

Disney

# HIGH SCHOOL MUSICAL



The Walt Disney Company  
2007 Annual Report

# TABLE OF CONTENTS

LETTER TO SHAREHOLDERS	02
FINANCIAL REVIEW	10
STUDIO ENTERTAINMENT	14
PARKS AND RESORTS	20
CONSUMER PRODUCTS	28
MEDIA NETWORKS	34
WALT DISNEY INTERNET GROUP	50
WALT DISNEY INTERNATIONAL	52
CORPORATE RESPONSIBILITY	54
FINANCIAL SECTION	57
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	99

(\$ in millions, except per share amounts)

	2003	2004	2005	2006	2007
<b>Revenues<sup>(1)</sup></b>					
Media Networks	\$10,360	\$11,202	\$12,637	\$14,100	\$15,046
Parks and Resorts	6,412	7,750	9,023	9,925	10,626
Studio Entertainment	7,364	8,713	7,587	7,529	7,491
Consumer Products	2,344	2,511	2,127	2,193	2,347
	<b>\$26,480</b>	<b>\$30,176</b>	<b>\$31,374</b>	<b>\$33,747</b>	<b>\$35,510</b>
<b>Segment Operating Income<sup>(1)(2)</sup></b>					
Media Networks	\$ 1,356	\$ 2,380	\$ 3,040	\$ 3,480	\$ 4,285
Parks and Resorts	946	1,077	1,178	1,534	1,710
Studio Entertainment	620	662	207	729	1,201
Consumer Products	389	547	543	618	631
	<b>\$ 3,311</b>	<b>\$ 4,666</b>	<b>\$ 4,968</b>	<b>\$ 6,361</b>	<b>\$ 7,827</b>
Diluted earnings per share from continuing operations before the cumulative effect of accounting changes	\$ 0.59	\$ 1.07	\$ 1.19	\$ 1.60	\$ 2.24
Earnings per share, discontinued operations	0.06	0.05	0.05	0.03	0.01
Cumulative effect of accounting changes per share	(0.03)	—	(0.02)	—	—
Diluted earnings per share <sup>(3)(4)</sup>	<b>\$ 0.62</b>	<b>\$ 1.12</b>	<b>\$ 1.22</b>	<b>\$ 1.64</b>	<b>\$ 2.25</b>
Cash provided by continuing operations	\$ 2,776	\$ 4,232	\$ 4,139	\$ 5,960	\$ 5,398
Free cash flow <sup>(2)</sup>	\$ 1,727	\$ 2,811	\$ 2,326	\$ 4,668	\$ 3,832

<sup>(1)</sup> During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and now reports ABC Radio as discontinued operations for all periods presented. Previously, the ABC Radio business was included in the Media Networks segment. Prior period information has been reclassified to conform to the current presentation.

<sup>(2)</sup> Aggregate segment operating income and free cash flow are not financial measures defined by Generally Accepted Accounting Principles (GAAP). Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available at the end of the Financial Review.

<sup>(3)</sup> Diluted earnings per share may not equal the sum of the column due to rounding.

<sup>(4)</sup> The fiscal 2007 results include gains from the sales of *E! Entertainment* and *Us Weekly* (\$0.31 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.03 per diluted share), and income from the discontinued operations of the ABC Radio business (\$0.01 per diluted share), partially offset by an equity-based compensation plan modification charge (\$0.01 per diluted share). Collectively, these items resulted in a net benefit of \$0.33 per diluted share. The fiscal 2006 results include income from the discontinued operations of the ABC Radio business (\$0.03 per diluted share), gains on sales of a Spanish cable equity investment and *Discover Magazine* (\$0.02 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.02 per diluted share) and a net benefit associated with the completion of the Pixar acquisition (\$0.01 per diluted share). Collectively, these items resulted in a net benefit of \$0.09 per diluted share. Excluding these items, EPS increased 24% to \$1.92 in 2007 from \$1.55 in 2006.

# LETTER TO SHAREHOLDERS

*To the Shareholders and Cast Members of The Walt Disney Company:*

*I'm delighted to share with you that fiscal 2007 was another outstanding year for your Company, enlivened by significant creative and financial achievements to make all of us proud. Disney's strong performance — across business divisions and around the world — is a tribute to the men and women of The Walt Disney Company and the great experiences they deliver to consumers. Their passion to excel is admirable, and their commitment to quality is as consistent as it is remarkable.*



*Robert A. Iger  
President and Chief Executive Officer,  
The Walt Disney Company*

In 2007, we advanced our strategic priorities, strengthening our financial results, growing the value of our brands, enhancing our ability to meet critical challenges and building a solid foundation for future growth.

Creativity and innovation are at the root of everything we do, and in 2007 the creativity on display across the Company was simply amazing.

Disney Channel was a big source of that great creative energy. *High School Musical 2*, which premiered in August, was the highest-rated cable movie of all time and extended what has in two years become a true global franchise. *Hannah Montana* has emerged as one of cable television's most successful programs, with its star, Miley Cyrus, breaking out as a top Disney recording artist and concert performer.

At our Studios, *Pirates of the Caribbean: At World's End* was the No. 1 movie of 2007 in global box office while *Ratatouille* was the best reviewed film of the year. *Ratatouille* earned more than \$600 million in worldwide box office, making it the third-highest-grossing Pixar movie of all time. And, as I write this letter, *Enchanted* is enchanting critics and movie goers alike, and we are delighted with its initial success!



*Clockwise: Dancing with the Stars on ABC, Disney•Pixar's Ratatouille and Disney Channel's original series Hannah Montana.*



There's nowhere the excitement and magic of Disney comes to life quite like at our Parks and Resorts and 2007 was no exception. *The Year of a Million Dreams* has been resonating strongly with our Cast Members and Guests, so much so we are extending it into this coming year. At Disneyland, *Finding Nemo Submarine Voyage* has been delighting Guests and stands as another great example of

Pixar's creative strength at our parks. Our next Pixar attraction, *Toy Story Mania!*, opens this year in California and Florida.

Our Consumer Products division continued to come up with new ways to showcase our characters and stories through quality products that appeal to a wide range of consumers. Last year, licensed merchandise sales posted solid growth, led by our *Cars* and *High School Musical* franchises.

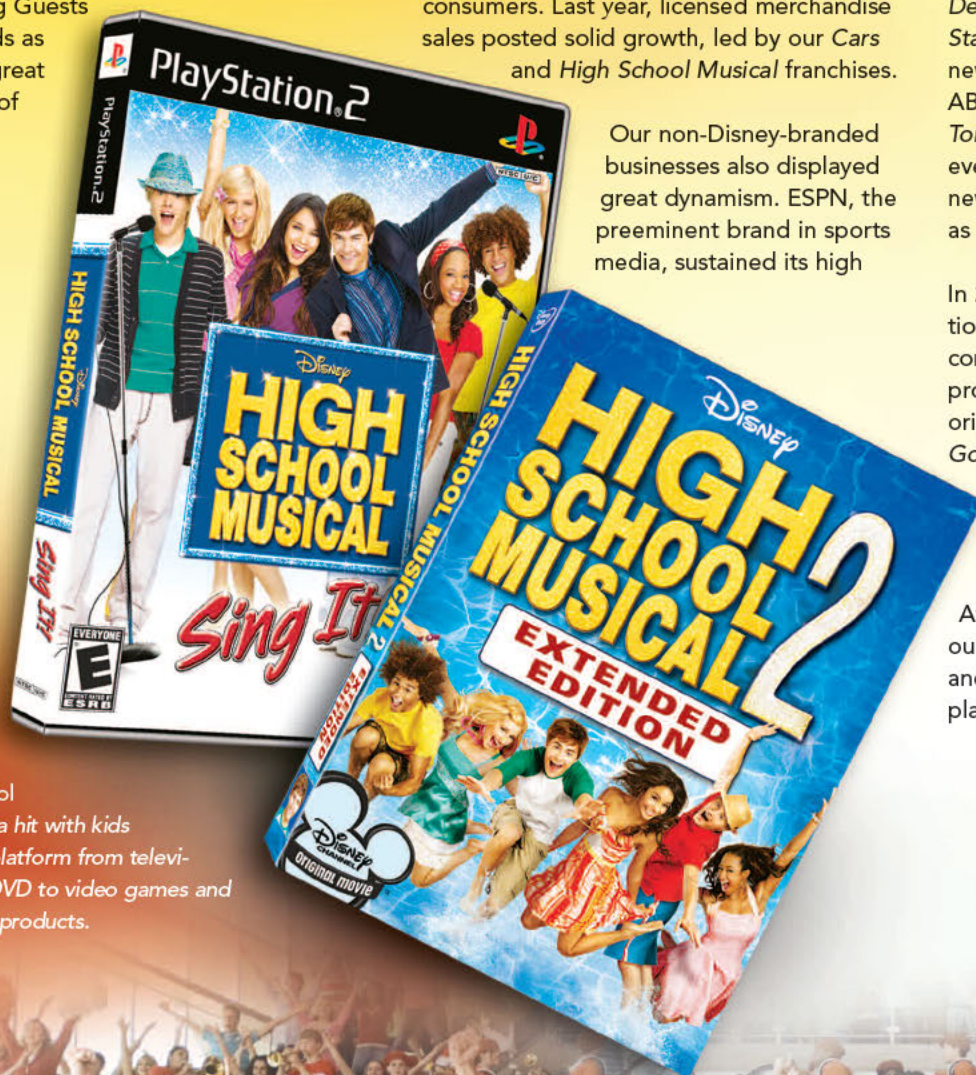
Our non-Disney-branded businesses also displayed great dynamism. ESPN, the preeminent brand in sports media, sustained its high

level of creative excellence, bolstering its connections with fans, whether they are watching television, listening to the radio or interacting online.

At ABC, our primetime schedule has a host of successful programs, from the returning series *Grey's Anatomy*, *Lost*, *Desperate Housewives*, *Dancing with the Stars*, *Brothers & Sisters* and *Ugly Betty*, to new shows such as *Samantha Who?* At ABC News, we are proud that *World News Tonight* is now the nation's most-watched evening news program while our local newscasts are leaders in such key markets as Chicago, Los Angeles and New York.

In 2007, we also strengthened our international operations, forging new bonds with consumers in some of the world's most promising markets. We released our first original Disney film in China, *The Magic Gourd*, built up our management teams in Russia and India and continued to grow in other markets, including Europe and Latin America.

At Disney, we use technology to enhance our high-quality content and experiences and deliver them to more people, more places, more often.



High School Musical is a hit with kids on every platform from television and DVD to video games and consumer products.



Disney.com was already the Internet's most popular entertainment site among kids and families when we re-launched it last year. The addition of a rich array of videos, as well as casual games and easy access to all Disney businesses, has made it even more so. We are hard at work on an even newer version, to be launched in 2008.

ABC.com provided viewers with a growing selection of programs and a higher-quality experience while ESPN.com is a sports fan's paradise, with great personalization features and incredible dimensionality, allowing the viewer to watch games, check stats, get the latest news and participate in fantasy leagues all at the same time.

Our strategic focus on creativity and innovation translates directly into an impressive financial performance. For the 2007 fiscal year, Disney's revenue hit an all time high of \$35.5 billion, a 5 percent increase over the previous year. Net income rose 39 percent to \$4.69 billion, driven by growth at our Media Networks, Studio Entertainment and Parks and Resorts segments. Earnings per share, excluding certain items, grew by 24 percent to \$1.92. We also delivered \$3.8 billion in free cash flow and repurchased over 200 million shares of Disney stock for approximately \$6.9 billion.

While we are extremely gratified by our financial performance this past year, we are also focused on delivering long-term shareholder value and on making the right investments to sustain growth, as well as superior returns and our competitive advantage.

*Dreams come true every day at Disney theme parks around the world.*



Maintaining a strong balance sheet will continue to allow us to take advantage of opportunities, but any acquisitions and their timing will be based on sound financial and strategic logic as well as the long-term value of the acquisition to Disney.

We don't take our position for granted. We live in a challenging and dynamic environment and feel it is imperative to apply operational and financial discipline and to manage costs carefully. While we look forward to continued artistic success, we also continuously seek ways to manage our creative processes and our Company more efficiently.

*The Little Mermaid stage play debuted on Broadway in January 2008.*



Pirates of the Caribbean: At World's End was the year's top-grossing film worldwide.

The strengthening of our creative engines remains a priority. They give Disney its competitive advantage and build brand and shareholder value. I'm proud to say that no entertainment company has as many vibrant creative engines as Disney, or the ability to leverage success across so many businesses and in so many places.

We call this value creation dynamic the *Disney Difference*. To make the most of our creative content, our portfolio of Disney businesses combine to create a highly effective marketing engine that helps increase revenue while affording numerous efficiencies.

When the Disney name is on a product, it enhances our ability to enter new markets, whether they are technology platforms or geographic territories, while increasing the value-generating lifespan of that product.

The *Disney Difference* drove our decision to focus more on making Disney-branded movies at our Studios and on developing Disney-branded video games at Consumer Products, and it will continue to drive our creative and strategic focus across numerous other businesses.

We made a number of significant decisions this past year that are designed to reinforce the *Disney Difference* while increasing long term shareholder value.

We purchased Club Penguin, a vibrant and entertaining online world for kids and families that will help anchor our strategy to grow in this important and expanding space. We are proud to call Club Penguin our own, and believe that it is a great fit from a creative and a strategic perspective.

At Disney.com, we recently launched a richly detailed online *Pirates* world and are expanding the popular virtual universe built around Tinker Bell and her friends, where fans have already created 3.5 million fairies. We are also developing an exciting online version of Radiator Springs, making the world of *Cars* interactive, one of our most successful content and merchandising franchises. The creation of more such compelling immersive worlds, which feature a safe, entertaining way for kids to network and play games, is a key priority of ours.

We've also recently announced plans to expand and improve Disney's California Adventure in celebration of the hope and

optimism that attracted Walt Disney to California in the 1920s. The addition of new family attractions, entertainment and an entirely new land, *Cars Land*, should make our successful Disneyland Resort even more of a must-see destination.

Our decision last year to build two new cruise ships was an exciting one. This business has not only delivered impressive



Nicolas Cage starred in the 2007 holiday box office hit National Treasure: Book of Secrets.



Pixar's WALL•E opens in theaters this summer.

returns, but it has become an important brand builder for us. Guests love the experience and appreciate the way we've extended this family vacation offering. We have also unveiled plans to develop a new resort at a stunning location on the Hawaiian island of Oahu, expanding our successful Disney Vacation Club concept, as well as offering a great Disney family resort experience in Hawaii.

Efforts to build our video game business are encouraging, and we will continue to invest in this growth area. We believe it will become a significant growth driver for us and can be supported by our numerous businesses in order to maximize potential and create long-lasting value.

Our commitment to high-quality creative work, a persistent focus on new technologies and intelligent investment in international markets are the strategies we believe can continue to carry us forward. But in upholding the outstanding reputation afforded to the Disney name, we must also continuously enhance our commitment to social responsibility and particularly to the families and children who are our biggest fans.

In October 2006, we decided to put our brands and characters to work for families with a new healthy food program, including healthier food options for kids at our parks and resorts and in our licensed consumer products. This pioneering initiative has since been rolled out globally to enthusiasm on the part of our Guests and consumers. This past year we also made the decision to no longer allow the depiction of cigarette smoking in Disney-branded motion pictures.

Over the last year, we have also broadened some longstanding environmental and conservation initiatives. We appointed an Environment Council, made up of senior executives from across the Company, to





*Clockwise: Club Penguin; Kids around the world celebrate their love of Mickey Mouse in style; Guests take a spin with the Mad Hatter at Walt Disney World.*

analyze and implement sustainable strategies for minimizing Disney's impact on the environment. We are taking a measured and comprehensive approach to this complex, important task and expect to start putting enhanced policies in place in the coming year.

The past year also brought changes to our Board of Directors. We said goodbye to one of our longstanding Board mem-

bers and welcomed a new one. Father Leo O'Donovan, President Emeritus of Georgetown University and a professor of theology at that fine institution, retired after 11 years of dedicated and distinguished service. Father Leo's wise counsel, scholarly insight and sense of fun will be missed.

We are delighted that Susan Arnold has joined Disney's Board. Susan has had an illustrious career at Procter & Gamble,




where she is President, Global Business Units. Her expertise in connecting with consumers and in producing consistent growth from a broad portfolio of brands fits perfectly with our own goals. We are really excited to have her on our team. Our Board represents a diverse group of people with a broad set of interests and experiences, which I value greatly.

In my two years as Chief Executive, I've come to appreciate the breadth and depth of The Walt Disney Company even more. We have passionate, committed, talented and experienced Cast Members. Nurturing the vibrancy of the creative process, taking full advantage of the opportunities offered in emerging markets and by new technology and building on the huge potential of this great Company and its fantastic legacy is a truly inspirational challenge. I'm both a little humbled and totally thrilled to be leading Disney at such a wonderful time in its history.

Everyday, the people of The Walt Disney Company wake up to the challenge of exceeding the lofty expectations of our Guests and consumers. That's a huge responsibility, but one that we are honored and excited to live up to. So, on behalf of the 137,000 Cast Members and employees of Disney who work to create special memories and experiences that our consumers enjoy around the clock and around the world, I'd like to thank you personally for your continued support.



Robert A. Iger  
President and Chief Executive Officer,  
The Walt Disney Company  
December 13, 2007



*Walt Disney Animation Studios' The Princess and the Frog is scheduled for release in 2009.*

# FINANCIAL REVIEW

We believe that Disney's success in creating shareholder value depends on our continuing to create exceptional entertainment content, experiences, and other products that consumers around the world embrace and on how well we extend and capitalize on our Company's unique set of assets and competitive strengths. These competitive advantages include our strong portfolio of brands, led by Disney and ESPN, and properties like Disney Princesses, *Cars*, *Toy Story*, *Pirates of the Caribbean*, *High School Musical*, *Hannah Montana*, and of course Mickey Mouse and Winnie the Pooh. These franchises provide a recurring base of business, as well as content which can be extended into new platforms and technologies and into new markets around the world.

To better capitalize on our brand and content strength, we manage our businesses in an integrated manner. This allows us to both successfully launch new branded content and use our many assets as promotional platforms. We believe that this integrated approach drives higher returns on successful content than our competitors can achieve. We also possess a strong balance sheet that provides us with the flexibility to seize opportunities that can enhance our competitiveness and create superior returns. Allocating capital profitably and managing our day-to-day operations to maximize both our creative and financial success are the most important ways that we serve the owners of our Company.

We use three primary financial metrics to measure how well we are delivering value for our shareholders: earnings per share, return on invested capital (ROIC) and after-tax cash flow. For the fifth consecutive year, Disney delivered solid performance in each of these key measures. An investment in Disney over the past five-year period has yielded a compound annual return of over 19%, roughly 360 basis points better than the S&P 500.<sup>1</sup> During the same period, our operating margin increased by approximately 10 percentage points.<sup>2</sup>

While we strive to achieve near-term earnings growth, we also seek to enhance the Company's long-term competitive positioning. Since strategic investment can sometimes influence near-term returns, we assess trends in financial metrics over time rather than looking only at short-term results.

Our first priority in allocating capital is to fund strategically attractive investments that can drive future growth and provide strong returns over time. These opportunities can include internal investment in existing and new businesses or acquisitions. Our brands and franchise portfolio provide us with wide reach across different consumer demographics and entertainment platforms. We plan to continue investing to strengthen our creative portfolio by developing high-quality content. We also plan to further build our creative pipeline and strengthen our brands on a global basis to ensure we keep diversifying and growing our established businesses.

