and caregivers to read with children in ways that are fun and engaging. As part of this effort, DisneyHand has partnered with non-profit First Book, which provides books to children who have none. Disney Publishing Worldwide has committed 1 million books to First Book as part of the initiative. Messages sharing DisneyHand's 10 *"Reading Together Tips"* have been broadcast on ABC, Disney Channel and across the ABC Cable Networks Group. DisneyHand also is the proud sponsor of *"Reading Together with Laura Bush,"* a new program on Radio Disney hosted by the First Lady and featuring celebrity readers and tips for great reading experiences.

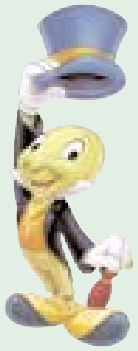
Since 1989, DisneyHand has celebrated the teaching profession with Disney's American Teacher Awards. This unique program honors America's most creative educators and supports them in their continuing quest for excellence. More than 100,000 teachers are nominated for this program annually – by students, parents and educators.

Working with arts organizations, DisneyHand helps children expand their communications skills through creative, hands-on projects. Last year in lower Manhattan, Disney VoluntEARS worked with children in a program called CITYArts. The team helped the children create a mural celebrating the diversity of New York City and honoring its heroes. This mural now beautifies the young artists' neighborhood playground.

Volunteerism – the notion of giving back – is a key component to all Disney outreach programs. Disney VoluntEARS are out in force every day, working to make our communities better. Disney Adventures All-Stars, a partnership with Disney Adventures Magazine and Disney Channel, seeks to get children involved in doing good by recognizing their accomplishments. In response to the September 11 attacks, Disney became a major sponsor of the Unity in the Spirit of America Initiative, encouraging people to do volunteer projects in their local communities in memory of those who were lost.

DisneyHand works around the world, combining the talent and resources of The Walt Disney Company to help strengthen communities. In 2002, Disney contributed more than $140 million in cash, in-kind support, product donations and public service broadcast time supporting global, national, regional and local initiatives from Hong Kong to Buenos Aires to Chicago to London.

WALT DISNEY ENVIRONMENTALITY



Recycling is an important Environmentality initiative (top).
President Bush chats with participants in Wonderful Outdoor World program (left).
Roy Disney celebrates Jiminy Cricket's Environmentality Challenge (right).

"You've probably heard people talk about conservation. Well, conservation isn't just the business of a few people. It's a matter that concerns all of us. It's a science whose principles are written in the oldest code in the world, the laws of nature. The natural resources of our vast continent are not inexhaustible. But if we will use our riches wisely, if we will protect our wildlife and preserve our lakes and streams, these things will last us for generations to come."

– Walt Disney

These words, spoken more than 40 years ago, provide the beacon today for Environmentality. Environmentality is more than a slogan – it is a way of doing business at Disney, and it means integrating the company's business needs with its environmental values and concerns. Because Environmentality is a fundamental business ethic, The Walt Disney Company has excelled in environmental achievement.

In 1990, The Walt Disney Company launched its Environmentality program – a dynamic, far-reaching effort that encourages employees to think and act "environ-mentally." This company-wide effort encourages and rewards those who commit to positive environmental practices at home and on the job. Disney's senior management is strongly committed to seeing that this philosophy is applied to our businesses and our strategic plans for the future.

Disney has a consistent goal of putting forth efforts beyond compliance with environmental laws and regulations. Environmentality is practiced through purchasing recycled products, minimizing waste, conserving resources, conducting research, being involved in the community and educating employees – all significant activities that contribute to the company's environmental successes.

Environmentality highlights this past year include:

- **Educational Outreach** – Jiminy Cricket's Environmentality Challenge and WOW – Wonderful Outdoor World – together introduced environmental education and consciousness to more than 100,000 young people.

- **Recycling and Waste Minimization** – More than 40,000 tons of recyclables were collected worldwide from resort guest rooms, theme park on-stage areas, and back-of-house sites.

- **Purchasing** – Initiatives to purchase more environmentally friendly products and systems benefit the environment and often save money as well. For example, the use of energy-efficient light bulbs and ballasts saves the company millions of dollars annually.

- **Community Outreach** – More than 900 Disney VoluntEARS donated nearly 4,600 hours to environmental projects worldwide.

- **Resource Conservation** – Additional initiatives at the Walt Disney World Resort have reduced potable water consumption by 2 billion gallons and energy usage by 12.7 million kilowatt hours.

- **Reducing Landfill –** Last year, the company gave more than 50 tons of unwanted furniture, old electronics products and miscellaneous materials to some 50 non-profit organizations that reuse them, thus greatly reducing the amount of refuse going to landfills.

Disney has received several major awards in recognition of the success of Environmentality. In 2002, for example, the company received the U.S. Environmental Protection Agency (EPA) Waste Wise Partner of the Year Award; was recognized as part of the U.S. EPA Commuter Choice℠ Leadership Initiative; and won the Orange County (Calif.) Transportation Authority's Transportation Partnership Award.

PARKS AND RESORTS

Back row, left to right – Matthew A. Ouimet, Executive Vice President New Business Initiatives, Walt Disney Parks and Resorts and President, Disney Cruise Line – Cynthia Harriss, President, Disneyland Resort – Donald W. Goodman, President, Walt Disney Imagineering – Mas Imai, Executive Vice President, Walt Disney Attractions Japan, Ltd. and Disneyland International, Inc. – Byron Pollitt, Executive Vice President and Chief Financial Officer, Walt Disney Parks and Resorts – Al Weiss, President, Walt Disney World Resort – Front row, left to right – James A. Rasulo, President, Walt Disney Parks and Resorts – Martin A. Sklar, Vice Chairman and Principal Creative Executive, Walt Disney Imagineering – Regynald Washington, Vice President and General Manager, Disney Regional Entertainment – Donald C. Robinson, Executive Vice President, Hong Kong Disneyland.

Guests enter Chester & Hester's Dino-Rama! at Disney's Animal Kingdom.

The grand entrance to Walt Disney Studios at Disneyland Resort Paris (top).
Fireworks light up Sleeping Beauty Castle at Disneyland (left).
At Tokyo Disneyland, guests enjoy Christmas Fantasy *at Cinderella Castle (right).*

PARKS AND RESORTS

In 2002, Walt Disney Parks and Resorts continued its international and domestic expansion while preserving the key family entertainment and quality service characteristics that have made Disney parks the world's most popular tourist destinations since Disneyland opened in Anaheim nearly 50 years ago.

Among the year's highlights was the inauguration of the Walt Disney Studios Park at Disneyland Resort Paris during the resort's 10th anniversary celebration. The new park brings a broad range of additional shows and attractions to Europe's number-one tourist draw.

Disney now offers four captivating destination resorts in three countries – the United States, Japan and France – each featuring multiple theme parks, first-rate accommodations and bustling nighttime centers for dining, shopping and entertainment. Work is underway on a fifth resort, Hong Kong Disneyland, scheduled to open on Lantau Island in late 2005 or early 2006.

In June, the company introduced an innovative safety initiative with the release of its first *Report on Safety* and announced the appointment of a chief safety officer responsible for all aspects of attraction safety efforts. This year, the initiative will include an education campaign featuring Disney characters and targeting young families in the parks and surrounding communities.

DISNEYLAND RESORT

Last year marked the first anniversary of several major offerings, including Disney's California Adventure™ theme park, Disney's Grand Californian Hotel®, and the Downtown Disney® District for shopping, dining and entertainment.

Disney's California Adventure presented a huge line-up of live entertainment, including sensational stage productions, electrifying live music and numerous celebrity appearances. The park offered Broadway-caliber entertainment with an adaptation of the Tony-Award® winning musical *The Power of BLAST!* and *Disney's Aladdin – A Musical Spectacular. Disney's Rockin' the Bay*, a summer-long live music series, featured 18 famous music groups. Guests had plenty of opportunities to see some of their favorite stars during events like *Lilo & Stitch's Ohana Luau, Festival Latina*, celebrating Hispanic Heritage Month, the *ABC Super Soap Weekends* and the *ABC Primetime Preview Weekend*.

In October, Disney's California Adventure opened a new venue – *a bug's land*, where being small is big fun. Inspired by characters from the Disney/Pixar animated film, *A Bug's Life*, the new land features *Flik's Fun Fair*, with five new attractions for children and families.

At Disneyland Park, the "silly Old Bear" is coming to Critter Country with the opening of *The Many Adventures of Winnie the Pooh* attraction this spring. In addition, the immensely popular *Twilight Zone Tower of Terror* is scheduled to open at Disney's California Adventure in 2004.

Mickey's Detective School offered a family-oriented interactive mystery musical, while modern-day Disney masterpieces honoring the 100th anniversary of Walt Disney's birth were showcased in Eric Robison's *One Hundred Mickeys* art exhibition at The Disney Gallery. The holidays were brought to life with the *Believe…In Holiday Magic* fireworks spectacular and the return of the *Haunted Mansion Holiday* attraction.

The Disneyland Resort's world-class lodging, dining and shopping experiences continue to garner widespread recognition. In 2002, Disney's Grand Californian Hotel received the prestigious AAA Four Diamond Award. The nationally acclaimed Napa Rose restaurant was the Zagat Survey's "Best New Restaurant in Southern California" and earned numerous honors for its extraordinary cuisine, wine list and service. The Downtown Disney entertainment district has become a gathering place for local residents, conventioneers and resort guests alike.

WALT DISNEY WORLD RESORT

Walt Disney World marked the 100th anniversary of Walt Disney's birth with a variety of enhancements to its theme parks, accommodations and Downtown Disney Marketplace, along with a special celebration, *100 Years of Magic*, featuring numerous special events and exciting live entertainment.

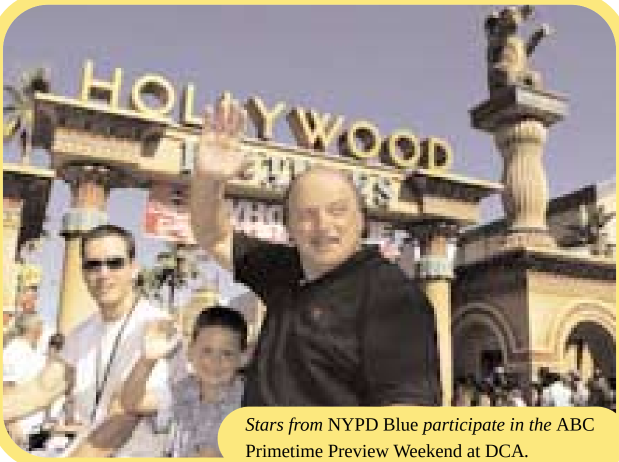
Disney's Animal Kingdom added three attractions last year – a new "mini-land" called Chester & Hester's Dino-Rama!; a dino-mite new coaster called *Primeval Whirl*; and *TriceraTop Spin*, where guests whirl around a giant spinning top that opens to reveal a dinosaur.

At Disney-MGM Studios, Stanley, Rolie Polie Olie and Disney Channel stars came to life in *Playhouse Disney-Live on Stage!*, with music, songs and stories of friendship.

Figment returned in *Journey Into Your Imagination With Figment* at Epcot. The playful purple dinosaur helps Dr. Nigel Channing of the "Imagination Institute" demonstrate how the five senses influence a person's imagination.

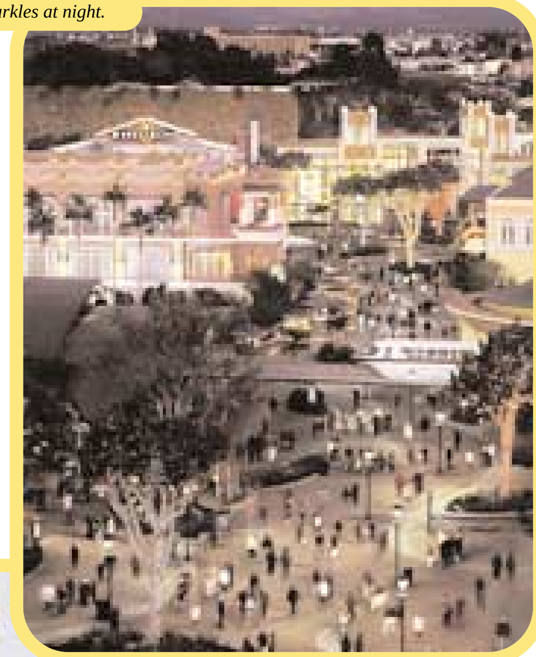
Walt Disney World is enhancing attractions throughout its four theme parks by providing synchronized narration in French, German, Japanese, Portuguese and Spanish. Equipped with wireless, palm-sized devices, international guests will hear translations and colorful narratives along with all the sound effects of the original English versions.

Downtown Disney Marketplace saw the opening of Once Upon a Toy, a 16,000-square-foot interactive superstore that combines the magic of Disney with the fun of Hasbro, and Disney's Pin Traders – a huge facility where guests can trade pins.

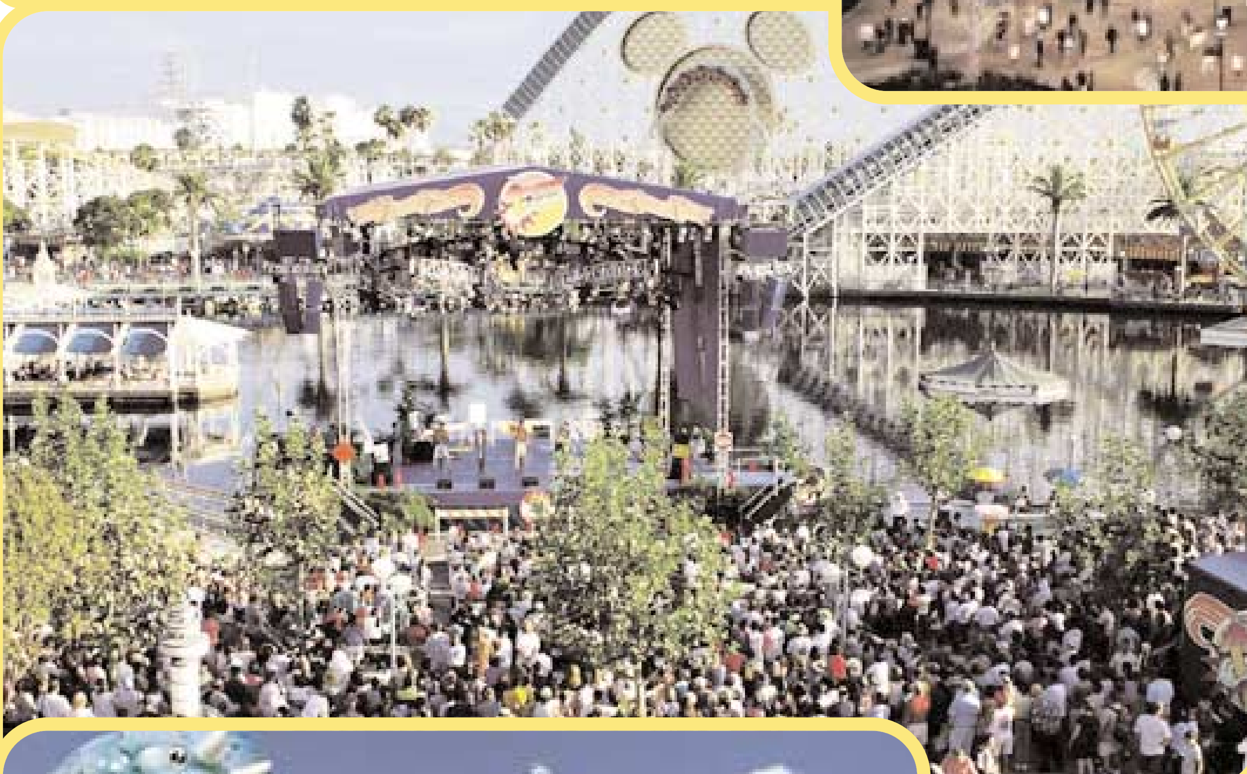


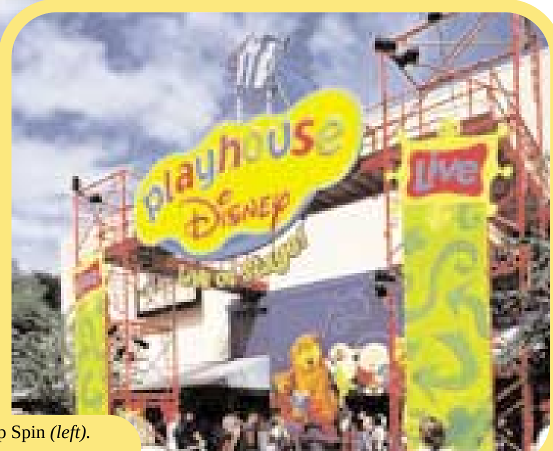
Stars from NYPD Blue *participate in the* ABC Primetime Preview Weekend at DCA.

Downtown Disney® District sparkles at night.

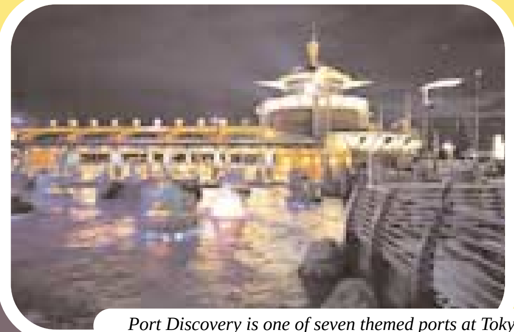


Heimlich's Chew Chew Train *is a new ride at* Flik's Fun Fair *at DCA (top).*
Live music is featured all summer at California Adventure's Rockin' the Bay *(below).*



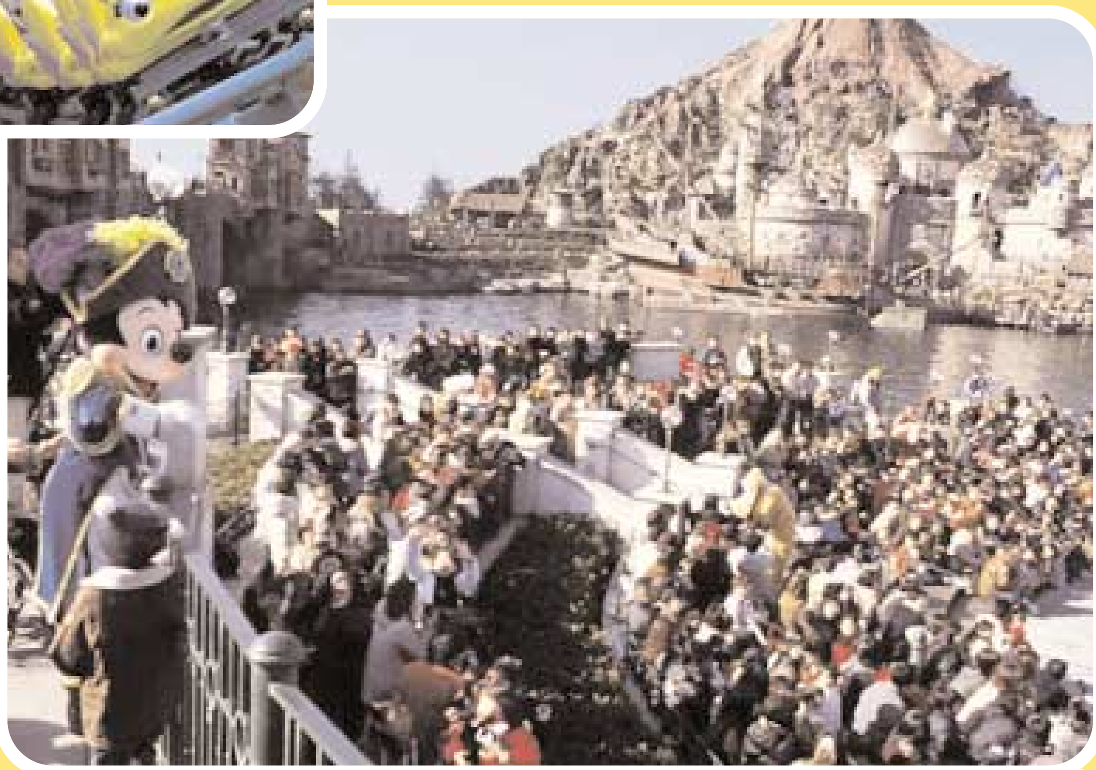


At Walt Disney World, guests enjoy riding in the TriceraTop Spin *(left).*
Playhouse Disney–Live on Stage! *features Disney Channel stars (right).*



Port Discovery is one of seven themed ports at Tokyo DisneySea.

At Ariel's Playground, *children can explore part of Mermaid Lagoon (above).*
Tokyo DisneySea welcomes its 10 millionth guest (right).



Guests view Mermaid Lagoon aboard Flounder's Flying Fish Coaster *(above left).*
Mickey Mouse greets crowd at Tokyo DisneySea (above).

Stunt Show Spectacular *is featured at Walt Disney Studios Park in Paris (left).* The Wonderful World of Disney *parade is part of Disneyland Paris' 10th Anniversary celebration (right).*

New attractions currently under development include *Mission: SPACE*, a one-of-a-kind astronaut adventure, opening this year at Epcot. In the Magic Kingdom the 3-D film *Mickey's PhilharMagic* orchestra is scheduled to open within the year.

The Disney Vacation Club continued to expand last year. The Villas at Disney's Wilderness Lodge sold out in just over a year, setting a new record for Disney Vacation Club. Disney's Beach Club Villas debuted in July with 40 percent of the inventory already sold.

Disney's Pop Century Resort, themed to every decade of the 1900s, is under construction. An opening date has not yet been established.

TOKYO DISNEY RESORT

Tokyo Disney Resort welcomed its 300 millionth guest in November 2002.

Tokyo DisneySea, which welcomed its 10 millionth guest on July 7, completed its first full year of operation in 2002. Here, guests embark upon an adventure of discovery, exploring seven exciting "ports of call." The beautiful Hotel MiraCosta, where guests experience Old World Italian luxury as well as a breathtaking view of the Park, also marked its first anniversary in 2002.

Tokyo Disneyland kicked off 2002 with *D-Pop Magic!* a high-energy musical tour of the park that literally had guests dancing in the streets. Then, in the summer, Donald and his friends at Tokyo Disneyland staged a zany water event, putting on a wet and wild show that helped guests stay cool throughout the summer season.

In 2003, Tokyo Disneyland will celebrate its 20th anniversary in true Disney fashion, launching a 15-month celebration that will feature a 20th anniversary castle stage show, a 20th anniversary parade, and *"Cinderellabration!"* in which Cinderella Castle will be magically transformed nightly for the regal coronation of Cinderella.

DISNEYLAND RESORT PARIS

On March 16, 2002, Disneyland Resort Paris – now the number-one tourist destination in Europe – marked its 10th anniversary with the opening of a second theme park, Walt Disney Studios Park.

Here, guests discover the worlds of cinema, animation and television through a variety of shows and attractions. With four distinct production areas based on a real working studio, the park offers guests the chance to step through the screen and experience a world of attractions, entertainment, special effects, and never-before-seen shows. The *Disney Cinema Parade*, developed in collaboration with the creators of the world famous *Cirque du Soleil*, opened to celebrate the art of filmmaking and showed special scenes from Disney's most enduring animated classics.

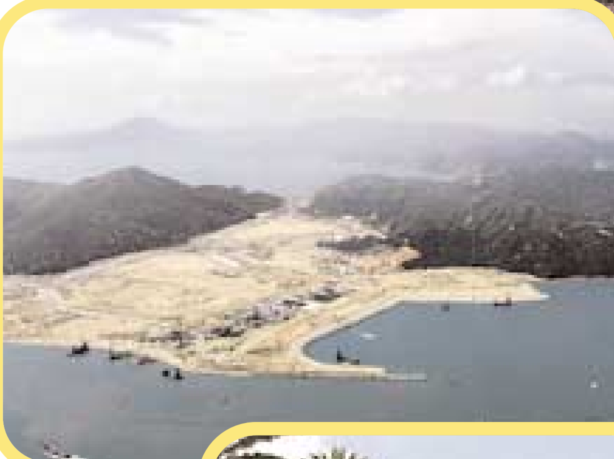
France's Disneyland Park celebrated its 10th birthday with enchanting summer shows such as *Minnie's Birthday Surprise, The Tarzan Encounter*, and *Winnie the Pooh and Friends, Too*. The resort's restaurant, shopping and entertainment complex, Disney Village, opened Café Mickey, a restaurant where guests dine in the company of Disney's beloved characters.

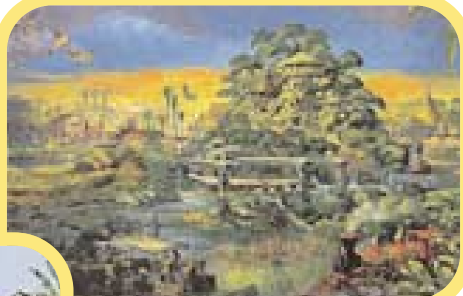
To meet the increased demand for accommodations brought about by the resort's growth, three new hotels will open in spring 2003, with a fourth scheduled for 2004.

Marriott's Village d'Ile-de-France, the first Marriott Vacation Club International property in France, is also planned to open in spring 2003, adjacent to the 27-hole Disneyland Golf Course.

Development of the area surrounding Disneyland Paris is continuing, as Val d'Europe, the urban project developed by Euro Disney SCA and the French government, saw the arrival of its first residents, companies and hotels. It is rapidly becoming a major economic center of the Ile-de-France region.

PARKS AND RESORTS





Disney Cruise Line regularly stops at Castaway Cay (top).
Hong Kong Disneyland is being built on Lantau Island (top left).
The resort will include classic Disney attractions and new adventures (right).
Guests can stay in the Victorian-themed Hong Kong Disneyland Hotel (bottom).

HONG KONG DISNEYLAND

Construction is underway for Hong Kong Disneyland, on Lantau Island. The new park is scheduled to welcome its first guests in 2005 or 2006. In early 2002, the preview center opened in Kowloon, just minutes from the construction site, to enable interested people to follow the project as construction proceeds.

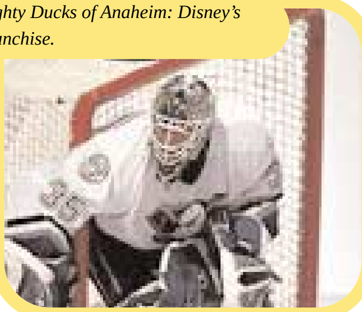
In creating Disney's newest theme park, Walt Disney Imagineers are revisiting their roots – even studying original drawings of the Disneyland castle – while incorporating new technological developments from Disney parks worldwide. Hong Kong Disneyland will offer a mix of classic Disney attractions and styling with innovative new designs and adventures that will bring the enchantment of Walt Disney's original theme park to China. Set against the backdrop of a lush mountain range overlooking the South China Sea, the resort also will feature two hotels – the elegant Victorian-themed Hong Kong Disneyland Hotel and the Art Deco-inspired Hollywood Hotel.

The Hong Kong Disneyland team is concentrating on operational planning, local hiring and preliminary marketing and sales plans. The team also has been an active participant in community events, such as the *Chinese New Year Parade*, where Mickey Mouse entertained thousands.

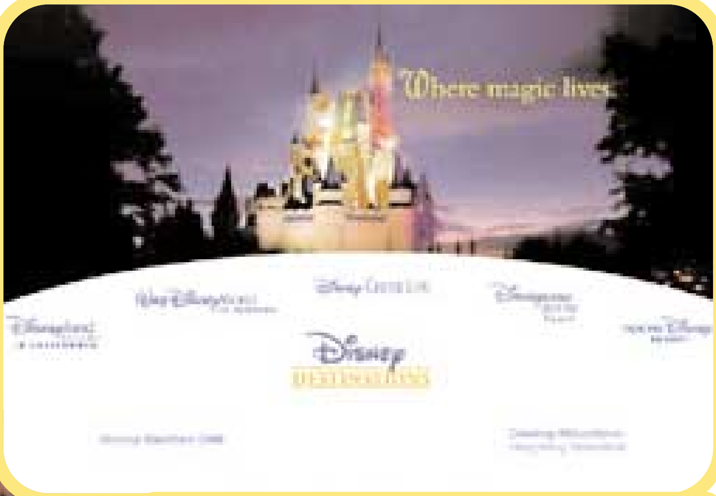
DISNEY CRUISE LINE

In less than five years, Disney Cruise Line has achieved great success offering families and other Disney fans marvelous vacations visiting Caribbean ports or combining cruises on Disney ships with a tour of Walt Disney World Resort. Its two ships, *Disney Magic* and *Disney Wonder*, have provided thousands of guests with wonderful experiences on the high seas, offering something to every member of the family.

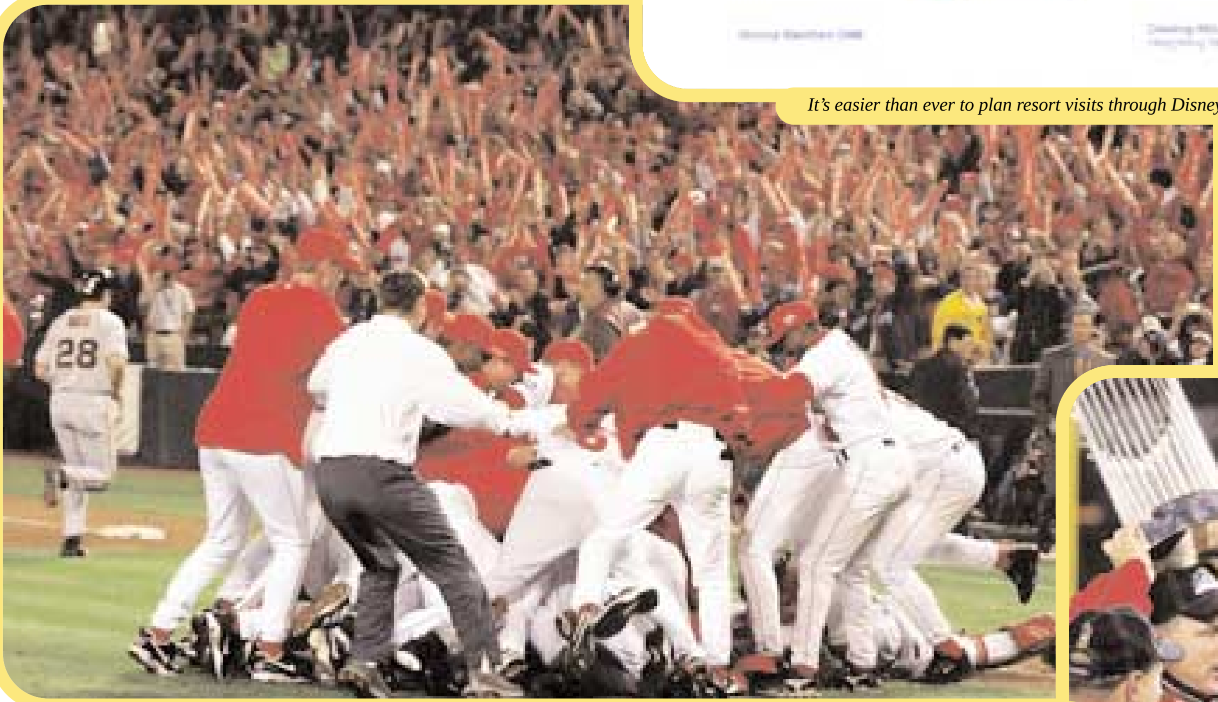
In response to escalating demand, Disney Cruise Line expanded its vacation portfolio in 2002 with a popular new Western Caribbean itinerary for *Disney Magic* that includes calls on Key West, Grand Cayman, Cozumel and Disney's private island, Castaway Cay. On alternating weeks, the *Disney Magic* maintains its Eastern Caribbean route to St. Maarten, St. Thomas and Castaway Cay, while the *Disney Wonder* continues to offer one-of-a-kind land and sea vacations that combine the fun of Walt Disney World with the adventure of a three- or four-night voyage to the Bahamas and Castaway Cay.

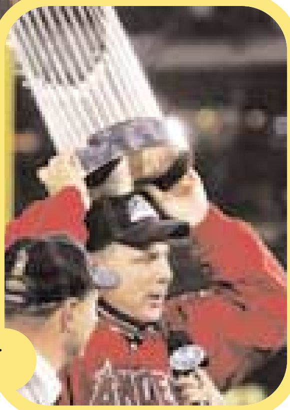


The Mighty Ducks of Anaheim: Disney's NHL franchise.



It's easier than ever to plan resort visits through DisneyVacations.com.





The Anaheim Angels celebrate their first World Championship (above). Angels manager Mike Scioscia shows off his team's trophy (right).

DISNEYVACATIONS.COM

In 2002, DisneyVacations.com continued to grow as a consumer sales channel for Walt Disney Parks and Resorts vacation packages and tickets. Sales volume climbed significantly as a result of new product offerings and promotions. To drive continued growth, the organization improved its online infrastructure and began a phased relaunch of DisneyVacations Web sites, featuring enhanced capabilities and a greater degree of integration with other marketing and sales channels.

DISNEY REGIONAL ENTERTAINMENT

In 2002, Disney Regional Entertainment opened a new ESPN Zone in downtown Denver. It is the eighth ESPN Zone, joining those in Baltimore, Chicago, New York, Atlanta, Washington, D.C., Anaheim and Las Vegas.

ESPN Zone continued to host a wide range of broadcasts, including *Unscripted, Sports Reporters, Sports Reporters 2*, the *Tony Kornheiser Show*, and ESPN's coverage of the 2002 NCAA Men's Basketball Final Four in Atlanta.

ANAHEIM SPORTS, INC.

Anaheim Sports, Inc., operates The Walt Disney Company's two professional sports franchises, Major League Baseball's Anaheim Angels and the National Hockey League's Mighty Ducks of Anaheim.

The Angels enjoyed their finest season ever in 2002, winning the World Championship after reaching the World Series for the first time in their 42-year history. Their performance in post-season play established numerous individual and team records and earned the Angels the reputation as one of the greatest comeback teams in MLB post-season history.

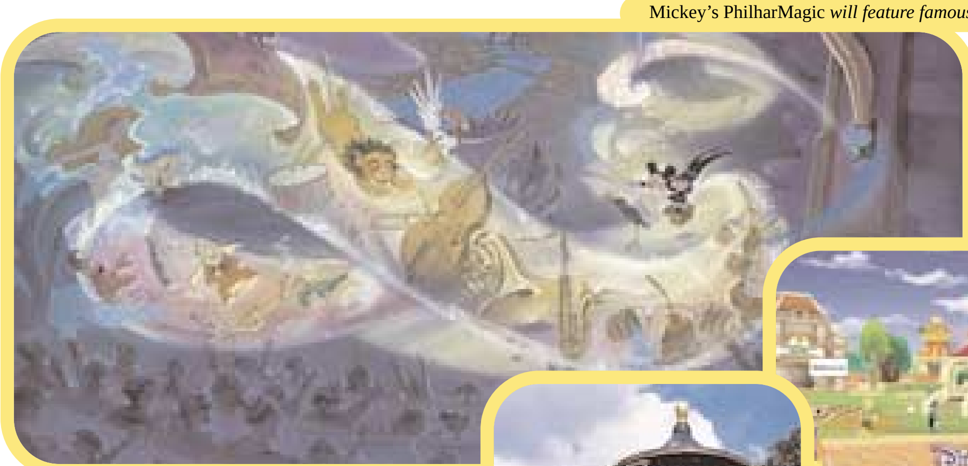
The Angels, whose 2002 success was a result of outstanding teamwork and perseverance, were one of the most consistent teams in baseball, finishing the season in the top five in three key categories: pitching, fielding and hitting. The Angels also boasted a world-class starting rotation, reliable bullpen and productive offense throughout the memorable 2002 campaign.

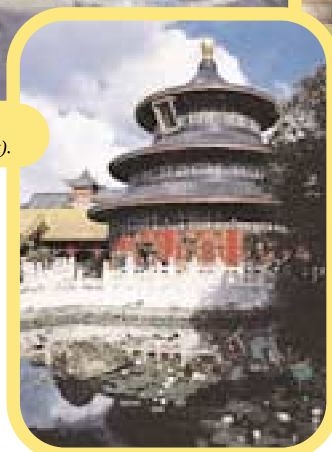
Next year also looks bright for the World Champion Angels, who will return with seasoned veteran leadership and promising young talent under the direction of Mike Scioscia, *The Sporting News'* 2002 American League Manager of the Year.

The Ducks are in the midst of their 2002-03 season, with high hopes for a solid finish to the year. The Ducks have a strong foundation with first-rate goaltending and defense. The focus this season has been on strengthening the offense, recruiting new talent and developing strong leadership.

WALT DISNEY IMAGINEERING

Mickey's PhilharMagic *will feature famous animated characters.*





Toontown Online *is a multi-player 3-D online game (far right).*
The Wonders of China *will give visitors to Epcot an updated look at the country (right).*

In December, Walt Disney Imagineering celebrated its golden anniversary, marking 50 years since Walt Disney personally hand-picked some of his studio's most creative people to develop a top-secret project that would become Disneyland. Imagineering has since gone on to build 10 theme parks around the world, with its 11th on the way. Today, Walt Disney Imagineers proudly continue their founder's legacy of combining fantastic imagination and innovative technology to immerse guests in some of the world's best storytelling.

DISNEYLAND RESORT

Walt Disney Imagineers are bringing the *Twilight Zone Tower of Terror* to Disney's California Adventure, promising all the thrills and excitement of the original attraction at the Disney-MGM Studios, but with a West Coast twist. Scheduled to open in 2004, the 180-foot-tall Hollywood Tower Hotel will add a new dimension to the Hollywood Pictures Backlot with its Southwest-Deco style architecture and a chilling new scene that will "heighten" the guests' experience.

A new ride-through attraction, *The Many Adventures of Winnie the Pooh*, is coming later this spring. The family attraction follows the characters on their adventures during a blustery day in the Hundred Acre Wood. Riding in bouncy beehive-themed vehicles, guests will experience the fun of Pooh's world, come face to face with the honey-stealing Heffalumps and Woozles, and take part in a birthday party for Pooh.

WALT DISNEY WORLD RESORT

Mission: SPACE, lifting off at Epcot in 2003, will go where few thrill rides have gone before – deep space. *Mission: SPACE* guests will experience the feeling and incredible thrill of a pulse-pounding lift-off and flight into space, all through the magic of virtual reality. In consultation with former NASA advisers, astronauts and scientists, Imagineers developed *Mission: SPACE* with next-generation technologies featuring high-resolution computer-generated imagery combined with advanced audio and optics and a proprietary ride system. Each guest will be a "crew member" with a role to play in this superb interactive adventure.

Mickey's PhilharMagic, a joint creation from Walt Disney Imagineering and Walt Disney Feature Animation, will utilize three-dimensional computer-generated imagery, becoming the most ambitious filmed adventure ever created for a Disney theme park. *Mickey's PhilharMagic* will immerse guests in the richly animated world of Disney's famous characters, including those from *Fantasia, Beauty and the Beast, The Little Mermaid, Aladdin* and *The Lion King*.

It has been more than 20 years since the popular Circle-Vision 360 film *Wonders of China* made its debut at Epcot. An updated version, to open this year, will reflect China's vast changes and capture the vitality of that nation today. Guests will be encircled with classic Chinese vistas, including the Great Wall and the Forbidden City, along with new scenes from Macao to Shanghai to Hong Kong.

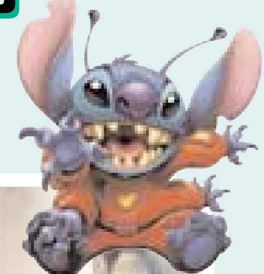
Imagineers are in the final planning stages of the latest addition to the Disney Vacation Club family of themed resort properties, Saratoga Springs Resort. With a design inspired by upstate New York's great destination resorts of the mid-to-late 1800s, the 192-unit development will occupy a 16-acre site overlooking the lakefront district at Downtown Disney. Opening in early 2004, the resort will include a health spa, movie theater, performance hall and golf course, plus convenient access to the nearby entertainment district.

RESEARCH AND DEVELOPMENT (R&D)

Imagineering's R&D group continued to provide new technology throughout the company. Working with ABC, ESPN and Disney Strategic Planning, R&D is exploring initiatives in cellular phone technology and devising innovative ways to deliver compelling interactive experiences through wireless devices. R&D's Virtual Reality Studio also teamed up with the Disney Internet Group to develop *Toontown Online*, a cutting-edge multi-player game in which thousands of players will be able to create and control their own cartoon characters and play together to help Mickey Mouse and friends save the city of Toontown from the forces of evil.

On the environmental front, R&D is leading the effort to make Hong Kong Disneyland the most energy-efficient resort ever built. Using computer simulations, the team has identified conservation measures to lower significantly the resort's projected energy consumption, while increasing environmental benefits and enhancing the guest experience.

WALT DISNEY INTERNET GROUP



Left to right – Mark Handler, Executive Vice President and Managing Director, International – Alan Johnson, Senior Vice President, Walt Disney Parks and Resorts Online – Bruce Gordon, Senior Vice President and Chief Financial Officer – Bernard Gershon, Senior Vice President and General Manager, ABCNews.com – Douglas T. Parrish, Senior Vice President and Chief Technology Officer – Steve Wadsworth, President, Walt Disney Internet Group – Greg Berglund, Senior Vice President and General Manager, Disney Direct Marketing Services Inc. – Larry Shapiro, Executive Vice President, Business Development and Operations – Ken Goldstein, Executive Vice President and Managing Director, Disney Online.

Walt Disney Internet Group (WDIG) provides strategic leadership, business execution support and a world-class technology platform across the Internet properties of The Walt Disney Company. Disney operates some of the most popular and highly trafficked Internet properties, including ABCNEWS.com, Disney.com and ESPN.com. Disney also conducts significant e-commerce businesses through Disneystore.com, the Parks and Resorts Web sites and branded auction sites. The company's sites attract 28 million unique visitors monthly and rank in the top 10 of all Internet properties, according to Media Metrix. As anticipated, WDIG's operations reached breakeven by the end of fiscal 2002.

WDIG partners with business units throughout Disney to execute their Internet plans while building on centralized scale and expertise and ensuring that the Internet businesses are integrated with their respective business units. WDIG also directly operates a number of the Internet businesses, including Disney Online worldwide, FamilyFun.com, Movies.com, Disney Auctions and all of Disney's expanding wireless Internet businesses.

The content found at Disney.com – the number-one children's entertainment and family community site on the Web – spans Disney-branded offerings. Through such features as educational activities, multi-player games, Internet safety tutorials and *Disney's Blast* subscription service, Disney.com offers children and their parents an opportunity to connect with the Disney brand to play, learn and explore. There are 19 Disney-branded Web sites worldwide.

Recent new product developments from Disney Online include Disney's *Toontown Online,* the first multi-player 3-D online game created for families, and Disney On MSN®, a co-branded Internet service provider that combines Microsoft's MSN® 8 software with Disney content to provide families with online experiences that are enjoyable and safe. The service, launched in conjunction with MSN's introduction of robust parental controls, is part of the Internet Group's strategy to expand its content distribution and will be marketed through Disney Online, the Disney Store, Walt Disney Parks and Resorts, Buena Vista Home Entertainment, and other affiliates.

FamilyFun.com (www.familyfun.com), a well-established online family center, was rebranded from Family.com last year in an alliance with Buena Vista Magazine Group's *FamilyFun*.

Movies.com (www.movies.com) is a leading Web site offering movie reviews, trailers, local show times and other content to assist movie fans with making their choices on movie night.

Disney Auctions (www.disneyauctions.com), presented by eBay, is the premier online auction destination for one-of-a-kind Disney merchandise and collectibles. Last year, the business expanded to include sister sites ABCAuctions.com and ESPNAuctions.com.

Having built a strong family of branded Web sites over the past year, WDIG is gaining ground through distribution of entertainment content to new platforms and the development of new products. The Internet Group has wireless content distribution arrangements in 20 countries. In Japan, WDIG has attracted more than 3 million paid wireless subscriptions in a little over two years. Disney-branded entertainment and personalized content, including ring tones, graphics and games, were launched in the United States in December 2001. WDIG aggressively expanded the wireless business under the Disney, ESPN, EXPN and ABC brands with several new products introduced in 2002.

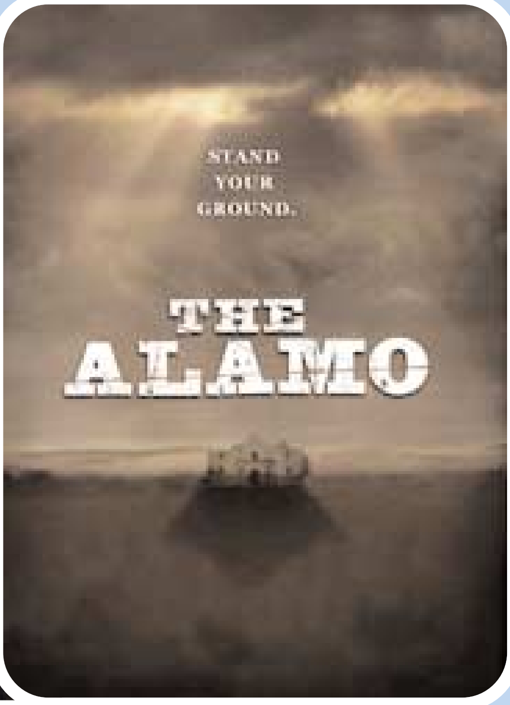
WDIG develops and delivers new forms of interactive Internet content and technical capabilities, such as the Enhanced TV service, which showcases the convergence of video and interactive programming. WDIG also offers broadband entertainment content and technologies, such as those behind *ABC News On Demand,* as well as new integrated, high-speed video on ESPN.com.

WALT DISNEY

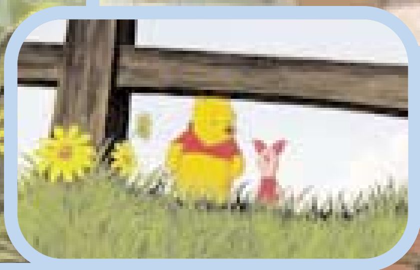
STUDIO ENTERTAINMENT

Back row, left to right – Dennis Maguire, President, Buena Vista Home Entertainment International – Alan Bergman, Executive Vice President, Chief Financial Officer, The Walt Disney Studios – Mark Zoradi, President, Buena Vista International Theatrical Distribution and Buena Vista Home Entertainment International – Thomas Schumacher, President, Walt Disney Animation and President, Disney Theatrical Productions, Ltd. – Robert Chapek, President, Buena Vista Home Entertainment North America – Bob Cavallo, Chairman, Buena Vista Music Group – Chuck Viane, President, Buena Vista Pictures Distribution – Front row, left to right – Oren Aviv, President, Buena Vista Pictures Marketing – Harvey Weinstein, Co-Chairman, Miramax Film Corp. – Bernardine Brandis, Executive Vice President, Business and Legal Affairs, The Walt Disney Studios – Richard W. Cook, Chairman, The Walt Disney Studios – Nina Jacobson, President, Buena Vista Motion Pictures Group – Bob Weinstein, Co-Chairman, Miramax Film Corp. – David Stainton, President, Walt Disney Television Animation.

Finding Nemo is the latest feature from Disney/Pixar (top).
Renee Zellweger and Richard Gere star in Chicago (left).



The Alamo *retells the story of the 1836 battle (above).*
The Young Black Stallion *is being made for the giant screen (left).*



Koda and Kenai are the two main characters in Bears *(top right).*
The Jungle Book 2 *is a sequel to the 1967 classic (top left).*
Carly Simon provides the music for Piglet's Big Movie *(middle right).*
101 Dalmatians II: Patch's London Adventure *will debut on video (bottom right).*

THE WALT DISNEY STUDIOS

In 2002, The Walt Disney Studios achieved success in all of its principal businesses – animation, live action films and stage plays. From *Monsters, Inc.* to *Return to Never Land* to *Lilo & Stitch,* from *Signs* to *Sweet Home Alabama,* from *The Lion King* stage play to *Aida,* audiences were drawn to a wide range of compelling entertainment.

WALT DISNEY FEATURE ANIMATION

June 2002 saw the release of *Lilo & Stitch.* Audiences around the world embraced the quirky comedy of the little Hawaiian girl Lilo and her pet alien, Stitch. As with so many other Disney animated productions, the film quickly formed the basis for a long-term franchise, with a successful release on VHS/DVD, a top-selling soundtrack, novel consumer products and character appearances in the parks. More new products are in the works, including an original video adventure featuring Stitch, and an animated television series.

In late November 2002, Disney's *Treasure Planet* opened simultaneously in theaters around the world. A sci-fi twist on Robert Louis Stevenson's classic tale *Treasure Island,* the film blends traditional hand-drawn animation with computer-generated animation to achieve a unique, cutting-edge look.

For summer 2003, there's a Disney/Pixar release from the creators of *Toy Story* and *Monsters, Inc.* – *Finding Nemo,* an underwater adventure set in the Great Barrier Reef.

In the fall comes *Bears,* an epic adventure of brotherly love set against the rugged, beautiful landscape of the Pacific Northwest. The film follows the story of a headstrong boy who is magically transformed into a bear and must make a heroic journey to regain his human form. Along the way, he meets an irrepressible bear cub who becomes his guide and companion. The film's soundtrack includes five original songs written by Phil Collins.

WALT DISNEY TELEVISION ANIMATION

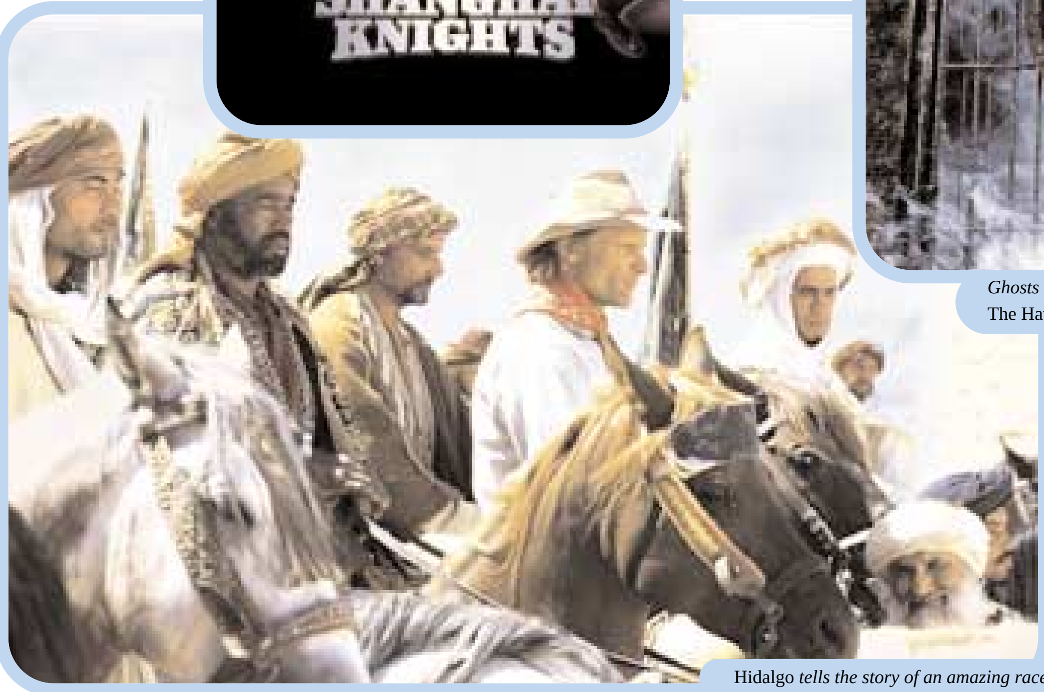
Walt Disney Television Animation maximizes and extends Disney's priceless animation franchises – both classic and contemporary titles – with original Disney Video Premieres, TV series and its own theatrical releases.

In February 2002, Television Animation continued to take advantage of President's Day weekend with the successful release of *Return to Never Land,* giving flight to a new adventure for Peter Pan, Tinker Bell and Captain Hook. Coming in the same weekend in February 2003, Mowgli and Baloo will reunite in *The Jungle Book 2,* the sequel to the 1967 classic, featuring the voices of John Goodman as Baloo and Haley Joel Osment as Mowgli.

In the spring, the Winnie the Pooh franchise comes once again to the big screen as the littlest member of the Hundred Acre Wood gets top billing in *Piglet's Big Movie,* with wonderful music provided by songwriting legend Carly Simon. This film joins another recent addition to the Pooh saga, the Disney Video premiere of *A Very Merry Pooh Year,* which debuted for the holidays in 2002.

Shanghai Knights *features Jackie Chan and Owen Wilson in Victorian England.*

Ghosts keep Eddie Murphy busy in The Haunted Mansion.



Hidalgo *tells the story of an amazing race across the Arabian Desert.*

Television Animation's successful Disney Video Premiere sequels continued to gain global popularity with 2002's successful release of *Cinderella II: Dreams Come True,* an enchanting look at "happily ever after."

The next premiere from Disney Video Premieres is *101 Dalmatians II: Patch's London Adventure* – the animated sequel to the 1961 Disney film classic – debuting in January.

Meanwhile, Disney Television Animation was true to its name with the creation of successful new television shows. *Kim Possible* launched on the Disney Channel in the summer. The show is becoming a strong new animation franchise – with a live-action feature film and its own Disney Video Premiere in the works. Disney's *Teamo Supremo* successfully opened 2002 with the ABC premiere of the series' retro-futuristic, colorful approach to superhero cartoons. Disney's *Fillmore* gave middle school crime-fighters a new leader with its fall 2002 debut on *ABC Kids.*

WALT DISNEY PICTURES

2002 was another successful year for Walt Disney Pictures. With movies that appealed to the entire family, the Disney brand proved strong throughout the year.

January brought *Snow Dogs.* A surprise hit that froze the competition at the box office, the film introduced audiences to Miami dentist Ted and the mischievous team of sled dogs who have it in for him. The family comedy, starring Academy Award®-winners Cuba Gooding, Jr. and James Coburn, started off the new year right, grossing more than $80 million domestically.

In March, Disney released *The Rookie,* based on the true story of Jim Morris, a middle-aged teacher who finally lived his dream of pitching in the major leagues. Directed by John Lee Hancock, the film grossed more than $75 million domestically.

And in November, the holidays came early with the successful release of *The Santa Clause 2,* a sequel to the 1994 smash. With Tim Allen reprising the title role, we discover that there's another clause in the Santa Claus contract – Santa has to find a Mrs. Claus.

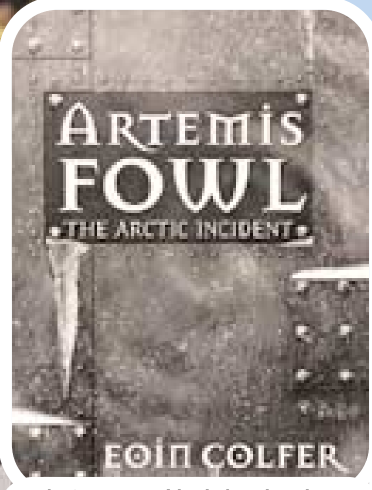
In 2003, several Disney films will make their big-screen debuts. In the spring comes *The Lizzie McGuire Movie.* Based on the most popular series in Disney Channel history, the film finds Lizzie, Gordo, Kate and Ethan living "la dolce vita" as they pack their bags for a school-sponsored summer in Italy.

Then, in summer – from producer Jerry Bruckheimer and director Gore Verbinski: a cursed treasure leads to the adventure of a lifetime as one of Disney's most-loved theme park attractions sails to the big screen in *The Pirates of the Caribbean.* The scene is set when Captain Barbossa and the pirates of *The Black Pearl* attack the town of Port Royal and kidnap the governor's daughter, Elizabeth. Will, a local blacksmith, and Jack Sparrow, a pirate, team up to rescue Elizabeth, but quickly find themselves face-to-face with the captain and his evil crew.

And at Thanksgiving, one of Disney's most frightfully funny attractions comes to the big screen in Disney's *The Haunted Mansion.* Real-estate agent Jim Evers (Eddie Murphy) drags his family to the creepy

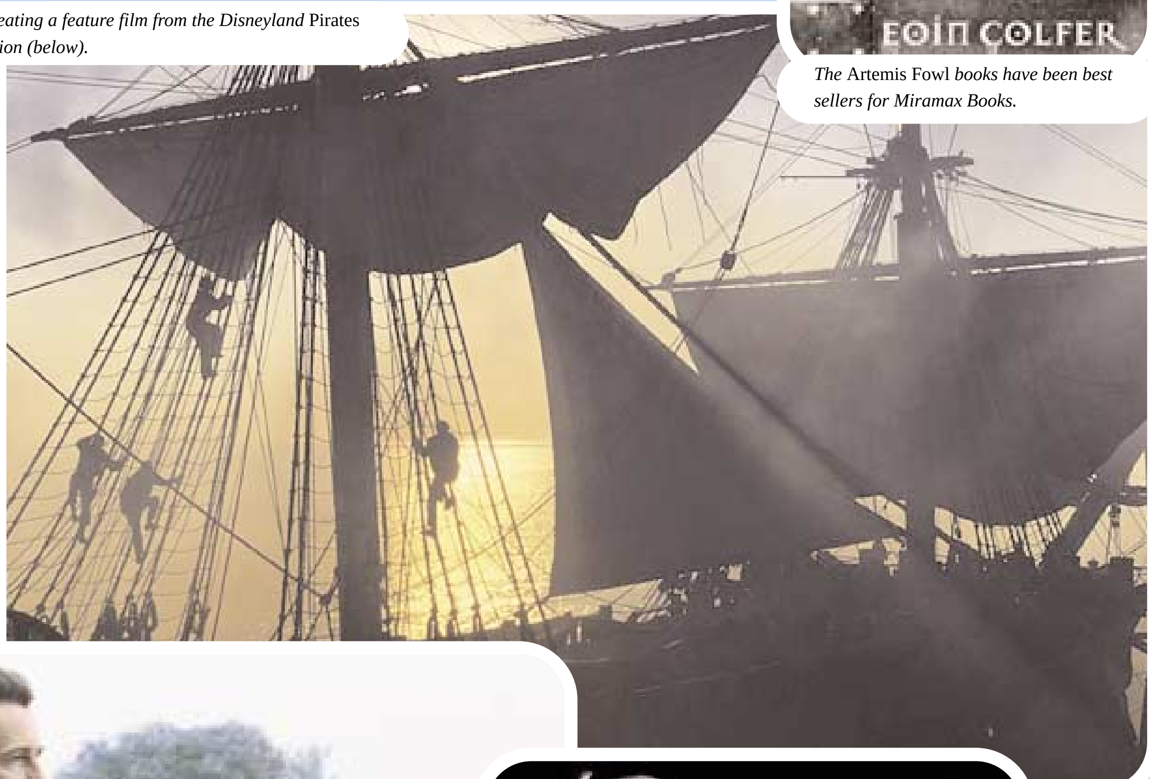
The Recruit *provides an inside look into life in the CIA (right).*
George Clooney stars in and directs Confessions of a Dangerous Mind *(below).*

Steve Martin and Queen Latifah star in Bringing Down the House.



The Artemis Fowl *books have been best sellers for Miramax Books.*

Jerry Bruckheimer is creating a feature film from the Disneyland Pirates of the Caribbean *attraction (below).*



Edward Norton stars in Spike Lee's 25th Hour *(left).*

mansion on the hill in hopes of turning it into a condo development. Once there, the family finds that they're not alone… not when 999 grim-grinning ghosts come out to socialize. With all these happy haunts who won't leave until their unfinished business is completed, it's up to Jim to solve the problem – and rediscover his family.