<sup>1</sup> As of September 28, 2007

<sup>2</sup> Operating margins increased from 12.5% in 2003 to 22.0% in 2007. Operating margin is not a financial measure defined by GAAP and is equal to Aggregate Segment Operating Income as a percentage of Total Revenue. As a reconciliation of this non-GAAP financial measure to an equivalent GAAP financial measure, Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting changes as a percentage of Total Revenue increased by 14 percentage points from 7.8% in 2003 to 21.8% in 2007. The reconciliation of Aggregate Segment Operating Income to Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting changes is available at the end of this Financial Review.

These initiatives include investment in Disney and ESPN television, internet, video games, and mobile content and the reach of our distribution around the world. For example, we plan to invest at least \$100 million over the next two to three years to produce local, Disney-branded films in key international markets, including China, India, and Russia. We are creating ABC programming for both domestic and international distribution, and we expect to continue investing in our video game publishing activities, with particular emphasis on Disney-branded games.

In addition to continued internal business development, we expect that, over the next 3 to 5 years, we will find additional attractive acquisition opportunities that will meet our financial and strategic criteria.

We recently have made several small acquisitions to enhance our position in key long-term growth areas, including online entertainment and international markets. Our largest acquisition this past year was Club Penguin, a leading online virtual world for kids age 6 to 14. The acquisition of Club Penguin provided us with a great opportunity to significantly strengthen our online capabilities and presence, and the transaction should be accretive to Disney's earnings in the first year. In addition, we expanded our international TV business by acquiring NASN in Europe and Hungama in India. Smaller acquisitions of online Web sites for ESPN, namely Scrum.com (rugby), Cricinfo (cricket) and Jayski (NASCAR), enhance our coverage and audience reach in key sports.

We also continuously assess whether our portfolio of assets allows us to maximize shareholder value and aligns with our strategic priorities. During the year, we completed the disposition of the ABC Radio assets, as well as the sale of our stakes in *E!* Entertainment and *Us Weekly*, which demonstrates our focus on aligning our assets with our growth strategy.

Our success in 2007 was broad-based. I'd like to highlight key activities in each of our four major business segments that contributed to our record earnings in 2007 and position us well for continued long-term growth.

## BUSINESS SEGMENT PERFORMANCE

### Media Networks

Media Networks contributed most to our profit growth for the year, led once again by Cable Networks. The Disney and ESPN brands provide consumers with high-quality programming that translates well across platforms and cuts through the clutter created by ever-expanding entertainment choices. Over the past few years, we have invested in developing our digital capabilities, which will allow us to create programming that can extend across platforms. ESPN has succeeded in delivering a media "surround" experience for consumers and advertisers across TV, internet, wireless, print and radio outlets. ESPN's coverage of *Monday Night Football*, Major League Baseball, NBA and NASCAR reflect the results of this investment.

Disney Channel also continues to be a great success story, both in terms of the network's ratings performance and in its ability to create new franchises that lift revenue and returns across our business segments. Successful programming like *High School Musical 2* and *Hannah Montana* drove sales in music, video games and merchandising in

fiscal 2007. Disney Channel is one of the most important drivers of the Disney brand in the US and is instrumental in building brand awareness for Disney around the world.

At Broadcasting, ABC Studios' hit shows drove demand across platforms and syndication windows, helping Broadcasting deliver strong double-digit growth in operating income. ABC's efforts in building a unique consumer experience on ABC.com and other digital platforms have created a higher consumer affinity for the network because it has enabled consumers to discover and view new shows and to catch up with their favorite shows on their own time. Making our content available on different platforms is valuable to viewers, viable for advertisers, and strengthens our network audience.

### Studio Entertainment

Our Studio Entertainment segment had an outstanding year, delivering record profit on the strength of *Pirates of the Caribbean: Dead Man's Chest* and *Cars* on DVD while the third installment of *Pirates of the Caribbean* and *Ratatouille* delivered strong box office performance in theatres. The success of the studio is also the result of our disciplined approach to film production whereby we have reduced our overall investment in film, while focusing more on Disney-branded movies.

The Studio's ability to create high quality Disney-branded content – particularly content with significant franchise potential – is the reason that the Studio remains one of the Company's most important creative engines. As an example, *Cars*, which was released theatrically in 2006, was an important driver of the Company's 2007 home video and consumer products successes. We believe that the property can be further leveraged across our other businesses. Therefore, we will be adding an entire new *Cars*-themed land to Disney's California Adventure at the Disneyland Resort in a few years and we are extending the *Cars* franchise as an online virtual world.

Our ability to create long-term returns from properties like *Cars*, *Toy Story*, or *Finding Nemo* illustrates the important value of our Pixar acquisition. We are extremely pleased with the integration of Pixar and Disney. The creative lift brought by Pixar is evident not just at the Disney Animation Studios, but also at Consumer Products and at Parks & Resorts, where their wonderful characters and stories can now be experienced in new and innovative ways. Pixar illustrates the level of commitment to quality and creativity we strive for at The Walt Disney Company.

### Parks and Resorts

Disney Parks and Resorts delivered attractive operating profit growth and substantial cash flow again this past year. The success of the Year of a Million Dreams marketing initiative across the parks helped us achieve increased revenue and profit, along with record attendance at our domestic parks for the year. Notably, we also further increased operating margins for our domestic parks. As importantly, our Parks and Resorts play a vital role in raising strategic awareness for our brands by providing an immersive experience that fully engages our audiences around the world.

In the next few years, we expect to invest in the parks to further enrich the immersive experience that our guests around the world have come to associate with our parks. At Disneyland Resort, we are expanding Disney's California Adventure in order to enhance the Disneyland Resort's appeal as a multi-day vacation destination. In addition, we are expanding further in other segments of the leisure market, particularly Disney Cruise Line and Disney Vacation Club. Disney Cruise Line has generated double-digit returns on invested capital. Given these returns, we are building two new ships, which are slated for delivery in 2011

and 2012. Disney's Vacation Club has experienced strong demand since we launched the first resort in 1991. We believe there is still room to grow and we have announced the development of Vacation Club units at Disneyland's Grand Californian Resort and in Hawaii.

Through the investment we've made in the past several years, and through continued targeted capital investments, our parks and resorts business is well positioned to leverage our brands to create strong returns. At the same time, we expect the segment will continue to generate meaningful free cash flow, even taking into account the ongoing investments we are making to further enrich the Disney theme park experience.



### Consumer Products

The strength of the Disney brand and its growing portfolio of franchises underpin the success of our Consumer Products segment. Our managers work hard to collaborate across business segments to ensure that we maximize the value of our many creative properties. Consumer Products benefits greatly from this franchise building process, particularly in licensing, where revenues from earned royalties achieved double-digit growth rates in fiscal 2007. We believe we have upside potential in the licensing business and aim to further increase our market share in key categories through our direct-to-retail licensing strategies over the next few years.

We also believe that video gaming is a key growth opportunity over the next five to seven years as it allows us to extend our existing characters and brands, and deliver stronger returns from our key franchises. We have steadily ramped up our product development capabilities and expect to continue increasing our investment in video games over time.

### Free Cash Flow

As we have continued to strengthen our earnings, our capital needs have remained relatively stable, which has helped us deliver strong free cash flow for the past several years. In fiscal 2007, we generated roughly \$3.8 billion in free cash flow.

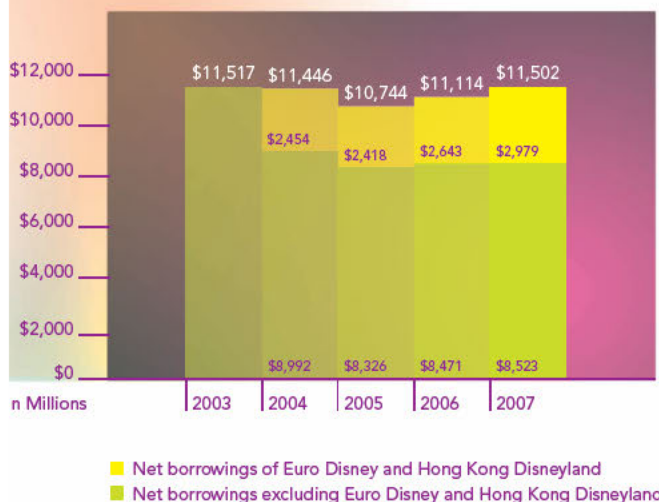
<sup>3</sup>Capital expenditures excluding Euro Disney and Hong Kong Disneyland is not a financial measure defined by GAAP. Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available at the end of this Financial Review.

**THE WALT DISNEY COMPANY**  
**FREE CASH FLOW<sup>4</sup>**



Disney's strong cash flow performance contributes to our Company's tremendous financial flexibility. Over the last several years, we have strengthened our debt ratios, even as we have returned substantial capital to our shareholders through share repurchase and dividends. As a result, our long term credit ratings were recently upgraded to A2/A from A3/A- by Moody's and Standard & Poor's, respectively. We enjoy an attractive average effective yield on our debt portfolio of just under 5%, with a weighted average maturity of about 8 years.<sup>5</sup>

**THE WALT DISNEY COMPANY**  
**NET BORROWINGS AT FISCAL YEAR END<sup>6</sup>**



**Shareholder Returns**

We continued to aggressively repurchase Disney stock this past year as a means of returning capital to our shareholders. During fiscal 2007, we repurchased over 200 million shares of Disney stock for approximately \$6.9 billion. From August 2004 through the end of fiscal 2007, we have purchased over 550 million shares of Disney stock for over \$16 billion. Our stock purchase activities reflect our discipline in returning value to shareholders while at the same time strengthening our financial position.

<sup>4</sup>Free cash flow is not a financial measure defined by GAAP. Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available at the end of this Financial Review.

<sup>5</sup>These figures exclude the debt of Euro Disney and Hong Kong Disneyland, which had an average effective yield of 5.63% with a weighted average maturity of 11.6 years.

We are also proud of our Company's consistent track record of returning value to shareholders through annual dividends. In November 2007, Disney's Board of Directors declared a cash dividend of \$0.35 per share or approximately \$660 million in total. This marks the 52nd consecutive year that Disney has paid a dividend and the fourth consecutive year of double-digit growth in dividends per share.

**Outlook**

We are committed to upholding the trust our shareholders place in us and we take great pride in the strong creative and financial results we have achieved for the past several years. We also believe our strong portfolio of brands and businesses represent an attractive base from which we can grow in the future.

We will continue to apply financial discipline in our creative and day-to-day business decisions in order to strengthen our competitiveness and enhance Disney's long term value. At Disney we understand that these goals – uncompromised quality, constant innovation and financial discipline – must coexist in order to deliver on the high expectations of our stakeholders.

Thomas O. Staggs  
Senior Executive Vice President  
and Chief Financial Officer,  
The Walt Disney Company

**RECONCILIATIONS (all figures in millions)**

As noted in the footnotes, certain measures used in this financial review are not financial measures defined by GAAP. The following tables reconcile these measures to the most comparable financial measures defined by GAAP.

**Segment Operating Income**

	2003	2004	2005	2006	2007
Segment operating income	\$3,311	\$4,666	\$4,968	\$6,361	\$7,827
Corporate and unallocated shared expenses	(447)	(428)	(543)	(522)	(497)
Amortization of intangible assets	(18)	(12)	(11)	(11)	(16)
Equity-based compensation plan modification charge	—	—	—	—	(48)
Gains on sales of equity investments and businesses	16	—	26	70	1,052
Restructuring and impairment (charges) and other credits, net	(16)	(64)	(32)	18	—
Net interest expense	(793)	(617)	(597)	(592)	(593)
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting changes	\$2,053	\$3,545	\$3,811	\$5,324	\$7,725

<sup>6</sup>Net Borrowings and net borrowings excluding Euro Disney and Hong Kong Disneyland are not financial measures defined by GAAP. Reconciliations of non-GAAP financial measures to equivalent GAAP financial measures are available at the end of this Financial Review.

Accounting rules require The Walt Disney Company to consolidate Euro Disney and Hong Kong Disneyland, even though Disney's effective ownership is only 51% and 43%, respectively. We began consolidating Euro Disney and Hong Kong Disneyland at the end of the second quarter of fiscal 2004.

### Capital Expenditures excluding Euro Disney and Hong Kong Disneyland

	2003	2004	2005	2006	2007
Capital expenditures from continuing operations					
Media Networks	\$ 203	\$ 215	\$ 218	\$ 220	\$ 265
Parks and Resorts					
Domestic	577	719	726	667	816
International	—	289	711	248	256
Studio Entertainment	49	39	37	41	85
Consumer Products	44	14	10	16	36
Corporate	176	145	111	100	108
	<u>1,049</u>	<u>1,421</u>	<u>1,813</u>	<u>1,292</u>	<u>1,566</u>
Less: Capital expenditures of Euro Disney and Hong Kong Disneyland	<u>—</u>	<u>(289)</u>	<u>(711)</u>	<u>(248)</u>	<u>(256)</u>
	<u>\$1,049</u>	<u>\$1,132</u>	<u>\$1,102</u>	<u>\$1,044</u>	<u>\$1,310</u>

### Free Cash Flow

The Company defines "Free Cash Flow" as cash provided by continuing operations less investments in parks, resorts and other property. Please see the Company's Consolidated Statements of Cash Flows on page 74 of this Annual Report.

	2003	2004	2005	2006	2007
Cash provided by continuing operations	\$ 2,776	\$ 4,232	\$ 4,139	\$ 5,960	\$ 5,398
Investments in parks, resorts and other property	(1,049)	(1,421)	(1,813)	(1,292)	(1,566)
Free cash flow	<u>\$ 1,727</u>	<u>\$ 2,811</u>	<u>\$ 2,326</u>	<u>\$ 4,668</u>	<u>\$ 3,832</u>

### Net Borrowings and Net Borrowings excluding Euro Disney and Hong Kong Disneyland

The Company defines "net borrowings" as total borrowings less cash and cash equivalents.

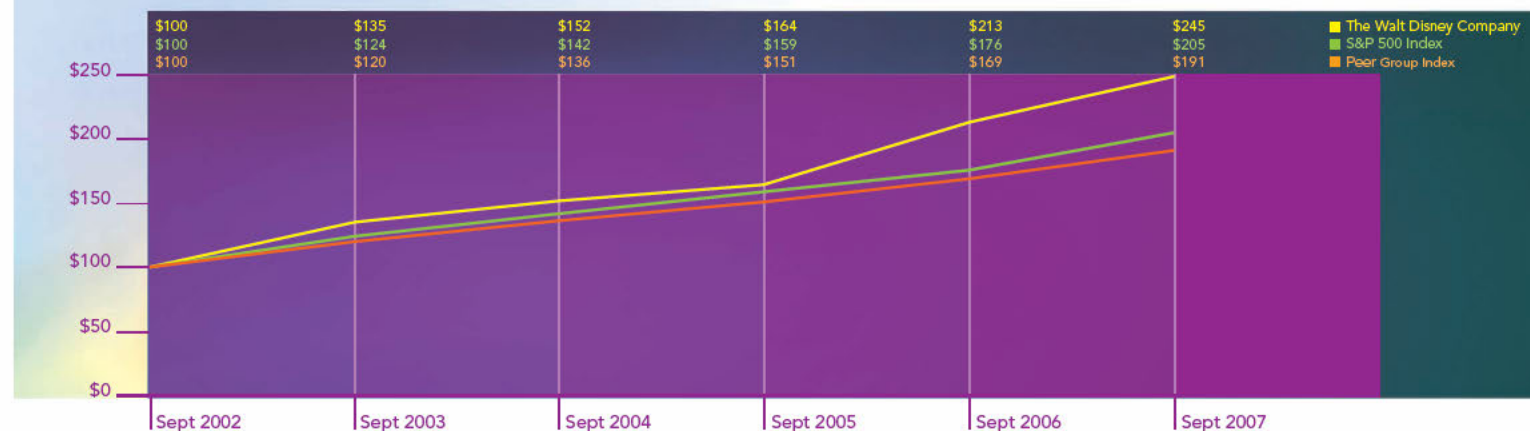
	2003	2004	2005	2006	2007
Current portion of borrowings	\$ 2,457	\$ 4,093	\$ 2,310	\$ 2,682	\$ 3,280
Long-term portion of borrowings	10,643	9,395	10,157	10,843	11,892
Total borrowings	\$13,100	\$13,488	\$12,467	\$13,525	\$15,172
Cash and cash equivalents	(1,583)	(2,042)	(1,723)	(2,411)	(3,670)
Net borrowings	\$11,517	\$11,446	\$10,744	\$11,114	\$11,502
Less: net borrowings of Euro Disney and Hong Kong Disneyland	—	(2,454)	(2,418)	(2,643)	(2,979)
Net borrowings excluding Euro Disney and Hong Kong Disneyland	<u>\$11,517</u>	<u>\$ 8,992</u>	<u>\$ 8,326</u>	<u>\$ 8,471</u>	<u>\$ 8,523</u>

### Forward Looking Statements

Management believes certain statements in the Financial Review may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made and management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions) as well as from developments beyond the Company's control, including: adverse weather conditions or natural disasters; health concerns; international, political, or military developments; technological developments; and changes in domestic and global economic conditions, competitive conditions and consumer preferences. Such developments may affect assumptions regarding the operations of the business of The Walt Disney Company including, among other things, the performance of the Company's theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, expenses of providing medical and pension benefits, demand for our products and performance of some or all of the Company's businesses either directly or through their impact on those who distribute our products. Additional factors that may affect results are set forth in the Company's Annual Report on Form 10-K for the year ended September 29, 2007 under the heading "Item 1-A, Risk Factors" and subsequent filings.

### THE WALT DISNEY COMPANY

Comparison of performance of the Company's common stock with performance of the two indicated indexes and assuming \$100 was invested on September 30, 2002 in the Company's common stock and the two indexes.



The peer group index is a custom index consisting of the companies that were formerly included in the Standard & Poor's Entertainment and Leisure Index. Although this index was discontinued in January 2002, the Company believes the companies included in the index continue to provide a representative sample of enterprises in the primary lines of business in which the Company engages. These companies are, in addition to The Walt Disney Company, media enterprises Time Warner Inc., CBS Corporation (formerly Viacom, Inc.) (Class B common stock) and Viacom Inc. (created on December 31, 2005 by the separation of the company formerly known as Viacom, Inc. into two publicly held companies, CBS Corporation and Viacom, Inc.) (Class B common stock); resort and leisure-oriented companies Carnival Corporation, Harrah's Entertainment, Inc., Hilton Hotels Corporation, Marriott International, Inc. and Starwood Hotels and Resorts Worldwide, Inc.; and consumer-oriented businesses Brunswick Corporation, Darden Restaurants, Inc., McDonald's Corporation, Starbucks Corporation, Yum! Brands, Inc. and Wendy's International Inc.

The background is a vibrant space scene. In the lower half, a ringed planet, similar to Saturn, is shown from a perspective that makes its rings appear as a series of concentric, glowing bands in shades of blue, purple, and red. A bright, glowing sun or star is positioned behind the planet's rings, creating a lens flare effect. The upper half of the image is a deep blue and black space filled with numerous small, white stars of varying brightness. The overall composition is dynamic and visually rich.

STUDIO  
ENTERTAINMENT





WALL-E

SOLAR CHARGE LIGHT

WALL-E

**T**he Walt Disney Studios celebrated the most successful year in its history as audiences around the world responded enthusiastically to such popular franchises as *Pirates of the Caribbean*, *Cars* and *High School Musical*, along with a wide variety of entertainment featuring classic characters and exciting original productions. The Studios continued to pioneer new forms of digital cinema and electronic distribution and embraced the latest technological advancements, including Blu-ray™ as the Company's new standard for high-definition home entertainment viewing.

Walt Disney Pictures' phenomenal *Pirates* adventure continued to show its seaworthy legs across the entire entertainment spectrum as *Pirates of the Caribbean: At World's End* became the year's top-grossing film at the worldwide box office. The film shattered records with \$405 million in the first six days of global release and went on to finish its run with close to \$960 million in box office receipts, becoming the fifth-biggest worldwide release of all time.