In the fall comes *Hidalgo,* an epic based on the true story of the greatest horse race ever run. Held yearly for centuries, the "Ocean of Fire" – a 3,000 mile race across the Arabian Desert – was a challenge for only the finest Arabian horses. In 1890, for the first time, a wealthy sheik invited an American to enter his horse in the race. Frank T. Hopkins (Viggo Mortensen), a dispatch rider for the U.S. Cavalry, was once known as the greatest rider in the West. The sheik (Omar Sharif) challenges him, pitting the American and his mustang, Hidalgo, against the Arabian horses and riders.

TOUCHSTONE PICTURES

Touchstone's biggest hit in 2002 was *Signs* – the thriller from writer-director M. Night Shyamalan, released in August. This is Touchstone's third film by the acclaimed director of *The Sixth Sense. Signs* took the box office by storm, opening at number one with a gross of $60 million on its way to a total domestic box office of more than $225 million. Hailed by *Newsweek* as "The Next Spielberg," Shyamalan wowed audiences with his tale of a farmer whose world is shaken when he discovers otherworldly "signs."

The fall season brought another strong performer, the romantic comedy *Sweet Home Alabama,* which scored the biggest September opening weekend in history, with nearly $36 million, going on to gross more than $125 million overall in its domestic run. The film features Reese Witherspoon as a New York fashion designer who's about to get married, but must first return to Alabama to divorce the man she married while in high school.

In December, Touchstone released the latest film from Academy Award®-nominated director Spike Lee, *25th Hour.* Edward Norton plays Monty, a man facing prison who struggles to redeem himself with the help of his father, his girlfriend and his two best friends.

In January, *The Recruit* took moviegoers inside the CIA to see how agents are enlisted, trained and molded. James Clayton (Colin Farrell) is tapped by Walter Burke (Al Pacino) to join the agency. As Clayton learns the rules of the game from Burke, he is sent on a secret mission and discovers there's more going on than meets the eye.

February brings the sequel to the 2000 hit *Shanghai Noon,* called *Shanghai Knights.* It re-teams the stars of the first film, Jackie Chan and Owen Wilson, but this time they're off to Victorian England to track down a murderer.

In May, Academy Award®-winner Kevin Costner both stars in and directs *Open Range,* a tale set in the old American West. Charley (Costner) and Boss (Robert Duvall) are cowboys who just want to drive their cattle and move on. But a greedy rancher objects to their cattle grazing on his land. As they prepare for a confrontation, Charley is forced to face his own checkered past. Annette Bening also stars.

March brings a wild comedy focusing on a mismatched pair. In *Bringing Down the House,* Peter (Steve Martin) is smitten with a brainy barrister he's been chatting with online. But when she comes to his house, he finds she isn't refined, and isn't a lawyer. Instead, it's Charlene (Queen Latifah), a prison escapee who proclaims her innocence and wants Peter to help clear her name.

At Christmas comes a highly anticipated motion picture that retells the story of *The Alamo.* John Lee Hancock of *The Rookie* directs this epic about the heroic defense of the Alamo in 1836.

MIRAMAX FILMS

Miramax Films remained one of the world's leading independent film companies, receiving 15 Academy Award® nominations, the most of any studio, at last year's Academy Awards®, including a record 11th Best Picture nomination over the past 10 consecutive years (1992-2001).

In the Bedroom, nominated for five Academy Awards®, including Best Picture, grossed $36 million in North America. *Amélie,* also nominated for five Academy Awards®, including Best Foreign Film, became the highest-grossing French-language film ever released in North America, totaling $33 million at the box office.

Dimension's *Spy Kids 2: The Island of Lost Dreams* brought in more than $85 million domestically, with a third installment, *Spy Kids 3,* scheduled for release in summer 2003.

Miramax's releases in late 2002 included *Gangs of New York,* directed by Martin Scorsese and starring Leonardo DiCaprio and Cameron Diaz; *Confessions of a Dangerous Mind,* directed by George Clooney and starring Clooney, Julia Roberts and Drew Barrymore; *Chicago,* starring Catherine Zeta-Jones, Renee Zellweger and Richard Gere; and *Pinocchio,* directed by and starring Academy Award®-winner Roberto Benigni.

In 2003, Miramax will offer *Cold Mountain,* directed and written by Academy Award®-winner Anthony Minghella and starring Renee Zellweger, Nicole Kidman and Jude Law; *Kill Bill,* written and directed by Academy Award®-winner Quentin Tarantino, starring David Carradine, Uma Thurman, Daryl Hannah and Lucy Liu; and *Duplex,* directed by Danny DeVito, starring Drew Barrymore and Ben Stiller.

Dimension's upcoming releases include *Cursed,* directed by Wes Craven, written by Kevin Williamson; *Mindhunters,* starring Val Kilmer, Christian Slater and LL Cool J; and *Bad Santa,* starring Academy Award®-winner Billy Bob Thornton.

Miramax Television earned its first Emmy nomination for the critically acclaimed HBO series *Project Greenlight.*

Miramax Books releases in 2002 included the *New York Times* number-one best-seller, *Leadership,* by former New York City Mayor Rudolph Giuliani, Christopher Rice's *New York Times* best-seller, *The Snow Garden,* Pulitzer Prize-winning author Michael Chabon's first novel for young readers and *New York Times* best-seller, *Summerland,* and Sandra Lee's cookbook, *Semi-Homemade.*

Future Miramax Books releases include a highly anticipated sequel to the *New York Times* best-selling *Artemis Fowl* books, two untitled children's novels by Chabon, former Secretary of State Madeleine Albright's memoirs, and Quentin Tarantino's first novel, *Kill Bill.*

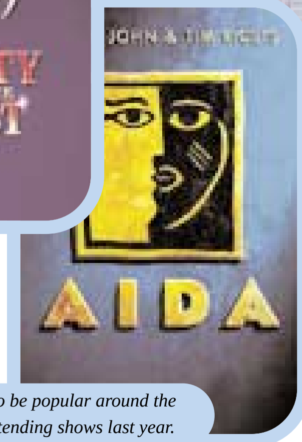
GIANT SCREEN

The Studio continues its commitment to IMAX® and other giant screen theaters by providing a steady stream of quality films; and in 2003, Disney will present its first-ever live-action feature created especially for that format.

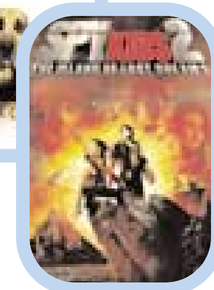
The January 2002 giant screen release of *Beauty and the Beast: Special Edition,* took in more than $25 million in a limited engagement. May brought *ESPN's Ultimate X,* an original film documenting ESPN's massively popular Summer X Games.

Treasure Planet arrived in IMAX® and other large format cinemas in November, marking the first time Disney debuted an animated feature in both traditional and giant screen theaters simultaneously. And finally, in December, Disney continued its success with animation on the giant screen with the release of *The Lion King.*

STUDIO ENTERTAINMENT



Disney Theatrical productions continue to be popular around the world, with more than 8 million guests attending shows last year.



Both animated and live-action films did exceptionally well for Buena Vista Home Entertainment.

Next April, director James Cameron will take moviegoers $2^1/_2$ miles beneath the ocean's surface to explore the wreckage of the Titanic. *Ghosts of the Abyss* will offer for the first time an intimate 3-D journey through the actual ship. In fall comes *The Young Black Stallion,* Disney's first-ever dramatic film made for the giant screen. The writer and producer of the original film, *The Black Stallion,* have returned for this production, a prequel to the 1979 classic.

BUENA VISTA THEATRICAL GROUP

During the past year, Disney Theatrical's 16 stage productions gave more than 5,000 performances and entertained more than 8 million guests in nine countries, making Disney Theatrical one of the world's largest producers of Broadway musicals.

On Broadway, its three Tony Award®-winning musicals each reached significant milestones. *Beauty and the Beast,* now in its ninth year, became the eighth-longest-running show in Broadway history. *The Lion King* celebrated its 2000th performance at the New Amsterdam Theatre and Elton John and Tim Rice's *Aida* celebrated its 1000th performance at the Palace Theatre. Together, the shows accounted for more than 20 percent of the Broadway market.

Domestic touring was another area of growth, with the opening of the first national tour of *The Lion King* in Denver. Along with continuing productions of *The Lion King* in Toronto and Los Angeles and the touring companies of *Beauty and the Beast* and *Aida,* the domestic productions of Disney stage plays were seen in more than 47 markets during the year. A second national tour of *The Lion King* will open in Chicago in April 2003. Similar success has been achieved in Europe and Japan, where Buena Vista Theatrical productions have been playing to packed houses.

Disney Live Family Entertainment continued its rapid growth, with *Disney On Ice* performing for more than 10 million guests in 2002. Licensed to Feld Entertainment, *Disney On Ice* demonstrated both domestic and international growth, bringing the magic of the Disney brand to 47 countries.

BUENA VISTA INTERNATIONAL

Buena Vista International had another strong year, surpassing $1 billion at the international box office for the eighth consecutive year. It is the only distribution company ever to achieve this. Its performance was driven by four key films: *Monsters, Inc., Lilo & Stitch, Return to Never Land* and *Signs.*

Disney/Pixar's *Monsters, Inc.* earned over $270 million at the international box office, to become the most successful computer-generated animated film ever released. In Japan, the film grossed $72 million at the box office, making it the most popular American animated film ever released there and the second-best performing title ever released by Buena Vista International in Japan. Results in the United Kingdom also were impressive, with $53 million at the box office, making *Monsters, Inc.* the second-biggest Buena Vista International film ever released there.

Another stellar performer was director M. Night Shyamalan's *Signs,* which grossed approximately $175 million through the end of the calendar year and is still in active release. Additionally, *Lilo & Stitch* became Disney's first traditionally animated film to ever launch simultaneously in the United States and several overseas markets. It had generated nearly $70 million in box office by fiscal year-end.

BUENA VISTA HOME ENTERTAINMENT

Buena Vista Home Entertainment (BVHE) enjoyed very strong performances across all formats in 2002 – owning eight of the top 20 overall titles (combined VHS/DVD), 11 of the top 20 VHS titles and six of the top 20 DVD titles.

Disney's *Snow White and the Seven Dwarfs* launched the Disney DVD Platinum Collection in 2002. Walt Disney's original masterpiece forged new roads in technology and the DVD presentation offered a special "immersive" experience, which once again became an industry first.

The blockbuster *Pearl Harbor* came to DVD/VHS three days before the 60th anniversary of the attack, delivering BVHE's biggest opening day and first week DVD sales of a live-action film. And in May 2002, *Pearl Harbor* became the best-selling DVD in the industry to date.

BVHE continued its exciting tradition of video premieres with *Cinderella II: Dreams Come True* in February. It shattered records, taking its place among the top 10 best-selling direct-to-video titles of all time. BVHE now owns eight of the top 10 direct-to-video titles.

Spirited Away and Lilo & Stitch were popular both at the international box office and in the home entertainment market.

Los Lobos marked 25 years of success with Good Morning Aztlan *(top). Popular singers perform classic tunes on* Disneymania *(above). Rascal Flatts will follow up its debut platinum album with* Melt *(right).*

Peter Pan: Special Edition, a new release of the Disney classic animated film, debuted on VHS/DVD in February. It became the number one VHS release in its initial week and was synergistically promoted with the theatrical release of *Peter Pan: Return to Never Land.*

During the summer, *The Others, Snow Dogs, The Rookie* and *Return To Never Land* all dominated the competition during their key release weeks.

In September, Disney/Pixar's hit *Monsters, Inc.*, made a landmark VHS/DVD debut, selling 5 million units on its first day, beating the previous record – held by Disney's *The Lion King.* It went on to become the all-time biggest-selling DVD title.

In October, Disney's animated masterpiece *Beauty and the Beast* became the second installment in the Platinum Collection. This deluxe DVD continued the quality of excellence as it gave viewers an "experiential" game and also featured three versions of the film.

In time for the holidays, Disney's *Lilo & Stitch* became an instant hit as it came to VHS and DVD in December. The DVD offers a full menu of interactive bonus features for this very popular animated sensation.

BUENA VISTA HOME ENTERTAINMENT INTERNATIONAL (BVHEI)

With the spectacular performances of animated, live action, and catalog titles, BVHEI generated record sales.

As part of Disney's Platinum Collection, BVHEI released *Snow White and the Seven Dwarfs* on DVD & VHS. When combined with its VHS debut in 1994, *Snow White and the Seven Dwarfs* ranks as one of BVHEI's best selling titles of all time.

The Japanese release of *Spirited Away,* from acclaimed animator/director Hayao Miyazaki, has broken sales records. BVHE shipped 5.5 million units, the biggest initial shipment of any packaged entertainment product in Japan's history.

Also this year, *Pearl Harbor* became the biggest, fastest-selling live-action title in BVHEI's history. It is also the division's biggest live-action DVD ever, with 3.6 million units shipped. Last summer's release of *Pearl Harbor: The Director's Cut* added even more units to its stellar performance.

In 2002, BVHEI's Live Action Back Catalog initiative was launched, releasing more than 150 titles on DVD for the first time, resulting in sales of nearly 18 million units. At the same time, the Gold Series of classic animated films achieved sales of almost 12 million units. Both initiatives dramatically demonstrate the ongoing strength and value of The Walt Disney Studios library.

BUENA VISTA MUSIC GROUP

In 2002, Hollywood Records released the new album from Brit-pop sensations BBMak, *Into Your Head,* the follow-up to their platinum debut album. Another successful release came from Los Lobos, who celebrated 25 years of success with the release of *Good Morning Aztlan.*

Lyric Street Records celebrated its fifth year with SheDaisy's new release *Knock On The Sky* – the follow-up to the double-platinum, Grammy Award-nominated debut album. Rascal Flatts' self-titled debut album reached platinum status. Also, Aaron Tippin's new release, *Stars & Stripes,* reached the stores in the fall, featuring his post September 11, 2001 anthem, *Where the Stars and Stripes and the Eagle Fly.*

Walt Disney Records released the soundtrack to Disney's *Lilo & Stitch,* which is near platinum status. Other successful releases came from *Monsters, Inc., Country Bears* and *Lizzie McGuire.* Walt Disney Records launched the DVD Read-Along, a new interactive and educational product. In September, it released *Disneymania,* featuring classic Disney tunes sung by Usher, Ashanti, *NSYNC and others.

Buena Vista Music Group's anticipated releases for 2003 will include albums from newcomers Flashlight Brown, Satellite, Kevin Denney and Hilary Duff; a new release by Calvin Richardson, and the follow-up from Rascal Flatts, entitled *Melt.*

MEDIA NETWORKS

Back row, left to right – John Rouse, Senior Vice President, Affiliate Relations, ABC TV Network – Jim Hedges, Senior Vice President, Chief Financial Officer, ABC TV Network – John Hare, President, ABC Radio Division – Brian Frons, President, ABC Daytime – Laurie Younger, Executive Vice President and Chief Financial Officer, ABC, Inc. and Executive Vice President, Television Distribution – Spencer Neumann, Executive Vice President, ABC TV Network – Preston Davis, President, Broadcast Operations and Engineering, ABC TV Network – Susan Lyne, President, Entertainment, ABC TV Network – Lloyd Braun, Chairman, Entertainment, ABC TV Network – David Westin, President, News, ABC TV Network – Mike Shaw, President, Sales and Marketing, ABC TV Network – Steve McPherson, President, Touchstone Television – Howard Katz, President, Sports, ABC TV Network – Bob Miller, President, Hyperion Books – Andy Fessel, Senior Vice President, Research, ABC TV Network – Mark Pedowitz, Executive Vice President, ABC Entertainment Television Group – Front row, left to right – Angela Shapiro, President, ABC Family – Alex Wallau, President, ABC TV Network – Walter Liss, President, ABC Owned TV Stations – Janice Marinelli, President, Buena Vista TV – (Not shown – Jonathan Barzilay, Senior Vice President and General Manager, ABC Kids & Toon Disney, Pictured with ABC Cable Networks.)

BROADCAST NETWORKS

ABC TELEVISION NETWORK

For fall 2002, ABC Television Network presented an attractive mix of new entries such as *8 Simple Rules for Dating My Teenage Daughter, Life with Bonnie* and *UpClose*. These joined ABC-TV's diverse and highly popular programs, including *The Practice, The Wonderful World of Disney, Monday Night Football, World News Tonight with Peter Jennings* and *All My Children*. ABC.com is the official Web site of the network, offering abundant content from ABC's news, entertainment and sports programming.

Serving 226 local television affiliates nationwide, the ABC Television Network is the centerpiece of The Walt Disney Company's new advertising and marketing agreement with the OMD Worldwide agency. The historic billion-dollar integrated marketing agreement extends to 12 other Disney properties and is believed to be the biggest in the history of the U.S. media.

ABC ENTERTAINMENT TELEVISION GROUP

The ABC Entertainment Television Group, a division of the ABC Television Network, encompasses ABC Entertainment and Touchstone Television.

ABC Entertainment is responsible for all primetime and late-night entertainment programming. This season's primetime line-up features inclusive comedies aimed at young adults and the entire family from 8 to 9 p.m.; more adult comedies and escapist programming from 9 to 10 p.m., and then more provocative dramatic fare and hard-hitting newsmagazines from 10 to 11 p.m.

The network's new programming strategy features a "horizontal" programming block in the 8 p.m. hour Monday through Friday. Deemed "ABC's Happy Hour," this block is composed of broad programming that includes *8 Simple Rules for Dating My Teenage Daughter, According to Jim, My Wife and Kids, George Lopez* and *America's Funniest Home Videos.*

The Practice *continues to be a hit on ABC (right).*
8 Simple Rules for Dating My Teenage Daughter *is a new comedy on ABC (below).*

Alias *is a popular returning series from Touchstone Television (above).*
John Miller joins Barbara Walters on the 20/20 *anchor desk (right).*

Life with Bonnie *is a new comedy from Touchstone (left).*
George Lopez *is one of "ABC's Happy Hour" programs (below).*

One of Hollywood's leading production companies, Touchstone Television supplies critically acclaimed quality entertainment to the television industry. Touchstone Television has 11 hours of programming scheduled to air during the 2002-2003 season. The past two seasons have been the most prolific in the unit's 18-year history. The studio has program commitments from NBC, CBS and ABC, and it is responsible for such popular returning series as *Scrubs* (NBC's highest-rated new comedy), *The Amazing Race* (CBS) and *Alias*, *My Wife and Kids* and *According to Jim* (ABC). New Touchstone programming includes *8 Simple Rules for Dating My Teenage Daughter*, *Life with Bonnie*, *Less Than Perfect*, *MDs*, *Veritas*, *Miracles*, *Lost at Home* and *Regular Joe*.

ABC NEWS

ABC News distinguished itself with comprehensive reporting and insightful analysis of the ongoing war on terrorism and the government's efforts to bolster the nation's security. This included special programming that commemorated the first anniversary of the September 11, 2001, attacks.

The news division was awarded the prestigious George Foster Peabody Award for the "depth and breadth" of its coverage surrounding the attacks. In addition, ABC News earned 18 News and Documentary Emmy Award nominations during the past year.

ABC News has undertaken a year-long project called "50 States - One Nation - One Year" to explore life in America today, including links to the past and hopes for the future. *Good Morning America* and *World News Tonight with Peter Jennings* began reporting from every state in the nation.

Both *Good Morning America* and *World News Tonight* displayed more growth during the past season than any of their direct competitors. *20/20* welcomed veteran investigative reporter John Miller to the anchor desk alongside Barbara Walters.

Nightline, awarded a Peabody, was cited as "a truly remarkable television institution." ABC News continued its rich tradition of documentaries with *Boston 24/7*, *State v.* and *ICU*. The *Nightline* production team launched *UpClose*, focusing each night on a single compelling personality. ABCNEWS.com doubled its audience size and diversified its revenue base by launching a broadband subscription video service.

ABC SPORTS

ABC Sports' "Championship Television" programming includes some of the most-watched events on television: the Super Bowl, the NBA Finals, the Stanley Cup Finals and the Bowl Championship Series. ABC viewers enjoyed the best college football games from all the top conferences, culminating with the Tostitos Fiesta Bowl national championship. Other "Championship Television" events include the Indianapolis 500, the World and U.S. Figure Skating Championships, the British Open and the Little League World Series.

Monday Night Football (MNF), the most popular sports series in television history, is now home to John Madden, who joined Al Michaels in the *MNF* booth to create a broadcast "Dream Team."

ABC DAYTIME

The ABC Daytime drama line-up enjoyed its 26th season as the ratings leader among women 18-49. *Port Charles* was creatively enhanced with its breakout "telenovela" format. *Shop the Soaps* was successfully launched on ABC.com and The Home Shopping Network, enabling viewers to purchase jewelry worn by their favorite ABC soap characters. *All My Children* received accolades for an integrated sales deal with Revlon, as the first television program to incorporate a brand into its storyline.

ABC KIDS

ABC Kids, devoted to children's programming, showcases and cross-promotes the best programming from Disney's cable networks. For the 2001-02 television season, *Disney's Recess 2* ranked among the top 10 with kids 2-11 among all network Saturday kids' programs. *Disney's Recess 2* and *Lizzie McGuire* ranked first and second, respectively, among girls aged 2-11, while *Disney's Teacher's Pet* received an Emmy for Outstanding Special Class Animated Program.

ABC-OWNED TELEVISION STATIONS

ABC owns 10 television stations, reaching 24 percent of the nation's TV households. The station group posted excellent ratings results last year, with six of the 10 stations ranked number one in household delivery during the total broadcast day in their markets. The others were either number two or number three in their markets.

The ABC station group carries top-rated syndicated programs such as *The Oprah Winfrey Show*, *Wheel of Fortune*, *Jeopardy!* and *Live! with Regis and Kelly*. WABC-TV in New York celebrated its 15th year of producing *Live! with Regis and Kelly*. In addition, eight ABC-owned stations premiered *The Wayne Brady Show*, produced by Disney's Buena Vista Television.

All of these stations are continuing their conversion to state-of-the-art digital technology.

BUENA VISTA TELEVISION

Buena Vista Television debuted two high-profile syndicated projects. *Who Wants to Be a Millionaire* features new host Meredith Vieira (ABC's *The View*). Wayne Brady hosts the new daytime entertainment talk/variety series, *The Wayne Brady Show*. Both new series, developed by Buena Vista Productions, launched in fall 2002. *Millionaire* debuted on stations reaching more than 92 percent of the country, the strongest showing of any syndicated half-hour since 1998. *Wayne Brady's* metered market rankings have been topping 11 of the 14 syndicated talk shows on television.

Live! with Regis and Kelly, with Regis Philbin's and Kelly Ripa's chemistry fueling the show's popularity, maintains its ranking as one of the highest-rated shows in the talk genre.

The 39 titles of *Buena Vista 7* constitute another of the blockbuster movie packages that have established Buena Vista Television as a major presence in the pay TV, pay-per-view, cable and network television arenas. *Imagination 7*, particularly strong in the syndication marketplace, highlights family hits.

Each week, moviegoers continue to turn to *Ebert & Roeper* to hear Roger Ebert's and Richard Roeper's insightful reviews of top movie releases.

The popular *Digimon* rounds out Buena Vista Television's two-hour animation block, joining Disney's *The Legend of Tarzan*, Disney/Pixar's *Buzz Lightyear of Star Command* and *Disney's Recess* as a prime destination for children's programming.

One of syndication's biggest success stories, *Home Improvement*, began its second off-network cycle, while evergreen comedy *The Golden Girls* headed into a second run on Lifetime Television.

ABC RADIO

The ABC Radio Group owns 62 local stations and reaches 16 million listeners on a weekly basis. ABC Radio Networks provide programming to more than 4,600 affiliated stations and reach 133 million people weekly. These include *Radio Disney*, *ESPN Radio*, *Paul Harvey News and Comment* and *Paul Harvey's The Rest of the Story*, *The Tom Joyner Morning Show*, *The Sean Hannity Show*, *The Doug Banks*

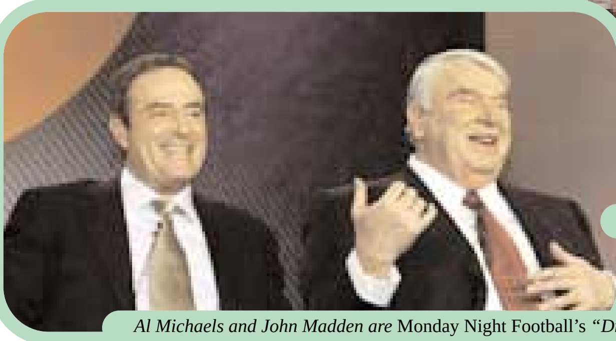
The modern family is the subject of comedy in My Wife and Kids.

The Wayne Brady Show *is a syndicated hit from Buena Vista Television.*

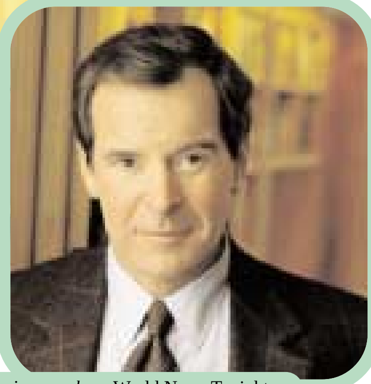
Weatherman Tony Perkins from Good Morning America.

Good Morning America *is anchored by Charles Gibson and Diane Sawyer.*

Aaron Carter performs live on Radio Disney.



Al Michaels and John Madden are Monday Night Football's *"Dream Team."*



Peter Jennings anchors World News Tonight.

Morning Show, The Sam Donaldson Show: Live in America, American Country Countdown with Bob Kingsley, The Mitch Albom Show, The Larry Elder Show, Keith Olbermann: Speaking of Sports, Speaking of Everything, 12 ABC Radio 24-hour music formats, ABC Sports Radio, music and talk programming.

ABC is the leading radio news network, with more than 2,000 affiliates. In 2002, ABC News Radio received a George Foster Peabody Award, a National Headliner Award and an Edward R. Murrow Award for its coverage of the events of September 11, 2001.

RADIO DISNEY

Radio Disney is now available in more than 50 U.S. markets, representing 57 percent of the country. Ratings and coverage continue to grow, with about 2.9 million children ages 6-14 and 1.5 million moms tuned to Radio Disney on a weekly basis in 2002. Radio Disney launched its first non-English station outside the United States, in Buenos Aires, which is now the number-three station for listeners 12-17 years of age. The network recently signed an agreement with Capital Radio to launch in the United Kingdom. Negotiations are in progress to expand across Mexico and other Latin American countries.

In its second year, the Urban Advantage Network, a partnership of ABC Radio and Radio One, tripled its reach to more than 17 million weekly listeners and is now one of the largest media networks serving the African-American community.

Launched on Sept. 10, 2001, *The Sean Hannity Show* has been syndicated to more than 225 stations nationwide. His audience of more than 10 million weekly listeners makes it one of the fastest-growing radio programs in history.

ABC FAMILY

Distributed to 85 million homes, ABC Family offers diverse programming that reflects and resonates with today's families. The channel features original series and movies, major theatrical releases and programming from the ABC Television Network.

Since its acquisition by The Walt Disney Company in October 2001, ABC Family has continued to show double-digit ratings growth each quarter versus prior year in households, total viewers and across all key demographics.

In 2002, ABC Family premiered the original television movies *Moms on Strike* and *Just a Walk in The Park.* The channel also featured a variety of basic cable premieres of quality motion pictures, including *Jack, Dr. Dolittle, One Fine Day* and *Phenomenon.* Themed holiday events include *13 Nights of Halloween* and *25 Days of Christmas.*

In the first quarter of 2003, the channel is scheduled to premiere the reality series *My Life Is a Sitcom* and the original movie *The One.*

Left to right – Ed Durso, Executive Vice President, Administration – Ed Erhardt, President, ESPN ABC Sports Customer Marketing and Sales – Christine Driessen, Executive Vice President and Chief Financial Officer – George Bodenheimer, President, ESPN, Inc. – John Skipper, Executive Vice President, ESPN.com and ESPN The Magazine – Sean Bratches, Executive Vice President, Affiliate Sales and Marketing – Mark Shapiro, Executive Vice President, Programming and Production – Lee Ann Daly, Senior Vice President, Marketing.

ESPN

ESPN, Inc., the leading destination for American sports fans, continued its growth in 2002, led by major programming acquisitions and original programs, increased viewership, greater distribution of its domestic networks and international network launches.

For the first time in television history, ESPN, the flagship network with more than 87 million households, is televising all four major professional leagues – baseball, football, basketball and hockey – after acquiring domestic rights from the National Basketball Association (NBA) in 2002. The agreement includes regular-season games, playoffs, exclusive coverage of one of the conference finals and the championship games on ESPN and ABC Sports.

ESPN announced plans to launch ESPN HD, a high-definition simulcast service of ESPN, scheduled to begin in April 2003. The new service will feature 100 live high-definition telecasts of Major League Baseball (MLB), NBA, National Football League (NFL) and National Hockey League (NHL) games.

ESPN viewership increased in calendar year 2002, driven by exciting event series including the Men's World Cup, the Women's Final Four, NHL, MLB, the Little League World Series, the French Open, the NBA and the highest-rated series on basic cable – the NFL.

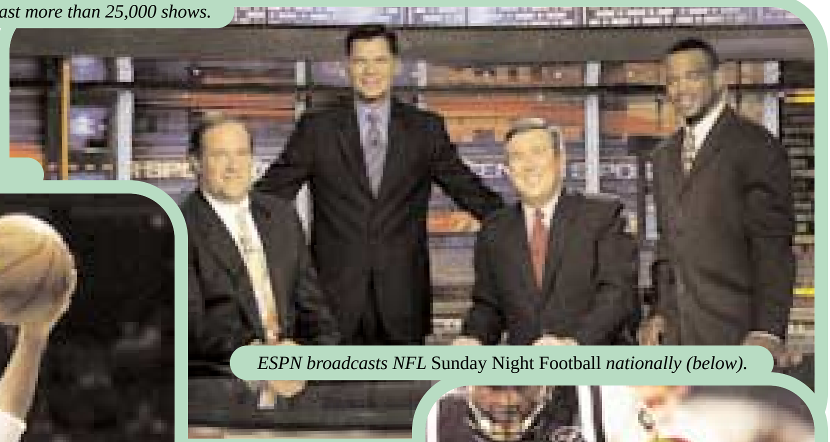
SportsCenter celebrated its 25,000th live edition in August, more shows than any other television series.

ESPN Original Entertainment attracted viewers with *Pardon the Interruption; The Season;* original movies *Season on the Brink* and *The Junction Boys;* and *Beg, Borrow and Deal,* a reality game series. ESPN plans to produce a scripted drama in 2003.

The X Games franchise achieved record viewership and attendance, furthering the brand. *ESPN's Ultimate X*, the large-format movie produced with Touchstone Pictures, was released in May; the inaugural Latin X Games were held in Rio de Janeiro; and a new event will debut in May 2003 – the X Games Global Championship, which will feature teams competing in simultaneous winter and summer events.

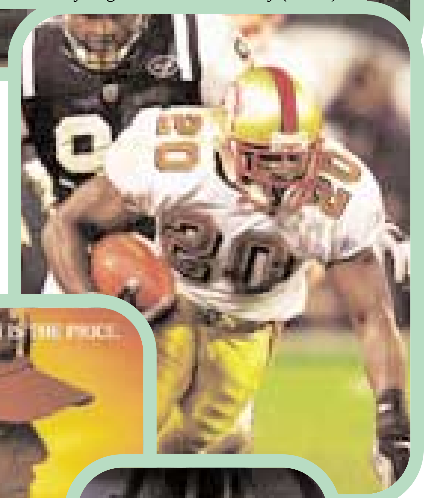
ESPN Outdoors doubled attendance and increased ratings for the Great Outdoor Games and generated growth among tournament audiences for B.A.S.S., the nation's largest fishing organization, with 600,000 members, acquired by ESPN in 2001.

SportsCenter has broadcast more than 25,000 shows.



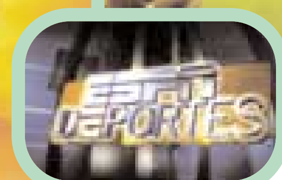
ESPN features games from all four major professional leagues.

ESPN broadcasts NFL Sunday Night Football *nationally (below).*



ESPN.com provides high-speed access to sports news.

ESPN Original Entertainment produces movies about sports.



ESPN Deportes *will become a 24-hour network.*

ESPN2 now serves about 85 million homes, making it nationally equivalent to ESPN. ESPN Classic, featuring the Emmy and Peabody Award-winning series *SportsCentury,* is approaching 50 million homes. Distribution of ESPNEWS, the only television sports news network, grew from 33 million to 40 million homes. ESPN Regional Television, the leading distributor of college games, produces approximately 700 programs annually for local broadcast and cable outlets.

ESPN Radio, which carries regular-season and all post-season MLB games, the World Series, the NBA regular season and finals, college football's Bowl Championship Series and Women's National Basketball Association (WNBA) Finals, is distributed to some 700 U.S. stations.

ESPN.com, the leading sports Web site, doubled its consumer usage year over year, averaging over 12 million unique users monthly, with a record-high 13.4 million in March.

ESPN The Magazine has grown rapidly, setting a new subscriber base of 1.65 million for January 2003.

ESPN International, with ownership or equity interest in 25 networks in 11 languages, launched its first ESPN-branded networks in Europe with ESPN Classic Sport in France and in Italy, and a second network, ESPN+, serving Argentina, Chile, Paraguay and Uruguay.

ESPN Deportes, a separately produced Sunday night block in Spanish, is slated to expand to a 24-hour network in 2003.

Together with Disney Interactive and Sega Sports, ESPN unveiled the first of six sports games — *NFL2K3, Powered by ESPN.* It won "Best Sports Game" at the Electronic Entertainment Expo in June.

ESPN ABC Sports Customer Marketing and Sales was voted first among broadcast and cable networks by advertising clients for its innovative sales and marketing support capabilities. Cable operators again selected ESPN number one in perceived value to affiliates. ESPN maintains its lead among basic cable networks in affiliate, national and local advertising revenue.

ESPN continues to exploit new technologies, and is expanding its broadband content and its wireless agreements with all major domestic carriers. ESPN has built a video-on-demand library with 2,700 titles – all in its mission to serve fans better tomorrow than it does today.

MEDIA NETWORKS

From left to right – Nick Davatzes, President and Chief Executive Officer, A&E Television Networks – Rich Ross, President, Entertainment Disney Channel – Mindy Herman, Chief Executive Officer and President, E! Networks – Deborah Blackwell, Senior Vice President and General Manager, SOAPNet – Anne M. Sweeney, President, ABC Cable Networks Group, President, Disney Channel Worldwide – David Hulbert, President, Walt Disney Television, U.K. – Jonathan Barzilay, Senior Vice President and General Manager, ABC Kids & Toon Disney – Carole Black, Chief Executive Officer and President, Lifetime Television.

ABC CABLE NETWORKS

ABC Cable Networks Group develops and manages several worldwide cable networks and kids television programming for The Walt Disney Company. Domestically, the group encompasses the wholly owned Disney Channel, Toon Disney and SOAPnet, and manages the company's interests in Lifetime Entertainment Services, A&E Entertainment Networks and E! Entertainment Networks, as well as The Walt Disney Company's kids programming on multiple television platforms, including the ABC Television Network and ABC Family.

INTERNATIONAL

The group's international holdings include Disney Channel, Playhouse Disney, Toon Disney and Fox Kids services in more than 56 countries, reaching more than 49 million households in 17 languages. In fiscal year 2002, Disney Channels were launched in Portugal, Korea and Indonesia. The group distributes Disney-branded and Fox Kids-branded programming to more than 120 different terrestrial, cable and satellite channels in markets around the world.

DISNEY CHANNEL U.S.

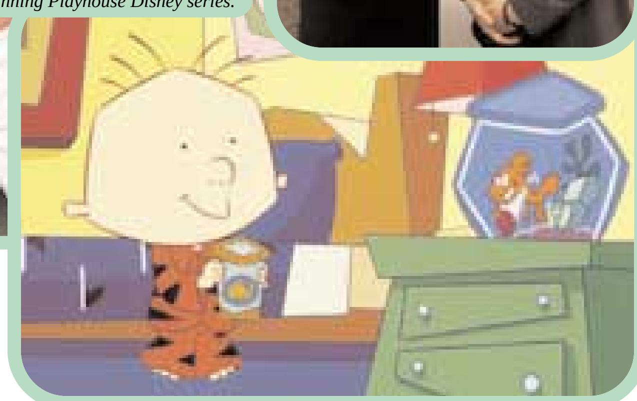
Reaching some 80 million homes, Disney Channel in the United States ranks among the top 10 basic cable networks in households served. In 2002, Disney Channel received two Daytime Emmy Awards and eight nominations, more than any other basic cable network.

The Playhouse Disney programming block for preschoolers increased household delivery by 10 percent over fiscal year 2001, and improved target delivery by 28 percent. Playhouse Disney's original programming, including the award-winning series *Stanley* and *Rolie Polie Olie,* continues to garner critical acclaim. Playhouse Disney provided a springboard for the sale of the best-selling video *Rolie Polie Olie: The Great Defender of Fun,* as well as books, records and CD-ROMs. Disney Channel's original series targeting kids 6-11 and tweens 9-14 also showed healthy gains. The hit series *Lizzie McGuire* was the highest-rated series with kids 6-14, followed by *The Proud Family.* Disney Channel's newest original animated hit, *Kim Possible,* finished third among all Disney Channel series. *Lizzie McGuire* and its tween star, Hilary Duff, inspired a Limited Too clothing line, various consumer products and a forthcoming Walt Disney Pictures feature film.

Lizzie McGuire is the highest rated series with kids 6-14 on the Disney Channel.

For the People is a new legal drama from Lifetime.

Stanley is an award-winning Playhouse Disney series.



Lifetime is expanding its reach with a magazine for women.

Disney Channel's Original Movie franchise continues to dominate the marketplace with such breakout hits as *Cadet Kelly;* the critically acclaimed *Tru Confessions;* and *Gotta Kick It Up,* featuring a Latino cast.

TOON DISNEY

For kids aged 2 to 11, the advertising-supported Toon Disney features an array of family-friendly animated programming. Launched more than four years ago, it reaches more than 34 million homes, a 28 percent increase over one year earlier.

An independent survey showed Toon Disney was the leading emerging network for children under 13 and number one in importance among satellite subscribers with children 12 and under.

Last year, Toon Disney added nine new animated series, including the Emmy Award-winning *Teacher's Pet, Teamo Supremo* and *House of Mouse.*

SOAPnet

Launched in 2000, SOAPnet, the only network devoted to soaps, is available in 25 million homes. Its 167 percent increase in household distribution year-to-year is the largest gain in cable television.

SOAPnet offers a variety of soap programming around the clock. In addition to featuring same-day telecasts of the top-rated ABC Daytime series, the network also airs two original series, *SoapCenter,* which takes viewers behind the scenes, and *Soap Talk,* a daily talk show hosted by Lisa Rinna and Ty Treadway.

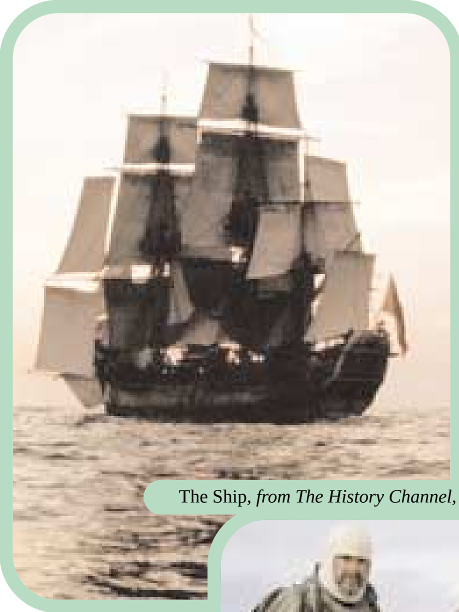
SOAPnet consistently ranks in the top 10 basic cables in primetime viewership among women 18-49 and 25-54, and is number one in viewer loyalty among all broadcast and basic cable networks. A July 2002 survey showed that adults 18-49 watched SOAPnet an average of 30.8 consecutive minutes, longer than any other basic cable network.

LIFETIME ENTERTAINMENT SERVICES

In 2002, Lifetime Television continued to be the top network in primetime among all basic cable networks, with double-digit ratings growth over the previous year. It now reaches nearly 86 million homes and continues in the top position in all key female demographics. Lifetime Movie Network is available in over 27 million homes and Lifetime Real Women now reaches 5 million homes. Lifetime now offers books, and this year, Disney and joint venture partner Hearst Corporation will launch *Lifetime Magazine*.

Lifetime's Sunday night hit original series, *The Division* and *Strong Medicine,* are among the top-rated original dramas on basic cable. In 2002, Lifetime launched the new legal drama *For the People.* Lifetime's documentaries, specials and daytime talk/magazine series, *Lifetime Now* and *Lifetime's Speaking of Women's Health,* proved extremely popular. The network introduced a new reality series, *Final Justice.*

Last season's Lifetime Original Movies included *We Were the Mulvaneys,* starring Blythe Danner and Beau Bridges.



The Ship, *from The History Channel, received critical acclaim.*

The original A&E program, Shackleton, *won two Emmys.*

Revealed with Jules Asner *is a new program on E!*

Both received Emmy nominations for their performances. Lifetime has become a leading force uniting women on critical issues through its public advocacy efforts, such as raising breast cancer awareness, encouraging self-esteem among women and girls and its new campaign to stop violence against women.

A&E TELEVISION NETWORKS

Nominated for more Emmy Awards in the past two years than any other basic cable network, A&E offers a unique blend of critically acclaimed original programming, including *Biography*, original movies and miniseries, such as *The Magnificent Ambersons, The Lost Battalion*, and *Shackleton,* as well as engaging documentary series and specials and music programming. In 2002, A&E received six Emmy Awards, more than any other basic cable network, including one for *Biography* as Outstanding Non-Fiction Series (Informational). This past calendar year also marked a major milestone as *Biography* celebrated its 15th anniversary and aired its 1000th episode. Additional Emmys awarded A&E in 2002 include two for its four-hour original miniseries *Shackleton,* starring Kenneth Branagh; two for the A&E In Concert Special *Sting in Tuscany… All This Time*; and one for the A&E original movie *Victoria and Albert.* A&E is available to more than 86 million viewers in the United States.

THE HISTORY CHANNEL

With more than 82 million subscribers, The History Channel® reveals the power and passion of history as an inviting place where people experience history personally and connect their own lives to the great lives and events of the past. The History Channel, which began in 1995, is the only place "Where the Past Comes Alive." The History Channel received the prestigious Governors Award from The Academy of Television Arts & Sciences for the network's "Save Our History" campaign dedicated to historic preservation. In 2002, critically acclaimed programming such as *The True Story of Black Hawk Down, Egypt: Land of the Gods, Founding Brothers,* and *The Ship* led to continued rating success and won the network five Emmy nominations. The latest spring 2002 EquiTrend Survey landed the network in the top 2 percent for overall quality among 85 television networks, third among 228 media brands, and 21st out of 1,301 total brands.

E! ENTERTAINMENT NETWORKS

E! Entertainment Television is now available to 79 million cable and direct broadcast satellite subscribers in the U.S. and reaches 400 million homes in 120 countries worldwide. The network experienced significant growth in ratings in 2002 due to its new reality sitcom *The Anna Nicole Show* and the success of a new generation of programming including *Rank, Revealed with Jules Asner* and *TV Tales.*

Style, part of E! Networks, features a full slate of original series and specials that cover fashion, beauty, home, dining, travel and entertaining. It serves 24 million subscribers. New series that have launched on style include *Nigella Bites, The Look for Less, Glow, Area* and *Katie Brown.*

WALT DISNEY CONSUMER PRODUCTS

Back row, left to right – Tim Kilpin, Executive Vice President, Studio Franchise Management – Roger Wyett, Executive Vice President, Global Softlines – Anne Gates, Executive Vice President and Chief Financial Officer – Susan Garelli, Senior Vice President, Human Resources – Peter Whitford, President, Disney Stores Worldwide – Front row, left to right – Jessica Dunne, Senior Vice President, Global Toys – Graham Hopper, Senior Vice President and General Manager, Disney Interactive – Andy Mooney, President, Disney Consumer Products Worldwide – Harry Dolman, Executive Vice President, Global Hardlines.

DISNEY LICENSING

Disney Licensing consists of Disney Toys, Disney Softlines (apparel and accessories) and Disney Hardlines (packaged goods, stationery, home furnishings and consumer electronics).

DISNEY HARDLINES

In less than one year, Disney juices and juice drinks – developed with the Minute Maid division of The Coca-Cola Company and launched in North America, Latin America and Japan – were on track to achieve global wholesale sales of $400 million. To put that in perspective, less than 1 percent of new brand launches achieve global wholesale sales of $100 million within the first year, according to industry experts.

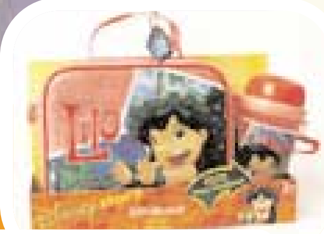
In February 2002, Kellogg and Disney introduced three new cereals in North America – *Mickey's Magix*™, *Buzz Blast*™ and *Hunny B's*™ – garnering an impressive share of the highly competitive cereal market. In the United Kingdom, Mexico and Australia, new cereal and breakfast bars were met with high retailer demand leading to strong sales.

In 2002, Disney Consumer Products (DCP) entered the consumer electronics arena with innovative products combining a unique Disney design language and state-of-the-art technology. The first products, introduced in North America, the United Kingdom and Mexico last fall, were two-way radios and 2.4 GHz cordless telephones manufactured and distributed by Motorola, Inc.

Kmart features a new line of Disney clothing.

Aloha Stitch *is a popular interactive plush toy.*

The Disney Princess collection delights young girls.



Lilo & Stitch's *success launched a number of retail items.*

The Disney Store on Paris' Champs Elysees (above).
Disney Interactive is expanding its line of games (below).

Children can learn English from Disney's World of English products.

Disney is the world's largest children's publisher.

CONSUMER PRODUCTS

DISNEY TOYS

In 2002, Disney remained the largest-single licensing brand in the toy business, aided by the strong retail performance of infant and preschool toys from Fisher Price, significant expansion of Disney Princess toys and the strong retail performance of the Power Rangers *Wild Force* collection from Bandai.

Toys inspired by Walt Disney Pictures' *Lilo & Stitch* also saw tremendous success, with the *Aloha Stitch* interactive plush products selling briskly prior to the movie's release. Toys based on *Monsters, Inc.*, boosted by last year's release of the title on VHS and DVD, also continued to perform well at retail.

DISNEY SOFTLINES

As part of DCP's concerted move toward direct-to-retail licensing agreements, Disney now has relationships with significant retailers globally, including Kmart and J.C. Penney throughout North America and Wal-Mart in Canada. In February 2002, Disney and Kmart launched an exclusive line of non-character clothing – a first for Disney – that has enjoyed exceptional sell-through.

In Europe, Disney's direct-to-retail agreement with Carrefour, the largest retailer in Europe and the second-largest worldwide, resulted in the launch of an exclusive line of children's clothing and accessories at Carrefour stores in 30 countries. Agreements with major retailers H&M, C&A and Tesco also resulted in placement of exclusive Disney product lines in key European markets.

Because everything old was new again in 2002, Mickey Mouse debuted on a retro T-shirt inspired by fashions from the 1970s. The tee appealed to tweens, teens and adults, making a splash in fashion magazines, on television and with celebrities.

DISNEY RETAIL

Disney Retail was created when the company opened the Disney Store in Glendale, Calif., in 1987. Now in nine countries, Disney Retail also includes the *Disney* catalog and DisneyStore.com.

Disney Store North America posted robust per-store sales gains throughout 2002. Success can be attributed to the store's new merchandising strategy centered on Princess, Toy Story, Winnie the Pooh, Mickey Mouse and standard characters, as well as its emphasis on key retail events such as Halloween and the holidays.

Disney Princess remains a year-round focus for the Disney Store. The Princess collection brings Disney's beloved heroines together in fantasy-based products for girls ages 4 to 10. Ariel, Belle, Cinderella, Jasmine, Mulan, Pocahontas, Sleeping Beauty and Snow White are featured on pajamas, dress-up gowns, dolls and toys.

Disney Store's international business continues to exceed expectations, posting solid per-store sales gains throughout 2002, with flagship stores in Paris, Rome and London contributing to the overall success of the business.

Disney Store North America continues to test Disney Play – a new store concept that focuses on play time, fantasy and fun for children. Toys and dress-up take center stage, while the plush "Cuddle Kingdom" is featured prominently at the entrance.

DISNEY PUBLISHING

Disney Publishing is the world's largest children's publisher, with books, magazines and continuity programs in 55 languages in 74 countries, reaching more than 100 million readers monthly.

Disney's English Language Learning products remain in high demand globally, with Disney's World of English being introduced in 2002 for the first time to the Hispanic market in the United States.

Hyperion Books For Children released several best-selling books in 2002, including Eoin Colfer's hit *Artemis Fowl: The Arctic Incident* – the sequel to the best-selling children's thriller *Artemis Fowl*. More than 1 million copies of this sequel are in print.

One of publishing's notable successes in 2002 was the global expansion of *W.i.t.c.h.*, a monthly comic magazine developed in Milan, Italy. Available in 18 countries, the magazine addresses real-world issues for girls ages 10 to 14 through characters with supernatural powers. *W.i.t.c.h.* spawned a successful book series and licensed-merchandise programs.

FamilyFun magazine, with a circulation of 1.55 million, continued to grow its readership in 2002 and expects to reach a circulation of 1.75 million in 2003. *Ad Age* magazine named *FamilyFun* one of the 10 best titles of 2002, based on advertising, circulation and content.

DISNEY INTERACTIVE

Disney Interactive (DI) is strategically important as a medium to develop intellectual property that can be leveraged across The Walt Disney Company. Additionally, DI broadens Disney's core demographic, helping the company reach tweens, teens and adults with Disney content.

Donald, Goofy and more than 100 characters star in the innovative interactive adventure *Kingdom Hearts*. Selling 2 million units after launching in the United States, Europe and Japan in 2002, the highly anticipated, award-winning title is on track to sell up to 3 million units during its lifetime.

Last year, DI and Sega Sports incorporated ESPN branding into sports titles, including NCAA and National Football League titles. Moving forward, ESPN integration will continue with products based on the National Basketball Association, National Hockey League and Major League Baseball.

WALT DISNEY INTERNATIONAL

Back row, left to right – Diego Lerner, President, TWDC Latin America – Jon Niermann, Managing Director, Walt Disney International, Asia Pacific – Umberto Virri, Managing Director, Italy – Stuart Warrener, Managing Director, Central and Eastern Europe, Middle East and Africa – Mats Caneman, Senior Vice President and Managing Director, Nordic – Stephen Knight, Senior Vice President, Marketing and Brand Management – Brian J. Spaulding, Senior Vice President and Chief Financial Officer, Walt Disney International – Middle row, left to right – Katarzyna Westermark, Managing Director, Poland – Brett Chapman, Senior Vice President and General Counsel, Walt Disney International – Cindy Rose, Senior Vice President and Managing Director, U.K. and Ireland – Claus Gydesen, Managing Director, Germany, Austria and Switzerland – Koji Hoshino, President, TWDC Japan – Seated, left to right – Laszlo Hubay Cebrian, Managing Director, Iberia – Philippe Laco, Managing Director, France and Benelux – Michael O. Johnson, President, Walt Disney International.

Walt Disney International seeks to coordinate, expand and strengthen the company's international operations through several activities. These include creating or acquiring new foreign businesses and distribution channels; enhancing business performance through retail coordination, franchise management, synergy, brand management and new market development; and consolidating accounting, human resources, information technology, legal, real estate and strategic sourcing resources. These latter consolidation efforts were largely completed in key markets during 2002.

Each international region is organized to achieve these objectives while recognizing regional differences and minimizing costs.

Last year, Walt Disney International worked with The Walt Disney Studios to identify opportunities to acquire and develop entertainment content outside of the United States. In Japan, this strategy resulted in continuing a long-running relationship with famed Japanese animator Hayao Miyazaki and Studio Ghibli. Disney distributed the latest Miyazaki film, *Spirited Away*, on video and DVD in Japan and through all distribution channels outside of Japan. This was the most successful film ever released in Japan, generating more than $200 million at the Japanese box office.

In Latin America, Walt Disney International created Miravista, a joint venture with Spanish telephone operator Telefonica, to produce Spanish-language films. Miravista will follow the methods used by Disney's Patagonic Film Group, which produced Academy Award®-nominee *Son of the Bride*.

Walt Disney International acquired certain distribution rights in the Asia/Pacific region to the Wiggles properties. This is an Australian entertainment group whose shows are just now appearing in the United States, including The Disney Channel. The Wiggles provide entertainment and education for preschool children.

Walt Disney International continued to coordinate major promotional campaigns across Disney business units. The largest was Walt Disney's *100 Years of Magic*. Each line of business celebrated the centennial of Walt Disney's birth with unique product offerings. For major theatrical and home video releases such as the animated feature *Lilo & Stitch* and the DVD premiere of *Cinderella II*, Walt Disney International provided promotional and product support in Europe. Walt Disney International also coordinated support of the business units for the opening of the new theme park in Paris.

Walt Disney International seeks to maximize the value of key Disney franchises in all international markets. For example, the company brought together a full range of girls' products offered under the Disney Princess banner. Sales of these products were supported by the video and DVD releases of *The Princess Diaries*, *Snow White and the Seven Dwarfs* and *Cinderella II*. In Europe, one of the year's highlights included the Princess Ball at Disneyland Paris in support of Princess products.

In the United Kingdom, Walt Disney International launched a trial program with Amazon, whereby consumers can click on a Disney button on the Amazon Web site to gain instant access to a full range of Disney video, publishing, music and interactive products (www.amazon.co.uk).

In traditional bricks and mortar retailers such as Target in Australia and Carrefour in France, Walt Disney International worked to coordinate presentation of a full range of Disney products. The Carrefour relationship has resulted in significant placements of Disney products at the point of sale in more than 200 hypermarkets across France, the listing of more than 120 Disney products in Carrefour's toy catalog and the sale of tickets to Disney motion pictures throughout France.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

As-Reported Results of Operations

(in millions, except per share data)	**2002**	2001	2000
Revenues	**$ 25,329**	$ 25,172	$ 25,325
Costs and expenses	**(22,924)**	(21,573)	(21,567)
Amortization of intangible assets	**(21)**	(767)	(1,233)
Gain on sale of businesses	**34**	22	489
Net interest expense and other	**(453)**	(417)	(497)
Equity in the income of investees	**225**	300	208
Restructuring and impairment charges	**—**	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	**2,190**	1,283	2,633
Income taxes	**(853)**	(1,059)	(1,606)
Minority interests	**(101)**	(104)	(107)
Income before the cumulative effect of accounting changes	**1,236**	120	920
Cumulative effect of accounting changes:			
Film accounting	**—**	(228)	—
Derivative accounting	**—**	(50)	—
Net income (loss)	**$ 1,236**	$ (158)	$ 920
Earnings (loss) attributed to Disney Common Stock[1]	**$ 1,236**	$ (41)	$ 1,196
Earnings per share before the cumulative effect of accounting changes attributed to Disney Common Stock:[1]			
Diluted	**$ 0.60**	$ 0.11	$ 0.57
Basic	**$ 0.61**	$ 0.11	$ 0.58
Cumulative effect of accounting changes per Disney share:			
Film accounting	**$ —**	$ (0.11)	$ —
Derivative accounting	**—**	(0.02)	—
	$ —	$ (0.13)	$ —
Earnings (loss) per share attributed to Disney Common Stock:[1]			
Diluted	**$ 0.60**	$ (0.02)	$ 0.57
Basic	**$ 0.61**	$ (0.02)	$ 0.58
Earnings attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001 and 2000[1]	**$ 1,236**	$ 891	$ 2,157
Earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001 and 2000:[1]			
Diluted	**$ 0.60**	$ 0.42	$ 1.03
Basic	**$ 0.61**	$ 0.43	$ 1.04
Average number of common and common equivalent shares outstanding for the Disney Common Stock:			
Diluted	**2,044**	2,100	2,103
Basic	**2,040**	2,085	2,074
Loss attributed to Internet Group Common Stock	**n/a**	$ (117)	$ (276)
Loss per share attributed to Internet Group Common Stock (basic and diluted)	**n/a**	$ (2.72)	$ (6.18)
Average number of common and common equivalent shares outstanding for the Internet Group Common Stock	**n/a**	43	45

[1] Including Disney's retained interest in the Internet Group. Disney's retained interest in the Internet Group reflects 100% of Internet Group losses through November 17, 1999, approximately 72% for the period from November 18, 1999 through January 28, 2001 (the last date prior to the announcement of the conversion of the Internet Group common stock) and 100% thereafter.

CONSOLIDATED RESULTS

2002 vs. 2001 Net income for the year was $1.2 billion, compared to a net loss of $158 million in the prior-year period. Net income and earnings per share attributed to Disney common stock were $1.2 billion and $0.60, respectively, for the current year, compared to a net loss and loss per share of $41 million and $0.02 in the prior year. Results for the current year include a pre-tax gain ($216 million or $0.07 per share) on the sale of the remaining shares of Knight-Ridder, Inc., a pre-tax gain on the sale of the Disney Store business in Japan ($34 million or $0.01 per share), operations of ABC Family acquired on October 24, 2001, incremental interest expense for borrowings related to that acquisition and the cessation of amortization of goodwill and certain intangible assets, due to the adoption of Statement of Financial Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) effective October 1, 2001. The prior year included restructuring and impairment charges ($1.5 billion or $0.52 per share) and the cumulative effect of accounting changes ($278 million or $0.13 per share). Earnings and earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 for the prior-year were $891 million and $0.42, respectively.

Excluding the year-over-year impact of the non-recurring items discussed above, results for the year were driven by lower segment operating income and equity in income of investees and higher net interest expense and other. Decreased segment operating income reflected lower Media Networks and Parks and Resorts results, partially offset by higher Studio Entertainment results. Lower equity in the income of investees reflected the write-down of an investment in a Latin American cable operator, decreases at the cable investments resulting from the soft advertising market and higher advertising costs at Lifetime Television.

Net interest expense and other is detailed below:

	Year Ended September 30,		
	2002	2001	2000
Interest expense	**$(723)**	$(544)	$(599)
Interest income	**23**	26	22
Investment income	**247**	101	80
Net interest expense and other	**$(453)**	$(417)	$(497)

Interest expense increased to $723 million due to incremental borrowings in connection with the ABC Family acquisition. Higher interest expense was partially offset by increased investment income due to the gain on the sale of Knight-Ridder shares.

The effective tax rate decreased from 82.5% in fiscal 2001 to 38.9% in fiscal 2002 due to nondeductible impairment charges related to intangible assets taken in fiscal 2001, and the cessation of nondeductible amortization of goodwill in fiscal 2002.

2001 vs. 2000 As-reported net loss was $158 million compared to net income of $920 million in fiscal 2000. Net loss and loss per share attributed to Disney common stock were $41 million and $0.02, respectively, compared to net income and earnings per share attributed to Disney common stock of $1.2 billion and $0.57, respectively, in the prior year. As-reported net loss in fiscal 2001 includes charges from the cumulative effect of accounting changes ($278 million or $0.13 per Disney share) and restructuring and impairment charges ($1.5 billion or $0.52 per Disney share). As-reported results also include pre-tax gains on the sale of Infoseek Japan K.K. ($22 million) in fiscal 2001, and Fairchild Publications ($243 million), Ultraseek Corporation ($153 million) and Eurosport ($93 million) in fiscal 2000.