Oscar®-winner Nicolas Cage returned, alongside fellow Oscar luminary Helen Mirren, in *National Treasure: Book of Secrets*.



Animation continued to be a vital part of Disney's box office success as the Studios scored a hit with Pixar Animation Studios' computer-animated marvel, *Ratatouille*. From Oscar®-winning director Brad Bird, this highly acclaimed film grossed more than \$600 million at the worldwide box office.

Walt Disney Studios Home Entertainment had many top-selling DVD titles in 2007, including *Pirates of the Caribbean: At World's End*, *Ratatouille* and *Wild Hogs*. The popularity of classic Disney animated feature titles, meticulously restored for the limited-edition Platinum DVD series, continued to grow with releases of *Peter Pan* and *The Jungle Book*.



Previous page: Disney•Pixar's *WALL•E* blasts off in theatres June 27, 2008.

Pixar's *Ratatouille* had the recipe for success at the worldwide box office and on DVD.

Moviegoers went hog wild for Touchstone Pictures' comedy *Wild Hogs*, which posted a worldwide gross of \$253 million. John Travolta, Tim Allen, Martin Lawrence and William H. Macy will return to the open road in the film's sequel, which is set to arrive in theaters in 2009.

The Studios concluded their stellar box office year with a pair of hit Disney films – *Enchanted* and *National Treasure: Book of Secrets*. *Enchanted* lived up to its name with impressive worldwide box

office grosses. The film brought Disney magic to moviegoers of all ages with memorable new songs by the award-winning team of Alan Menken and Stephen Schwartz, an inventive blend of live action and animation, and memorable performances by Amy Adams, Patrick Dempsey and Oscar-winner

Susan Sarandon. The latest history-inspired adventure in the *National Treasure* franchise opened

December 21 with golden box office results and audience response.

Miramax Films continued to benefit from its award-worthy 2006 releases – *The Queen* with its Oscar-winning performance by Helen Mirren and *Venus* with Oscar-nominated Peter O'Toole – and prestigious 2007 releases *Becoming Jane*, the Coen Brothers' *No Country for Old Men* and *The Diving Bell and the Butterfly*.

Amy Adams stars in the newest classic and comedic Disney fairy tale, *Enchanted*.





Walt Disney Animation Studios' Bolt arrives in theaters on November 26, 2008.

Miramax's 2008 slate includes such highly anticipated films as *City of Men*; *Brideshead Revisited*, starring Emma Thompson and Michael Gambon; *Smart People*, starring Dennis Quaid, Thomas Haden Church and Sarah Jessica Parker; and *Boy in the Striped Pajamas*.

The Studios continue their commitment to producing local films that are culturally relevant and have great stories to tell. The most recent example is *The Magic Gourd*, the Studios' first full-length motion picture produced locally in China. *Gourd* proved to be a great success, becoming the No. 1 family Chinese language film of the past five years.

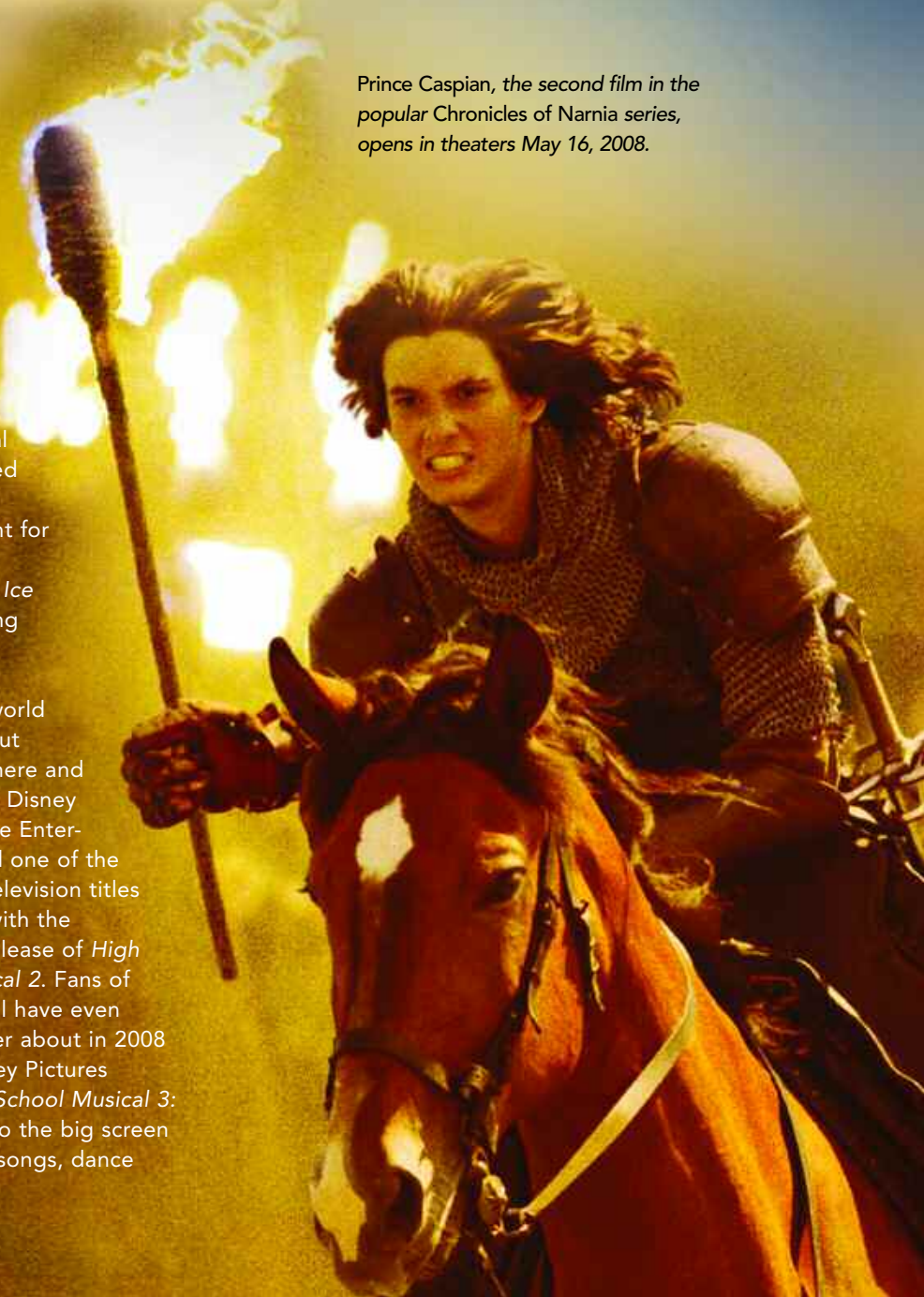
The Studios also leveraged Disney Channel's ever-popular *High School Musical* through CDs, stage plays, ice shows and DVDs. The soundtrack for *High School Musical 2* became the first television movie release to enter the *Billboard* 200 chart at No. 1, where it stayed for four consecutive weeks. Disney Theatrical Group added to its repertoire of hits with a United States tour of *High School Musical* featuring Broadway-caliber talent in a non-stop singing and dancing production. In 2008, international productions of *High School Musical* are scheduled to debut in the UK and Spain. A licensing program brought over 2,000 productions all over the world.

Additionally, the Theatrical Group teamed up with Feld Entertainment for *High School Musical: The Ice Tour*, featuring professional skaters from around the world and selling out shows both here and abroad. Walt Disney Studios Home Entertainment had one of the top-selling television titles of the year with the December release of *High School Musical 2*. Fans of the series will have even more to cheer about in 2008 as Walt Disney Pictures brings *High School Musical 3: Senior Year* to the big screen with all new songs, dance and drama.

Disney's motion picture lineup for 2008 includes a dazzling array of films that continues to emphasize family storytelling and innovative filmmaking.

The May 16 release of *The Chronicles of Narnia: Prince Caspian* will bring to life the next adventure in the beloved C. S. Lewis series, with director Andrew Adamson and the original cast reprising their roles from the first *Narnia* film, which grossed nearly \$745 million at the worldwide box office. Already in pre-production for a 2010 release is *The Chronicles of Narnia: The Voyage of the Dawn Treader*, from acclaimed director Michael Apted.

Prince Caspian, the second film in the popular *Chronicles of Narnia* series, opens in theaters May 16, 2008.



This summer, Pixar adds to the fun with *WALL•E*, an original story filled with heart and humor from Oscar-winning filmmaker Andrew Stanton (*Finding Nemo*). Set in the future, in a galaxy not so far away, the film follows a determined robot named WALL•E. After hundreds of lonely years, WALL•E discovers a new purpose in life when he meets a sleek search robot named Eve. WALL•E chases Eve across the galaxy and sets into motion one of the most exciting and imaginative comedy adventures ever brought to the screen.

Walt Disney Animation Studios enriches Thanksgiving 2008 with the release of *Bolt*, an action-filled comedy that follows the adventures of a popular TV show dog (voiced by John Travolta) who thinks he really is an action hero, but discovers that life in the real world is radically different from his sheltered Hollywood soundstage. Armed only with delusions of his superhero powers and the help of two unlikely traveling companions – a jaded, abandoned house cat and a TV-obsessed hamster in

a plastic ball – Bolt discovers he doesn't need superhero powers to be a hero.

Another animated feature currently on the drawing boards at Disney is a hand-drawn musical fairy tale, *The Princess and the Frog*, from veteran Disney directors John Musker and Ron Clements (*The Little Mermaid*, *Aladdin*). The film will feature songs by Randy Newman and is scheduled for release in 2009.

Disney's 2008 live-action lineup also spotlights a trio of terrific family comedies. *College Road Trip* stars Raven-Symoné as a young woman whose enthusiasm for a "girls only" road trip to choose a college gets dashed when her over protective dad (Martin Lawrence) decides to tag along. In *South of the Border*, a live-action comedy with CG visual effects, Drew Barrymore voices a pampered Beverly Hills chihuahua who gets lost in Mexico and has to enlist a motley crew of streetwise animals to find her way back home. Director Adam Shankman helms *Bedtime Stories*, a comedy about a charming, self-absorbed playboy (Adam Sandler) whose life changes when the elaborate bedtime stories he tells his three nephews magically start to come true.

In 2007, Disney Music Group enjoyed its most successful year on record. In addition to its successes with *High School Musical*, Disney Music Group scored major hits with *Hannah Montana 2/Meet Miley Cyrus*, a two-disc set featuring songs from the second season of the hit

Disney Channel series. It debuted at No. 1 on the *Billboard* chart and remained in the Top 10 for 12 weeks. A 55-city *Best of Both Worlds* concert tour played to sell-out crowds in 2007 and will continue into 2008.

Hollywood Records had a solid hit with The Jonas Brothers' self-titled CD, a gold record from Plain White T's and widespread critical praise for Grace Potter and the Nocturnals. The Walt Disney Records label had its biggest year ever and celebrated its 12th consecutive year as the world's No. 1 children's label. Lyric Street records found new success with the No. 1 hit debut by *American Idol* finalist Bucky Covington, and in September 2007, Rascal Flatts' new CD *Still Feels Good* was a top seller.

In January 2008, after an unprecedented sold-out pre-Broadway engagement, Disney Theatrical Group brought the spectacular new stage version of *The Little Mermaid* to Broadway. The musical features 10 new songs by acclaimed composer Alan Menken. Additionally, *The Lion King* celebrated its 10th anniversary on Broadway and marked the occasion with stunning new productions in Paris and Johannesburg, South Africa. To date, more than 44 million people around the world have seen this amazing show. *Mary Poppins* continues to enthrall crowds in New York and a UK tour will take off in 2008 as well as a domestic tour in 2009. Disney Theatrical Group also debuted *Playhouse Disney Live! On Tour* based on the popular Disney Channel program block.

Above: *The Little Mermaid* opened on Broadway in January, 2008.

Right: Disney is committed to providing the highest-quality home theater experience by releasing its films in both DVD and Blu-ray high definition format.





PARKS AND RESORTS



B

y all accounts, 2007 was a dream year at Disney Parks and Resorts.

From the very start, Walt Disney envisioned Disneyland as a place where dreams come true. While the 50th anniversary celebration in 2005 was the first time the Disney parks were positioned on a global scale, *The Year of a Million Dreams* has taken that strategy to the next level, helping to increase attendance, revenue and operating income.



*Previous page: Academy Award®-winning actress Rachel Weisz poses as Snow White for Annie Leibovitz's Disney Dream Portrait Series.*

*This page: During The Year of a Million Dreams, chance encounters create lasting memories and bring smiles to Guests of all ages.*



Exciting plans to expand our existing businesses, while thinking more broadly about bringing high-quality Disney experiences to new audiences in new regions, signify that there's never been a more promising time for Disney Parks and Resorts.

Year after year, the dream keeps growing because of the expectations of Guests around the world and the dedication of nearly 100,000 Disney Cast Members who surprise and delight Guests every day with legendary service and special moments.

*The Year of a Million Dreams* celebration has taken the magical relationships Disney Cast Members enjoy with Guests to a new level. Capitalizing on the emotional connection developed over the years with Park Guests. This celebration entices past Guests to return and new Guests to see for the first time the outstanding creativity, innovation, quality and service that represent the Disney resort experience.

By being in the right place at the right time, Disneyland and Walt Disney World Guests have been awarded more than one million dreams both large and small, most of which money can't buy. These include an overnight stay at Cinderella Castle Suite at Walt Disney World Resort, travel

to each Disney resort around the world to serve as grand marshal in Disney parades, a variety of unique Disney vacation experiences, admission to special events, a Dream FASTPASS® badge to enjoy some of Disney's most popular attractions and exclusive pin and lanyard sets.

The celebration resonated so well with Guests that it has been extended through December 31, 2008. Over-the-top experiences to be awarded this year include a chance for Guests to stay overnight inside Disneyland Park; a private stay at Disney's tropical island paradise, Castaway Cay; New Year's Eve inside Cinderella Castle in Florida; a star-studded trip to the *High School Musical 3: Senior Year* film premiere; and a flight of fancy in a hot air balloon above a Disney theme park.

Building on Walt Disney's belief that Disneyland would never be complete, the parks continue to develop new, world-class attractions and entertainment that connect Guests with classic Disney stories and characters.

The world-famous submarines returned to the Disneyland Resort in 2007 when *Finding Nemo Submarine Voyage* opened to Guests. Inspired by the Disney•Pixar film *Finding Nemo*, the new attraction

introduced a technological twist that submerges Guests into the colorful underwater world of Nemo and his friends. This brilliant marriage of storytelling and innovative technology transformed the classic attraction into a vibrant new experience. Also at Disneyland, the new *Pirate's Lair on Tom Sawyer Island* captures the excitement of the summer's blockbuster, *Pirates of the Caribbean: At World's End*, in a new, live entertainment experience.

At Walt Disney World Resort, *The Seas with Nemo & Friends* at Epcot applies technology in new ways to enhance the Guest experience. Disney Imagineers created the illusion that the stars of the film appear to swim amid the marine life of the saltwater environment in the Future World pavilion. At Disney's Animal Kingdom, *Finding Nemo – The Musical* brings to life the undersea world that charmed audiences worldwide in an all-new, musical stage show. At the Magic Kingdom, *Monsters, Inc. Laugh Floor* generates laughs as Guests match wits with the beloved characters from Disney•Pixar's *Monsters, Inc.* in an engaging and interactive attraction.

Technology is being applied not only to tell favorite stories in new ways, but also to enable Guests to customize their vacation experience.



*Finding Nemo Submarine Voyage* treats Guests to a view of Nemo and friends exactly as they appear in the film – thanks to amazing new technology developed by Walt Disney Imagineering.

From empowering Cast Members to exceed Guest expectations to enabling Guests to get the most from their experience, rapid advances in technology are transforming and enhancing Disney's legendary Guest service at all of our resorts around the world. Visitors can now purchase tickets that are tailored to the length of their Walt Disney World vacation and the interests of their group, allowing them to enjoy more fun with savings that increase the longer they visit. Staying in the "middle of the magic" has always been the best and most relaxing way to enjoy a Disney vacation. And Walt Disney World hotel Guests get great benefits, too, including more time in the parks, an innovative service that reduces the hassle of air travel called Disney's Magical Express and a convenient and affordable dining plan.

DisneyParks.com makes it easy to customize and book a Walt Disney World dream vacation. With the customized maps feature, Guests can pinpoint the shows, attractions and venues they most want to see, then have the maps mailed to their homes in full color, free of charge. And DisneyLink can be downloaded to computer desktops making it easy to stay in touch with the latest and greatest Disney news, information and offers about favorite Disney parks, entertainment and products.

*During the holidays, Cinderella Castle at Walt Disney World Resort was magically transformed into a shimmering holiday ice palace thanks to new special effects that shower the castle with more than 200,000 twinkling white lights.*

During *The Year of a Million Dreams*, Guests in Florida and California are finding themselves living the buccaneer life as a pirate of the Caribbean, "getting royal" with a Disney prince or princess, learning the ways of a Jedi in the Star Wars™ galaxy and joining in a high-energy *High School Musical* pep rally, thanks to a whole new lineup of immersive entertainment that draws Guests into the middle of the action.

With the fantastic success of global franchises such as *Pirates of the Caribbean* and *High School Musical*, the park experiences they inspired are great examples of how Disney is extending the Company's creative products and offering theme park Guests unique experiences that can only be enjoyed at Disney destinations.

*Toy Story Mania!* – a ride-through, interactive adventure – is another uniquely Disney experience that will open this summer at both Walt Disney World and Disneyland Resorts. Guests will ride into a high-energy 4-D carnival midway as *Toy Story* characters Woody, Jessie, Buzz, Hamm and the gang come to life in amazing ways, enveloping Guests in the rich stories of the Disney•Pixar films.

At Disneyland Resort, *Toy Story Mania!* is part of a significant multi-year expansion plan that continues the Resort's growth as a world-class tourist destination. It will bring new entertainment and major family-oriented attractions to Disney's California Adventure, including an entirely new Cars Land inspired by the hit Disney•Pixar animated film *Cars*. The expansive program reaches throughout the Park with an amazing attraction inspired by Disney's *The Little Mermaid*, a signature nighttime spectacular and the addition of the 12-acre Cars Land featuring the world of Radiator Springs and three new attractions.

Disney Imagineers will bring more of Walt Disney's spirit into Disney's California Adventure, by recreating the Park's Entry Plaza to reflect the 1920s Hollywood that Walt experienced



A multi-year expansion at the Disneyland Resort will culminate with a new, 12-acre Cars Land, immersing Guests in a world inspired by the hit Disney•Pixar movie Cars.

when he arrived on a train from Kansas City with no more than a suitcase and unbounded imagination.

Guests entering the new Plaza will be transported to this world that inspired Walt during his early days as an animation pioneer. A new, interactive *Walt Disney Story* attraction, extensive landscaping and new retail and dining facilities will create an even richer environment throughout the Park in ways that reinforce Guests' connections with Walt.

Around the globe, as leisure choices are increasing worldwide, Disney destinations are a source of high-quality entertainment. In France, Disneyland Resort Paris is the No. 1 tourist attraction in Europe. The 15th anniversary celebration at the Park truly resonated with Guests, contributing to strong attendance and revenue growth. New attractions, like *Crush's Coaster* and *Cars Race Rally* at the Walt Disney Studios Park, demonstrated to Guests how creativity and innovation combine to create true Disney magic. In 2008, *The Twilight Zone™ Tower of Terror* will dare Guests to board a myste-

*Toy Story Mania!* will take the interactive ride-game experience to new heights, matching the films' characters with games that suit their animated personalities.



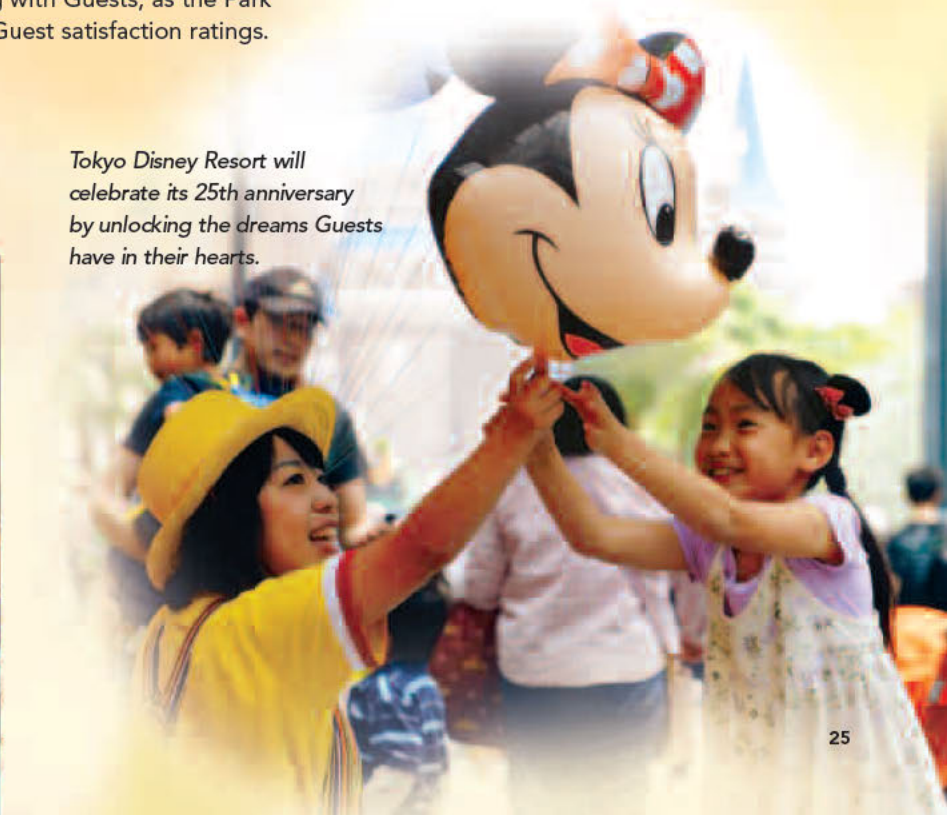
rious hotel freight elevator that hurtles them through the "fourth dimension" as they plummet 13 floors.

Tourism is strengthening throughout Asia, where Hong Kong Disneyland Resort has been enhancing the Guest experience since it opened just two years ago. The recent expansion of Tomorrowland and last year's introduction of new offerings such as *Mickey's WaterWorks Parade* and *Animation Academy*, coupled with this year's opening of the classic Disney attraction *it's a small world*, reinforces our long-term commitment and excitement for what the future holds for Hong Kong Disneyland Resort. These new attractions and shows are resonating with Guests, as the Park records high Guest satisfaction ratings.

*It's a small world* will bring even more enjoyment to Park Guests with new scenes exclusive to Hong Kong and, for the first time, more than 30 beloved Disney characters seamlessly blended with the attraction's world-renowned *small world* dolls.

In Japan, Tokyo Disney Resort continues to grow its successful business and will kick off its 25th anniversary celebration this April. The extravaganza, titled *Unlock Your Wishes*, promises Guests the realization of dreams they've always had in their hearts. Highlights of the year-long event include a spectacular new daytime parade, the opening of the luxurious Tokyo Disneyland Hotel and a new theater built exclusively for *Cirque du*

Tokyo Disney Resort will celebrate its 25th anniversary by unlocking the dreams Guests have in their hearts.



Soleil – the first permanent Cirque du Soleil venue outside North America.

With our destination resorts in the United States and around the world creating such strong value, Disney Parks and Resorts is encouraged to explore new ways to grow within the worldwide travel and leisure market by “taking the magic on the road.”

Disney Vacation Club (DVC) is also a cornerstone of Parks and Resorts’ plans to expand its footprint into new areas. The first phase of the new Disney’s Animal Kingdom Villas opened last summer at Disney’s Animal Kingdom Lodge at Walt Disney World, where accommodations feature intricate African-inspired details, home-like amenities and – from most villas – sweeping views of a savanna inhabited by a variety of African animals.

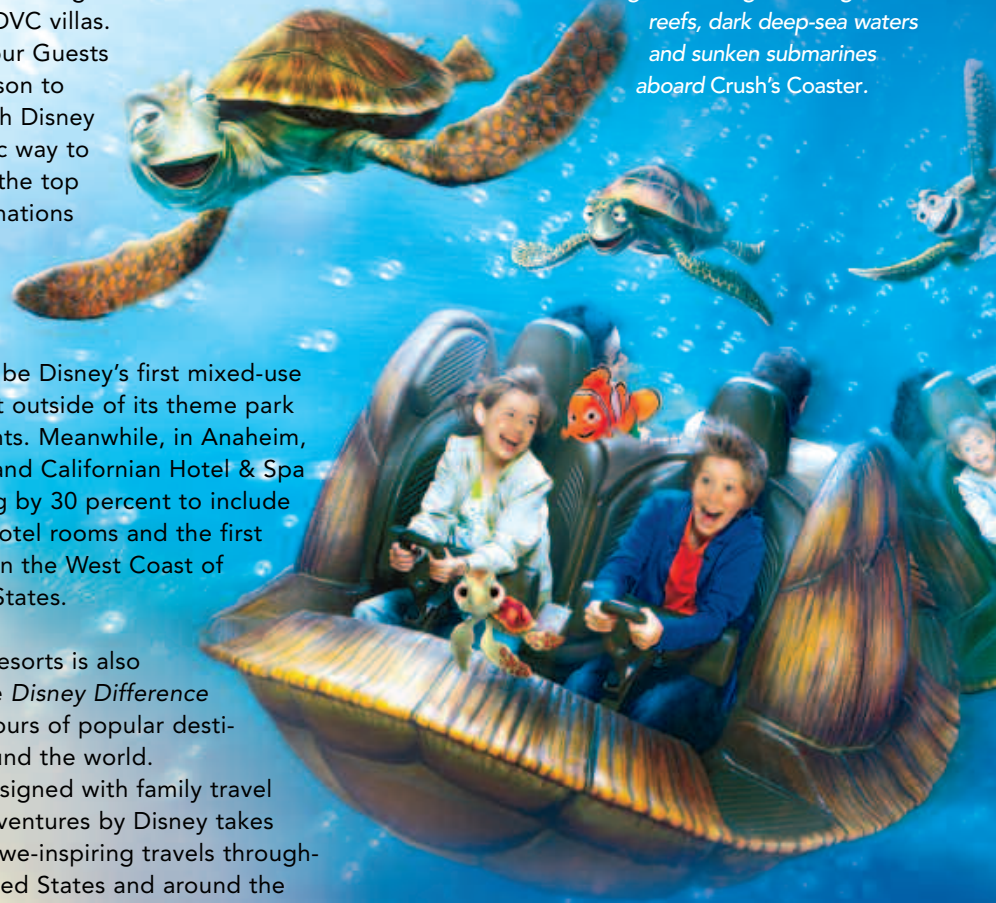
Up until now, DVC was located primarily at Walt Disney World Resort, with two additional locations in nearby Vero Beach, Florida and Hilton Head Island, South Carolina. Parks and Resorts currently is in the early stages of creating a luxury Hawaiian resort like no other. Located on 21 acres of oceanfront property in the picturesque Ko Olina Resort & Marina on the island of Oahu, this expansive new family

resort is planned to include more than 800 units consisting of both hotel rooms and DVC villas.

It will give our Guests another reason to vacation with Disney and a terrific way to visit one of the top family destinations around the world. Scheduled to open in 2011, it will be Disney’s first mixed-use family resort outside of its theme park developments. Meanwhile, in Anaheim, Disney’s Grand Californian Hotel & Spa is expanding by 30 percent to include additional hotel rooms and the first DVC villas on the West Coast of the United States.

Parks and Resorts is also bringing the *Disney Difference* to guided tours of popular destinations around the world. Specially designed with family travel in mind, Adventures by Disney takes Guests on awe-inspiring travels throughout the United States and around the world – in an authentic and distinctly Disney style.

Disneyland Resort Paris Guests experience an exhilarating ride through dazzling coral reefs, dark deep-sea waters and sunken submarines aboard Crush’s Coaster.



Scheduled to open in 2011, Disney’s first mixed-use family resort outside of its theme park developments will give Guests a way to visit an exciting part of the world with a brand they trust.

Adventures by Disney started off with two itineraries just a few years ago. Today, it's already generating some of Parks and Resorts' highest Guest satisfaction ratings. In 2008, Adventures by Disney will leverage Disney's expertise in offering quality family travel experiences along 17 itineraries, including new destinations such as China, Australia, Peru and Germany, as well as returning favorites, including England, Italy, Ireland, Costa Rica and the Southwestern United States.

One of the best examples of how consumers look to Disney as a trusted source of quality travel and leisure offerings is Disney Cruise Line. Disney established the new family category of cruising a decade ago and since then has remained the leader in this growing industry. Given this success, two new ships are being built in Papenburg, Germany, and they are scheduled to join the fleet in 2011 and 2012, respectively.

Last summer, the flagship *Disney Magic* embarked on Disney's first-ever Mediterranean cruise vacation. In 2008, it's back by popular demand to the Port of Los Angeles for 12 consecutive seven-night cruise vacations to the Mexican Riviera. The mobility of these ships presents unique opportunities to test new markets and introduce the Disney experience to new audiences. Each new itinerary provides Guests a reason to return. By meeting the needs of families as only Disney can, Disney



*Adventures by Disney takes Guests on awe-inspiring travels throughout the United States and around the world with a style that is immersive, authentic and distinctly Disney.*

Cruise Line has succeeded in bringing new Guests to Walt Disney World and new cruisers to the industry. It has proven that Parks and Resorts' family market business model can complement its growing theme park business with new ways to vacation with Disney.

Building on a record of success, Parks and Resorts is poised for strong, profitable growth in the decades ahead. Its progress is propelled by investments in existing businesses and solid financial results, combined

with strategies to generate robust returns on invested capital in exciting new business ventures.

Walt Disney Parks and Resorts is acutely aware of its responsibility and heritage – fulfilling the dreams of Guests who look to Disney for world-class entertainment and unparalleled service. It is Parks and Resorts' achievements in making Guests truly part of the Disney magic that made 2007 so gratifying and promises so much excitement for the years ahead.

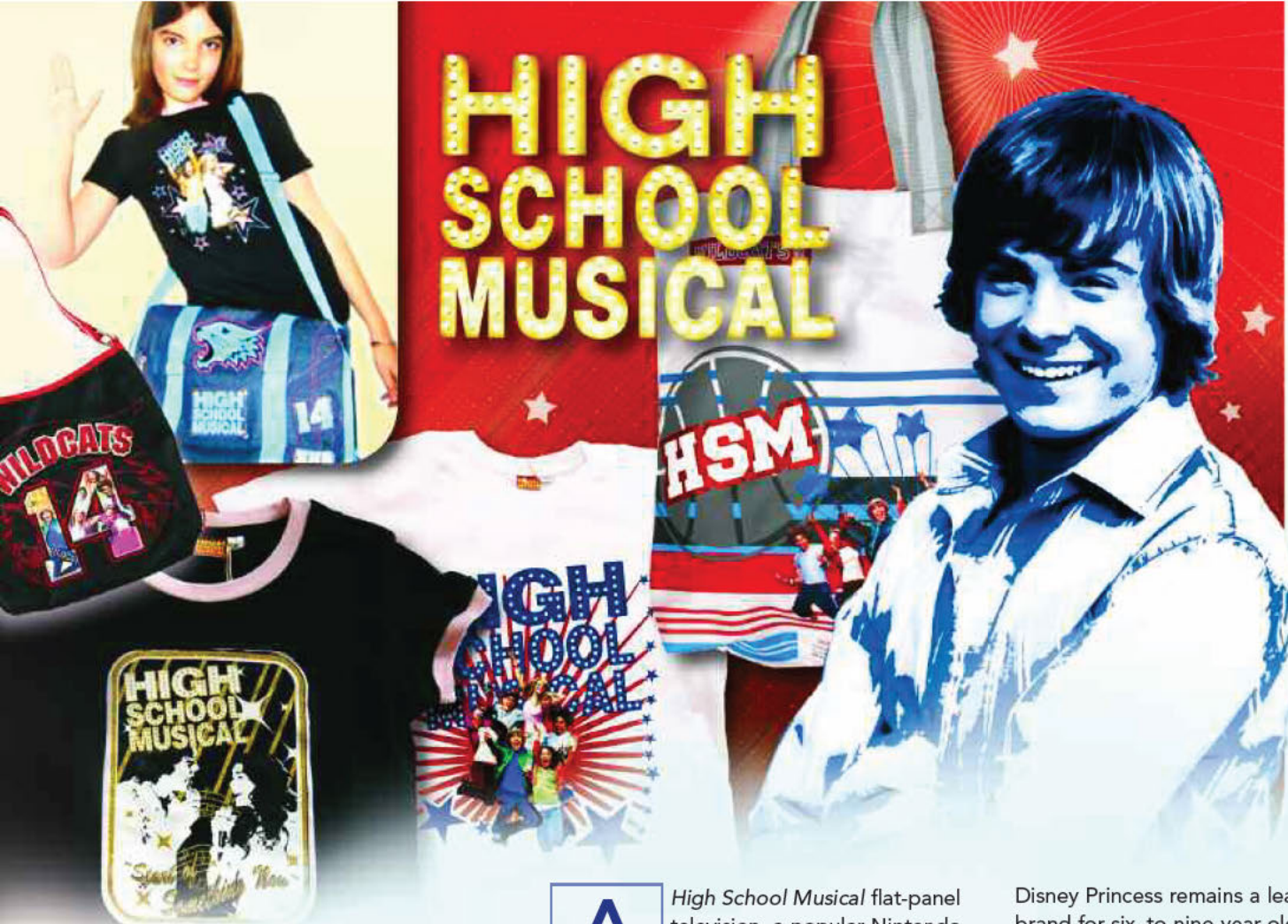


*The Disney Magic cruised the Mediterranean last summer, providing families with a unique and hassle-free way to explore world-famous cities with Disney.*



CONSUMER  
PRODUCTS





Disney Channel's High School Musical inspired an array of lifestyle products.

Previous page: Disney Princess remains a leading lifestyle brand with continued growth globally.

Below: The Hannah Montana Pop Star Stage & Doll was the "it" toy of the holiday season.



**A** High School Musical flat-panel television, a popular Nintendo DS™ video game with new Disney characters, wedding dresses inspired by Disney Princesses and a best-selling Disney Fairies sequel novel were just a few of many new products that took the Disney brand to new heights in 2007. Millions of people around the world connected with Mickey, Pooh, Jack Sparrow, the Disney Princesses, Hannah Montana and others through unique and entertaining lines of merchandise that extend the Disney experience, celebrate the imagination of kids and connect with the young at heart.

Disney Princess remains a leading lifestyle brand for six- to nine-year-old girls. Inspired by the "heart of gold message" in Disney's DVD *Enchanted Tales*, Disney Consumer Products (DCP) transformed the princesses' gowns into gold, creating a captivating line of pink and gold products generating strong sales internationally. For the 2007 holiday season, Disney Princess also expanded to the console video game world for the first time with *Disney Princess: Enchanted Journey* for the Nintendo Wii™ and PlayStation 2™. In 2008, Disney Princess will shine with a "jewels"-themed line of products celebrating the Platinum and Blu-ray™ DVD releases of *Sleeping Beauty*.

In 2007, DCP proved that Disney Princess can fulfill the dreams of girls of any age, including brides-to-be. DCP's collaboration with renowned bridal couture designer Kirstie Kelly brought to life a spectacular collection of wedding gowns, jewelry and bridesmaid and flower girl dresses. Inspired by the personality and style of each Disney Princess, these gowns are designed for modern-day "princesses" who desire the look and feel of couture at moderate prices.



Introduced just two years ago, Disney Fairies has mushroomed into a powerful global franchise, delivering new stories and a broad range of products that inspire six- to nine-year-old girls to believe in the power of pixie dust. Disney Fairies boasts a thriving publishing program across 51 countries, selling six million books globally. In 2007, girls were introduced to new stories in *Fairy Haven* and *the Quest for the Wand*, the highly anticipated sequel to the best-selling first Disney Fairies novel.

Additionally, DisneyFairies.com has attracted more than one million unique average daily visitors and generated 3.5 million fan-created fairies. In 2008, Disney Fairies will come to life in the Disney DVD *Tinker Bell*, which will charm girls with its captivating portrayal of Tinker Bell's world and her circle of Fairy friends.

The tween market is among the fastest growing segments at DCP, resulting in unique products that have generated impressive retail sales worldwide. With Disney Channel's smash hits *High School*

*Musical*, *Hannah Montana* and *The Cheetah Girls*, DCP has connected tweens to their favorite stars through a creative assortment of lifestyle products celebrating fashion, music and friends. These products include the *High School Musical* pillow, which doubles as iPod-compatible speakers, Disney's first line of musical instruments inspired by *Hannah Montana* and the *High School Musical Sing It!* karaoke-style video game for the PlayStation 2 and Wii consoles.

Additionally, tween franchises are fueled by a broad publishing program that extends storylines and offers new adventures. Currently, more than 60 *High School Musical*-related titles have been published worldwide and are available in more than 30 countries, selling more than 9.3 million copies to date.

DCP's infant and preschool business continues to flourish, and new product lines were launched in 2007 that leverage the ongoing success of Disney Channel's *Little Einsteins* and *Mickey Mouse Clubhouse*.



Launched at Carrefour in Europe, Disney Jeans is a fun, non-character apparel line for kids now expanding throughout India.

DCP has maximized Cars into a powerful year-round franchise opportunity.



And in 2008, DCP will unveil the first product assortment inspired by the new hit series *My Friends Tigger & Pooh*.

The global leader in developmental media, *Baby Einstein* released two new DVD titles and a line of toys designed to encourage parent and child interactivity. New *Baby Einstein* feeding products were a hit with parents who welcomed the shape-and-color-coded line into meal time.

In 2007, DCP encouraged kids in North America to "play" with their food and showed them how with two nutritious product lines – Disney Garden Foodles and Veggies & Sauce – designed especially to appeal to kids' taste buds. These new lines garnered a "thumbs up" from children, parents and retailers alike and are on target to roll out to Europe, Latin America and Asia in 2008.

DCP also delivers engaging and insightful articles to parents through Disney Publishing Worldwide and its award-winning magazines, *FamilyFun* and *Wondertime*. The U.S.-based magazines recorded their most successful year in 2007 in terms of advertising revenue.

DCP has developed Disney•Pixar's *Cars* and Walt Disney Studios' *Pirates of the Caribbean* into powerful franchises offering a year-round opportunity at retail. DCP keeps these franchises fresh with new storylines introduced through books and video

*Interactive gaming is a key priority for DCP. More than 20 million copies of Disney-branded video games sold in 2007, and more exciting titles are slated for 2008 including Prince Caspian on Playstation 3.*

games, selling millions of copies worldwide. The *Cars* publishing program comprises more than 300 titles debuting on best-seller lists in the U.S., Italy and UK and generating sales of more than 18 million books to date. *Pirates of the Caribbean* stories are told through more than 250 book titles in 50 countries, as well as through the *Pirates of the Caribbean: At World's End* video game, which has already shipped more than two million units worldwide.