Excluding the charges and gains mentioned above, earnings per share attributed to Disney common stock was $0.63 and $0.56 for fiscal 2001 and 2000, respectively. Results for fiscal 2001 also reflected lower amortization of intangible assets and net interest expense and other, and higher equity in the income of investees, partially offset by decreased segment operating income and higher corporate and unallocated shared expenses. Lower amortization of intangible assets reflected the write-off of intangible assets associated with the closure of the GO.com portal business in the second quarter of fiscal 2001, certain intangible assets becoming fully amortized in the first quarter of fiscal 2001 and a reduction in intangible assets related to the sale of Fairchild Publications, Ultraseek and Eurosport in fiscal 2000. Decreases in net interest expense and other were due to lower interest rates and lower average debt balances throughout most of fiscal 2001, partially offset by increased investment income due to gains on the sale of certain investments. Higher equity in the income of investees reflected improved results from cable equity investments including Lifetime Television, The History Channel and A&E Television and certain international cable equity investments, partially offset by start-up losses incurred in connection with new investments. Decreased segment operating income reflected lower Media Networks and Parks and Resorts results, partially offset by improvements at Studio Entertainment and Consumer Products. Increased corporate and unallocated shared expenses were driven by costs associated with several strategic initiatives designed to improve overall company-wide efficiency and promote the Disney brand.

The effective tax rate increased from 61.0% in fiscal 2000 to 82.5% in fiscal 2001 primarily due to nondeductible impairment charges related to intangible assets taken in fiscal 2001.

RESTRUCTURING AND IMPAIRMENT CHARGES

The Company recorded restructuring and impairment charges for the years ended September 30, 2001 and 2000 summarized as follows:

(in millions)	2001	2000
GO.com intangible assets impairment	$ 820	$—
GO.com severance, fixed asset write-offs and other	58	—
Investment impairments	254	61
Workforce reduction and other	111	—
Chicago DisneyQuest closure	94	—
Asset impairment	63	31
Disney Store closures	54	—
Total restructuring and impairment charges	$1,454	$92

The $111 million of costs associated with the workforce reduction consist primarily of severance costs and write-offs of idled facilities. As of September 30, 2002, the Company had substantially completed its workforce reduction.

PRO FORMA RESULTS OF OPERATION

The Company acquired Fox Family Worldwide, Inc., subsequently re-named ABC Family Worldwide (ABC Family) on October 24, 2001. The acquisition resulted in a $5.2 billion increase in borrowings, consisting of outstanding debt of ABC Family and new short-and long-term debt issuances. Pro forma net interest and other has been adjusted as if these incremental borrowings had been outstanding as of the beginning of fiscal 2001. In March 2001, the Company closed the GO.com portal business and converted its Internet Group common stock into Disney common stock. Additionally, on October 1, 2001, the Company adopted SFAS 142, and accordingly no longer amortizes substantially all of its intangible assets. To enhance comparability, the unaudited pro forma information that follows presents consolidated results of operations as if the ABC Family acquisition, the conversion of the Internet Group common stock, the closure of the GO.com portal business and the adoption of SFAS 142 (see Notes 3 and 6 to the Consolidated Financial Statements) had occurred at the beginning of fiscal 2001. The unaudited pro forma information is not necessarily reflective of the results of operations had these events actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future results.

Management believes that pro forma operating results provide additional information useful in analyzing the underlying business results. However, pro forma operating results should be considered in addition to, not as a substitute for, as-reported results of operations.

CONSOLIDATED RESULTS

Pro Forma Results of Operations

(unaudited; in millions, except per share data)	**2002**	2001	% Change
Revenues	**$ 25,360**	$ 25,790	(2%)
Costs and expenses	**(22,951)**	(21,982)	(4%)
Amortization of intangible assets	**(21)**	(23)	9%
Gain on sale of business [1]	**34**	22	55%
Net interest expense and other	**(465)**	(637)	27%
Equity in the income of investees	**225**	310	(27%)
Restructuring and impairment charges	**—**	(576)	n/m
Income before income taxes, minority interests and the cumulative effect of accounting changes	**2,182**	2,904	(25%)
Income taxes	**(850)**	(1,128)	25%
Minority interests	**(101)**	(103)	2%
Income before the cumulative effect of accounting changes	**1,231**	1,673	(26%)
Cumulative effect of accounting changes:			
Film accounting	**—**	(280)	n/m
Derivative accounting	**—**	(50)	n/m
Net income	**$ 1,231**	$ 1,343	(8%)
Earnings per share before the cumulative effect of accounting changes (basic and diluted): [2]	**$ 0.60**	$ 0.80	(25%)
Earnings before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002, restructuring and impairment charges and gain on the sale of businesses	**$ 1,074**	$ 2,041	(47%)
Earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002, restructuring and impairment charges and gain on the sale of businesses:			
Diluted	**$ 0.53**	$ 0.97	(45%)
Basic	**$ 0.53**	$ 0.98	(46%)
Average number of common and common equivalent shares outstanding:			
Diluted	**2,044**	2,104	
Basic	**2,040**	2,089	

[1] Includes the gain on sale of the Company's Disney Store operations in Japan in 2002 and the gain on sale of Infoseek Japan K.K. in 2001.
[2] The per share impacts of film and derivative accounting changes for the year were $(0.13) and $(0.02), respectively.

The following table provides a reconciliation of as-reported diluted earnings per share attributed to Disney common stock to pro forma earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002 and restructuring and impairment charges and gains on sale of business.

(unaudited)	Year Ended September 30, 2002	2001
As-reported diluted earnings (loss) per share attributed to Disney common stock	**$ 0.60**	$(0.02)
Adjustment to exclude the cumulative effect of accounting changes	—	0.13
Adjustment to reflect the impact of the new SFAS 142 accounting rules	—	0.31
As-reported diluted earnings per share attributed to Disney common stock before the cumulative effect of accounting changes adjusted for the impact of SFAS 142 in fiscal 2001	**0.60**	0.42
Adjustment to attribute 100% of Internet Group operating results to Disney common stock (72% included in as-reported amounts)	—	(0.06)
Adjustment to exclude GO.com restructuring and impairment charges	—	0.41
Adjustment to exclude pre-closure GO.com portal operating results	—	0.04
Adjustment to include ABC Family operations	—	(0.01)
Pro forma diluted earnings per share before the cumulative effect of accounting changes	**0.60**	0.80
Adjustment to exclude restructuring and impairment charges	—	0.17
Adjustment to exclude gain on sale of business	**(0.01)**	—
Adjustment to exclude fiscal 2002 investment gain	**(0.07)**	—
Pro forma diluted earnings per share before the cumulative effect of accounting changes, excluding investment gain in fiscal 2002 and restructuring and impairment charges and gain on sale of business	**$ 0.53**	$ 0.97

The impact of gain on sale of business on fiscal 2001 and the 2002 pro forma impact of ABC Family each had less than $0.01 impact.

Earnings per share amounts for fiscal 2002 do not add due to rounding.

BUSINESS SEGMENT RESULTS

(in millions)	As Reported 2002	2001	2000	Pro Forma (unaudited) 2002	2001	% Change
Revenues:						
Media Networks	**$ 9,733**	$ 9,569	$ 9,836	**$ 9,763**	$10,157	(4%)
Parks and Resorts	**6,465**	7,004	6,809	**6,465**	7,004	(8%)
Studio Entertainment	**6,691**	6,009	5,918	**6,691**	6,009	11%
Consumer Products	**2,440**	2,590	2,762	**2,441**	2,620	(7%)
	$25,329	$25,172	$25,325	**$25,360**	$25,790	(2%)
Segment operating income:						
Media Networks	**$ 986**	$ 1,758	$ 1,985	**$ 990**	$ 1,949	(49%)
Parks and Resorts	**1,169**	1,586	1,615	**1,169**	1,586	(26%)
Studio Entertainment	**273**	260	126	**273**	260	5%
Consumer Products	**394**	401	386	**394**	419	(6%)
	$ 2,822	$ 4,005	$ 4,112	**$ 2,826**	$ 4,214	(33%)

The Company evaluates the performance of its operating segments based on segment operating income. The following table reconciles segment operating income to income before income taxes, minority interests and the cumulative effect of accounting changes.

(in millions)	As Reported 2002	2001	2000	Pro Forma (unaudited) 2002	2001
Segment operating income	**$2,822**	$ 4,005	$ 4,112	**$2,826**	$4,214
Corporate and unallocated shared expenses	**(417)**	(406)	(354)	**(417)**	(406)
Amortization of intangible assets	**(21)**	(767)	(1,233)	**(21)**	(23)
Gain on sale of businesses	**34**	22	489	**34**	22
Net interest expense and other	**(453)**	(417)	(497)	**(465)**	(637)
Equity in the income of investees	**225**	300	208	**225**	310
Restructuring and impairment charges	**—**	(1,454)	(92)	**—**	(576)
Income before income taxes, minority interests and the cumulative effect of accounting changes	**$2,190**	$ 1,283	$ 2,633	**$2,182**	$2,904

Segment earnings before interest, income taxes, depreciation and amortization (EBITDA) is as follows:

(in millions)	As Reported 2002	2001	2000	Pro Forma (unaudited) 2002	2001
Media Networks	**$1,166**	$1,934	$2,154	**$1,171**	$2,134
Parks and Resorts	**1,817**	2,190	2,197	**1,817**	2,190
Studio Entertainment	**319**	307	180	**319**	307
Consumer Products	**452**	491	495	**452**	509
	$3,754	$4,922	$5,026	**$3,759**	$5,140

Management believes that segment EBITDAprovides additional information useful in analyzing the underlying business results. However, segment EBITDAis a non-GAAPfinancial metric and should be considered in addition to, not as a substitute for, reported segment operating income.

Media Networks

The following table provides supplemental revenue and segment operating income detail for the Media Networks segment.

	Pro Forma (unaudited)		As Reported
(in millions)	**2002**	2001	2000
Revenues:			
Broadcasting	**$5,064**	$ 5,945	$6,327
Cable Networks	**4,699**	4,212	3,509
	$9,763	$10,157	$9,836
Segment Operating Income:			
Broadcasting	**$ (36)**	$ 783	$ 970
Cable Networks	**1,026**	1,166	1,015
	$ 990	$ 1,949	$1,985

2002 vs. 2001 On a pro forma basis, revenues decreased 4%, or $394 million, to $9.8 billion, reflecting a decrease of 15%, or $881 million, at Broadcasting, partially offset by an increase of 12%, or $487 million, at the Cable Networks. The decrease at Broadcasting was driven by declines at the ABC television network and the Company's owned television stations due to lower ratings and lower advertising rates. Additionally, the prior year included revenues from a non-recurring sale of a film library at ABC Family. Increases at the Cable Networks were driven by higher affiliate revenues reflecting higher rates at ESPN and subscriber growth at both ESPN and the International Disney Channels, partially offset by lower advertising revenues due to the soft advertising market and lower revenues from Adelphia Communications Company (Adelphia) in the United States and KirchMedia & Company (Kirch) in Germany as a result of their financial difficulties.

On a pro forma basis, segment operating income decreased 49%, or $959 million, to $1.0 billion, driven by decreases of $819 million at Broadcasting, primarily due to decreased revenues. Cable operating income decreased 12%, or $140 million, as revenue gains were more than offset by cost increases. Costs and expenses increased 7%, or $565 million, driven by higher sports programming costs at ESPN, principally for NFLbroadcasts, and increased advertising costs at the Cable Networks, partially offset by lower costs at the Internet Group and proceeds from an insurance settlement.

As-reported revenues increased 2%, or $164 million, to $9.7 billion and segment operating income decreased 44% to $1.0 billion. As-reported amounts include a partial period of ABC Family operations in the current period and losses associated with the GO.com portal (which was closed on January 29, 2001) in the prior-year period.

The Company has various contractual commitments for the purchase of broadcast rights for sports and other programming, including the National Football League (NFL), National Basketball Association (NBA), Major League Baseball (MLB), National Hockey League (NHL) and various college football conference and bowl games. The costs of these contracts have increased significantly in recent years. We have implemented a variety of strategies, including marketing efforts, to reduce the impact of the higher costs. The impact of these contracts on the Company's results over the remaining term of the contracts is dependent upon a number of factors, including the strength of advertising markets, effectiveness of marketing efforts and the size of viewer audiences.

The costs of these contracts are charged to expense based on the ratio of each period's gross revenues to estimated total gross revenues over the remaining contract period. The Company's contract to broadcast the NFLis for an eight year term commencing with the 1998 season. The initial five year period is non-cancelable with the remaining three years renewable at the option of the NFL. Programming rights costs for the initial five year period have been charged to expense based upon the ratio of current period's gross revenues to estimated total revenues for this period of time. Estimates of total gross revenues can change significantly and, accordingly, they are reviewed periodically and amortization and carrying amounts are adjusted, if necessary. Such adjustments could have a material effect on results of operations in future periods.

The Company has investments in cable operations that are accounted for as unconsolidated equity investments. The table below presents operating income from cable television activities, which comprise the Cable Networks and the Company's cable equity investments.

	Pro Forma (unaudited)		
(in millions)	**2002**	2001	% Change
Operating Income:			
Cable Networks	**$1,026**	$1,166	(12%)
Equity Investments:			
A&E Television and Lifetime Television	**598**	698	(14%)
Other	**140**	191	(27%)
Operating Income from Cable Television Activities	**1,764**	2,055	(14%)
Partner Share of Operating Income	**(618)**	(712)	13%
Disney Share of Operating Income	**$1,146**	$1,343	(15%)

Note: Operating income from cable television activities presented in this table represents 100% of both the Company's owned cable businesses and its cable equity investees. The Disney share of operating income represents the Company's ownership interest in cable television operating income. Cable Networks are reported in "Segment operating income" in the statements of income. Equity investments are reported in "Equity in the income of investees" in the statements of income.

We believe that operating income from cable television activities provides additional information useful in analyzing the underlying business results. However, operating income from cable television activities is a non-GAAPfinancial metric and should be considered in addition to, not as a substitute for, segment operating income.

The Company's share of cable television operating income decreased 15%, or $197 million, to $1.1 billion. The decrease was driven by lower revenues due to the weak advertising market at both ESPN and the cable equity affiliates, higher sports programming costs at ESPN and higher advertising expense at the cable equity affiliates, partially offset by higher affiliate revenues at ESPN. Additionally, the current period reflects the write-down of an investment in a Latin American cable operator.

2001 vs. 2000 On an as-reported basis, revenues decreased 3%, or $267 million, to $9.6 billion, driven by decreases of $601 million at Broadcasting, partially offset by increases of $334 million at the Cable Networks. The decrease at Broadcasting was driven by lower ratings and the soft advertising market at the ABC television network and the Company's owned television stations and radio operations. Additionally, revenue declines at the television network reflected lower sports advertising revenues due to ABC airing the Super Bowl in fiscal 2000. The increase at the Cable Networks was driven by annual contractual rate adjustments at ESPN combined with subscriber growth at ESPN, the Disney Channel domestically and internationally, partially offset by the soft advertising market during fiscal 2001. Subscriber growth at the Disney Channel reflected increasing satellite (DBS) and digital subscribers and the continuing conversion of the Disney Channel from a premium to a basic service.

Segment operating income decreased 11%, or $227 million, to $1.8 billion, driven by a decrease of $275 million at Broadcasting resulting primarily from decreased revenues and higher programming costs, partially offset by an increase of $48 million at the Cable Networks, driven by revenue growth. Costs and expenses decreased 1%, or $40 million for fiscal 2001, but increased as a percentage of revenue. The Company experienced higher programming costs at ESPN, the primetime ABC television network and the Company's owned television stations and radio operations and start-up costs at the international Disney Channels, offset by lower sports programming costs at the ABC television network due to higher costs for the Super Bowl and two additional National Football League (NFL) regular season games in fiscal 2000 and lower costs at the Internet Group due to the closure of toysmart.com in fiscal 2000 and cost saving initiatives.

Parks and Resorts

2002 vs. 2001 Revenues decreased 8%, or $539 million, to $6.5 billion, driven primarily by decreases of $496 million at the Walt Disney World Resort, $40 million at the Disneyland Resort and $24 million at Disney Cruise Line, partially offset by increased royalties of $52 million from the Tokyo Disney Resort. At the Walt Disney World Resort, decreased revenues reflected lower attendance, guest spending and hotel occupancy driven by decreases in international and domestic visitation resulting from continued disruption in travel and tourism and softness in the economy. At the Disneyland Resort, decreased revenues were driven primarily by lower guest spending. Lower guest spending at both Walt Disney World and Disneyland was driven by ticket and other promotional programs as well as a higher mix of local guests, who have higher annual pass usage and tend to spend less per visit. The increased royalties at Tokyo Disney Resort were due to the opening of the Tokyo DisneySea theme park and the Tokyo DisneySea Hotel Mira Costa in the fourth quarter of the prior year.

Segment operating income decreased 26%, or $417 million, to $1.2 billion, driven by revenue declines at the Walt Disney World Resort and Disneyland Resort, partially offset by decreased costs and expenses and increased royalties from the Tokyo Disney Resort. Costs and expenses, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expense, decreased 2%, or $122 million, driven primarily by volume decreases, reduced marketing expenses and permanent cost reduction initiatives across all segment businesses and the absence of pre-opening costs for Disney's California Adventure. These cost decreases were partially offset by higher employee benefit and insurance costs.

2001 vs. 2000 Revenues increased 3%, or $195 million, to $7.0 billion, driven primarily by growth of $278 million at the Disneyland Resort, $44 million from Disney Cruise Line and $20 million in higher royalties from Tokyo Disneyland, partially offset by a decrease of $187 million at the Walt Disney World Resort. At the Disneyland Resort, the opening of Disney's California Adventure, Downtown Disney and Disney's Grand Californian Hotel during the second quarter of fiscal 2001 drove increased attendance, higher occupied room nights and increased guest spending. At the Walt Disney World Resort, decreased revenues were driven by decreased attendance and lower occupied room nights reflecting fiscal 2000 success of the Millennium Celebration, partially offset by increased guest spending and increased revenues at Disney Cruise Line reflecting the strength of the 7-day cruise package that was introduced in the fourth quarter of fiscal 2000. Both the Disneyland Resort and Walt Disney World Resort were impacted by park closures on September 11th and from lower attendance and hotel occupancy due to cancellations and reduced travel during the last three weeks of September 2001.

Segment operating income decreased 2%, or $29 million, to $1.6 billion, driven by increased costs at the Disneyland Resort, partially offset by revenue growth at Disneyland, continued growth at Disney Cruise Line and ongoing productivity improvements and cost reduction initiatives at Walt Disney World. Costs and expenses increased 4% or $224 million. Higher costs at the Disneyland Resort were due to the opening of Disney's California Adventure, Downtown Disney and Disney's Grand Californian Hotel.

Studio Entertainment

2002 vs. 2001 Revenues increased 11%, or $682 million, to $6.7 billion, driven by growth of $603 million in worldwide home entertainment and $76 million in domestic theatrical motion picture distribution, partially offset by a decline of $95 million in international theatrical motion picture distribution. Improvements in worldwide home entertainment revenues reflected strong DVD and VHS sales driven by successful titles including Disney/Pixar's *Monsters, Inc., Pearl Harbor, Snow White and the Seven Dwarfs* and *Cinderella II: Dreams Come True* along with the success of Miyazaki's *Spirited Away* in Japan, which is distributed in certain markets by a Japanese subsidiary of the Company. In domestic theatrical motion picture distribution, revenue increases were driven by the performance of *Monsters, Inc., Signs* and *Lilo & Stitch*. Despite the success of *Monsters, Inc.,* decreased international theatrical motion picture distribution revenues reflected stronger performance of prior-year titles, which included *Pearl Harbor, Unbreakable* and *Dinosaur.*

Segment operating income increased 5%, or $13 million, to $273 million, due to increases in worldwide home entertainment, partially offset by a decline in worldwide theatrical motion picture distribution. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs and participation costs, increased 12%, or $669 million, driven by increases in worldwide home entertainment and worldwide theatrical motion picture distribution. Increased costs in worldwide home entertainment reflected higher marketing, distribution and participation costs due to *Monsters, Inc.* and *Pearl Harbor* on DVD and VHS. Higher costs in worldwide theatrical motion distribution reflected increased marketing and distribution costs and higher participation costs for *Monsters, Inc.* and *Signs* and an aggregate $98 million impairment write-down for *Treasure Planet*, including a $74 million reduction in capitalized film production costs recorded after the film was released on November 27, 2002 (see Note 16 to the Consolidated Financial Statements).

2001 vs. 2000 Revenues increased 2%, or $91 million to, $6.0 billion, driven by growth of $312 million in worldwide home entertainment and $126 million in stage plays, partially offset by a decline of $306 million in worldwide theatrical motion picture distribution. Improvements in worldwide home entertainment revenues reflected strong DVD and VHS performance driven by successful animated titles including Disney/Pixar's *Toy Story 2, Dinosaur, The Emperor's New Groove* and *Lady and the Tramp II* and stronger performing live-action titles including *Spy Kids, Scary Movie, Gone in 60 Seconds* and *Remember the Titans*. Growth in stage plays reflected performances of *The Lion King* in additional cities and improved performance of *AIDA*. In worldwide theatrical motion picture distribution, the success of *Pearl Harbor, Spy Kids* and *Princess Diaries,* faced difficult comparisons to fiscal 2000 titles, which included *Toy Story 2, Tarzan, Dinosaur, Scary Movie* and *The Sixth Sense*.

Segment operating income increased $134 million, to $260 million, due to increases in worldwide home entertainment and stage plays. Costs and expenses decreased 1%, or $43 million, driven by decreases in worldwide theatrical motion picture distribution, partially offset by increases in worldwide home entertainment. In worldwide theatrical motion picture distribution, cost decreases reflected lower distribution expenses and production costs amortization in fiscal 2001 as well as higher participation expenses in fiscal 2000, due to *Toy Story 2* and *The Sixth Sense*. The increased costs in worldwide home entertainment reflected higher distribution expense and production costs amortization driven by an increase in VHS and DVD unit sales and higher participation costs due to the success of *Toy Story 2* in fiscal 2001. Stage plays operating expenses also increased due to more productions in fiscal 2001.

Consumer Products

2002 vs. 2001 On a pro forma basis, revenues decreased 7%, or $179 million, to $2.4 billion, reflecting declines of $81 million in merchandise licensing, $63 million at Disney Interactive and $57 million at the Disney Store, partially offset by increases of $22 million in publishing operations. The decline in merchandise licensing reflected lower guarantee payments in the current year and soft merchandise licensing performance domestically and internationally. Lower revenues at Disney Interactive were due to weaker performing personal computer CD-ROM and video game titles. At the Disney Store, higher comparative store sales were more than offset by lower revenues due to the sale of the Disney Store business in Japan during the third quarter of the current year as well as the impact of store closures domestically. Higher publishing revenues were driven by the successful releases during the current year including *Lucky Man: A Memoir* by Michael J. Fox and *Hope Through Heartsongs*.

On a pro forma basis, segment operating income decreased 6%, or $25 million, to $394 million, primarily driven by declines in merchandise licensing and at Disney Interactive, partially offset by increases at the Disney Store and Disney Catalog. Costs and expenses, which consist primarily of labor, product costs, including product development costs, distribution and selling expenses and leasehold expenses, decreased 7% or $154 million, primarily driven by lower costs at the Disney Store due to the sale of the Japan business, closures of Disney Store locations domestically and lower advertising costs. Decreased costs also reflected lower Disney Interactive sales volumes as well as cost reductions at the Disney Catalog. These decreases were partially offset by volume increases at the continuing Disney Stores and at publishing.

As-reported revenues decreased 6% to $2.4 billion and segment operating income decreased 2% to $394 million. As-reported amounts include ABC Family operations commencing on the acquisition date, October 24, 2001.

2001 vs. 2000 On an as-reported basis, revenues decreased 6%, or $172 million, to $2.6 billion, primarily reflecting declines of $157 million at the Disney Stores, which were driven by lower comparative store sales in North America and the impact of the disposition of Fairchild Publications in the first quarter of fiscal 2000.

Segment operating income increased 4%, or $15 million, to $401 million, primarily driven by benefits from cost reduction initiatives, partially offset by declines at the Disney Stores in North America. Costs and expenses decreased 8% or $187 million, primarily due to lower sales volume at the Disney Stores in North America, decreased catalog circulation and advertising costs and the impact of cost reduction initiatives.

STOCK OPTION ACCOUNTING

The Company has elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees until a uniform method of valuing and expensing stock options is promulgated. Accordingly, the Company has not recognized compensation expense for the fair value of its stock-based awards to employees in its Consolidated Statements of Income. Companies electing to remain with the intrinsic-value method accounting in APB 25 must make pro forma disclosures, as if the fair value based method of accounting had been applied.

The following table reflects pro forma net income (loss) and earnings (loss) per share had the Company elected to record an expense for employee stock options pursuant to the provisions of SFAS 123.

	Year Ended September 30,		
(in millions, except for per share data)	**2002**	2001	2000
Net income (loss) attributed to Disney common stock:			
As reported	**$1,236**	$ (41)	$1,196
Pro forma after option expense	**930**	(325)	958
Diluted earnings (loss) per share attributed to Disney common stock:			
As reported	**0.60**	(0.02)	0.57
Pro forma after option expense	**0.45**	(0.15)	0.46

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

Fully diluted shares outstanding and diluted earnings per share include the effect of in-the-money stock options calculated based on the average share price for the period. The dilution from employee options increases as the Company's share price increases, as shown below:

Disney Share Price	Total In-the-Money Options	Incremental Diluted Shares[1]	Percentage of Average Shares Outstanding	Hypothetical FY2002 EPS Impact[3]
$20.40	24 million	—[2]		$0.00
25.00	104 million	8 million	.39%	0.00
30.00	135 million	19 million	.93%	0.00
40.00	207 million	43 million	2.10%	(0.01)
50.00	216 million	61 million	2.98%	(0.01)

[1] Represents the incremental impact on fully diluted shares outstanding assuming the average share prices indicated, using the treasury stock method. Under the treasury stock method, the tax effected proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

[2] Fully diluted shares outstanding for the year ended September 30, 2002 total 2,044 million and include the dilutive impact of in-the-money options at the average share price for the period of $20.40. At the average share price of $20.40, the dilutive impact of in-the-money options was 4 million shares for the year.

[3] Based upon fiscal 2002 earnings of $1,236 million or $0.60 per share.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations decreased 25%, or $762 million, to $2.3 billion, reflecting lower pretax income before non-cash charges and increased film and television production spending and an increase in accounts receivable due to the timing of home video releases, partially offset by lower cash tax payments, and the timing of accounts payable and NFL payments.

During the year, the Company invested $1.1 billion in parks, resorts and other properties. Investments in parks, resorts and other properties by segment are as follows:

	Year Ended September 30,	
(in millions)	**2002**	2001
Media Networks	**$ 151**	$ 207
Parks and Resorts	**636**	1,278
Studio Entertainment	**37**	36
Consumer Products	**58**	70
Corporate and unallocated shared expenditures	**204**	204
	$1,086	$1,795

Corporate and unallocated shared capital expenditures primarily include hardware and capitalized software costs for new company wide finance and administrative systems.

Lower spending was driven by decreased Parks and Resorts capital expenditures reflecting the completion of Disney's California Adventure which opened in February 2001, and certain other resort properties in Florida.

On October 24, 2001, the Company acquired ABC Family for $5.2 billion, funded with $2.9 billion of new long-term borrowings, plus the assumption of $2.3 billion of borrowings (of which $1.1 billion was subsequently repaid).

During the year, the Company received proceeds totaling $601 million from the sale of investments, primarily the remaining shares of Knight-Ridder, Inc. that the Company received in connection with the disposition of certain publishing assets in fiscal 1997. Additionally, the Company received aggregate proceeds of $200 million from the sale of the Disney Store business in Japan and the sale of certain real estate properties in the U.K. and Florida.

During fiscal 2001, the Company invested $480 million to acquire the copyright for certain intellectual property, radio station and publishing assets and the rights to a music library. In fiscal 2001, investing activities also included $137 million of cash proceeds generated primarily from the sale of Infoseek Japan, K.K. Additionally, cash proceeds from the sale of investments resulted primarily from the sale of Knight-Ridder, Inc. shares. During fiscal 2000, investing activities included cash proceeds from the sale of Fairchild Publications and Eurosport. Fiscal 2000 cash proceeds from the sale of investments were driven by the sale of Inktomi shares acquired through the disposition of Ultraseek.

During the year, the Company's borrowing activity was as follows:

(in millions)	Additions	Payments	Total
Commercial paper borrowings (net change for the year)	$ —	$ (33)	$ (33)
US medium term notes and other USD denominated debt	3,049	(986)	2,063
European medium term notes	989	—	989
Other	—	(76)	(76)
Debt repaid in connection with the ABC Family acquisition	—	(1,051)	(1,051)
	$4,038	$(2,146)	$ 1,892

The borrowings issued have effective interest rates, including the impact of cross-currency and interest rate swaps, ranging from 2.2% to 7.0% and mature in fiscal 2005 through fiscal 2032. See Note 7 to the Consolidated Financial Statements for more detailed information regarding the Company's borrowings.

Commercial paper borrowings outstanding as of September 30, 2002 totaled $721 million, with maturities of up to one year, supported by $4.5 billion of bank facilities, half scheduled to expire in 2003, and the other half expiring in 2005. These bank facilities allow for borrowings at LIBOR-based rates plus a spread, depending upon the Company's public debt rating. As of September 30, 2002, the Company had not borrowed against these bank facilities.

The Company has a U.S. shelf registration statement which allows the Company to borrow up to $7.5 billion of which $3.4 billion is available at September 30, 2002. The Company also has a Euro medium-term note program, which permits the issuance of up to approximately $4 billion of additional debt instruments, which has a $2.4 billion of capacity at September 30, 2002.