Up next, a fresh new line of products based on Disney•Pixar's *WALL•E* and *The Chronicles of Narnia: Prince Caspian* will stretch the imaginations of children around the world.



DCP expanded its presence in the youth electronics market with its first line of LCD TVs and iPod-compatible accessories designed especially for tweens. The new Disney Flix Video Cam became an instant hit and a top holiday seller. The easy and fun-to-use compact handheld video camera includes *Disney Magic Director* software, which lets kids shoot and star in their own Disney movies.



# Fairy Tale Weddings

In 2008, Disney Publishing Worldwide will launch *Disney Digital Books* – an innovative online reading experience. Disney Publishing's vault of digital files will be transformed into fun, interactive digital books filled with special features, including realistic page turning, an interactive dictionary and word pronunciation guides. Characters on the page will come to life with "Behind the Page" features that enable readers to hear what the characters are thinking. The "Language Swap" tool will allow them to read the story in different languages while the "Read-Aloud" feature will read the book and turn pages automatically. *Disney Digital Books* will be available in an online virtual library format and will eventually be available on games and other handhelds.

In 2007, *Disney Interactive Studios* business grew rapidly as it acquired and founded new gaming studios, bringing its total to five internal developmental groups, as well as adding legendary video game pioneer Warren Spector to its creative team. It also posted strong growth in publishing and licensing revenue, with sales of more than 20 million Disney-branded games. The group also successfully launched its first original intellectual property, *Spectrobes*, on the Nintendo DS platform. The gameplay optimizes many innovative features on the DS, including microphone, touch screen and WiFi capabilities. Proving a hit with gamers, it sold more than 850,000 units worldwide and a sequel is planned for 2008.

For the first time, Disney Interactive Studios has also teamed up with Walt Disney Imagineering to design special, in-park programs supporting the launch of video games inspired by the third *Pirates of the Caribbean* film. Nintendo DS players with the new *Pirates* video game were programmed to find wireless "X Marks the Spot" hotspots throughout Disneyland and Walt Disney World, allowing them to download free new content and game features directly to their game consoles.

Disney Interactive Studios is currently developing Dgamer, a connected community of Disney gamers. Set to debut on the Nintendo DS *The Chronicles of Narnia: Prince Caspian* game, Dgamer will bring Disney game fans together on its first-ever multiplatform-connected community to chat or trade items over the Internet via the Dgamer channel on Disney.com or directly on Nintendo DS devices.

Besides developing compelling products and remaining on the cutting edge of technology, DCP is focused on international growth, mining new market opportunities for global expansion. In China, DCP has opened more than 4,800 Disney licensed store-in-store retail corners selling Disney-branded merchandise and reaching more than 25 million consumers in more than 25 cities. DCP plans to double the number of Disney corners in the coming years.

In the UK, DCP opened its first redesigned Disney Store in fall 2007 with the goal of delivering on the storytelling magic of the Disney brand, while offering a more interactive experience for visitors. Situated at the Lakeside Shopping Centre in Essex, the first UK-based Disney "concept" store features plasma screens, interactive performances and a comprehensive range of Disney products. It also includes a 10-foot-high "Heart of Disney" tower in the middle of the store, featuring a 360-degree wraparound screen as well as plasma televisions showcasing new Disney films and products and LED displays announcing in-store events. DCP plans to open additional redesigned stores throughout the UK, France, Spain and Italy.

With a young and ambitious business in India, DCP is showing momentum, broadening its geographic footprint by expanding product reach beyond key cities through existing licensees, focusing on direct-to-retail relationships and developing innovative specialty stores in newer categories. In just two years, DCP has more than doubled the number of licensees in India, establishing new retail relationships that are delivering a broad range of products, including the successful *Disney Jeans* brand. Over the next five years, DCP also plans to open more of its popular Disney Artist Stores throughout the country.

"Belle" wedding gown from Kirstie Kelly for Disney's Fairy Tale Weddings line, inspired by the personality and style of each Disney Princess.



*Grey's Anatomy is the No.1 fall show  
among key audiences.*



# MEDIA NETWORKS BROADCASTING

**D**isney Media Networks delivers entertainment and news programming across a growing variety of distribution technologies, including broadcast, cable, satellite, Internet, broadband and wireless.

Fueled by high-quality content, the ABC Television Network continued to show strength during the 2006-07 season. The introduction of the industry's first network-wide navigation system, "ABC Start Here," helped the 160 million viewers who turn to ABC each week follow the best in daytime drama, journalism, primetime entertainment and late-night laughs across all platforms.

ABC Daytime marked a full decade as No. 1 in daytime drama among Women 18-49, with a double-digit lead over the nearest competitor. Over the year, *The View* drew headlines, record ratings and two new faces. Whoopi Goldberg and Sherri Shepherd joined the cast and, with their co-hosts, have maintained this momentum.

From big newsmaker interviews to high-impact documentaries, the award-winning team of ABC News anchors, correspondents and producers continued to create compelling programming with the highest journalistic standards. In 2007, the News division welcomed the return of anchor Bob Woodruff, miraculously

recovered from severe injuries sustained on assignment in Iraq; *World News with Charles Gibson* emerged as the No. 1 nightly news broadcast in America; and Diane Sawyer, Robin Roberts, Sam Champion and Chris Cuomo delivered news from across the country and around the world to *Good Morning America* viewers, adding a third full hour exclusively on the digital ABC News Now broadband network. Every ABC News broadcast now has its own Webcast on this platform, and viewers can also obtain news and analysis on ABCNews.com, a comprehensive news site relaunched in May 2007.

ABC Entertainment continued to lead among the primetime audiences advertisers prize most, finishing the 2006-07 season as the No. 1 network among all upscale audiences for the second year in a row. ABC's primetime performance was driven by strong returning programming, including *Lost*, *Desperate*



*World News with Charles Gibson is the No. 1 nightly news broadcast in America.*

*Housewives*, *Grey's Anatomy*, *Extreme Makeover: Home Edition* and *Dancing with the Stars*, as well as the freshman drama *Brothers & Sisters* and the Golden Globe® and Emmy®-winning breakout comedy hit, *Ugly Betty*.

ABC entered the 2007-08 season with increased stability, enhanced by a slate of new series that generated advertiser interest and critical acclaim.



*Private Practice, starring Kate Walsh, is the wildly successful Grey's Anatomy spin-off.*

In September, ABC launched the most innovative and highly anticipated series of the new season, the "forensic fairy tale" *Pushing Daisies*, which is part of a powerhouse Wednesday night lineup of freshman scripted dramas that includes *Grey's Anatomy* spin-off *Private Practice* and *Dirty Sexy Money*, starring Peter Krause, Donald Sutherland and Jill Clayburgh. Eight weeks into the 2007-2008 season, ABC was the No. 1 network in key demos, airing eight of the Top 20 series among Adults 18-49 as well as five of the top seven new series in this demo. ABC also maintained its leadership among upscale audiences.

In addition to drawing crowds on television, ABC also commanded a following online and on other platforms. Since September 2006 viewers have started more than 213 million episodes of the network's hit shows on ABC.com's Emmy Award-winning broadband player. For the new season, the player was enhanced, allowing viewers to increase the viewing screen size to watch episodes in high definition. Network shows were also streamed to wireless phone users and offered on ad-supported video-on-demand services.

Additionally, ABC's owned stations are building new businesses that extend beyond traditional broadcasting. The ABC Owned Television Station Group includes 10 stations serving major markets: WABC-TV in New York, KABC-TV in Los Angeles, WLS-TV in Chicago, WPVI-TV in Philadelphia, KGO-TV in San Francisco, KTRK-TV

in Houston, WTVD-TV in Raleigh-Durham, KFSN-TV in Fresno, WJRT-TV in Flint and WTVG-TV in Toledo. Each station operates three digital channels – simulcasting the station's programming in HD – offering local and network news as well as delivering local and regional weather reports (powered by AccuWeather), along with headlines from news and sports. The stations have launched ad-supported mobile video and text services in all 10 markets, and their Web sites collectively reach six million unique users every month.

*Samantha Who? is the season's most watched new series.*

*The critics' darling, Pushing Daisies, is winning the hearts of viewers as well.*



In addition to carrying network programming, ABC-owned stations average more than 1,600 hours of local news a year, and seven now produce their local newscasts and other local programs in high definition. Seven stations also ranked No. 1 in households from sign-on to sign-off on average for the major ratings sweeps, and the group's National Television Sales unit has become a leading sales representative in professional sports, working with 24 teams.

High-quality creative content continues to drive the fortunes of the ABC Television Network and its owned stations. The Company's in-house television studio is a major source of high-caliber content, developing and producing premier programming for network, cable, Web, video-on-demand, mobile and broadband platforms for the Company and other outlets.

Formerly Touchstone Television, the Studio was renamed ABC Studios in February 2007. The name change reflects the Studio's critical role in building a brand that viewers identify with quality television on any platform, and reflects the Company's strategy to focus on three core brands: Disney, ABC and ESPN.

The Studio is a leader in television development and production, with a slate of 23 series on broadcast and cable networks, including ABC, NBC, CBS, ABC Family, Lifetime, The CW and FX. ABC Studios produces the biggest hits on ABC, including the cultural phenomena *Grey's Anatomy*, *Lost* and *Ugly Betty*, as well as break-out hits *Kyle XY*, ABC Family's most successful series to date, and *Army Wives*, the most successful series in the history of Lifetime Television.

Buena Vista Productions (BVP) develops and produces non-scripted original programming for television and other platforms, including a new reality series, *The Fashionista Diaries*, for SOAPnet and the



*The Desperate Housewives of Wisteria Lane are No. 1 on Sundays.*

trivia game show *Camouflage* for the Game Show Network. BVP also oversees production of the high stakes quizzer *Who Wants to Be a Millionaire* and *At the Movies with Ebert & Roeper*.

The in-house Studio's success drives more than the line-up of several networks. It also supplies quality, in-demand content for the Company's international distribution arm to export around the world. Formerly Buena Vista International Television, the unit was renamed Disney-ABC



*Millions of viewers in more than 200 territories around the world have gotten Lost.*





*Ugly Betty is a huge hit with young adults and women.*

International Television (DAIT) in 2007. Responsible for the Company's branded and non-branded international program distribution, DAIT distributes television and new media content to broadcasters, operators and platforms across 240 territories worldwide, licensing programming from ABC Studios, ABC News, Walt Disney Pictures, Touchstone Pictures and Miramax Films, as well as Disney Channel Original Movies and other properties from the Company's kids' television portfolio.

Disney-ABC Domestic Television (DADT) distributes the best in television programming and motion pictures to a wide array of media platforms, including pay television, basic cable, broadcast television, video-on-demand, mobile, broadband and other digital technologies. In 2007, DADT secured renewals for its three franchise first-run series, *Live with Regis and Kelly* (produced by WABC-TV), *Who Wants to Be a Millionaire* and *At the Movies with Ebert & Roeper*. DADT also recently closed syndication deals for *Extreme Makeover: Home Edition* and *Lost*. DADT has been extremely successful in licensing films from The Walt Disney Studios to a wide spectrum of traditional and new media buyers,

including this year's releases *Pirates of the Caribbean: At World's End*, *Wild Hogs* and *The Santa Clause 3: The Escape Clause*.

The synergy of networks, studios and distributors extends to the Company's publishing group. In December 2007, ABC aired *Oprah Winfrey Presents: For One More Day*, an original movie based on Mitch Albom's bestselling novel, starring Oscar-winner Ellen Burstyn and Michael Imperioli. Published by Hyperion in 2006, the book reached No. 1 on *The New York Times* bestseller list with four million copies currently in print. Hyperion closed the year with the release of several major titles, including David Halberstam's last book, *The Coldest Winter*, Caroline Kennedy's *A Family Christmas* and new cookbooks by celebrity chefs Jamie Oliver, Mollie Katzen and Nigella Lawson.



*Almost 25 million people watched Helio Castroneves and Julianne Hough win on the finale of Dancing with the Stars.*



MEDIA NETWORKS  
CABLE



Previous page: International sensation Hannah Montana is drawing record ratings and album sales worldwide.

My Friends Tigger & Pooh takes Winnie and his friends into 500 million homes globally.



**T**he Cable Networks Group provides a strong foundation for franchise building across the Company as well as unique opportunities to capitalize on international expansion and digital media opportunities. The Group includes Disney Channel Worldwide's portfolio of kids' channels, ABC Family, SOAPnet and Jetix, as well as the Company's equity stake in Lifetime Entertainment Services and A&E Television Networks. Combined, these assets reach the full spectrum of audiences from preschoolers to adults.

In 2006, Disney Channel emerged as a global powerhouse in kids' entertainment, with the unprecedented success of emerging franchises *High School Musical*, *Mickey Mouse Clubhouse* and *Hannah Montana*. To date, more than 250 million people have seen *High School Musical*, and the franchise

has generated more than \$100 million in operating income to the Company. Another 200 million viewers around the world have tuned in to see Mickey Mouse and his friends in CG animation, and *Hannah Montana* has become an international sensation, drawing record ratings and sales.

Building on the momentum of that milestone year, Disney Channel continued its successes in 2007, adding new animated and live-action series as well as original movies to the list. Disney Channel launched its first spin-off, *Cory in the House*, based on the long-running series *That's So Raven*. Younger viewers worldwide were

introduced to *My Friends Tigger & Pooh*, an interactive preschool series in vibrant CG animation. Taking classic assets like Mickey Mouse and Winnie the Pooh into CG and bringing them to 500 million homes around the world brought these franchises to new levels, with wider exposure than they've ever enjoyed before.

Disney Channel also delivered the year's most anticipated sequel, the Disney Channel Original Movie *High School Musical 2*. The August premiere drew the largest basic cable audience in United States history. More than 17 million people tuned in for the debut, with more than 33 million viewers catching the first three

*Playhouse Disney's* animated series *Handy Manny* returned for a second season in October 2007.

More than 200 million people around the world have tuned in to see Mickey and his friends in the CG-animated series, *Mickey Mouse Clubhouse*.





*The Suite Life of Zach & Cody is one of the most popular basic cable shows among kids.*



*The United States debut of the year's most anticipated sequel, High School Musical 2, drew the largest audience in the history of cable television.*

*Disney Channel's first full-scale international production, Bunnytown, debuted to preschoolers in November.*



airings on its premiere weekend. As the sequel rolled out worldwide, it continued to draw massive crowds and break ratings records, market after market.



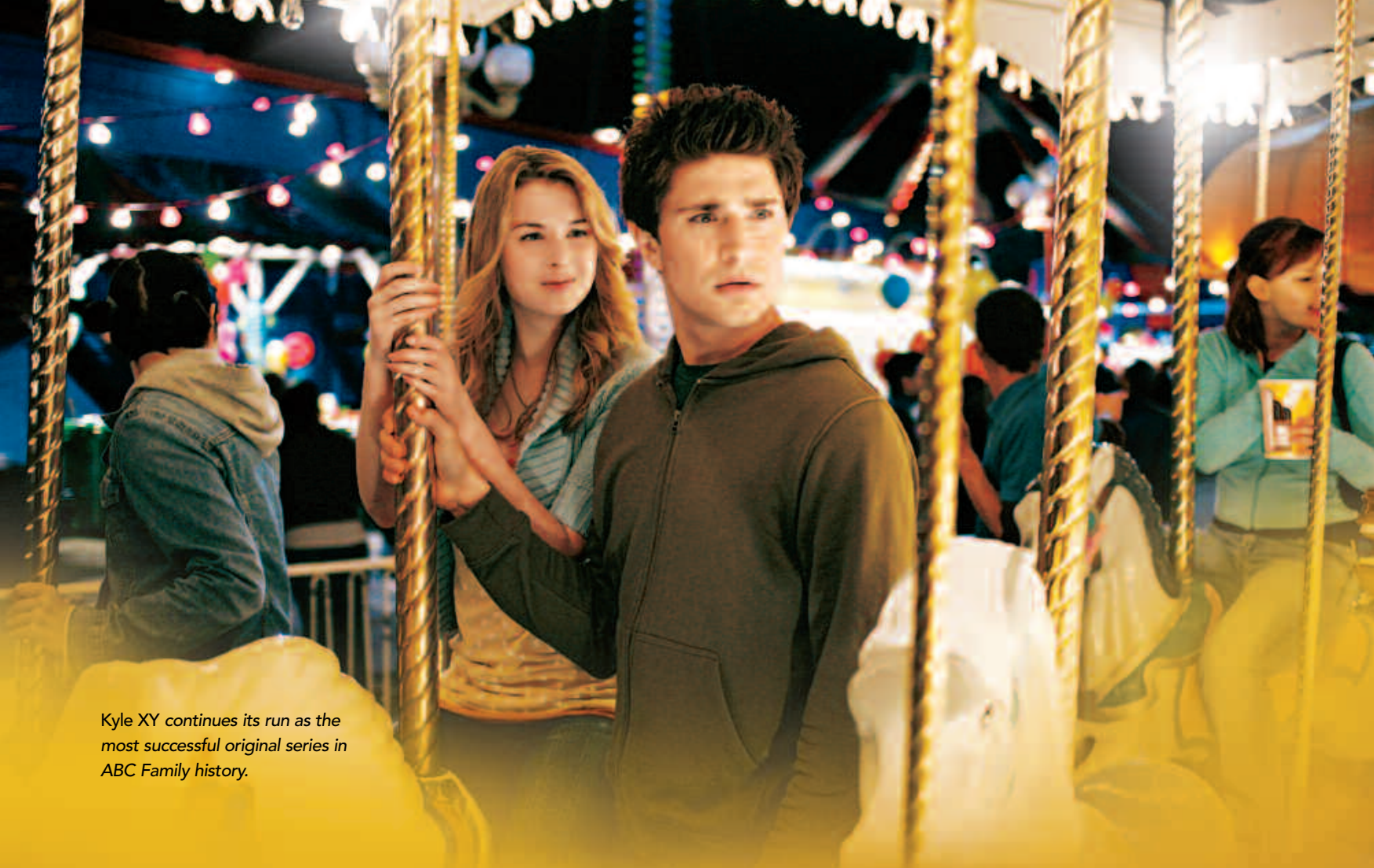
Disney Channel's newest live action series, *Wizards of Waverly Place*, debuted to strong ratings in October.

The global success of the *High School Musical* franchise and series like *Hannah Montana*, *Mickey Mouse Clubhouse* and *My Friends Tigger & Pooh* drives revenue across the Company in areas including Disney Media Networks, Disney Consumer Products, The Walt Disney Studios, Walt Disney Parks and Resorts, Disney Music Publishing Worldwide, Walt Disney Records, Walt Disney Studios Home Entertainment, Disney-ABC International Television and Disney Theatrical Productions. Soundtracks and other music from Disney Channel are also featured in heavy rotation on Radio Disney, the only 24-hour kids and family radio network, now available to 97 percent of the U.S. on broadcast, satellite and cable platforms via live streaming feeds from RadioDisney.com and on the iTunes Radio Tuner.

ABC Family, now in more than 95 million homes, also achieved record ratings for the 2006-07 season. Driven by original series *Kyle XY* and *Greek*, and strong acquisitions like the *Harry Potter* feature film franchise, the network



*Camp Rock*, a Disney Channel Original Movie starring The Jonas Brothers, will premiere in 2008.



*Kyle XY continues its run as the most successful original series in ABC Family history.*

increased its primetime audience by 16 percent among its prime demographic of Adults 18-34, and the channel achieved an overall increase of seven percent with this target audience. In 2007, ABCFamily.com received an Emmy Award for Outstanding Creative Achievement in Interactive Television.

In 2007, SOAPnet expanded its reach into more than 66 million homes, an increase of nearly 25 percent year over year. In addition to airing the five top-rated soaps from all broadcast networks, SOAPnet launched two original series in 2007, *The Fashionista Diaries*, a "docu-soap" about assistants in the fashion industry, and *General Hospital: Night Shift*, the network's first scripted series, based on ABC's No.1 daytime drama *General Hospital*. The drama premiered to record ratings and remains the highest-rated series in SOAPnet's history.

Lifetime Television, a 50/50 joint venture with the Hearst Corporation, remains a leader in women's television and one of the top-rated basic cable networks. In 2007, a change in leadership and strategy refocused the Lifetime brand, beginning its evolution into a vibrant, contemporary and optimistic destination for women on all platforms. Freshman drama *Army Wives*, produced by ABC Studios, reflected this repositioning. It delivered the highest ratings in the network's 23-year history, becoming basic cable's No.1 drama among Women 18-34 and setting new standards for Lifetime's original series. The success of the series contributed to increased recognition of the Lifetime brand on air and online, driving record ratings for the network and record traffic to LifetimeTV.com.

*The critically acclaimed family drama Lincoln Heights returned for season two on ABC Family.*



**A**s the worldwide leader in sports multimedia, ESPN continues to connect with more and more fans around the globe. In 2007, highlights included long-term business accords with major sports rights holders and with leading U.S. cable distributors Comcast and Time Warner. And, to further broaden its reach, ESPN acquired or launched several international and digital services – two key drivers for future business growth.

The big winners are ESPN's loyal fans, with NFL *Monday Night Football* among the top telecasts on cable television, great Major League Baseball match-ups and exciting NASCAR races. ESPN signed a landmark eight-year renewal agreement with the National Basketball Association for content across 17 ESPN platforms as well as potential new digital services. ESPN also signed or implemented long-term multimedia accords with the Big East, Big Ten and Big 12 conferences, Major League Soccer, Arena Football, the WNBA and – for the first time ever – the Masters Tournament (golf).

All of these major rights agreements include international distribution. In addition, ESPN's new multi-year rights agreements for its international networks bring premier content to select countries and to American viewers, including the UEFA Cup, Euro 2008 and Italian Serie A soccer, plus cricket and Rugby World Cup.

*ESPN's Monday Night Football is the most-viewed series on cable television.*

ESPN's strong connection with sports fans and its ability to deliver compelling content across platforms have led to multi-year, multi-media sponsorship packages with a growing roster of national advertisers. An impressive 70 percent of ad deals over \$2 million now includes at least one medium in addition to television.

For the second consecutive year, ESPN's four most-distributed domestic cable networks, ESPN, ESPN2, ESPN Classic and ESPNEWS, collectively increased viewership. ESPNEWS now reaches 62 million homes, up 20 percent in 2007, and will soon telecast in high definition, joining ESPN HD

and ESPN2 HD. College sports coverage increased at ESPNU, which doubled its base to 20 million homes. And the Spanish-language ESPN Deportes now reaches five million homes.

*SportsCenter*, ESPN's flagship program, also continues to expand its reach, with hourly updates appearing during ABC sports programming, the debut of *SportsCenter Minute* on ESPN.com and new customized *SportsCenters* launching







ESPN on ABC affords premier broadcast distribution in multiplatform agreements including the NBA and many more sports categories.

in Australia, Malaysia and South Africa. *SportsCenter* now appears in 14 international editions and in eight languages.

With 750 stations, ESPN Radio is the nation's largest sports network, and this year ESPN assumed direct management of owned stations in New York, Los Angeles, Chicago, Dallas and Pittsburgh. ESPNRadio.com is the most visited and listened-to sports radio site in the United States, with two million unique users per month accessing general content, local affiliate Web sites and podcasts.

Sports fans in more than 300 million homes in 194 countries and territories receive local and worldwide events via ESPN's 34 customized television networks and content on its Internet, wireless, radio and publishing platforms. The popular X Games are staged in sites around the world including, Brazil, China, Dubai, Korea, Mexico, Spain and Thailand. In the year since the acquisition of the North American Sports Network (NASN), ESPN's first wholly owned live sports network in Europe, distribution increased from 15 to 32 countries and from six to 10 million homes. NASN's lineup,

dedicated to American sports, features the NFL, MLB and NHL as well as college football and basketball. ESPN also acquired Cricinfo.com, the world's largest cricket Web site with more than eight million monthly unique users, and Scrum.com, a leading rugby Web site for one of the world's most popular sports. ESPNsoccernet.com, the world's leading soccer news and information site, is now available in five languages.

No other media organization delivers as much great digital sports content or attracts as many sports fans on the Web as ESPN. Each week, ESPN.com's new video hub produces 500 videos, topping 132 million views in October 2007, up 90 percent from October 2006.


ESPN also experienced dramatic growth in podcast downloads – now more than six million downloads per month – and growing numbers of Fantasy League players, led by football and baseball. Because sports is the ultimate water-cooler topic, ESPN is expanding its social Web elements to include fan profiles, user blogs, conversation pages and widgets.

Broadband network ESPN360.com was relaunched in 2007 as a live sporting event destination. Viewers can watch 2,500 events a year from around the world through a revolutionary mosaic computer screen that enables six to be viewed at once. ESPN360.com, which is expected to reach more than 20 million U.S. homes by early 2008, will launch additional customized versions internationally in the coming months.

The wireless delivery of sports stats, news and games is becoming increasingly important, and ESPN has established itself as a world leader, delivering sports content to nine million unique users a month via WAP (wireless application protocol). ESPN Mobile successfully converted its widely acclaimed MVP applications to a licensing model and launched the first and only 24/7 wireless sports network featuring full-length games.

*ESPN The Magazine*, with two million readers, will celebrate its 10th anniversary in March. ESPN Books released a record 15 titles while ESPN Consumer Products continues to expand its licensed apparel and recreation merchandise.

ESPN's team continues to scale new heights and push the boundaries, importing and exporting exceptional content to fans through multiple platforms worldwide – every hour, every day, everywhere.

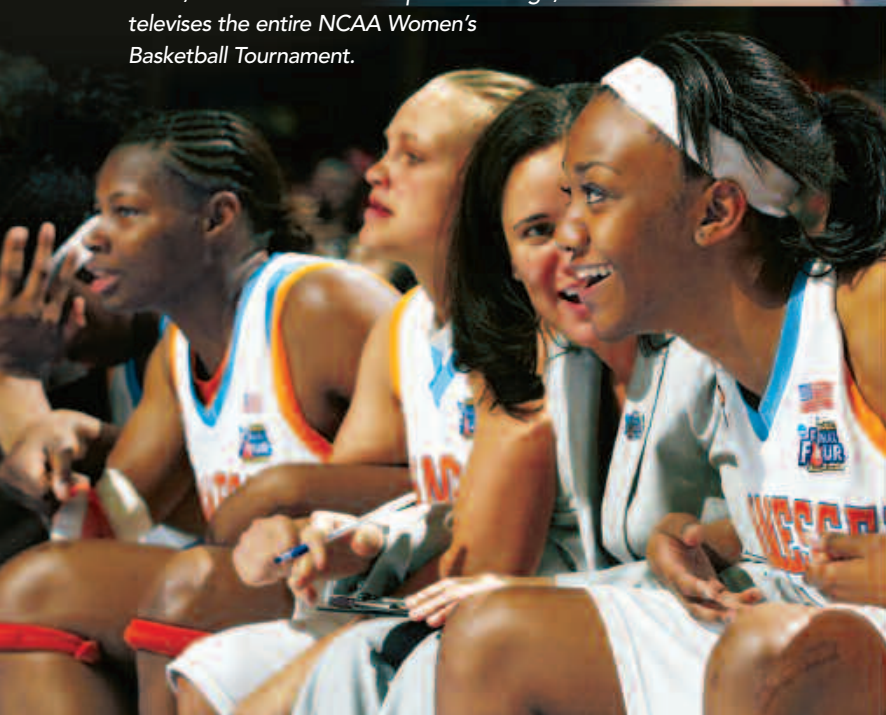


More than 127 million people watched NASCAR programming on the ESPN networks.

ESPN's X Games 13, staged in Los Angeles, was the most-watched X Games ever.



ESPN, a leader in women's sports coverage, televises the entire NCAA Women's Basketball Tournament.



ESPN networks around the world televise a variety of premier soccer events.



# WALT DISNEY INTERNET GROUP

**T**he Walt Disney Internet Group (WDIG) offers a compelling mix of Disney-branded online and mobile interactive entertainment and informational content and services for audiences around the world. WDIG also provides the centralized technology infrastructure and expertise that underpin Internet and mobile objectives for all properties of The Walt Disney Company and its subsidiaries, including ABC and ESPN.

The past year at WDIG was characterized by expansion and exciting new beginnings – most notably the launch of an all-new Disney.com. In February 2007, the Company reintroduced the popular site, complete with innovative, highly customized new features for Disney fans of all ages. Disney.com has been transformed into an immersive entertainment destination with expanded community and social networking features that have been incorporated into the Disney.com XD and Virtual World environments.

**Disney**

Movies TV Games Music Live Events Search Disney.com Go Travel Shop Mobile Characters Disney XD

**Disney For You**

Preschool

Boys  
Girls  
Kids & Teens  
Families  
Disney Fans

**What's New in TV**

**HIGH SCHOOL MUSICAL**

**You're Watching**

**Enchanted Trailer**

- Visit the site
- Enter the sweepstakes

**Playlist**

**Disney's Little Einsteins**  
Take to the skies in Firebird Rescue, the new Little Einsteins DVD!

**Year of a Million Dreams 2008**  
Live out more dreams - the celebration continues through 2008

**Today**

**Listen to Music**

**What's New in Games**

**PIRATES OF THE CARIBBEAN: AT WORLD'S END**

**ENTER A CHARACTER WORLD**

A new version of Disney.com launched in February with exciting new features for Disney fans of all ages.

Club Penguin, one of the largest and fastest growing online virtual worlds for kids, joined The Walt Disney Company family in August.



In addition, there are special events like the popular D-Concert series and other entertainment experiences relating to existing Disney-branded properties. Already the No. 1-ranked site for kids and families, Disney.com broke its own all-time highest traffic record in August with more than 23 million unique visitors. It was also nominated for two Technology & Engineering Emmy Awards and honored as one of the top five sites on *AdweekMedia's* Digital Hot List Best of the Web 2007.

As part of its growth strategy, WDIG built upon its suite of online virtual worlds for kids and families. In January 2007, DisneyFairies.com was launched to support the popular franchise – and to date, visitors have created more than 3.5 million personalized fairies. In August 2007, WDIG acquired Club Penguin, one of the fastest-growing online virtual worlds for kids, with more than 12 million activated users and more than 700,000 paid subscribers. The highly anticipated *Pirates of the Caribbean Online* launched in fall 2007. *Disney's Toontown Online* continued to grow in 2007, amassing more than 17.5 million user-created "Toons" and six million active players since the game's inception.

WDIG continues to build on its position as one of the leading mobile content companies worldwide, expanding its global mobile

presence and offerings with an ever-growing catalog of mobile-specific content, increased distribution and a new mobile development studio in China.

In March 2007, WDIG launched Disney's Family.com, a Web site designed to answer life's everyday questions for parents, by providing content, search and community elements, such as the popular ParentPedia feature. Fewer than six months after its launch, Disney's Family.com had already reached a milestone of more than one million unique monthly visitors.

In 2008, WDIG will expand Disney's online network and virtual worlds both geographically, by launching sites in international markets, and across platforms by connecting to mobile devices via a new wireless Web site.



Hundreds of thousands of kids have created millions of virtual fairy avatars through the "Create a Fairy" feature on the wildly popular DisneyFairies.com Web site.

# WALT DISNEY INTERNATIONAL

*In Argentina, the High School Musical: La Selección reality show was a nationwide casting search for a localized version of the popular Disney Channel movie.*

In 2007, Walt Disney International continued to build on the Company's commitment to global growth, creativity and technology, strengthening its presence in key emerging markets, including Russia, China and India, as well as enhancing local relevance of the Disney brand around the world. To accelerate growth, Walt Disney International focused on creating greater cross-Company integration in Europe and Japan, improving efficiencies and aligning international business efforts behind sustainable, long-term growth initiatives.

From Russia to the Far East to Latin America, Walt Disney International has capitalized on localized versions of great Disney family entertainment. Winnie the Pooh made his debut in Moscow to celebrate the start of the Year of Children, while Mickey Mouse surprised everyone when he showed up to help celebrate the premiere of *Pirates of the Caribbean: At World's End* at the biggest multiplex in the center of Moscow, helping the film become the largest foreign release in Russian history.

In Hong Kong, an event featuring Disney Fairy Tale Wedding gowns by Kirstie Kelly helped broaden the appeal of the Princess franchise among local consumers. In India, *My School Rocks* was a highly successful interschool dance competition used to pro-

*The Disney Pooh mobile phone is popular among Chinese teenagers and young adults, broadening the appeal of the Disney brand among new audiences.*

mote *High School Musical* awareness locally. The first-ever Disney-branded, Chinese-language movie, *The Magic Gourd*, achieved great critical and commercial success in that country. In Egypt, Mickey and Minnie Mouse paid a visit to the Great Pyramids of Giza to promote the engagement of *Disney on Ice* in Cairo. In Taipei, *Finding Nemo*, a live stage-show version of the popular Disney•Pixar film, produced by Feld Entertainment, was enjoyed by more than 1.5 million people. The show went on to play to sold-out theaters in Singapore, Thailand, Malaysia, Brunei and Australia.

In Mexico and Argentina, Radio Disney helped launch *High School Musical: La Selección*, a reality show to cast Troy and Gabriella that aired on free television and Disney Channel.

Technology has also played a major role in growing brand awareness in international markets. In Korea, Disney's MP3 player won the 2007 Good Design Award, and in China, the Disney Pooh mobile phone broadened the appeal of Disney among new young adult audiences.

Looking forward, Walt Disney International will continue to use localized content and assertive marketing strategies to establish the Disney brand and franchises globally.



Bottom Left: Disney On Ice – Finding Nemo launched in Taipei in February 2007, and then toured throughout Asia. Bottom Right: The South African production of The Lion King made its debut in June 2007.



**THE LION KING**  
THE AWARD-WINNING BROADWAY MUSICAL  
AT THE SPECTACULAR NEW  
MONTECASINO TEATRO, FOLIGNO

# CORPORATE RESPONSIBILITY

A

t The Walt Disney Company, we believe that good corporate citizenship is good for Disney's Guests, for its employees and for its businesses.

Of particular note this past year, Children's Hospitals in California and Florida benefited substantially from Disney support. In Orlando, the Florida Children's Hospital received a \$10 million pledge to build a new 200-bed facility that will carry the Disney name. Children's Hospital Los Angeles received a \$5 million donation from

*Disney CEO Bob Iger, Kelly Ripa, Mickey and Minnie Mouse work with kids on new computers provided by The Walt Disney Company and the Starlight Starbright Children's Foundation at the Phyllis and David Komansky Center for Children's Health at New York-Presbyterian Hospital/Weill Cornell Medical Center.*





The Walt Disney Company Foundation toward the building of a new wing. The Orlando community also benefited from a \$12.5 million pledge from the Walt Disney World Resort to sponsor a new performing arts center in central Florida.

During fiscal 2007, Disney added to its legacy of caring by announcing policies that associate its brands and characters with a more nutritionally balanced range of foods and offering healthier kids meals at its parks and resorts. Since October 2006, the new guidelines for licensed foods and promotions aimed at children have governed Disney business relationships and activities in the United States. Similar guidelines have been in place in Europe since the start of 2007 and were recently introduced in Japan and China.

This pioneering initiative, well received by advocacy groups and enthusiastically embraced by Guests, was followed by a decision to no longer allow the depiction of cigarette smoking in Disney-branded motion pictures.

Last year, through its global outreach efforts, local community initiatives and the employee VoluntEARS program, Disney donated more than \$177 million in cash and in-kind support to various charities around the world, while VoluntEARS contributed more than 466,000 hours of service.

The Company held its 2007 annual shareholder's meeting in New Orleans as a show of support for that city, where Company executives and the cast of *Live with Regis and Kelly* pitched in to rebuild playgrounds destroyed by Hurricane Katrina. In the wake of devastating Southern California wildfires in October, the Company's response was swift and generous. The Walt Disney Company committed \$2 million to recovery and environmental rehabilitation efforts, while character and VoluntEAR visits to area shelters provided the kind of emotional boost that only Disney can provide.

Last April, Disney extended its spirit of volunteerism to its fast-growing international operations with the celebration of its first International VoluntEARS Day. More than 4,000 employees in 40 countries donated over 20,000 hours to their communities.

This massive effort helped introduce Disney's international staff to the importance of volunteerism and was positively received in communities worldwide.

In 2007, Disney also partnered with several charitable organizations focused on children's welfare with which it has longstanding ties. Disneyland hosted the world premiere of *Pirates of the Caribbean: At World's End*, raising \$3 million for the Make-A-Wish™ Foundation. While the Company granted more than 6,000 wishes over the course of the year through that organization, the Company also provided support to the Elizabeth Glaser Pediatric AIDS Foundation, the Boys & Girls Club of

America, the Starlight Starbright Children's Foundation and UNICEF, touching the lives of thousands of kids.

Disney broadened its environmental outreach and conservation initiatives in 2007, reflecting heightened concern over global environmental conditions. An Environmental Council, made up of senior representatives from each of the Company's business segments, was established to analyze and implement sustainable strategies for minimizing Disney's impact on the environment.

The Council's work will feed into the Company's Environmental™ program, which has been in place for 17 years and

*Walt Disney World Resort and Disney Worldwide Outreach announced a \$10 million contribution to Florida Children's Hospital for the construction of a new 200-bed facility that will carry the Disney name.*



*Mickey spends time with new friends at Valley Center High School's Red Cross Shelter after the Southern California fires.*



governs Disney's efforts in energy and resource conservation, waste minimization, the use of alternative power and fuels and wildlife protection. Among last year's initiatives were the installation of zero-emission engines on the new *Finding Nemo Submarine Voyage* at Disneyland and the conversion to cleaner-burning biodiesel fuel for the steam engine trains at Disneyland and certain vehicles used by Disney Cruise Line in the Bahamas. Further, conservation programs at various Disney facilities continued to cut energy usage and waste.

The Environmentality team also conducts educational outreach through programs in California, Florida, the Bahamas and Hong Kong to teach fifth grade students environmental stewardship. In addition, outreach efforts at ESPN's X Games and in other forums educate youth on the benefits of recycling. In the UK, Playhouse Disney collaborated with The Woodland Trust and the Hundred Acre Wood to develop a guide called *Playing for the Planet* that encourages young children and families to plant trees.

Protecting wildlife and ecosystems continues to be a global focus for the Disney Wildlife Conservation Fund. Last year, the Fund provided \$1.5 million in support of more than 100 different projects, bringing the total amount committed by the Fund in support of wildlife and habitat studies to \$11 million.

The promotion and maintenance of responsible labor standards also



*Disney VoluntEARS and their families gathered at Ajusco Medio in Mexico City to plant 115 native species of trees in an environmental educational project with Pronatura.*

continued to be a Company priority. Disney's code of conduct for manufacturers, translated into 50 languages, outlines minimum working conditions and standards in factories making Disney-branded products. The code is reinforced through educational and monitoring programs

and through the development of remediation plans when conditions do not meet standards.

These efforts represent only a brief summary of how The Walt Disney Company serves the interests of its many stakeholders. Disney is guided by the philosophy that being a good corporate citizen is not just the right thing to do, it is good for business. It makes the Company a desirable place to work, reinforcing the attractiveness of its brands and products while strengthening its bonds with consumers and its neighbors in communities around the world.