During fiscal 2001, the Company acquired approximately 63.9 million shares of Disney common stock and 1.8 million shares of Internet Group common stock for approximately $1.1 billion and $10 million, respectively. No shares were repurchased during the current year. As of September 30, 2002, the Company was authorized to purchase up to approximately 330 million shares of company common stock.

The Company declared a dividend ($0.21 per Disney share) on December 3, 2002 related to fiscal 2002, which will be payable January 9, 2003 to shareholders of record on December 13, 2002. The Company paid a $434 million dividend ($0.21 per Disney share) during the first quarter of fiscal 2000 applicable to fiscal 1999, paid a $438 million dividend ($0.21 per Disney share) during the first quarter of fiscal 2001 applicable to fiscal 2000 and paid a $428 million dividend ($0.21 per Disney share) during the first quarter of the current year applicable to fiscal 2002. See Note 10 to the Consolidated Financial Statements.

The Company has a 39% interest in Euro Disney S.C.A., which operates the Disneyland Resort Paris. As of September 30, 2002, Euro Disney has drawn $61 million under a $164 million line of credit with the Company and it is expected that Euro Disney will draw additional amounts under the credit line during fiscal 2003. As of September 30, 2002, Euro Disney had on a US GAAPbasis, total assets of $3.0 billion and total liabilities of $2.9 billion, including borrowings of $2.2 billion.

Total commitments to purchase broadcast programming approximated $14.6 billion at September 30, 2002, including approximately $1.1 billion for available programming. These amounts include approximately $11.3 billion related to sports programming rights, including a six year agreement with the NBAto televise more than 100 regular and post-season games on the ABC Television Network and ESPN, an eight year contract for NFLprogramming, which commenced with the 1998 season, multiple contracts for college football programming, and two six year contracts for MLB programming, which commenced in fiscal 2001 and 2002, respectively.

Contractual commitments relating to broadcast programming rights are payable as follows (in millions):

2003	$ 4,198
2004	3,107
2005	2,882
2006	2,296
2007	1,128
Thereafter	980
	$14,591

The Company expects the ABC Television Network, ESPN and the Company's television and radio stations to continue to enter into programming commitments to purchase the broadcast rights for various feature films, sports and other programming.

Over the past year, significant changes have occurred in the commercial insurance market which are impacting the cost and availability of the Company's insurance coverage. The Company has successfully renewed all of its significant policies in this current fiscal year, though the premiums and deductibles have increased. During the third quarter of the current year, the Company established a wholly owned captive insurance company to insure certain components of loss exposure which were previously insured by third party insurance companies. Accordingly, the Company's risk of loss has increased.

As disclosed in the Notes 8 and 14 to the Consolidated Financial Statements, the Company has exposure for certain legal and tax matters. Management believes that it is currently not possible to estimate the impact, if any, that the ultimate resolution of these matters will have on the Company's financial position or cash flows.

As disclosed in Note 4 to the Consolidated Financial Statements, the Company's investment portfolio includes commercial aircraft leveraged lease investments made between 1992 and 1994 totaling $289 million, which are diversified across three air carriers (United Airlines – $114 million, Delta Airlines – $119 million, and FedEx – $56 million) and eleven aircraft. Risk of loss under these transactions is primarily related to the ability of the air carriers to make underlying lease payments.

We continue to monitor our investment in commercial aircraft leasing transactions given the current status of the airline industry. We have, in particular, been monitoring United Airlines which has indicated that if it does not obtain significant concessions from each of its employee unions, achieve cost savings in other operating areas of the company and obtain a loan guarantee from the Airline Transportation Stabilization Board, it will have to file for bankruptcy protection. To date, all payments on these leases have been made when due. The inability of any of the companies to make their lease payments or the termination of our leases through a bankruptcy proceeding could result in material charges related to a write-down of some or all of our investment and could accelerate income tax payments.

The Company believes that its financial condition is strong and that its cash, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit measures such as interest coverage and leverage ratios. On October 4, 2002, Standard & Poor's Ratings Services lowered its long-term ratings on the Company to BBB+ from A- and removed the Company's ratings from CreditWatch where they were placed with negative implications on August 2, 2002. At the same time, the A-2 short-term corporate credit rating, which was not on CreditWatch, was affirmed. The current outlook is stable. On October 18, 2002, Moody's Investors Service downgraded the Company's long-term debt rating to Baa1 from A3, concluding the review for possible downgrade that commenced on August 5, 2002. The Company's short-term rating of P2 was affirmed and the outlook is stable.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, requires significant judgments and estimates on the part of management. For a summary of all of our accounting policies, including the accounting policies discussed below, see Note 2 of the Consolidated Financial Statements.

Film and Television Revenues and Costs We expense the cost of film and television production and participations as well as multiyear sports rights over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues. These estimates are calculated on an individual production basis for film and television and on an individual contract basis for sports rights. Estimates of total gross revenues can change due to a variety of factors, including the level of market acceptance, advertising rates and subscriber fees.

Television network and station rights for theatrical movies, series and other programs are charged to expense based on the number of times the program is expected to be shown. Estimates of usage of television network and station programming can change based on competition and audience acceptance. Accordingly, revenue estimates and planned usage are reviewed periodically and are revised if necessary. A change in revenue projections or planned usage could have an impact on our results of operations.

Costs of film and television productions and programming costs are subject to valuation adjustments pursuant to the applicable accounting rules. The values of the television program licenses and rights are reviewed using a daypart methodology. The Company's dayparts are: early morning, daytime, late night, prime time, news, children and sports. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, potentially significant film, television or programming cost write-downs may be required.

Revenue Recognition The Company has revenue recognition policies for its various operating segments, which are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements for a summary of these revenue recognition policies.

We record reductions to revenues for estimated future returns of merchandise, primarily home video, DVD and software products, and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. Differences may result in the amount and timing of our revenue for any period if actual performance varies from our estimates.

Goodwill, Intangible Assets, Long-lived Assets and Investments Effective October 1, 2001, we adopted SFAS 142, as described more fully in Note 2 of the Consolidated Financial Statements. SFAS 142 requires that goodwill and other intangible assets be tested for impairment within six months of the date of adoption and then on a periodic basis thereafter. During the first half of the current fiscal year, we completed our impairment testing and determined that there were no impairment losses related to goodwill and other intangible assets. On October 1, 2002, we updated our impairment test and determined that there was no impairment. In assessing the recoverability of goodwill and other intangible assets, projections regarding estimated future cash flows and other factors are made to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets.

Long-lived assets include certain long-term investments. The fair value of the long-term investments is dependent on the performance of the companies we invest in, as well as volatility inherent in the external markets for these investments. In assessing potential impairment for these investments, we will consider these factors as well as forecasted financial performance of our investees. If these forecasts are not met, impairment charges may be required.

Contingencies and Litigation We are currently involved in certain legal proceedings and, as required, have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with outside counsel and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Note 14 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax Audits As a matter of course, the Company is regularly audited by Federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Among current audits, the Internal Revenue Service (IRS) is in the final stages of its examination of the Company's federal income tax returns for 1993 through 1995. In connection with this examination, the IRS has proposed assessments that challenge certain of the Company's tax positions which, if upheld through the administrative and legal process, could have a material impact on the Company's earnings and cash flow. The Company believes that its tax positions comply with applicable tax law and it intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolution. During 2002, the Company negotiated the settlement of a number of proposed assessments, and it continues to pursue favorable settlement of the remaining items. See Note 8 to the Consolidated Financial Statements for more detailed information on the Company's income tax exposure.

Accounting Changes

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), which requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. SFAS 141 superseded APB Opinion No. 16, *Business Combinations*, and Statement of Financial Accounting Standards No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises* and is effective for all business combinations initiated after June 30, 2001.

Effective October 1, 2001, the Company adopted SFAS 142 which addresses the financial accounting and reporting for acquired goodwill and other intangible assets. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During the second quarter of fiscal 2002, the Company completed its impairment review, which indicated that there was no impairment. See Note 6 to the Consolidated Financial Statements.

The FASB also issued Statement of Financial Accounting Standards No. 143, *Accounting for Obligations Associated with the Retirement of Long-Lived Assets* (SFAS 143) in August 2001, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company expects that the provisions of SFAS 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS 143 effective October 1, 2002.

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) effective October 1, 2001, which did not have a material impact on the Company's consolidated results of operations and financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 with early adoption encouraged. The Company plans to adopt SFAS 146 effective October 1, 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

Effective October 1, 2000, the Company adopted AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP00-2). The Company's results of operations and financial position reflect the impact of the new standard commencing October 1, 2000 and the Company recorded a one-time after-tax charge of $228 million, or $0.11 per share, representing the cumulative effect of the adoption of SOP00-2 in its consolidated financial statements for the year ended September 30, 2001.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS 133 requires the Company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings.

As a result of adopting SFAS 133 as of October 1, 2000, and in accordance with the transition provisions, the Company recorded a one-time after-tax charge of $50 million, or $0.02 per share, in its Consolidated Statements of Income representing the cumulative effect of the adoption and an after-tax unrealized gain of $60 million to AOCI.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our stockholders. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management's views and assumptions as of the time the statements are made. There can be no assurance, however, that our expectations will necessarily come to pass.

Factors that may affect forward-looking statements. For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance, including the following:

- Changes in Company-wide or business-unit strategies, which may result in changes in the types or mix of businesses in which the Company is involved or chooses to invest;
- Changes in U.S., global or regional economic conditions, which may affect attendance and spending at the Company's parks and resorts, purchases of Company-licensed consumer products, the advertising market for broadcast and cable television programming and the performance of the Company's theatrical and home entertainment releases;
- Changes in U.S. and global financial and equity markets, including market disruptions and significant interest rate fluctuations, which may impede the Company's access to, or increase the cost of, external financing for its operations and investments;
- Increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the Company's parks and resorts operations and lead to increased expenses in such areas as television programming acquisition and motion picture production and marketing;
- Legal and regulatory developments that may affect particular business units, such as regulatory actions affecting environmental activities, consumer products, theme park safety, broadcasting or Internet activities or the protection of intellectual property; the imposition by foreign countries of trade restrictions or motion picture or television content requirements or quotas, and changes in international tax laws or currency controls;
- Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, impair performance at the Company's parks and resorts;
- Technological developments that may affect the distribution of the Company's creative products or create new risks to the Company's ability to protect its intellectual property;
- Labor disputes, which may lead to increased costs or disruption of operations in any of the Company's business units;
- Changing public and consumer taste, which may among other things, affect the Company's entertainment, broadcasting and consumer products businesses generally or the Company's parks and resorts operating specifically, or result in increases in broadcasting losses or loss of advertising revenue; and
- International, political and military developments that may affect among other things, travel and leisure businesses generally or the Company's parks and resorts operations specifically, or result in increases in broadcasting costs or loss of advertising revenue.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

MARKET RISK

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market values of its investments.

Policies and Procedures

In the normal course of business, the Company employs established policies and procedures to manage its exposure to changes in interest rates, foreign currencies and the fair market value of certain of its investments in debt and equity securities using a variety of financial instruments.

Our objective in managing exposure to interest rate changes are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

Our objective in managing exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues. The Company utilizes option strategies and forward contracts that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. The Company also uses forward contracts to hedge foreign currency assets and liabilities in the same principal currencies. The principal currencies hedged are European euro, British pound, Japanese yen and Canadian dollar. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

In addition, we use various financial instruments to minimize the exposure to changes in fair market value of certain investments in debt and equity securities.

It is the Company's policy to enter into foreign currency and interest rate transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions for speculative purposes.

Value at Risk

The Company utilizes a "Value-at-Risk" (VAR) model to determine the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and qualifying equity sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company's computations are based on the interrelationships between movements in various interest rates, currencies and equity prices (a "variance/co-variance" technique). These interrelationships were determined by observing interest rate, foreign currency and equity market changes over the preceding quarter for the calculation of VAR amounts at year-end and over each of the four quarters for the calculation of average VAR amounts during the year. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivative contracts and qualifying equity investments. The values of foreign exchange options do not change on a one-to-one basis with the underlying currencies, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. Forecasted transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors. See Note 13 to the Consolidated Financial Statements regarding the Company's financial instruments at September 30, 2002 and 2001.

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, is as follows (unaudited, in millions):

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
VAR as of September 30, 2002	$39	$15	$1	$33
Average VAR during the year ended September 30, 2002	$36	$13	$1	$33
Highest VAR during the year ended September 30, 2002	$40	$15	$3	$36
Lowest VAR during the year ended September 30, 2002	$27	$10	$1	$27

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	Year Ended September 30, 2002	2001	2000
Revenues	**$ 25,329**	$ 25,172	$ 25,325
Costs and expenses	**(22,924)**	(21,573)	(21,567)
Amortization of intangible assets	**(21)**	(767)	(1,233)
Gain on sale of businesses	**34**	22	489
Net interest expense and other	**(453)**	(417)	(497)
Equity in the income of investees	**225**	300	208
Restructuring and impairment charges	**—**	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	**2,190**	1,283	2,633
Income taxes	**(853)**	(1,059)	(1,606)
Minority interests	**(101)**	(104)	(107)
Income before the cumulative effect of accounting changes	**1,236**	120	920
Cumulative effect of accounting changes:			
Film accounting	**—**	(228)	—
Derivative accounting	**—**	(50)	—
Net income (loss)	**$ 1,236**	$ (158)	$ 920
Earnings (loss) attributed to Disney common stock[1]	**$ 1,236**	$ (41)	$ 1,196
Earnings per share before the cumulative effect of accounting changes attributed to Disney common stock:[1]			
Diluted	**$ 0.60**	$ 0.11	$ 0.57
Basic	**$ 0.61**	$ 0.11	$ 0.58
Cumulative effect of accounting changes per Disney share:			
Film accounting	**$ —**	$ (0.11)	$ —
Derivative accounting	**—**	(0.02)	—
	$ —	$ (0.13)	$ —
Earnings (loss) per share attributed to Disney common stock:[1]			
Diluted	**$ 0.60**	$ (0.02)	$ 0.57
Basic	**$ 0.61**	$ (0.02)	$ 0.58
Average number of common and common equivalent shares outstanding for the Disney common stock:			
Diluted	**2,044**	2,100	2,103
Basic	**2,040**	2,085	2,074
Loss attributed to Internet Group common stock	**n/a**	$ (117)	$ (276)
Loss per share attributed to Internet Group common stock (basic and diluted)	**n/a**	$ (2.72)	$ (6.18)
Average number of common and common equivalent shares outstanding for the Internet Group common stock	**n/a**	43	45

[1] Including Disney's retained interest in the Internet Group. Disney's retained interest in the Internet Group reflects 100% of Internet Group losses through November 17, 1999, approximately 72% for the period from November 18, 1999 through January 28, 2001 (the last date prior to the announcement of the conversion of the Internet Group common stock) and 100% thereafter.

See Notes to Consolidated Financial Statements

(In millions, except per share data)	September 30, 2002	2001
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,239**	$ 618
Receivables	**4,049**	3,343
Inventories	**697**	671
Television costs	**661**	769
Deferred income taxes	**624**	622
Other assets	**579**	582
Total current assets	**7,849**	6,605
Film and television costs	**5,959**	5,641
Investments	**1,810**	2,112
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**18,917**	18,846
Accumulated depreciation	**(8,133)**	(7,662)
	10,784	11,184
Projects in progress	**1,148**	911
Land	**848**	811
	12,780	12,906
Intangible assets, net	**2,776**	2,736
Goodwill	**17,083**	12,106
Other assets	**1,788**	1,704
	$50,045	$43,810
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and other accrued liabilities	**$ 5,173**	$ 4,404
Current portion of borrowings	**1,663**	829
Unearned royalties and other advances	**983**	787
Total current liabilities	**7,819**	6,020
Borrowings	**12,467**	8,940
Deferred income taxes	**2,597**	2,729
Other long-term liabilities	**3,283**	3,067
Minority interests	**434**	382
Commitments and contingencies (Note 14)		
Stockholders' Equity		
Preferred stock, $.01 par value		
Authorized – 100 million shares, Issued – none		
Common stock		
Common stock – Disney, $.01 par value		
Authorized – 3.6 billion shares, Issued – 2.1 billion shares	**12,107**	12,096
Common stock – Internet Group, $.01 par value		
Authorized – 1.0 billion shares, Issued – none		
Retained earnings	**12,979**	12,171
Accumulated other comprehensive (loss) income	**(85)**	10
	25,001	24,277
Treasury stock, at cost, 81.4 million Disney shares	**(1,395)**	(1,395)
Shares held by TWDC Stock Compensation Fund II, at cost		
Disney – 6.6 million and 8.6 million shares	**(161)**	(210)
	23,445	22,672
	$50,045	$43,810

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended September 30, 2002	2001	2000
Net Income (Loss)	**$ 1,236**	$ (158)	$ 920
Operating Items Not Requiring Cash			
Depreciation	**1,021**	987	962
Amortization of intangible assets	**21**	767	1,233
Gain on sale of businesses	**(34)**	(22)	(489)
Equity in the income of investees	**(225)**	(300)	(208)
Restructuring and impairment charges	**—**	1,247	92
Minority interests	**101**	104	107
Cumulative effect of accounting changes	**—**	278	—
Film and television costs	**(97)**	(13)	(210)
Other	**364**	402	164
	1,151	3,450	1,651
Changes In Working Capital			
Receivables	**(535)**	279	223
Inventories	**(35)**	54	65
Other assets	**(86)**	6	36
Accounts and taxes payable and other accrued liabilities	**225**	(435)	436
Television costs	**404**	(149)	402
Deferred income taxes	**(74)**	1	22
	(101)	(244)	1,184
Cash provided by operations	**2,286**	3,048	3,755
Investing Activities			
Investments in parks, resorts and other property	**(1,086)**	(1,795)	(2,013)
Acquisitions (net of cash acquired)	**(2,845)**	(480)	(34)
Dispositions	**200**	137	913
Proceeds from sale of investments	**601**	235	207
Purchases of investments	**(9)**	(88)	(82)
Investments in Euro Disney	**—**	—	(91)
Other	**(37)**	(24)	9
Cash used by investing activities	**(3,176)**	(2,015)	(1,091)
Financing Activities			
Borrowings	**4,038**	3,070	1,117
Reduction of borrowings	**(2,113)**	(2,807)	(2,494)
Commercial paper borrowings, net	**(33)**	(186)	(741)
Exercise of stock options and other	**47**	177	482
Repurchases of common stock	**—**	(1,073)	(166)
Dividends	**(428)**	(438)	(434)
Cash provided (used) by financing activities	**1,511**	(1,257)	(2,236)
Increase (decrease) in cash and cash equivalents	**621**	(224)	428
Cash and cash equivalents, beginning of year	**618**	842	414
Cash and cash equivalents, end of year	**$ 1,239**	$ 618	$ 842
Supplemental disclosure of cash flow information:			
Interest paid	**$ 674**	$ 625	$ 583
Income taxes paid	**$ 447**	$ 881	$ 1,170

See Notes to Consolidated Financial Statements

(In millions, except per share data)	Shares		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	TWDC Stock Compensation Fund		Stockholders' Equity Total
	DIS	DIG	DIS	DIG				DIS	DIG	
Balance at September 30, 1999	2,064	—	$ 9,324	$ —	$12,281	$(25)	$ (605)	$ —	$ —	$20,975
Common stock issued	—	44	—	2,149	—	—	—	—	—	2,149
Exercise of stock options, net	27	2	596	32	—	—	(84)	115	—	659
Common stock repurchased	(5)	(1)	—	—	—	—	—	(155)	(11)	(166)
Dividends ($0.21 per Disney share)	—	—	—	—	(434)	—	—	—	—	(434)
Other comprehensive (loss) (net of tax benefit of $30 million)	—	—	—	—	—	(3)	—	—	—	(3)
Net income	—	—	—	—	920	—	—	—	—	920
Balance at September 30, 2000	2,086	45	9,920	2,181	12,767	(28)	(689)	(40)	(11)	24,100
Common stock issued (cancellation)	—	(1)	—	(22)	—	—	—	—	—	(22)
Exercise of stock options, net	8	—	17	—	—	—	—	208	—	225
Common stock repurchased	(64)	(2)	—	—	—	—	(706)	(357)	(10)	(1,073)
Conversion of DIG shares	8	(42)	2,159	(2,159)	—	—	—	(21)	21	—
Dividends ($0.21 per Disney share)	—	—	—	—	(438)	—	—	—	—	(438)
Other comprehensive income (net of tax expense of $23 million)	—	—	—	—	—	38	—	—	—	38
Net loss	—	—	—	—	(158)	—	—	—	—	(158)
Balance at September 30, 2001	2,038	—	12,096	—	12,171	10	(1,395)	(210)	—	22,672
Exercise of stock options, net	3	—	11	—	—	—	—	49	—	60
Dividends ($0.21 per Disney share)	—	—	—	—	(428)	—	—	—	—	(428)
Other comprehensive (loss) (net of tax benefit of $56 million)	—	—	—	—	—	(95)	—	—	—	(95)
Net income	—	—	—	—	1,236	—	—	—	—	1,236
Balance at September 30, 2002	**2,041**	**—**	**$12,107**	**$ —**	**$12,979**	**$(85)**	**$(1,395)**	**$(161)**	**$ —**	**$23,445**

Comprehensive income (loss) is as follows:

	2002	2001	2000
Net income (loss)	**$1,236**	$(158)	$920
Cumulative effect of adoption of SFAS 133, net of tax	**—**	60	—
Market value adjustments for investments and hedges, net of tax	**(101)**	(18)	15
Foreign currency translation and other, net of tax	**6**	(4)	(18)
Comprehensive income (loss)	**$1,141**	$(120)	$917

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in millions, except per share amounts)

NOTE 1. DESCRIPTION OF THE BUSINESS AND SEGMENT INFORMATION

The Walt Disney Company, together with the subsidiaries through which the Company's businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products.

DESCRIPTION OF THE BUSINESS

MEDIA NETWORKS

The Company operates the ABC Television Network and the ABC Radio Networks, which have affiliated stations providing coverage to households throughout the United States. The Company also owns television and radio stations, most of which are affiliated with either the ABC Television Network or the ABC Radio Networks. The Company's cable/satellite and international broadcast operations are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in foreign television broadcasting, production and distribution entities. Primary cable/satellite programming services, which operate through consolidated subsidiary companies, are ESPN-branded networks, the Disney Channel, Disney Channel Worldwide, SOAPnet, Toon Disney, ABC Family Channel and Fox Kids channels in Europe and Latin America. Other programming services that operate through joint ventures, and are accounted for under the equity method, include A&E Television Networks, Lifetime Entertainment Services and E! Entertainment Television. The Company also produces original television programming for network, first-run syndication, pay and international syndication markets. Additionally, the Company operates ABC-, ESPN-, and Disney-branded Internet web site businesses.

PARKS AND RESORTS

The Company operates the Walt Disney World Resort in Florida and the Disneyland Resort in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot, Disney-MGM Studios and Disney's Animal Kingdom, thirteen resort hotels, a retail, dining and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks and other recreational facilities. In addition, Disney Cruise Line is operated out of Port Canaveral, Florida. The Disneyland Resort includes Disneyland, Disney's California Adventure, three resort hotels and Downtown Disney. Disney's Regional Entertainment operates sports-themed ESPN Zone dining and entertainment facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland Resort, which includes two theme parks and two Disney-branded hotels, near Tokyo, Japan, and is owned and operated by an unrelated Japanese corporation. The Company has an investment in Euro Disney S.C.A. (Euro Disney), a publicly held French entity that operates Disneyland Resort Paris, which includes the Disneyland Park, the Walt Disney Studio Park, seven themed hotels, two convention centers, the Disney Village, a shopping, dining and entertainment center and a 27 hole golf facility. The Company earns royalties on Disneyland Resort Paris revenues. A subsidiary of the Company also receives management fees from Euro Disney. The Company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Parks & Resorts are the Company's National Hockey League franchise, the Mighty Ducks of Anaheim, and the Anaheim Angels, a Major League Baseball team.

STUDIO ENTERTAINMENT

The Company produces and acquires live-action and animated motion pictures for distribution to the theatrical, home video and television markets. The Company also produces original animated television programming for network, first-run syndication, pay and international syndication markets, stage plays and musical recordings. The Company distributes these products through its own distribution and marketing companies in the United States and most foreign markets under the Walt Disney Pictures, Touchstone Pictures, Hollywood Pictures, Miramax and Dimension banners.

CONSUMER PRODUCTS

The Company licenses the name "Walt Disney," as well as the Company's characters and, visual and literary properties, to various manufacturers, retailers, show promoters and publishers throughout the world. The Company also engages in direct retail distribution, principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the Company produces computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace. The Company's Direct Marketing business operates the Disney Catalog, which markets Disney-themed merchandise through the direct mail channel. Catalog offerings include merchandise developed exclusively for the Disney Catalog and DisneyStore.com, as well as products from the Disney Store, other internal Disney partners and Disney licensees.

SEGMENT INFORMATION

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Segment operating results evaluated include earnings before corporate and unallocated shared expenses, amortization of intangible assets, gain on sale of businesses, net interest expense and other, equity in the income of investees, restructuring and impairment charges, income taxes and minority interests. Corporate and unallocated shared expenses principally consist of executive management and certain unallocated administrative support functions.

The following segment results include allocations of certain costs, including certain information technology costs, pension, legal and other shared services, which are allocated based on consumption. In addition, while all significant intersegment transactions have been eliminated, Studio Entertainment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect a portion of Consumer Products revenues attributable to certain film properties. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in an arm's-length transaction.

Business Segments	**2002**	2001	2000
Revenues			
Media Networks	**$ 9,733**	$ 9,569	$ 9,836
Parks and Resorts	**6,465**	7,004	6,809
Studio Entertainment			
Third parties	**6,622**	5,952	5,837
Intersegment	**69**	57	81
	6,691	6,009	5,918
Consumer Products			
Third parties	**2,509**	2,647	2,843
Intersegment	**(69)**	(57)	(81)
	2,440	2,590	2,762
Total consolidated revenues	**$25,329**	$25,172	$25,325
Segment operating income			
Media Networks	**$ 986**	$ 1,758	$ 1,985
Parks and Resorts	**1,169**	1,586	1,615
Studio Entertainment	**273**	260	126
Consumer Products	**394**	401	386
Total segment operating income	**$ 2,822**	$ 4,005	$ 4,112
Segment operating income	**$ 2,822**	$ 4,005	$ 4,112
Corporate and unallocated shared expenses	**(417)**	(406)	(354)
Amortization of intangible assets	**(21)**	(767)	(1,233)
Gain on sale of businesses	**34**	22	489
Net interest expense and other	**(453)**	(417)	(497)
Equity in the income of investees	**225**	300	208
Restructuring and impairment charges	**—**	(1,454)	(92)
Income before income taxes, minority interests and the cumulative effect of accounting changes	**$ 2,190**	$ 1,283	$ 2,633
Capital expenditures			
Media Networks	**$ 151**	$ 207	$ 249
Parks and Resorts	**636**	1,278	1,524
Studio Entertainment	**37**	36	50
Consumer Products	**58**	70	73
Corporate	**204**	204	117
Total consolidated capital expenditures	**$ 1,086**	$ 1,795	$ 2,013

Business Segments	**2002**	2001	2000
Depreciation expense			
Media Networks	**$ 180**	$ 176	$ 169
Parks and Resorts	**648**	604	582
Studio Entertainment	**46**	47	54
Consumer Products	**58**	90	109
Corporate	**89**	70	48
Total consolidated depreciation expense	**$ 1,021**	$ 987	$ 962
Amortization expense			
Media Networks	**$ 8**	$ 748	$ 1,209
Parks and Resorts	**9**	15	21
Studio Entertainment	**1**	3	1
Consumer Products	**3**	1	2
Total consolidated amortization expense	**$ 21**	$ 767	$ 1,233
Identifiable assets			
Media Networks(1)(2)	**$26,038**	$20,374	
Parks and Resorts(1)	**11,305**	11,369	
Studio Entertainment	**7,879**	6,675	
Consumer Products	**1,125**	1,041	
Corporate(3)	**3,698**	4,351	
Total consolidated assets	**$50,045**	$43,810	
Supplemental revenue data			
Media Networks			
Advertising	**$ 5,174**	$ 5,988	$ 6,637
Subscription revenue	**2,839**	2,466	2,024
Parks and Resorts			
Merchandise, food and beverage	**1,987**	2,046	2,094
Admissions	**1,819**	2,050	2,006

Geographic Segments	**2002**	2001	2000
Revenues			
United States and Canada	**$20,770**	$20,895	$21,036
Europe	**2,724**	2,599	2,745
Asia Pacific	**1,325**	1,232	1,150
Latin America and Other	**510**	446	394
	$25,329	$25,172	$25,325
Segment operating income			
United States and Canada	**$ 1,739**	$ 3,045	$ 3,332
Europe	**499**	533	471
Asia Pacific	**545**	437	320
Latin America and Other	**39**	(10)	(11)
	$ 2,822	$ 4,005	$ 4,112
Identifiable assets			
United States and Canada	**$47,241**	$41,961	
Europe	**2,355**	1,428	
Asia Pacific	**329**	292	
Latin America and Other	**120**	129	
	$50,045	$43,810	

(1) Identifiable assets include amounts associated with equity method investments, including notes and other receivables, as follows:

Media Networks	**$860**	$792
Parks and Resorts	**459**	408

(2) Includes Goodwill and other intangible assets totaling $19,360 in 2002 and $14,351 in 2001.

(3) Primarily deferred tax assets, other investments, fixed and other assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions. In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivable sale transaction. In connection with this sale, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

Accounting Changes In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), which requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method.

Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets with indefinite lives. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During fiscal 2002, the Company completed its impairment review, which indicated that there was no impairment (see Note 6).

The FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Obligations Associated with the Retirement of Long-lived Assets* (SFAS 143) in August 2001. SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company expects that the provisions of SFAS 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS 143 effective October 1, 2002.

The Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), effective October 1, 2001, which did not have a material impact on the Company's consolidated results of operations and financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. The Company plans to adopt SFAS 146 effective October 1, 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

Effective October 1, 2000, the Company adopted two new accounting pronouncements, AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP00-2) and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), subsequently amended by Statement of Financial Accounting Standards No. 138 (SFAS 138).

SOP00-2 establishes new accounting standards for producers and distributors of films, which resulted in changes in revenue recognition and accounting for exploitation costs, including advertising and marketing expenses and development and overhead costs. As a result of the adoption of SOP00-2, the Company recorded a one-time after-tax charge of $228 million, or $0.11 per share, representing the cumulative effect of the adoption. The charge represents costs that were capitalized as of September 30, 2000, that would have been expensed under the new rules. The adoption of SOP00-2 did not have a material impact on operating results.

SFAS 133 and SFAS 138 require that the Company record all derivatives on the balance sheet at fair value. Changes in derivative fair values that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments. Changes in the derivative fair values that are designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value is immediately recognized in earnings. Derivatives that are executed for risk management purposes but not designated as hedges under SFAS 133 and SFAS 138 are recorded at their market value and recognized in current earnings.

As a result of adopting SFAS 133 as of October 1, 2000, and in accordance with the transition provisions, the Company recorded a one-time after-tax charge of $50 million, or $0.02 per share, in its Consolidated Statements of Income representing the cumulative effect of the adoption, and an after-tax unrealized gain of $60 million to AOCI. The adoption of SFAS 133 did not have a material impact on operating results.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Revenue Recognition Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided.

Merchandise licensing advance and guarantee payments are recognized when the underlying royalties are earned.

Revenues from advance theme park ticket sales are recognized when the tickets are used. Revenues from participants at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

Internet advertising revenues are recognized on the basis of impression views in the period the advertising is displayed, provided that no significant obligations remain and collection of the resulting receivable is probable. Direct marketing and Internet-based merchandise revenues are recognized upon shipment to customers.

Advertising Expense Advertising costs are expensed as incurred. For the years ended September 30, 2002, 2001 and 2000, the Company incurred advertising expense totaling $2.3 billion, $2.2 billion and $2.0 billion, respectively.

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Investments Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively. All other equity securities are accounted for using either the cost method or the equity method.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Income.

Inventories Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

Film and Television Costs Film and television costs that are produced are stated at the lower of cost, less accumulated amortization, or fair value. Acquired programming costs for the Company's television and cable/satellite networks are stated at the lower of cost, less accumulated amortization, or net realizable value. Acquired television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use.

Film and television production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from all sources on an individual production basis. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on an accelerated basis related to the usage of the programs. Television network series costs and multi-year sports rights are charged to expense based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from such programs.

Estimates of total gross revenues can change significantly due to a variety of factors, including the level of market acceptance of film and television products, advertising rates and subscriber fees. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted, if necessary. Such adjustments could have a material effect on results of operations in future periods. The net realizable value of television broadcast program licenses and rights is reviewed using a daypart methodology.

Capitalized Software Costs The Company expenses costs incurred in the preliminary project stage of developing or obtaining internal use software, such as research and feasibility studies, as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary project stage is complete, management authorizes the project, and it is probable that the project will be completed and the software will be used for the function intended. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, which is generally five years.

Parks, Resorts and Other Property Parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives as follows:

Attractions	25–40 years
Buildings and improvements	40 years
Leasehold improvements	Life of lease
Land improvements	25 years
Equipment	2–10 years
Furniture and fixtures	2–10 years

Goodwill and Intangible Assets The Company performs an annual impairment test for goodwill and intangible assets. Goodwill and intangible assets are allocated to various reporting units, which are either the operating segment or one reporting level below the operating segment. The Company's reporting units for purposes of applying the provisions of SFAS 142 are: Cable Networks, Television Broadcasting, Radio, Studio Entertainment, Consumer Products and Parks and Resorts. SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill and intangible assets within the reporting unit is less than their carrying value. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized. Fair values for goodwill and intangible assets are determined based on discounted cash flows, market multiples or appraised values as appropriate.

Amortizable intangible assets are amortized on a straight-line basis based upon estimated useful lives as follows:

Intellectual property copyrights	10–31 years
Stadium facility leases	33 years
Other	4–50 years

Risk Management Contracts In the normal course of business, the Company employs a variety of financial instruments to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and investments in equity and debt securities, including interest rate and cross-currency swap agreements; forward, option and "swaption" contracts, and interest rate caps.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. There are two types of derivatives into which the Company enters: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (i.e. forecasted revenue) or the variability of cash flows to be paid related to a recognized liability (i.e. floating rate debt).

The Company designates and assigns the financial instruments as hedges of forecasted transactions, specific assets, or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging financial instruments.

Option premiums and unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded on the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts payable and other accrued liabilities. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The Company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and exchange rates shift as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

Cash flows from hedges are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 7 and 13).

Earnings Per Share The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted EPS, for the Company, is solely attributable to stock options. The Company uses the treasury stock method to calculate the impact of outstanding stock options. Stock options for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation.

For the years ended September 30, 2002, 2001 and 2000, options for 156 million, 81 million and 20 million shares, respectively, were excluded from the diluted EPS calculation for Disney common stock because they were anti-dilutive.

Stock Options The Company uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not currently recognize compensation expense for its stock-based awards to employees in the Consolidated Statements of Income. See Note 11 for pro forma information on the impact of the fair-value method of accounting for stock options.

Reclassifications Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the 2002 presentation.

NOTE 3. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

On October 24, 2001, the Company acquired Fox Family Worldwide, Inc. (FFW) for $5.2 billion, funded with $2.9 billion of new long-term borrowings plus the assumption of $2.3 billion of FFW long-term debt. Upon the closing of the acquisition, the Company changed FFW's name to ABC Family Worldwide, Inc. (ABC Family). Among the businesses acquired were the Fox Family Channel, which has been renamed ABC Family Channel, a programming service that currently reaches approximately 85 million cable and satellite television subscribers throughout the U.S.; a 76% interest in Fox Kids Europe, which reaches more than 31 million subscribers across Europe; Fox Kids channels in Latin America, and the Saban library and entertainment production businesses.

Our motivation for the acquisition was to acquire a fully integrated cable channel as well as a significant international cable presence and therefore increase shareholder value. We believe that we can reach this objective through the use of new strategies that include cross promotion with our other television properties, repurposing a portion of the programming of the ABC Television Network, utilizing programming from the Disney and ABC libraries, developing original programming and by reducing operating costs.

The acquisition of ABC Family has been accounted for in accordance with SFAS 141. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the date of acquisition. Fair values were determined by internal studies and independent third party appraisals.

The following table summarizes the final purchase price allocation of ABC Family's assets acquired and liabilities assumed at the date of acquisition.

Receivables	$ 182
Programming costs	309
Other assets	535
Intangible assets	47
Goodwill	4,996
Total assets	6,069
Accounts payable and accrued liabilities	(555)
Other liabilities	(269)
Minority interest	(49)
Total liabilities	(873)
Fair value of net assets acquired	5,196
Borrowings and preferred stock assumed	(2,371)
Cash purchase price, net of cash acquired	$ 2,825

The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately $5.0 billion was allocated to goodwill that was assigned to the Cable Networks reporting unit within the Media Networks segment. None of this amount is expected to be deductible for tax purposes.

The Company's consolidated results of operations have incorporated ABC Family's activity on a consolidated basis from October 24, 2001, the date of acquisition. On an unaudited pro forma basis, adjusting only for the assumption that the acquisition of ABC Family and related incremental borrowings had occurred at the beginning of fiscal 2001, revenues for the year ended September 30, 2002 and 2001 were $25,360 million and $25,803 million, respectively. As-reported and unaudited pro forma net income (loss) and earnings (loss) per share for fiscal 2002 were approximately the same. The unaudited pro forma earnings per share impact on fiscal 2001 was approximately $0.01 dilutive, assuming that the incremental acquisition goodwill had not been amortized in the prior year pursuant to the new goodwill accounting rules. The unaudited pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future results.

In fiscal 2002, the Company sold the Disney Store operations in Japan generating a pre-tax gain of $34 million. In fiscal 2001, the Company sold Infoseek Japan K.K. generating a $22 million pre-tax gain and in fiscal 2000 it sold Fairchild Publications, Ultraseek Corporation and Eurosport generating pre-tax gains of $243 million, $153 million and $93 million, respectively. These gains are reported in the line "Gain on sale of businesses" in the Consolidated Statements of Income.

On March 20, 2001, the Company converted all of its outstanding Internet Group common stock into Disney common stock, resulting in the issuance of approximately 8.6 million shares of Disney common stock. For the year ended September 30, 2001, earnings attributed to Disney common stock reflect approximately 72% of Internet Group losses from October 1, 2000 through January 28, 2001 (the last date prior to the announcement of the conversion), and 100% thereafter. In addition, the Company has ceased the operations of the GO.com portal business, which resulted in restructuring and impairment charges of $878 million in fiscal 2001 (see Note 15).

NOTE 4. INVESTMENTS

Investments consist of the following:

	2002	2001
Investments, at equity[(1)]	**$ 970**	$ 932
Investments, at cost[(2)]	**162**	564
Investment in leveraged leases	**289**	289
Notes receivable and other investments	**389**	327
	$1,810	$2,112

[(1)] Equity investments consist of investments in affiliated companies over which the Company has significant influence or ownership of 20% or more but less than or equal to 50%

[(2)] Cost investments consist of marketable securities classified as available-for-sale and investments in affiliated companies over which the Company does not have significant influence and ownership of less than 20%

Euro Disney and Other Equity Investments Euro Disney operates the Disneyland Resort Paris on a 4,800-acre site near Paris, France. The Company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 2002, the Company's recorded investment in Euro Disney, including accounts and notes receivable, was $424 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. (Disney SNC), a wholly-owned affiliate of the Company, entered into a lease arrangement with a noncancelable term of 12 years related to substantially all of the Disneyland Park assets, and then entered into a 12-year sublease agreement with Euro Disney. Remaining lease rentals at September 30, 2002 of approximately $702 million receivable from Euro Disney under the sublease approximate the amounts payable by Disney SNC under the lease. At the conclusion of the sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the Disneyland Park assets, which is estimated to be $1.1 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also, as part of the restructuring, the Company agreed to provide a 10-year unsecured standby credit facility of approximately $164 million, bearing interest at the Paris Interbank Offered Rate (PIBOR). As of September 30, 2002, Euro Disney had drawn $61 million under this facility. It is expected that Euro Disney will draw additional amounts under the line of credit during fiscal 2003. The Company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 25% of the outstanding common stock of Euro Disney through June 2004 and at least 16.67% for an additional term thereafter.

After a five-year waiver resulting from the restructuring, royalties and management fees from Euro Disney were partially reinstated beginning fiscal year 1999. As a result, the Company earned approximately $33 million, $28 million and $30 million in royalties and management fees in fiscal years 2002, 2001 and 2000, respectively. Royalties are to be fully reinstated beginning in fiscal year 2004, with management fees progressively reinstated through fiscal year 2018.

In November 1999, Euro Disney stockholders approved an increase in share capital through an equity rights offering. The offering raised $238 million. The net proceeds were used to partially finance the construction of a second theme park, Walt Disney Studios which opened on March 16, 2002. The Company subscribed to approximately $91 million of the equity rights offering, maintaining its 39% interest in Euro Disney.

Since the opening of the Walt Disney Studios, Euro Disney's attendance and occupancy at its parks and resorts have increased, although attendance growth has been below original expectations. Because of Euro Disney's limited cash resources and its significant debt burden, including the obligation to repay the line of credit with the Company in June 2004, Euro Disney will need to experience continued steady growth in operating income in order to meet its cash needs. If this growth is not sufficient to provide the needed funding, additional financing may be required. There can be no assurance that Euro Disney would be able to secure such additional financing, and if such financing can be arranged, the terms thereof may be less favorable than current financing arrangements.

A summary of U.S. GAAP financial information for Euro Disney is as follows:

	2002	2001	2000
Results of Operations:			
Revenues	**$ 909**	$ 905	$ 980
Cost and expenses	**(891)**	(871)	(942)
Net interest expense and other	**(75)**	(80)	(105)
Loss before income taxes	**(57)**	(46)	(67)
Income taxes	**—**	—	—
Net loss	**$ (57)**	$ (46)	$ (67)
Balance Sheet:			
Cash and cash equivalents	**$ 66**	$ 543	
Other current assets	**188**	212	
Total current assets	**254**	755	
Parks, resorts and other property, net	**2,605**	2,319	
Other non-current assets	**142**	143	
	$3,001	$3,217	
Accounts payable and other accrued liabilities	**$ 412**	$ 406	
Current portion of borrowings	**47**	375	
Other current liabilities	**144**	148	
Total current liabilities	**603**	929	
Borrowings	**2,126**	1,957	
Other non-current liabilities	**162**	168	
Stockholders' equity	**110**	163	
	$3,001	$3,217	

In addition to the Company's investment in Euro Disney, the Company has other equity investments, primarily comprised of cable investments such as A&E Television Networks (37.5% owned), Lifetime Entertainment Services (50% owned) and E! Entertainment Television (39.6% owned).

A summary of combined financial information for the other equity investments is as follows:

	2002	2001	2000
Results of Operations:			
Revenues	**$3,111**	$3,161	$2,973
Net Income	**$ 635**	$ 763	$ 701
Balance Sheet:			
Current assets	**$1,938**	$1,702	
Non-current assets	**1,419**	1,348	
	$3,357	$3,050	
Current liabilities	**$ 956**	$ 830	
Non-current liabilities	**717**	675	
Stockholders' equity	**1,684**	1,545	
	$3,357	$3,050	

Investments, at cost As of September 30, 2002 and 2001, the Company held $14 million and $92 million, respectively, of securities classified as available-for-sale. As of September 30, 2002 and September 30, 2001, the Company also held $148 million and $472 million, respectively, of non-public cost method investments. Realized gains and losses are determined principally on an average cost basis. In 2002, 2001 and 2000, the Company recognized $239 million, $87 million and $41 million, respectively, in net gains on sales of securities. Included in fiscal 2002 is a $216 million gain on the sale of the remaining shares of Knight Ridder stock that the Company had received in connection with the disposition of certain publishing operations that had been acquired in connection with the acquisition of ABC.

In addition, in 2002 and 2001, the Company recorded non-cash charges of $2 million and $241 million, respectively, to reflect other-than-temporary losses in value of certain investments. In 2002, 2001 and 2000, unrealized gains and losses on available-for-sale securities were not material.

Investment in leveraged leases The Company's investment portfolio includes commercial aircraft leveraged lease investments made between 1992 and 1994 totaling $289 million, which are diversified across three air carriers (United Airlines – $114 million, Delta Airlines – $119 million, and FedEx – $56 million) and eleven aircraft. Risk of loss under these transactions is primarily related to the ability of the air carriers to make underlying lease payments.

We continue to monitor our investment in commercial aircraft leasing transactions given the current status of the airline industry. We have, in particular, been monitoring United Airlines which has indicated that if it does not obtain significant concessions from each of its employee unions, achieve cost savings in other operating areas of the company and obtain a loan guarantee from the Airline Transportation Stabilization Board, it will have to file for bankruptcy protection. To date, all payments on these leases have been made when due. The inability of any of the companies to make their lease payments or the termination of our leases through a bankruptcy proceeding could result in material charges related to a write-down of some or all of our investment and could accelerate income tax payments.

The Company's leveraged lease investment includes the impact of certain income tax benefits that are projected to be realized in the future under the current U.S. income tax laws. As discussed more fully in Note 8, the U.S. Congress is considering a change in the applicable income tax law.

NOTE 5. FILM AND TELEVISION COSTS

	2002	2001
Theatrical film costs		
Released, less amortization	**$2,384**	$2,324
Completed, not released	**819**	445
In-process	**790**	1,103
In development or pre-production	**147**	143
	4,140	4,015
Television costs		
Released, less amortization	**909**	730
Completed, not released	**131**	62
In-process	**292**	407
In development or pre-production	**25**	41
	1,357	1,240
Television broadcast rights	**1,123**	1,155
	6,620	6,410
Less current portion	**661**	769
Non-current portion	**$5,959**	$5,641

Based on management's total gross revenue estimates as of September 30, 2002, approximately 44% of completed and unamortized film and television costs (excluding amounts allocated to acquired film libraries) are expected to be amortized during fiscal 2003, and approximately 71% during the next three years. By September 30, 2006, approximately 80% of the total completed and unamortized film and television costs are expected to be amortized. As of September 30, 2002, the Company estimated that approximately $332 million of accrued participation liabilities will be payable in fiscal year 2003.

At September 30, 2002, acquired film libraries have remaining unamortized film costs of $387 million which are amortized straight line over a remaining period of approximately 5-14 years.

The following table provides detail of film and television cost spending and amortization.

	2002	2001	2000
Film and television cost spending	**$(2,315)**	$(2,273)	$(2,585)
Film and television cost amortization	**2,218**	2,260	2,375
Film and television cost	**$ (97)**	$ (13)	$ (210)

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

The following table provides a reconciliation of reported net earnings (loss) for the prior-years to adjusted earnings had SFAS 142 been applied as of the beginning of fiscal 2000.

	2001		2000	
	Amount	Earnings per share	Amount	Earnings per share
Reported net earnings (loss) attributed to Disney Common Stock	$(41)	$(0.02)	$1,196	$0.57
Cumulative effect of accounting changes	278	0.13	—	—
Reported earnings attributed to Disney Common Stock before the cumulative effect of accounting changes	237	0.11	1,196	0.57
Add back amortization (net of tax):				
Goodwill	604	0.29	880	0.42
Indefinite life intangible assets	50	0.02	81	0.04
Adjusted earnings attributed to Disney Common Stock before the cumulative effect of accounting changes	$891	$ 0.42	$2,157	$1.03

The changes in the carrying amount of goodwill for the year ended September 30, 2002 are as follows:

	Media Networks	Other	Total
Balance as of October 1, 2001	$12,042	$64	$12,106
Goodwill acquired during the period	4,998	11	5,009
Investment impairment adjustment	(32)	—	(32)
Balance as of September 30, 2002	**$17,008**	**$75**	**$17,083**

The Media Networks segment goodwill includes goodwill attributed to the cable equity investees. During the third quarter of fiscal 2002, the Company determined that an investment in a Latin American cable operator had experienced a permanent decline in value and recorded a goodwill impairment loss of $32 million representing the goodwill associated with that investment. The impairment loss has been recorded in "Equity in the income of investees" in the Consolidated Statements of Income.

NOTE 7. BORROWINGS

The Company's borrowings at September 30, 2002 and 2001, including interest rate swaps designated as hedges, are summarized below.

			2002				
				Interest rate and cross-currency swaps[b]			
	2002	2001	Stated Interest Rate[a]	Pay Float	Pay Fixed	Effective Interest Rate[c]	Swap Maturities
Commercial paper due 2003	**$ 721**	$ 754	2.0%	$ —	$600	3.8%	2004-2005
U.S. medium-term notes	**8,042**	5,681	6.1%	2,612	—	5.1%	2003-2032
Other USD denominated debt	**1,303**	997	4.8%	—	—	4.8%	—
Privately placed debt	**425**	500	7.0%	425	—	3.8%	2007
European medium-term notes	**1,646**	1,258	3.3%	1,141	—	3.4%	2003-2007
Preferred stock	**495**	102	7.4%	102	—	4.4%	2004
Capital Cities/ABC and ABC Family debt	**1,085**	195	9.3%	97	—	8.9%	2021
Other[d]	**413**	282		—	—		—
	14,130	9,769	5.6%	—	—	4.9%	—
Less current portion	**1,663**	829		92	—		2003
Total long-term borrowings	**$12,467**	$8,940		$4,285	$600		

[a]The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 2002; these rates are not necessarily an indication of future interest rates.
[b]Amounts represent notional values of interest rate swaps.
[c]The effective interest rate reflects the impact of interest rate and cross-currency swaps on the stated rate of debt.
[d]Includes write ups due to market value adjustments for debt with qualifying hedges that are recorded as debt on the balance sheet totaling $353 million at September 30, 2002.

Commercial Paper The Company currently maintains U.S. and European commercial paper programs with a combined program size of $4.5 billion. As of September 30, 2002, the Company had established bank facilities totaling $4.5 billion to support commercial paper borrowings, with half of the facilities scheduled to expire in February 2003 and the other half in March 2005. The Company plans to renew or extend these bank facilities prior to their scheduled expiration. Under the bank facilities, the Company has the option to borrow at LIBOR-based rates plus a spread depending on the Company's senior unsecured debt rating. As of September 30, 2002, the Company had not borrowed against the bank facilities. At September 30, 2002, the total debt outstanding from commercial paper was $721 million, with maturities ranging from 4 to 158 days and stated interest rates ranging from 1.85% to 2.53%.

$7.5 Billion Shelf Registration Statement In August 2001, the Company filed a U.S. shelf registration statement with the Securities and Exchange Commission (SEC) which allows the Company to issue from time to time, up to $7.5 billion of securities, including debt securities, preferred stock, common stock, depositary shares, warrants and purchase contracts. Of the $7.5 billion available at September 30, 2002, $2.75 billion of debt had been issued under the Company's U.S. medium-term note program (described below) and $1.303 billion of debt had been issued under other U.S. dollar denominated debt (also described below). The remaining unused available capacity to issue under the shelf is $3.447 billion, subject to market conditions and other factors impacting our borrowing capacity.

U.S. Medium-Term Note Program In September 2001, the Company established a $6.5 billion U.S. medium-term note program under the U.S. shelf registration statement described above for the issuance of various types of debt instruments, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes and dual currency or other indexed notes. In 2002, the Company issued $2.75 billion under the current program. The remaining capacity under the program may be further reduced from time to time to the extent that the Company issues securities outside of the existing U.S. medium-term note program but under the current shelf registration statement. At September 30, 2002, the total debt outstanding under the current and prior U.S. medium-term note programs was $8.042 billion. The maturities of current outstanding borrowings ranged from 1 to 91 years and stated interest rates ranged from 1.46% to 7.55%.

Other U.S. Dollar Denominated Debt From time to time, the Company may issue bonds or notes separately from the U.S. medium-term note program, under shelf registration statements in effect at the time. At September 30, 2002, the total debt outstanding from these offerings, which included global bonds and quarterly interest bonds (QUIBS), was $1.303 billion. The maturities of these outstanding borrowings ranged from 1 to 29 years and the stated interest rates ranged from 3.9% to 7%.

Privately Placed Debt In 1996, the Company raised $850 million of privately placed financing. The notes pay 7.02% interest per annum and amortize semi-annually. The outstanding principal as of September 30, 2002 was $425 million.

European Medium-Term Note Program In July 2002, the Company renewed its European medium-term note program for the issuance of various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, index linked and dual currency notes. At such time, the program size was increased from $3.0 billion to $4.0 billion. In 2002, the Company issued $989 million under the program. The remaining capacity to issue under the program is $2.354 billion, subject to market conditions and other factors impacting our borrowing capacity. The remaining capacity under the program replenishes as outstanding debt under the program matures. At September 30, 2002, the total debt outstanding from the program was $1.646 billion. The maturities of current outstanding borrowings ranged from 1 to 5 years and stated interest rates ranged from 2.63% to 14%. The Company has outstanding borrowings in the program denominated in U.S. dollars, Hong Kong dollars, Singapore dollars, Japanese yen and South African rand.

Preferred Stock As a result of the Fox Family Worldwide, Inc. (now ABC Family Worldwide, Inc.) acquisition in October 2001 (the ABC Family acquisition), the Company assumed Series A Preferred Stock with a 9% coupon and quarterly dividend payments valued at approximately $400 million with an effective cost of capital of 5.25%. The Series A Preferred Stock is callable starting August 1, 2007, and has a maturity of August 1, 2027.

In July 1999, a subsidiary of the Company issued $102 million of Auction Market Preferred Stock (AMPS). These are perpetual, non-cumulative, non-redeemable instruments. Quarterly distributions, if declared, are at the rate of 5.427% per annum, for the first five years. AMPS will be remarketed through an auction procedure in July 2004. The Company is required to submit a valid bid for all the AMPS at that time. Based on the Company's current credit rating, the holders may require the Company to remarket the AMPS at an earlier date. The Company has not received notification from the AMPS holders to conduct an earlier auction.

The Series A preferred stock and the AMPS are classified as borrowings given their substantive similarity to a debt instrument.

Capital Cities/ABC and ABC Family Publicly Traded Debt As a result of the ABC Family acquisition in October 2001, the Company assumed $475 million of 9¼% Senior Notes due 2007, valued at $502 million and $560 million of 10¼% Senior Discount Notes due 2007, valued at $589 million (collectively, the "ABC Family Notes"). At September 30, 2002, the fair value of the ABC Family Notes was $892 million, as the Company repurchased $194 million of the notes prior to the stated maturity date. The ABC Family Notes were redeemable by ABC Family starting November 1, 2002 and semi-annually thereafter. ABC Family exercised its right to redeem the notes and, accordingly, all of the outstanding ABC Family Notes were redeemed on November 1, 2002 at a price of 104.625% for the Senior Notes and 105.125% of the principal amount for the Senior Discount Notes. The redemption did not have a material impact on the Company. As of September 30, 2002, the ABC Family Notes were classified as current.

As a result of the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed various debt previously issued by Capital Cities/ABC, Inc. Certain of these securities were subsequently exchanged for different securities. At September 30, 2002, the outstanding balance was $193 million with maturities ranging from 7 to 19 years and stated interest rates ranging from 8.75% to 9.645%.

Borrowings, excluding commercial paper and market value adjustments, have the following scheduled maturities:

2003	$ 1,663
2004	2,567
2005	1,636
2006	1,420
2007	2,082
Thereafter	3,688
	$13,056

The maturities in fiscal 2003 include the ABC Family Notes that were redeemed on November 1, 2002.

The Company capitalizes interest on assets constructed for its parks, resorts and other property, and on theatrical and television productions in process. In 2002, 2001 and 2000, total interest costs capitalized were $36 million, $94 million and $132 million, respectively.

NOTE 8. INCOME TAXES

	2002	2001	2000
Income Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Changes			
Domestic (including U.S. exports)	**$ 1,832**	$ 1,126	$2,509
Foreign subsidiaries	**358**	157	124
	$ 2,190	$ 1,283	$2,633
Income Tax Provision			
Current			
Federal	**$ 137**	$ 721	$ 977
State	**55**	82	182
Foreign (including withholding)	**257**	198	177
	449	1,001	1,336
Deferred			
Federal	**372**	(8)	247
State	**32**	66	23
	404	58	270
	$ 853	$ 1,059	$1,606
Components of Deferred Tax Assets and Liabilities			
Deferred tax assets			
Accrued liabilities	**$(1,272)**	$(1,087)	
Foreign subsidiaries	**(233)**	(156)	
Loss and credit carryforwards	**(206)**	(195)	
Total deferred tax assets	**(1,711)**	(1,438)	
Deferred tax liabilities			
Depreciable, amortizable and other property	**2,967**	2,663	
Licensing revenues	**26**	115	
Leveraged leases	**307**	316	
Investment in Euro Disney	**256**	232	
Other, net	**54**	166	
Total deferred tax liabilities	**3,610**	3,492	
Net deferred tax liability before valuation allowance	**1,899**	2,054	
Valuation allowance	**74**	53	
Net deferred tax liability	**$ 1,973**	$ 2,107	

	2002	2001	2000
Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**35.0%**	35.0%	35.0%
Nondeductible amortization of intangible assets	**—**	18.1	14.8
State taxes, net of federal income tax benefit	**2.6**	7.5	5.1
Dispositions	**—**	1.4	7.5
Impairment of intangible assets	**—**	20.6	—
Foreign sales corporation and extraterritorial income	**(3.1)**	(1.9)	(1.2)
Other, including tax reserves and related interest	**4.4**	1.8	(0.2)
	38.9%	82.5%	61.0%

Deferred tax assets at September 30, 2002 and 2001 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain net operating losses (NOLs) reflected on state tax returns of Infoseek and its subsidiaries for periods prior to the Infoseek acquisition on November 18, 1999 (see Note 3), where applicable state tax laws limit the utilization of such NOLs. In addition, deferred tax assets at September 30, 2002 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain NOLs reflected on tax returns of ABC Family Worldwide, Inc. and its subsidiaries for periods prior to the ABC Family acquisition on October 24, 2001 (see Note 3). Since the valuation allowance relates to acquired deferred tax assets, the subsequent realization of these tax benefits would result in the application of the allowance amount as a reduction to goodwill.

At September 30, 2002, approximately $354 million of NOLcarryforwards were available to offset future taxable income through the year 2021. Since the acquisition of ABC Family constituted an ownership change as defined under Section 382 of the Internal Revenue Code, the utilization of ABC Family's pre-change NOLs will be subject to an annual limitation. However, such annual limitation will not impair the realization of these NOLs.

At September 30, 2002, approximately $75 million of foreign tax credit carryforwards were available as credits against future income taxes. Foreign tax credit carryforwards will expire through the year 2005.

In 2002, 2001 and 2000, income tax benefits attributable to employee stock option transactions of $8 million, $48 million and $197 million, respectively, were allocated to stockholders'equity.

During 2002 the Company derived tax benefits of $69 million from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income ("ETI") attributable to foreign trading gross receipts. The World Trade Organization ("WTO") has ruled that this ETI exclusion represents a prohibited export subsidy under the WTO Agreement on Subsidies and Countervailing Measures. Based upon this ruling, a WTO arbitration panel has determined that the European Union ("EU") may impose up to $4 billion per year in trade sanctions against the U.S., although the EU has yet to impose such sanctions. President Bush has stated that the U.S. will change its tax laws in order to comply with the WTO ruling. Various legislative proposals providing for the repeal of the ETI exclusion have also introduced broad-based international tax reforms, but the Presidential Administration and Congress have not yet agreed upon a solution to this issue. Since the impact of this matter upon the Company depends upon the actions of the EU and the specific provisions of any tax legislation ultimately enacted by Congress, it is not possible to predict the impact on future financial results. However, if the ETI exclusion is repealed and legislation that would replace the ETI exclusion benefit is not enacted, the impact on the Company's tax provision could be significant.