*In Mumbai, Mickey and Minnie host children at Vatsalya orphanage for a day of painting, movies and more on Disney International VoluntEARS Day.*

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

## CONSOLIDATED RESULTS

(in millions, except per share data)	2007	2006	2005	% change	
				2007 vs. 2006	2006 vs. 2005
Revenues	\$ 35,510	\$ 33,747	\$ 31,374	5%	8%
Costs and expenses	(28,729)	(28,392)	(27,443)	1%	3%
Gains on sales of equity investments and businesses	1,052	70	26	>100%	>100%
Restructuring and impairment (charges) and other credits, net	—	18	(32)	(100)%	nm
Net interest expense	(593)	(592)	(597)	—	(1)%
Equity in the income of investees	485	473	483	3%	(2)%
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change	7,725	5,324	3,811	45%	40%
Income taxes	(2,874)	(1,837)	(1,174)	56%	56%
Minority interests	(177)	(183)	(177)	(3)%	3%
Income from continuing operations before the cumulative effect of accounting change	4,674	3,304	2,460	41%	34%
Discontinued operations, net of tax	13	70	109	(81)%	(36)%
Cumulative effect of accounting change	—	—	(36)	—	nm
Net income	\$ 4,687	\$ 3,374	\$ 2,533	39%	33%
Diluted Earnings per share <sup>(1)</sup> :					
Earnings per share, continuing operations before the cumulative effect of accounting change	\$ 2.24	\$ 1.60	\$ 1.19	40%	34%
Earnings per share, discontinued operations	0.01	0.03	0.05	(67)%	(40)%
Cumulative effect of accounting change per share	—	—	(0.02)	nm	nm
Earnings per share <sup>(2)</sup>	\$ 2.25	\$ 1.64	\$ 1.22	37%	34%
Basic Earnings per share:					
Earnings per share, continuing operations before the cumulative effect of accounting change	\$ 2.33	\$ 1.65	\$ 1.21	41%	36%
Earnings per share, discontinued operations	0.01	0.03	0.05	(67)%	(40)%
Cumulative effect of accounting change per share	—	—	(0.02)	nm	nm
Earnings per share <sup>(2)</sup>	\$ 2.34	\$ 1.68	\$ 1.25	39%	34%
Weighted average number of common and common equivalent shares outstanding:					
Diluted	2,092	2,076	2,089		
Basic	2,004	2,005	2,028		

<sup>(1)</sup> The calculation of diluted earnings per share assumes the conversion of the Company's convertible senior notes issued in April 2003 into 45 million shares of common stock and adds back related after-tax interest expense of \$21 million for fiscal 2007, 2006 and 2005.

<sup>(2)</sup> Total earnings per share may not equal the sum of the column due to rounding.

## ORGANIZATION OF INFORMATION

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Consolidated Results
- Business Segment Results – 2007 vs. 2006
- Non-Segment Items – 2007 vs. 2006
- Pension and Benefit Costs
- Business Segment Results – 2006 vs. 2005
- Non-Segment Items – 2006 vs. 2005
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, and Off Balance Sheet Arrangements
- Accounting Policies and Estimates
- Accounting Changes
- Forward-Looking Statements

## CONSOLIDATED RESULTS

### 2007 vs. 2006

Revenues for the year increased 5%, or \$1.8 billion, to \$35.5 billion; net income increased 39%, or \$1.3 billion, to \$4.7 billion; and diluted earnings per share increased 37% to \$2.25.

At our operating segments, earnings growth was primarily due to higher affiliate and advertising revenues at our cable businesses, improved home entertainment performance driven by the success of Disney/Pixar's *Cars* and *Pirates of the Caribbean: Dead Man's Chest*, strong sales of ABC Studios productions, increased guest spending and theme park attendance at Walt Disney World and Disneyland Resort Paris and lower costs for sports programming due to fewer hours at the ABC Television Network.

Net income for the year included certain items that affected comparability, including gains from the sales of E! Entertainment and Us Weekly (\$0.31 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.03 per diluted share), income from the discontinued operations of the ABC Radio business (\$0.01 per diluted share) and an equity-based compensation plan modification

charge (\$0.01 per diluted share). Including the impact of rounding, these items collectively resulted in a net benefit of \$0.33 per diluted share. The prior year included income from the discontinued operations of the ABC Radio business (\$0.03 per diluted share), gains on sales of a Spanish cable equity investment and Discover Magazine (\$0.02 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.02 per diluted share) and a net benefit associated with the completion of the Pixar acquisition (\$0.01 per diluted share). Including the impact of rounding, these items collectively benefited diluted earnings per share by \$0.09.

### 2006 vs. 2005

Revenues for the year increased 8%, or \$2.4 billion, to \$33.7 billion; net income increased 33%, or \$841 million, to \$3.4 billion; and diluted earnings per share increased 34% to \$1.64.

At our operating segments, earnings growth was due to lower distribution costs resulting from fewer Miramax theatrical releases, improved margins at worldwide home entertainment driven by reduced marketing and trade programs and lower distribution costs, strong performance at both of our domestic theme parks, growth at ESPN and improved primetime results at the ABC Television Network.

Net income for fiscal 2005 included certain items which affected comparability, including favorable adjustments related to prior-year income tax matters (\$0.06 per diluted share), income from discontinued operations of the ABC Radio business (\$0.05 per diluted share), a benefit from the restructuring of Euro Disney's borrowings (\$0.02 per diluted share), an income tax benefit from the repatriation of foreign earnings under the American Jobs Creation Act (\$0.02 per diluted share), a gain on the sale of the Mighty Ducks of Anaheim (\$0.01 per diluted share), a write-off of investments in leveraged leases (\$0.03 per diluted share), a charge from the cumulative effect of accounting change (\$0.02 per diluted share), a write-down related to the MovieBeam venture (\$0.02 per diluted share), an impairment charge for a cable television investment in Latin America (\$0.01 per diluted share) and restructuring and impairment charges related to the sale of The Disney Stores North America (\$0.01 per diluted share). These items collectively resulted in a net benefit of \$0.07 per diluted share.

## BUSINESS SEGMENT RESULTS – 2007 vs. 2006

(in millions)	2007	2006	2005	change	
				2007 vs. 2006	2006 vs. 2005
<b>Revenues:</b>					
Media Networks	\$15,046	\$14,100	\$12,637	7%	12%
Parks and Resorts	10,626	9,925	9,023	7%	10%
Studio Entertainment	7,491	7,529	7,587	(1)%	(1)%
Consumer Products	2,347	2,193	2,127	7%	3%
	<b>\$35,510</b>	<b>\$33,747</b>	<b>\$31,374</b>	<b>5%</b>	<b>8%</b>
<b>Segment operating income<sup>(1)</sup>:</b>					
Media Networks	\$ 4,285	\$ 3,480	\$ 3,040	23%	14%
Parks and Resorts	1,710	1,534	1,178	11%	30%
Studio Entertainment	1,201	729	207	65%	>100%
Consumer Products	631	618	543	2%	14%
	<b>\$ 7,827</b>	<b>\$ 6,361</b>	<b>\$ 4,968</b>	<b>23%</b>	<b>28%</b>

<sup>(1)</sup> Segment operating income includes equity in the income of investees. In the Business Segment results discussion, equity in the income of investees is included in segment operating income but does not affect segment revenues or costs and expenses.

The Company evaluates the performance of its operating segments based on segment operating income and management uses aggregate segment operating income as a measure of the overall performance of the operating businesses. The Company believes that information about aggregate segment operating income assists investors by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from factors other than business operations that affect net income. As a result of the spin-off of the ABC Radio business in fiscal 2007, ABC Radio is reported as discontinued operations for all periods presented (see Note 3 to the Consolidated Financial Statements for further discussion). Previously, the ABC Radio business was included in the Media Networks segment. Prior period information has been reclassified to conform to the current presentation. The following table reconciles segment operating income to income from continuing operations before income taxes, minority interests, and the cumulative effect of accounting change.

(in millions)	2007	2006	2005	change	
				2007 vs. 2006	2006 vs. 2005
Segment operating income <sup>(1)</sup>	<b>\$7,827</b>	\$6,361	\$4,968	<b>23%</b>	28%
Corporate and unallocated shared expenses	<b>(497)</b>	(522)	(543)	<b>(5)%</b>	(4)%
Amortization of intangible assets	<b>(16)</b>	(11)	(11)	<b>45%</b>	—
Equity-based compensation plan modification charge	<b>(48)</b>	—	—	<b>nm</b>	nm
Gains on sales of equity investments and businesses	<b>1,052</b>	70	26	<b>&gt;100%</b>	>100%
Restructuring and impairment (charges) and other credits, net	<b>—</b>	18	(32)	<b>(100)%</b>	nm
Net interest expense	<b>(593)</b>	(592)	(597)	<b>—</b>	(1)%
Income from continuing operations before income taxes, minority interests, and the cumulative effect of accounting change	<b>\$7,725</b>	\$5,324	\$3,811	<b>45%</b>	40%

<sup>(1)</sup> Segment operating income includes equity in the income of investees. In the Business Segment results discussion, equity in the income of investees is included in segment operating income but does not affect segment revenues or costs and expenses.

## MEDIA NETWORKS

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

(in millions)	2007	2006	2005	change	
				2007 vs. 2006	2006 vs. 2005
<b>Revenues</b>					
Cable Networks	<b>\$ 9,167</b>	\$ 8,159	\$ 7,399	<b>12%</b>	10%
Broadcasting	<b>5,879</b>	5,941	5,238	<b>(1)%</b>	13%
	<b>\$15,046</b>	\$14,100	\$12,637	<b>7%</b>	12%
<b>Segment operating income</b>					
Cable Networks	<b>\$ 3,582</b>	\$ 3,005	\$ 2,762	<b>19%</b>	9%
Broadcasting	<b>703</b>	475	278	<b>48%</b>	71%
	<b>\$ 4,285</b>	\$ 3,480	\$ 3,040	<b>23%</b>	14%

**Revenues** Media Networks revenues increased 7%, or \$946 million, to \$15.0 billion, consisting of a 12% increase, or \$1.0 billion, at the Cable Networks and a 1% decrease, or a \$62 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of \$601 million from cable and satellite operators, \$240 million from advertising revenues and \$167 million from other revenues. Revenues from cable and satellite operators are generally derived from fees charged on a per-subscriber basis, and the increase in the current year was driven by contractual rate increases and subscriber growth primarily at ESPN and, to a lesser extent, at the international Disney Channels and the domestic Disney-ABC Cable Networks. Higher advertising revenues reflected the addition of NASCAR programming at ESPN and also increases at the domestic Disney-ABC Cable Networks primarily due to higher rates. Higher other revenues were driven by DVD sales, primarily *High School Musical*, and the settlement of a distributor claim.

Certain of the Company's existing contracts with cable and satellite operators include annual live programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

Decreased Broadcasting revenues were primarily due to a decline in advertising revenue at the ABC Television Network partially offset by higher sales of ABC Studios productions. The decrease in advertising revenue at the ABC Television Network was primarily due to fewer hours of sports programming reflecting the absence of Monday Night Football, the Super Bowl and three College Bowl games, partially offset by an increase in primetime. In primetime, higher advertising rates and sold inventory were partially offset by lower ratings. Increased sales of ABC Studios productions reflected higher international and DVD sales of the hit dramas *Desperate Housewives*, *Grey's Anatomy*, and *Ugly Betty*.

**Costs and Expenses** Costs and expenses, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses and general and administrative costs, increased 2%, or \$181 million, to \$11.2 billion, consisting of an 8% increase, or

\$462 million, at the Cable Networks partially offset by a 5% decrease, or \$281 million, at Broadcasting. The increase at Cable Networks was primarily due to increased costs at ESPN primarily due to higher programming and production costs for the addition of NASCAR and for Monday Night Football compared to Sunday Night Football in the prior year, and higher programming and other costs at the domestic Disney-ABC Cable Networks and international Disney Channels. These increases were partially offset by lower costs due to the transition of ESPN's mobile phone operations to a licensing model. The decrease at Broadcasting was due to lower sports programming costs, partially offset by higher costs of Disney-branded mobile phone service, including costs associated with its shutdown, as well as higher production cost amortization due to increased sales of ABC Studios productions.

**Sports Programming Costs** The Company has various contractual commitments for the purchase of rights for multi-year sports and other programming arrangements, including the National Football League (NFL), National Basketball Association (NBA), NASCAR, Major League Baseball (MLB) and various college football and basketball conferences and football bowl games. The costs of these contracts have increased significantly in recent years. We enter into these contractual commitments with the expectation that, over the life of the contracts, revenue from advertising during the programming and affiliate fees will exceed the costs of the programming. While contract costs may initially exceed incremental revenues and negatively impact operating income, it is our expectation that the combined value to our networks from all of these contracts will result in long-term benefits. The actual impact of these contracts on the Company's results over the 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.

**Segment Operating Income** Segment operating income increased 23%, or \$805 million, to \$4.3 billion for the year due to increases of \$577 million at the Cable Networks and \$228 million at Broadcasting. The increase at the Cable Networks was due primarily to growth at ESPN, the international Disney Channels and the domestic Disney-ABC Cable Networks. The increase at Broadcasting was due to strong sales of ABC Studios productions, fewer hours of sports programming and higher primetime advertising revenues at the ABC Television Network, partially offset by higher costs associated with the Disney mobile phone service. Segment operating income includes income from equity investees of \$484 million for the year, compared to \$444 million in the prior year.

**ABC Radio Transaction** On June 12, 2007, the Company completed the spin-off of its wholly-owned subsidiary, ABC Radio Holdings, Inc., which was then merged into a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio business, consisting of 22 large-market radio stations and the ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company's ESPN Radio or Radio Disney network and station businesses. The results of the ABC Radio

business have been reported as discontinued operations for all periods presented. The Company now includes the ESPN Radio and Radio Disney network and stations businesses with Cable Networks in the Media Networks segment. Prior to the transaction, the Company's radio businesses were included with Broadcasting in the Media Networks segment. Previously reported results have been reclassified to reflect this presentation.

Summarized financial information for the discontinued operations is as follows (in millions, except per share data):

	2007	2006	2005
Revenues	\$ 372	\$ 538	\$ 570
Income from discontinued operations before income taxes	45	123	176
Income from discontinued operations, net of tax	13	70	109
Diluted EPS, discontinued operations	0.01	0.03	0.05

**Sale of E! Entertainment Television** On November 21, 2006, in connection with the execution of new long-term agreements for the provision of programming to cable service provider Comcast Corporation (Comcast), the Company sold its 39.5% interest in E! Entertainment Television (E!) to Comcast (which owned the remainder of the interest in E!) for \$1.23 billion, which resulted in a pre-tax gain of \$780 million (\$487 million after-tax) reported in "Gains on sales of equity investments and businesses". Equity income from E! was included in Media Networks segment operating income through the date of the sale.

**Writers Guild of America Work Stoppage** On November 5, 2007, members of the Writers Guild of America commenced a work stoppage. If this work stoppage is prolonged, the Company may be unable to produce or air original programming, which could result in reduced revenue. The Company is pursuing opportunities to mitigate the impact of a sustained work stoppage through alternative programming and reduction of costs, however, an extended work stoppage could have an adverse effect on our profitability.

#### PARKS AND RESORTS

**Revenues** Revenues at Parks and Resorts increased 7%, or \$701 million, to \$10.6 billion due to increases of \$483 million at our domestic resorts and a net increase of \$218 million at our international resorts.

**Domestic Parks and Resorts** At our domestic parks and resorts, revenue growth was due to increases at Walt Disney World and Disneyland Resort. At Walt Disney World, revenue growth was due to increased guest spending, theme park attendance and vacation club ownership sales. Higher guest spending at Walt Disney World was due to increased food, beverage and merchandise spending, higher average ticket prices and a higher average daily hotel room rate. At Disneyland Resort, revenue growth was due to increased guest spending, primarily due to higher average ticket prices.

The following table presents attendance, per capita theme park guest spending, and hotel statistics for our domestic properties:

	East Coast Resorts		West Coast Resorts		Total Domestic Resorts	
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006
Increase (decrease) in Attendance	6%	5%	(1)%	6%	3%	5%
Increase in Per Capita Guest Spending	3%	1%	2%	8%	3%	3%
Occupancy	89%	86%	92%	93%	89%	87%
Available Room Nights (in thousands)	8,614	8,834	810	810	9,424	9,644
Per Room Guest Spending	\$217	\$211	\$309	\$287	\$225	\$218

Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverage and merchandise at the hotels.

**International Parks and Resorts** At our international parks and resorts, revenue growth was due to an increase at Disneyland Resort Paris partially offset by a decrease at Hong Kong Disneyland Resort due to lower theme park attendance. At Disneyland Resort Paris, revenue growth was due to the favorable impact of foreign currency translation, as a result of the weakening of the U.S. dollar against the Euro, and higher theme park attendance, guest spending, and hotel occupancy. Increased guest spending was primarily due to a higher average daily hotel room rate.

**Costs and Expenses** Costs and expenses, which consist principally of labor, depreciation, costs of merchandise, food and beverage sold, marketing and sales expense, repairs and maintenance and entertainment, increased 6%, or \$525 million. The increase in costs and expenses was due to increases at Walt Disney World and Disneyland Resort Paris. The increase at Walt Disney World was primarily due to volume-related costs, labor cost inflation, and new guest offerings, partially offset by lower pension and postretirement medical expense. The increase at Disneyland Resort Paris was primarily due to the unfavorable impact of foreign currency translation, as a result of the weakening of the U.S. dollar against the Euro, higher volume-related costs, and labor cost inflation.

**Segment Operating Income** Segment operating income increased 11%, or \$176 million, to \$1.7 billion primarily due to continued strength at both domestic resorts and Disneyland Resort Paris, partially offset by results at Hong Kong Disneyland Resort.

#### STUDIO ENTERTAINMENT

**Revenues** Revenues for the year were essentially flat at \$7.5 billion compared to the prior year as a decrease of \$470 million in worldwide theatrical distribution was largely offset by an increase of \$234 million in domestic home entertainment and an increase of \$139 million in music distribution.

Lower worldwide theatrical revenues were primarily due to the strong box-office performance of *Pirates of the Caribbean: Dead Man's Chest* in the prior year. Other significant titles in the prior-year included *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*, Disney/Pixar's *Cars* and *Chicken Little* while the current year included *Pirates of the Caribbean: At World's End*, Disney/Pixar's *Ratatouille* and *Wild Hogs*. The increase in domestic home entertainment revenues was primarily due to higher DVD unit sales reflecting the strong performance of *Pirates of the Caribbean: Dead Man's Chest*, *Cars* and the *Little Mermaid* Platinum Release in the current year. The revenue growth in music distribution was driven by the strong performance of the *Hannah Montana* and *High School Musical* soundtracks.

**Cost and Expenses** Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, product costs and participation costs, decreased 8%, or \$510 million, primarily due to decreases in worldwide theatrical distribution and worldwide home entertainment, partially offset by an increase in music distribution.

Lower costs in worldwide theatrical distribution were primarily due to lower distribution expenses, participation costs and film cost write-downs. Lower distribution expenses were driven by a decrease in international markets as the prior year included more high profile films that

had extensive marketing campaigns. The decrease in participation costs were driven by the strong performance of *Pirates of the Caribbean: Dead Man's Chest* and *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe* in the prior year.

**Segment Operating Income** Segment operating income increased \$472 million to \$1.2 billion, primarily due to an improvement in domestic home entertainment performance in the current year.

**Pixar Acquisition** On May 5, 2006, the Company acquired Pixar in an all-stock transaction. As a result of the acquisition, the Company now produces feature animation films under both the Disney and Pixar banners. Additional information regarding the acquisition of Pixar is set forth in Note 3 to the consolidated financial statements and in Item 1A—Risk Factors, above.

**Writers Guild of America Work Stoppage** On November 5, 2007, members of the Writers Guild of America commenced a work stoppage. See page 60 for a discussion of the possible effects of this work stoppage.