As a matter of course, the Company is regularly audited by the Federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Among current audits, the Internal Revenue Service (IRS) is in the final stages of its examination of the Company's federal income tax returns for 1993 through 1995. In connection with this examination, the IRS has proposed assessments that challenge certain of the Company's tax positions which, if upheld through the administrative and legal process, could have a material impact on the Company's earnings and cash flow. The Company believes that its tax positions comply with applicable tax law and it intends to defend its positions vigorously. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolution. During 2002, the Company negotiated the settlement of a number of proposed assessments, and it continues to pursue favorable settlement of the remaining items.

NOTE 9. PENSION AND OTHER BENEFIT PROGRAMS

The Company maintains pension and post-retirement medical benefit plans covering most of its domestic employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 are not eligible for post-retirement medical benefits. With respect to its qualified defined benefit pension plans, the Company's policy is to fund, at a minimum, the amount necessary on an actuarial basis to provide for benefits in accordance with the requirements of the Employee Retirement Income Security Act of 1974. Pension benefits are generally based on years of service and/or compensation. The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and post-retirement medical benefit plans.

	Pension Plans		Post-Retirement Benefit Plans	
	2002	2001	**2002**	2001
Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$(2,131)**	$(1,825)	**$(585)**	$(413)
Service cost	**(98)**	(90)	**(22)**	(13)
Interest cost	**(157)**	(143)	**(43)**	(33)
Amendments	**(14)**	(10)	**18**	—
Actuarial losses	**(76)**	(146)	**(67)**	(139)
Benefits paid	**88**	83	**19**	13
Ending obligations	**$(2,388)**	$(2,131)	**$(680)**	$(585)
Fair value of plans' assets				
Beginning fair value	**$ 2,450**	$ 2,773	**$ 229**	$ 256
Actual return on plans' assets	**(197)**	(230)	**(20)**	(23)
Contributions	**6**	9	**9**	9
Benefits paid	**(88)**	(83)	**(19)**	(13)
Expenses	**(14)**	(19)	**—**	—
Ending fair value	**$ 2,157**	$ 2,450	**$ 199**	$ 229
Funded status of the plans	**$ (231)**	$ 319	**$(481)**	$(356)
Unrecognized net (gain) loss	**400**	(129)	**241**	145
Unrecognized prior service cost (benefit)	**24**	11	**(20)**	4
Net balance sheet asset (liability)	**$ 193**	$ 201	**$(260)**	$(207)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	**$ 317**	$ 357	**$ 27**	$ 34
Accrued benefit liability	**(194)**	(156)	**(287)**	(241)
Accumulated other comprehensive income	**70**	—	**—**	—
	$ 193	$ 201	**$(260)**	$(207)

The component of net periodic benefit costs are as follows:

	Pension Plans			Post-Retirement Benefit Plans		
	2002	2001	2000	**2002**	2001	2000
Service costs	**$ 97**	$ 88	$ 86	**$ 22**	$ 13	$ 10
Interest costs	**157**	143	131	**43**	33	21
Expected return on plan assets	**(241)**	(237)	(217)	**(21)**	(21)	(19)
Amortization of prior year service costs	**1**	—	—	**1**	1	1
Recognized net actuarial loss	**—**	(18)	(3)	**12**	—	(7)
Net periodic benefit cost (credit)	**$ 14**	$ (24)	$ (3)	**$ 57**	$ 26	$ 6
Rate Assumptions:						
Discount rate	**7.2%**	7.5%	8.0%	**7.2%**	7.5%	8.0%
Rate of return on plans' assets	**8.5%**	9.5%	10.0%	**8.5%**	9.5%	10.0%
Salary increases	**4.7%**	5.0%	5.5%	**n/a**	n/a	n/a
Annual increase in cost of benefits	**n/a**	n/a	n/a	**10.0%**	10.0%	7.5%

Net periodic benefit cost for the current year is based on rate assumptions from the prior year.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $495 million, $471 million and $324 million, respectively, for 2002, and $151 million, $119 million and $0, respectively, for 2001.

The Company's accumulated pension benefit obligations at September 30, 2002 and 2001 were $2.2 billion and $1.9 billion, respectively, of which 98.2% and 97.7%, respectively, were vested. In addition, the Company contributes to various pension plans under union and industry-wide agreements. In 2002, 2001 and 2000, the costs recognized under these plans were $41 million, $40 million and $38 million, respectively.

The market values of the Company's shares held by the pension plan master trust as of September 30, 2002 and 2001 were $42 million and $52 million, respectively.

The accumulated post-retirement benefit obligations and fair value of plan assets for post-retirement plans with accumulated post-retirement benefit obligations in excess of plan assets were $680 million and $199 million, respectively for 2002, and $441 million and $79 million, respectively for 2001.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plans. A one percentage point decrease in the assumed health care cost trend rates would reduce total service and interest costs and post-retirement benefit obligations by $14 million and $118 million, respectively. A one percentage point increase in the assumed health care cost trend rates would increase total service and interest costs and post-retirement benefit obligations by $19 million and $153 million, respectively. The annual increase in cost of post-retirement benefits is assumed to decrease 1.0 percentage point per year for 5 years until reaching 5.0%.

The Company has savings and investment plans that allow eligible employees to allocate up to 10% or 15% of salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's pre-tax contributions, up to plan limits. In 2002, 2001 and 2000, the costs of these plans were $29 million, $32 million and $30 million, respectively.

NOTE 10. STOCKHOLDERS' EQUITY

Under its share repurchase program, the Company is authorized to repurchase approximately 330 million shares as of September 30, 2002. No shares were repurchased during the current year. During fiscal 2001, the Company repurchased a total of 63.9 million shares of Disney common stock for approximately $1.1 billion.

In December 1999, the Company established the TWDC Stock Compensation Fund II (Fund II) pursuant to the repurchase program to acquire shares of company common stock for the purpose of funding certain future stock-based compensation. Any shares acquired by Fund II that are not utilized must be disposed of by December 31, 2002.

The Company declared a fourth quarter dividend of $0.21 per share on December 3, 2002 related to fiscal 2002. The dividend is payable on January 9, 2003 to shareholders of record on December 13, 2002. The Company paid a $428 million dividend ($0.21 per Disney share) during the first quarter of fiscal 2002 applicable to fiscal 2001, paid a $438 million dividend ($0.21 per Disney share) during the first quarter of fiscal 2001 applicable to fiscal 2000 and paid a $434 million dividend ($0.21 per Disney share) during the first quarter of fiscal 2000 applicable to fiscal 1999.

NOTE 11. STOCK INCENTIVE PLANS

Under various plans, the Company may grant stock options and other awards to key executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. In general, options for common stock become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. In certain cases for senior executives, options become exercisable over periods up to 10 years and expire up to 15 years after date of grant. Shares available for future option grants at September 30, 2002 totaled 90 million.

The following table summarizes information about stock option transactions, including the conversion of all shares of Disney Internet Group common stock (DIG) into shares of Disney common stock (DIS) effective March 2001 (shares in millions).

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**188**	**$29.54**	162	$ 27.24	159	$24.29
Awards canceled	**(14)**	**33.64**	(13)	36.30	(18)	29.56
Awards granted	**50**	**21.99**	43	29.71	49	32.92
Awards exercised	**(2)**	**18.02**	(9)	18.72	(28)	18.94
Awards expired	**(6)**	**34.72**	—	—	—	—
Options converted[1]	—	—	5	102.61	—	—
Outstanding at September 30	**216**	**$27.48**	188	$ 29.54	162	$27.24
Exercisable at September 30	**88**	**$26.89**	66	$ 25.64	51	$21.22

[1]Represents conversion of all outstanding DIG options that were converted into options to purchase DIS options on March 20, 2001 (see Note 3).

The following table summarizes information about stock options outstanding at September 30, 2002 (shares in millions).

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$10–$ 14	**6**	**2.3**	**$ 13.84**	**5**	**$ 13.70**
$15–$ 19	**15**	**3.1**	**18.33**	**12**	**18.33**
$20–$ 24	**81**	**7.3**	**21.89**	**27**	**21.59**
$25–$ 29	**30**	**6.6**	**27.09**	**15**	**26.97**
$30–$ 34	**63**	**7.7**	**31.54**	**19**	**32.09**
$35–$ 39	**11**	**6.1**	**37.35**	**6**	**37.55**
$40–$ 44	**8**	**8.1**	**41.16**	**2**	**40.57**
$45–$395	**2**	**7.4**	**111.09**	**2**	**115.33**
	216			**88**	

The Company granted restricted stock units to certain executives during fiscal year 2002. Certain units vest upon the achievement of certain performance conditions. The remaining units vest 50% in fiscal year 2005 and 50% in fiscal year 2006. Units are forfeited if the grantee terminates employment prior to vesting. Compensation expense recorded in fiscal year 2002 was $3.4 million.

The following table reflects pro forma net income (loss) and earnings (loss) per share had the Company elected to adopt the fair value approach of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (in millions, except for per share data).

	2002	2001	2000
Net income (loss) attributed to Disney common stock:			
As reported	**$1,236**	$ (41)	$1,196
Pro forma after option expense	**930**	(325)	958
Diluted earnings (loss) per share attributed to Disney common stock:			
As reported	**0.60**	(0.02)	0.57
Pro forma after option expense	**0.45**	(0.15)	0.46

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

The weighted average fair values of options at their grant date during 2002, 2001 and 2000, where the exercise price equaled the market price on the grant date, were $8.02, $10.25 and $12.49, respectively. The estimated fair value of each Disney option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	2002	2001	2000
Risk-free interest rate	**4.8%**	5.0%	6.5%
Expected years until exercise	**6.0**	6.0	6.0
Expected stock volatility	**30%**	27%	26%
Dividend yield	**.96%**	.70%	.59%

NOTE 12. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	2002	2001
Current receivables		
Accounts receivable	**$ 3,960**	$ 3,120
Income taxes receivable	—	122
Other	**332**	282
Allowance for doubtful accounts	**(243)**	(181)
	$ 4,049	$ 3,343
Other current assets		
Prepaid expenses	**$ 492**	$ 444
Other	**87**	138
	$ 579	$ 582

	2002	2001
Parks, resorts and other property, at cost		
Attractions, buildings and improvements	**$ 8,984**	$ 9,024
Leasehold improvements	**687**	709
Equipment	**6,228**	6,212
Furniture and fixtures	**898**	777
Land improvements	**2,120**	2,124
	18,917	18,846
Accumulated depreciation	**(8,133)**	(7,662)
Projects in progress	**1,148**	911
Land	**848**	811
	$12,780	$12,906
Intangible assets		
Intellectual copyrights	**$ 295**	$ 298
Stadium facility leases	**76**	76
Other amortizable intangible assets	**202**	152
Accumulated amortization	**(153)**	(132)
Amortizable intangible assets	**420**	394
FCC licenses	**1,375**	1,361
Trademark	**944**	944
Other intangible assets with indefinite lives	**37**	37
	$ 2,776	$ 2,736
Other non-current assets		
Receivables	**$ 532**	$ 456
Other prepaid expenses	**270**	209
Prepaid benefit costs	**344**	391
Other	**642**	648
	$ 1,788	$ 1,704
Accounts payable and other accrued liabilities		
Accounts payable	**$ 3,820**	$ 3,623
Payroll and employee benefits	**967**	710
Income tax payable	**219**	—
Other	**167**	71
	$ 5,173	$ 4,404
Other long-term liabilities		
Deferred revenues	**$ 614**	$ 664
Capital lease obligations	**358**	343
Program licenses and rights	**324**	190
Participation liabilities	**207**	127
Accrued benefit liability	**481**	397
Other	**1,299**	1,346
	$ 3,283	$ 3,067

NOTE 13. FINANCIAL INSTRUMENTS

During 2002 and 2001, the Company hedged certain investment holdings using forward sale contracts. The contracts, with notional amounts totaling $530 million in 2002 and 2001, were terminated in October 2001.

Interest Rate Risk Management The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. In accordance with policy, the Company maintains a minimum amount of fixed rate debt expressed as a percentage of its net debt.

Significant interest rate risk management instruments held by the Company during 2002 and 2001 included pay-floating and pay-fixed swaps. Pay-floating swaps effectively convert fixed rate medium and long-term obligations to variable rate instruments indexed to LIBOR. These swap agreements expire in one to 30 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps expire in one to three years. As of September 30, 2002 and 2001 respectively, the Company held $300 million and $500 million of pay-fixed swaps that no longer qualified as hedges. The prospective change in market values related to these swaps from the time they were ineffective as hedges, has been included in earnings.

The impact of interest rate risk management activities on income in 2002, 2001 and 2000 was not material. The amount of deferred gains from interest rate risk management transactions at September 30, 2002 and 2001 was $41 million and $22 million, respectively.

Foreign Exchange Risk Management The Company transacts business globally and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with foreign exchange rate changes thereby enabling management to focus attention on core business issues and challenges.

The Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted, but not firmly committed foreign currency revenues. The Company uses option strategies and forward contracts to hedge forecasted revenues. In accordance with policy, the Company hedges a minimum percentage (not to exceed a maximum percentage) of its forecasted transactions generally for periods not to exceed five years. The Company also uses forward contracts to hedge foreign currency assets, liabilities and firm commitments. The gains and losses on these contracts offset gains or losses expected on the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the European euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings to U.S. dollars.

Gains and losses on contracts hedging forecasted foreign currency revenues are recorded to accumulated other comprehensive income (AOCI), and reclassified to current earnings when such revenues are recognized, offsetting changes in the value of the foreign currency revenues. At September 30, 2002 and 2001, the Company had deferred gains of $66 million and $91 million, respectively, and deferred losses of $85 million and $24 million, respectively, related to foreign currency hedge transactions.

Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. Amount expected to be reclassified to earnings over the next twelve months is a loss of $30 million. The Company reclassified a $27 million and $16 million after-tax gain from AOCI to earnings during fiscal 2002 and 2001, respectively, which was offset by net losses on items being hedged.

At September 30, 2002 and 2001, changes in value related to cash flow hedges included in AOCI, were a loss of $19 million and a gain of $69 million, respectively. In addition, the Company reclassified deferred losses related to certain cash flow hedges from AOCI to earnings, due to the uncertainty of the timing of the original forecasted transaction. During fiscal 2002 and 2001, the Company recorded the change in fair market value related to fair value hedges and the ineffectiveness related to cash flow hedges to earnings. These amounts were not material. The impact of foreign exchange risk management activities on operating income in 2002 and in 2001 was a net gain of $44 million and $142 million, respectively.

Fair Value of Financial Instruments At September 30, 2002 and 2001, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate, forward and foreign exchange risk management contracts.

At September 30, 2002 and 2001, the fair values of cash and cash equivalents, receivables and accounts payable approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	**$ 14**	**$ 14**	$ 405	$ 621
Borrowings	**$(14,130)**	**$(14,735)**	$(9,769)	$(9,991)
Risk management contracts:				
Foreign exchange forwards	**$ 20**	**$ 20**	$ 65	$ 65
Foreign exchange options	**5**	**5**	20	20
Interest rate swaps	**363**	**363**	240	240
Forward sale contracts	**—**	**—**	(3)	(3)
Cross-currency swaps	**(28)**	**(28)**	(20)	(20)
	$ 360	**$ 360**	$ 302	$ 302

Credit Concentrations The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments, and does not anticipate nonperformance by the counterparties. The Company would not realize a material loss as of September 30, 2002 in the event of nonperformance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have a credit rating of A- or better. The Company's current policy regarding agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution. As of September 30, 2002, counterparties pledged a total of $14.8 million.

The Company's receivables and investments do not represent a significant concentration of credit risk at September 30, 2002, due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among instruments and issuers.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company has various contractual commitments, which are primarily for the purchase of broadcast rights for various feature films, sports and other programming, aggregating approximately $16.2 billion, including approximately $1.1 billion for available programming as of September 30, 2002, and approximately $11.3 billion related to sports programming rights, primarily NFL, NBA, College Football and MLB.

In 1997, the Company guaranteed certain bond issuances by the Anaheim Public Authority for a total of $111 million. The guarantee also extends to interest that will total $319 million over the life of the bond. The bond proceeds were used by the City of Anaheim to finance the expansion of the Anaheim Convention Center, the construction of infrastructure within the Anaheim Resort area and the construction of a public parking facility. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. The Company has guaranteed the bonds and in the event of a debt service shortfall, will be responsible to fund such short fall. To the extent that subsequent tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded short falls. We will continue to monitor this situation in the future. To date, the tax revenues have exceeded the debt service payments.

The Company and the Government of the Hong Kong Special Administrative Region are developing the Hong Kong Disneyland theme park. In connection with that development, the Company has a maximum equity contribution obligation of $291 million at September 30, 2002 based on current exchange rates.

The Company has various real estate operating leases, including retail outlets and distribution centers for consumer products and office space for general and administrative purposes. Rental expense for the operating leases during 2002, 2001 and 2000, including, common-area maintenance and contingent rentals, was $413 million, $420 million and $482 million, respectively.

Contractual commitments, primarily broadcast programming rights and future minimum lease payments under the non-cancelable operating leases totaled $16.2 billion at September 30, 2002, payable as follows:

	Broadcast Programming	Operating Leases	Total
2003	$4,198	$223	$ 4,421
2004	3,107	200	3,307
2005	2,882	173	3,055
2006	2,296	156	2,452
2007	1,128	141	1,269
Thereafter	980	715	1,695
			$16,199

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment. Future payments under these leases as of September 30, 2002 are as follows:

2003	$ 39
2004	39
2005	39
2006	41
2007	50
Thereafter	779
Total minimum obligations	987
Less amount representing interest	617
Present value of net minimum obligations	370
Less current portion	12
Long-term portion	$ 358

Stephen Slesinger, Inc. v. The Walt Disney Company. In this lawsuit, filed on February 27, 1991 and pending in the Los Angeles County Superior Court, the plaintiff claims that a Company subsidiary defrauded it and breached a 1983 licensing agreement with respect to certain Winnie the Pooh properties, by failing to account for and pay royalties on revenues earned from the sale of Winnie the Pooh movies on videocassette and from the exploitation of Winnie the Pooh merchandising rights. The plaintiff seeks damages for the licensee's alleged breaches as well as confirmation of the plaintiff's interpretation of the licensing agreement with respect to future activities. The plaintiff also seeks the right to terminate the agreement on the basis of the alleged breaches. The Company disputes that the plaintiff is entitled to any damages or other relief of any kind, including termination of the licensing agreement. The claim is currently scheduled for trial in March 2003. If each of the plaintiff's claims were to be confirmed in a final judgment, damages as argued by the plaintiff could total as much as several hundred million dollars and adversely impact the value to the Company of any future exploitation of the licensed rights. However, given the number of outstanding issues and the uncertainty of their ultimate disposition, management is unable to predict the magnitude of any potential determination of the plaintiff's claims.

Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc.. On November 5, 2002, Clare Milne, the granddaughter of A.A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. filed a complaint against Stephen Slesinger, Inc. ("SSI") in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and the Company's subsidiary terminating A.A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to the Company's subsidiary. In their lawsuit, Ms. Milne and the Company's subsidiary seek a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States will terminate effective November 5, 2004; that upon termination of SSI's rights in the United States, the 1983 licensing agreement that is the subject of the Stephen Slesinger, Inc. v. The Walt Disney Company lawsuit will terminate by operation of law; and that, as of November 5, 2004, SSI will be entitled to no further royalties for uses of Winnie the Pooh.

Kohn v. The Walt Disney Company et al. On August 15, 2002, Aaron Kohn filed a class action lawsuit against the Company, Chief Executive Officer Michael Eisner and Chief Financial Officer Thomas Staggs in the United States District Court for the Central District of California on behalf of a putative class consisting of purchasers of the Company's common stock between August 15, 1997 and May 15, 2002. Subsequently, at least nine substantially identical lawsuits were also filed in the same court, each alleging that the defendants violated federal securities laws by not disclosing the pendency and potential implications of the Stephen Slesinger, Inc. lawsuit described above prior to the Company's filing of its quarterly report on Form 10-Q in May 2002. The plaintiffs claim that this alleged nondisclosure constituted a fraud on the market that artificially inflated the Company's stock price, and contend that a decline in the stock price resulted from the May 2002 disclosure. The plaintiffs seek compensatory damages and/or rescission for themselves and all members of their defined class. Several of the plaintiffs have filed motions asking the court to appoint lead plaintiffs and counsel, and to consolidate the related actions into a single case.

Management believes that it is not currently possible to estimate the impact, if any, that the ultimate resolution of these legal matters will have on the Company's results of operations, financial position or cash flows.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect a material impact to its results of operations, financial position or cash flows by reason of these actions.

NOTE 15. RESTRUCTURING AND IMPAIRMENT CHARGES

The Company recorded restructuring and impairment charges for the years ended September 30, 2001 and 2000 summarized as follows:

	2001	2000
GO.com intangible assets impairment	$ 820	$—
GO.com severance, fixed asset write-offs and other	58	—
Investment impairments	254	61
Workforce reduction and other	111	—
Chicago DisneyQuest closure	94	—
Asset impairment	63	31
Disney Store closures	54	—
Total restructuring and impairment charges	$1,454	$92

In 2001, the Company recorded restructuring and impairment charges totaling $1.45 billion. The GO.com charge was for the closure of the GO.com portal business and includes a non-cash write-off of intangible assets totaling $820 million (see Note 3). The investment impairment charge was for other-than-temporary declines in the fair value of certain Internet investments. The workforce reduction charges are primarily for severance costs and are discussed more fully below. The DisneyQuest and Disney Store closure charges were for the closure of the Chicago facility and approximately 100 Disney Stores and includes the write-down of fixed assets and leasehold improvements, leasehold termination costs, severance and other related closure costs. The asset impairment charge was for certain long-lived assets, primarily at the Disney Store and Disney Catalog. These assets were evaluated for impairment under a held for use model due to declining cash flows. Fair value was generally determined based on discounted cash flows.

During the third quarter of fiscal 2001, the Company initiated a plan to eliminate 4,000 full-time jobs through a combination of voluntary and involuntary reductions. The reduction affected employees in all business units and geographic regions. The $111 million of costs associated with the workforce reduction consist primarily of severance costs and write-offs of idled facilities. As of September 30, 2002, the Company had substantially completed its workforce reduction.

In 2000, impairment charges amounted to $92 million, primarily related to write-downs of certain Internet investments and an asset impairment write-down at toysmart.com in connection with its closure.

NOTE 16. SUBSEQUENT EVENTS

On November 27, 2002, the Company released its new animated film, *Treasure Planet*. The film's opening week box office performance was significantly less than expectations, requiring a downward revision of its projected revenues and a corresponding $74 million writedown of capitalized film production costs. In accordance with film accounting rules, this reduction of capitalized film production costs was recorded as of September 30, 2002. As a result, the Company's fiscal 2002 earnings differ from the amounts initially reported in its November 7, 2002 earnings release to reflect this change in estimate.

QUARTERLY FINANCIAL SUMMARY

(unaudited, in millions, except per share data)	December 31	March 31	June 30	September 30
2002				
Revenues	**$7,016**	**$5,856**	**$5,795**	**$6,662**
Segment operating income	**753**	**702**	**828**	**539**
Net income	**438**	**259**	**364**	**175**
Earnings per share:				
Diluted	**$ 0.21**	**$ 0.13**	**$ 0.18**	**$ 0.09**
Basic	**0.21**	**0.13**	**0.18**	**0.09**
2001[(1)(2)]				
Revenues	$7,403	$6,023	$5,960	$5,786
Segment operating income	1,231	1,025	1,122	627
Net income (loss) before the cumulative effect of accounting changes:	242	(567)	392	53
Earnings (loss) per share attributed to:				
Disney:				
Diluted	$ 0.16	$ (0.26)	$ 0.19	$ 0.03
Basic	0.16	(0.26)	0.19	0.03
Internet Group (basic and diluted)	(2.29)	(0.45)	n/a	n/a

[(1)] Net income does not reflect one-time after-tax charges for the adoption of SOP00-2 (Film Accounting) totaling $228 million ($0.11 per share) and SFAS 133 (Derivative Accounting) totaling $50 million ($0.02 per share), respectively, in the first quarter of 2001. See Note 2 to the Consolidated Financial Statements.

[(2)] Reflects restructuring and impairment charges of $194 million, $996 million, $138 million and $126 million in the first, second, third and fourth quarter of 2001, respectively. The earnings per Disney share impact of the charges were $0.00, $0.44, $0.04 and $0.04, respectively. See Note 15 to the Consolidated Financial Statements.

(In millions, except per share data)	**2002**	2001	2000	1999	1998
Statements of income					
Revenues	**$25,329**	$25,172	$25,325	$23,373	$22,919
Income before the cumulative effect of accounting changes	**1,236**	120	920	1,300	1,850
Per share—					
Earnings (loss) per Disney share					
Diluted	**$ 0.60**	$ (0.02)	$ 0.57	$0.62	$ 0.89
Basic	**0.61**	(0.02)	0.58	0.63	0.91
Dividends	**0.21**	0.21	0.21	0.21	0.20
Balance sheets					
Total assets	**$50,045**	$43,810	$45,027	$43,679	$41,378
Borrowings	**14,130**	9,769	9,461	11,693	11,685
Stockholders' equity	**23,445**	22,672	24,100	20,975	19,388
Statements of cash flows					
Cash provided by operations	**$ 2,286**	$ 3,048	$ 3,755	$ 2,568	$ 1,780
Investing activities	**(3,176)**	(2,015)	(1,091)	(2,290)	(2,330)
Financing activities	**1,511**	(1,257)	(2,236)	9	360

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the company's consolidated financial statements and related information appearing in this report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the company's financial statements amounts that are based on estimates and judgements which it believes are reasonable under the circumstances.

The independent accountants audit the company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the company has an Audit Committee composed of non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
The Walt Disney Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders'equity, and cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the Company) at September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Accordingly, the Company ceased amortizing goodwill and indefinite lived intangible assets as of October 1, 2001.

PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California
November 15, 2002, except as to Note 16 which is dated
December 3, 2002

SUPPLEMENTAL INFORMATION

Stock Exchanges

Disney common stock is listed for trading on the New York and Pacific stock exchanges under the ticker symbol DIS. Certain debt securities of the company are listed on the Luxembourg stock exchange.

Registrar and Stock Transfer Agent

The Walt Disney Company
Shareholder Services
611 N. Brand Boulevard, Suite 6100
Glendale, California 91203
(818) 553-7200

Independent Accountants

PricewaterhouseCoopers LLP, Los Angeles

Other Information

A copy of the company's annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to the address listed on the left.

Please visit The Walt Disney Company Investor Relations site at **www.disney.com/investors**. On this site you can order financial documents online, send e-mail inquiries, get instructions on how to transfer shares and review additional information about the company.

Board of Directors

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Head of School
Center for Early Education

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Chairman, President and Chief Executive Officer
Edison International

Roy E. Disney[3]
Vice Chairman
The Walt Disney Company

Michael D. Eisner[3]
Chairman of the Board and Chief Executive Officer
The Walt Disney Company

Judith L. Estrin[2,4]
President and Chief Executive Officer
Packet Design, LLC

Stanley P. Gold
President and Chief Executive Officer
Shamrock Holdings, Inc.

Robert A. Iger
President and Chief Operating Officer
The Walt Disney Company

Monica C. Lozano[1,4]
President and Chief Operating Officer
La Opinion

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Former Vice Chairman and Chief Financial Officer
The Seagram Company Ltd.

George J. Mitchell[5]
Partner
Piper Rudnick LLP

Thomas S. Murphy[3]
Former Chairman
Capital Cities/ABC, Inc.

Leo J. O'Donovan, S.J.[1,2]
President Emeritus
Georgetown University

Sidney Poitier[2]
Chief Executive Officer
Verdon-Cedric Productions, Ltd.

Robert A.M. Stern
Senior Partner
Robert A.M. Stern Architects

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Chairman, Sotheby's West Coast

Raymond L. Watson[1,3]
Vice Chairman
The Irvine Company

Gary L. Wilson[4]
Chairman
Northwest Airlines Corporation

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Executive Committee
[4] Member of Governance and Nominating Committee
[5] Presiding Director

Corporate Executive Officers

Michael D. Eisner
Chairman of the Board and Chief Executive Officer

Roy E. Disney
Vice Chairman of the Board

Robert A. Iger
President and Chief Operating Officer

Peter E. Murphy
Senior Executive Vice President and Chief Strategic Officer

Thomas O. Staggs
Senior Executive Vice President and Chief Financial Officer

Louis M. Meisinger
Executive Vice President and General Counsel

Principal Businesses

ABC Broadcast Group

Alex Wallau
President, ABC Television Network

Anne M. Sweeney
President, ABC Cable Networks Group
and President, Disney Channel Worldwide

Barry M. Blumberg
President, Walt Disney Television Animation

George Bodenheimer
President, ESPN, Inc.

Walter C. Liss, Jr.
President, ABC Owned Television Stations

John Hare
President, ABC Radio Division

The Walt Disney Studios

Richard W. Cook
Chairman, Walt Disney Motion Pictures Group

Nina R. Jacobson
President, Buena Vista Motion Pictures Group

Thomas C. Schumacher
President, Buena Vista Theatrical Productions

David J. Stainton
President, Walt Disney Feature Animation

Disney Consumer Products

Andrew P. Mooney
President Worldwide

Peter D. Whitford
President Worldwide, The Disney Store, Inc.

Walt Disney Parks and Resorts

James A. Rasulo
President

Martin A. Sklar
Vice Chairman and Principal Creative
Executive, Walt Disney Imagineering

Allen R. Weiss
President, Walt Disney World Co.

Cynthia T. Harriss
President, Disneyland Resort

Walt Disney Internet Group

Stephen H. Wadsworth
President

Walt Disney International

Michael O. Johnson
President