#### CONSUMER PRODUCTS

**Revenues** Revenues increased 7%, or \$154 million, to \$2.3 billion, primarily due to increases of \$102 million at Merchandise Licensing and \$61 million at Disney Interactive Studios. Growth at Merchandise Licensing was due to higher earned royalties across multiple product categories led by the strong performance of *Cars* merchandise. Growth at Disney Interactive Studios was due to the performance of current period titles driven by *Pirates of the Caribbean: At World's End*, *Spectrobes* and *Meet the Robinsons* compared to prior period titles, which included *The Chronicles of Narnia* and *Chicken Little*. These gains were partially offset by lower contractual minimum guarantee revenues.

**Costs and Expenses** Costs and expenses, which consist primarily of cost of sales, salaries and benefits, marketing and video game development, increased 7%, or \$113 million, primarily due to an increase at Disney Interactive Studios due to higher cost of sales, video game development costs and marketing costs and higher operating costs at Merchandise Licensing.

**Operating Income** Segment operating income increased 2%, or \$13 million, to \$631 million, driven by higher earned royalties at Merchandise Licensing, partially offset by the increased investment in video game development at Disney Interactive Studios.

**Sale of Us Weekly** On October 2, 2006, the Company sold its 50% stake in *Us Weekly* for \$300 million, which resulted in a pre-tax gain of \$272 million (\$170 million after-tax) reported in "Gains on sales of equity investments and businesses." Equity income from *Us Weekly* was included in Consumer Products segment operating income through the date of the sale.

#### NON-SEGMENT ITEMS – 2007 vs. 2006

##### CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses decreased 5%, from \$522 million to \$497 million, primarily due to lower information technology costs including the absence of transition costs from the transfer of certain information technology functions and services to third-party service providers that were incurred in the prior year.

## NET INTEREST EXPENSE

Net interest expense is detailed below:

(in millions)	2007	2006	change 2007 vs. 2006
Interest expense	<b>\$(746)</b>	\$(706)	6%
Interest and investment income	<b>153</b>	114	34%
Net interest expense	<b>\$(593)</b>	\$(592)	—

Net interest expense was relatively flat as the increase in interest expense, primarily due to higher effective interest rates at Hong Kong Disneyland, was offset by higher interest and investment income reflecting higher average cash balances.

## EFFECTIVE INCOME TAX RATE

The effective income tax rate increased 2.7 percentage points from 34.5% in fiscal 2006 to 37.2% in fiscal 2007. The higher effective tax rate was primarily due to a reduction in the tax benefits realized from an exclusion of certain foreign source income. The exclusion of certain foreign source income was repealed on a phase-out basis as part of the *American Jobs Creation Act of 2004*. No exclusion is available for transactions originating after the first quarter of fiscal 2007.

## MINORITY INTERESTS

Minority interest expense decreased from \$183 million to \$177 million reflecting the impact of increased losses at Hong Kong Disneyland, partially offset by the impacts of increased profits at ESPN and decreased losses at Disneyland Resort Paris. The minority interest impact is determined on income after royalties, financing costs and income taxes.

## PENSION AND POSTRETIREMENT MEDICAL BENEFIT COSTS

Pension and postretirement medical benefit plan costs affect results in all of our segments, with approximately one-half of these costs being borne by the Parks and Resorts segment. The Company recognized pension and postretirement medical benefit plan expenses of \$278 million, \$462 million and \$314 million for fiscal years 2007, 2006, and 2005, respectively. The decrease in fiscal 2007 was primarily due to an increase in the discount rate used to measure the present value of plan obligations. The discount rate assumption increased from 5.25% to 6.40%, reflecting trends in prevailing market interest rates at our June 30, 2006 valuation date. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

We expect pension and postretirement medical costs to decrease to \$244 million in fiscal 2008 primarily due to the improved funded status of the Company's pension plans driven by Company contributions and the return on plan assets. During fiscal 2007, the Company contributed approximately \$416 million to its pension and postretirement medical plans, which included discretionary contributions above the minimum requirements for the pension plans. Based on current actuarial projections, the Company anticipates that it will not be required to make additional contributions during fiscal 2008 under the funding regulations associated with the Pension Protection Act of 2006 (PPA). However, final funding requirements for fiscal 2008 will be determined based on our January 1, 2008 funding actuarial valuation. Additionally, the Company may also choose to make discretionary contributions above the minimum requirements. The Company anticipates contributing approximately \$30 million to postretirement medical and other pension plans not subject to the PPA.

## BUSINESS SEGMENT RESULTS – 2006 vs. 2005

### MEDIA NETWORKS

**Revenues** Media Networks revenues increased 12%, or \$1.5 billion, to \$14.1 billion, consisting of a 10% increase, or \$760 million, at the Cable Networks and a 13% increase, or \$703 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of \$440 million from cable and satellite operators, \$216 million in advertising revenues and \$104 million from other revenues. The increase in revenues from cable and satellite operations in fiscal 2006 was due to contractual rate increases and, to a lesser extent, subscriber growth at ESPN. Increased advertising revenue was due to higher ratings and rates at ESPN.

The increase in Broadcasting revenues was due to increased advertising revenues at the ABC Television Network and increased sales of ABC Studios productions. The growth in advertising revenues at the ABC Television Network was primarily due to higher rates, strong upfront sales, and strength in ratings. Higher advertising revenues at the ABC Television Network also reflected the airing of the Super Bowl which we did not have in fiscal 2005, partially offset by lower advertising revenues from the absence of Monday Night Football (MNF) which moved to ESPN. Increased sales of ABC Studios productions reflected higher international syndication and DVD sales of hit dramas *Lost*, *Grey's Anatomy*, and *Desperate Housewives*, as well as higher third party license fees led by *Scrubs*, which completed its fifth season of network television.

**Costs and Expenses** Costs and expenses increased 10%, or \$1.0 billion, to \$11.1 billion consisting of a 10% increase, or \$511 million, at the Cable Networks, and a 10% increase, or \$496 million, at Broadcasting. The increase at Cable Networks was primarily due to increased costs at ESPN driven by higher programming costs from the new Major League Baseball (MLB) and National Football League (NFL) long-term rights agreements and an additional NFL game. ESPN also incurred higher costs associated with mobile phone operations, which have now transitioned to a licensing model, and higher general and administrative expenses. The increase in Broadcasting was due to higher programming and production costs, higher costs at the internet operations, and the increased number and costs of pilot productions. The increase in programming and production costs reflected costs related to the Super Bowl as well as higher production costs due to increased sales of ABC Studio productions. These increases were partially offset by the absence of costs from Monday Night Football in the fourth quarter of fiscal year 2006. The cost increase at the internet operations was primarily due to the launch of Disney branded mobile phone services as well as costs of other new initiatives.

**Segment Operating Income** Segment operating income increased 14%, or \$440 million, to \$3.5 billion for fiscal 2006 due to an increase of \$243 million at the Cable Networks and an increase of \$197 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN. The increase at Broadcasting was due to increased advertising revenues at the ABC Television Network and increased sales of ABC Studios productions, partially offset by higher costs at the Internet Group, and the increased number and costs of pilot productions. Segment operating income includes income from equity investees of \$444 million for fiscal 2006 compared to \$460 million for fiscal 2005.

### PARKS AND RESORTS

**Revenues** Revenues at Parks and Resorts increased 10%, or \$902 million, to \$9.9 billion due to increases of \$647 million at our domestic resorts and a net increase of \$255 million at our international resorts.



**Domestic Parks and Resorts** At our domestic parks and resorts, increased revenues were due to increased guest spending, theme park attendance, and hotel occupancy, as well as higher vacation club ownership sales. Higher guest spending was due to a higher average daily hotel room rate, higher average ticket prices, and greater merchandise spending at both resorts. Increases in attendance and hotel occupancy were led by the 50th anniversary celebration at both domestic resorts, which concluded at the end of September 2006.

The following table presents attendance, per capita theme park guest spending, and hotel statistics for our domestic properties:

	East Coast Resorts		West Coast Resorts		Total Domestic Resorts	
	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2005
Increase in Attendance	5%	5%	6%	4%	5%	5%
Increase in Per Capita Guest Spending	1%	2%	8%	14%	3%	5%
Occupancy	86%	83%	93%	90%	87%	83%
Available Room Nights (in thousands)	8,834	8,777	810	810	9,644	9,587
Per Room Guest Spending	\$211	\$199	\$287	\$272	\$218	\$206

Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages and merchandise at the hotels.

**International Parks and Resorts** International revenue growth reflected the first full year of theme park operations at Hong Kong Disneyland Resort as compared to the prior year when the park opened in mid-September 2005. Local currency revenues at Disneyland Resort Paris also increased, however this increase was more than offset by the unfavorable impact of foreign currency translation as a result of the strengthening of the U.S. dollar against the Euro.

**Costs and Expenses** Costs and expenses increased 7%, or \$547 million primarily due to increased volume-related costs and costs associated with new guest offerings and attractions at the domestic resorts, and higher operating costs at Hong Kong Disneyland Resort reflecting a full year of theme park operations. These increases were partially offset by the absence of pre-opening costs at Hong Kong Disneyland Resort, lower costs at Disneyland Resort Paris due to the favorable impact of foreign currency translation adjustments as a result of the strengthening of the U.S. dollar against the Euro, and the benefit from adjustments to actuarially determined workers compensation and guest claims liabilities based on favorable claims experience at the domestic resorts.

**Segment Operating Income** Segment operating income increased 30%, or \$356 million, to \$1.5 billion primarily due to continued strength at both domestic resorts, led by the success of the 50th anniversary celebration, the first year of operations at Hong Kong Disneyland Resort, and improvements at Disneyland Resort Paris.

#### STUDIO ENTERTAINMENT

**Revenues** Revenues decreased 1%, or \$58 million, to \$7.5 billion primarily due to a decrease of \$578 million in worldwide home entertainment partially offset by an increase of \$415 million in worldwide theatrical distribution, and an increase of \$60 million in music distribution.

Lower worldwide home entertainment revenues were primarily due to a decline in unit sales resulting from a higher number of strong performing titles in the prior year partially offset by increased sales of television DVD box-sets and reduced marketing and trade programs. Significant fiscal 2006 titles included *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*, *Cinderella* Platinum Release, and *Chicken Little*, while fiscal 2005 titles included Disney/Pixar's *The Incredibles*, *National Treasure*, *Aladdin* Platinum Release, and *Bambi* Platinum Release.

The increase in worldwide theatrical distribution revenues was primarily due to the strong box-office performance of *Pirates of the Caribbean: Dead Man's Chest*, *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*, and Disney/Pixar's *Cars* compared to the fiscal 2005 titles, which included *The Incredibles* and *National Treasure*. The increase was partially offset by lower revenue resulting from fewer domestic Miramax theatrical releases in fiscal 2006.

**Costs and Expenses** Costs and expenses decreased 8%, or \$580 million primarily due to a decrease in worldwide home entertainment, partially offset by increases in worldwide theatrical distribution and higher music distribution expenses.

The decline in costs at worldwide home entertainment was primarily due to reduced marketing expenditures, lower production cost amortization driven by decreased unit sales, and lower distribution costs driven in part by fewer returns.

Higher costs in worldwide theatrical distribution were primarily due to increases in distribution costs, production cost amortization and participation costs. The increase in distribution costs was driven by higher profile films in the current year that had more extensive marketing campaigns to launch the films. Higher production cost amortization and participation costs were driven by the strong performance of *Pirates of the Caribbean: Dead Man's Chest* and *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*. These increases were partially offset by lower costs resulting from fewer domestic Miramax theatrical releases in fiscal 2006.

**Segment Operating Income** Segment operating income increased \$522 million, to \$729 million, primarily due to improvements in worldwide theatrical distribution and worldwide home entertainment.

#### CONSUMER PRODUCTS

**Revenues** Revenues increased 3%, or \$66 million, to \$2.2 billion, primarily due to increases of \$112 million at Disney Interactive Studios and \$91 million at Merchandise Licensing. These increases were partially offset by a decrease of \$106 million at the Disney Stores primarily due to the sale of The Disney Store North America chain in the first quarter of 2005.

Sales growth at Disney Interactive Studios was due to the release of self-published titles based on *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*, *Chicken Little*, and *Pirates of the Caribbean*. Sales growth at Merchandise Licensing was driven by higher earned royalties across multiple product categories, led by the strong performance of *Cars*, *Disney Princess*, and *Pirates of the Caribbean* merchandise.

**Costs and Expenses** Costs and expenses were essentially flat at \$1.6 billion as decreases at The Disney Stores were offset by increases at Disney Interactive Studios. The decrease in costs at The Disney Stores was primarily due to the sale of The Disney Store North America chain in the first quarter of fiscal 2005. Costs increased at Disney Interactive Studios due to higher costs of goods sold driven by increased volumes, increased video game development spending on both current and future titles, and higher marketing expenditures.

**Segment Operating Income** Segment operating income increased 14%, or \$75 million, to \$618 million, due to growth at Merchandise Licensing, partially offset by a decrease at Disney Interactive Studios. Growth at Merchandise Licensing was due to higher earned royalties across multiple product categories. The decrease at Disney Interactive Studios was driven by increased video game development spending on future self-published titles.

#### NON-SEGMENT ITEMS – 2006 vs. 2005

##### NET INTEREST EXPENSE

Net interest expense is detailed below:

(in millions)	2006	2005	change 2006 vs. 2005
Interest expense	\$(706)	\$(605)	17%
Aircraft leveraged lease investment write-down	—	(101)	nm
Interest and investment income	114	48	>100%
Gain on restructuring of Euro Disney debt	—	61	nm
Net interest expense	<u>\$(592)</u>	<u>\$(597)</u>	(1)%

Interest expense increased 17% for the year primarily due to higher interest expense at Hong Kong Disneyland and higher effective interest rates and average debt balances. During fiscal 2005, Hong Kong Disneyland's interest expense was capitalized while the park was under construction.

Interest and investment income for fiscal 2006 increased due to a \$42 million write-down in the prior year of an investment in a company that licenses technology to the MovieBeam venture and increased interest income from higher cash balances.

##### EFFECTIVE INCOME TAX RATE

The effective income tax rate increased 3.7 percentage points from 30.8% in 2005 to 34.5% in 2006. The lower effective tax rate for the prior year reflected a greater release of reserves as a result of the favorable resolution of certain tax matters and the benefit from a one-time deduction permitted under the *American Jobs Creation Act of 2004* related to the repatriation of foreign earnings.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by \$1.3 billion during fiscal 2007. The change in cash and cash equivalents is as follows:

(in millions)	2007	2006	2005
Cash provided by continuing operating activities	<b>\$ 5,398</b>	\$ 5,960	\$ 4,139
Cash used by continuing investing activities	<b>(618)</b>	(220)	(1,682)
Cash used by continuing financing activities	<b>(3,619)</b>	(5,166)	(2,899)
Cash flows from discontinued operations	<b>98</b>	114	123
Increase/(decrease) in cash and cash equivalents	<b><u>\$ 1,259</u></b>	<u>\$ 688</u>	<u>\$ (319)</u>

##### OPERATING ACTIVITIES

Cash provided by continuing operating activities for fiscal 2007 decreased 9% or \$0.6 billion to \$5.4 billion as higher operating performance at Media Networks, Studio Entertainment and Parks and Resorts was more than offset by higher income tax payments, including taxes paid on the E! Entertainment and Us Weekly gains, and timing of film and television spending and accounts receivable collections.

Cash provided by continuing operating activities for fiscal 2006 increased 44% or \$1.8 billion to \$6.0 billion driven by operating income growth at all of the segments, partially offset by higher income tax payments.

Depreciation expense from continuing operations is as follows:

(in millions)	2007	2006	2005
Media Networks			
Cable Networks	<b>\$ 89</b>	\$ 86	\$ 85
Broadcasting	<b>95</b>	93	90
Total Media Networks	<b><u>184</u></b>	<u>179</u>	<u>175</u>
Parks and Resorts			
Domestic	<b>790</b>	780	756
International	<b>304</b>	279	207
Total Parks and Resorts	<b><u>1,094</u></b>	<u>1,059</u>	<u>963</u>
Studio Entertainment	<b>31</b>	30	26
Consumer Products	<b>18</b>	23	25
Corporate	<b>132</b>	126	132
Total depreciation expense from continuing operations	<b><u>\$1,459</u></b>	<u>\$1,417</u>	<u>\$1,321</u>

The Company's Studio Entertainment and Media Networks segments incur costs to acquire and produce television and feature film programming. Film and television production costs include all internally produced content such as live action and animated feature films, animated direct-to-video programming, television series, television specials, theatrical stage plays or other similar product. Programming costs include film or television product licensed for a specific period from third parties for airing on the Company's broadcast, cable networks, and television stations. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

The Company's film and television production and programming activity for fiscal years 2007, 2006 and 2005 are as follows:

(in millions)	2007	2006	2005
Beginning balances:			
Production and programming assets	\$ 5,650	\$ 5,937	\$ 6,422
Programming liabilities	(1,118)	(1,083)	(939)
	<u>4,532</u>	<u>4,854</u>	<u>5,483</u>
Spending:			
Film and television production	2,906	2,901	2,631
Broadcast programming	3,898	3,694	3,712
	<u>6,804</u>	<u>6,595</u>	<u>6,343</u>
Amortization:			
Film and television production	(3,223)	(3,526)	(3,243)
Broadcast programming	(3,696)	(3,929)	(3,668)
	<u>(6,919)</u>	<u>(7,455)</u>	<u>(6,911)</u>
Change in film and television production and programming costs	<u>(115)</u>	<u>(860)</u>	<u>(568)</u>
Pixar film costs acquired	—	538	—
Other non-cash activity	55	—	(61)
Ending balances:			
Production and programming assets	5,682	5,650	5,937
Programming liabilities	(1,210)	(1,118)	(1,083)
	<u>\$ 4,472</u>	<u>\$ 4,532</u>	<u>\$ 4,854</u>

## INVESTING ACTIVITIES

Investing activities from continuing operations consist principally of investments in parks, resorts, and other property and acquisition and divestiture activity. The Company's investments in parks, resorts and other property from continuing operations for the last three years are as follows:

(in millions)	2007	2006	2005
Media Networks	\$ 265	\$ 220	\$ 218
Parks and Resorts:			
Domestic	816	667	726
International	256	248	711
Studio Entertainment	85	41	37
Consumer Products	36	16	10
Corporate	108	100	111
	<u>\$1,566</u>	<u>\$1,292</u>	<u>\$1,813</u>

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions, recurring capital and capital improvements. The increase in capital expenditures was driven by a deposit on two new cruise ships and new rides and attractions at Disneyland Resort including the *Finding Nemo Submarine Voyage*.

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities, and television station facilities.

Capital expenditures at Corporate primarily reflect investments in information technology and other equipment and corporate facilities.

*Other Investing Activities* During fiscal 2007, the Company received \$1.5 billion in proceeds from the sales of our interests in E! Entertainment Television and Us Weekly, which was partially offset by payments for acquisitions driven by the acquisitions of Club Penguin Entertainment, Inc. and NASN Limited.

During fiscal 2006, \$1.1 billion of financial investments were liquidated and the sales of a cable television equity investment and a magazine business generated \$81 million.

During fiscal 2005, the Company received \$100 million for working capital transferred to the buyer of The Disney Store North America and \$29 million from the sale of the Mighty Ducks of Anaheim.

## FINANCING ACTIVITIES

Cash used in continuing financing activities during fiscal 2007 of \$3.6 billion primarily reflected share repurchases and dividends, partially offset by an increase in borrowings and the proceeds from stock option exercises. The increase in borrowings included \$1.35 billion of pre-spin-off borrowings of ABC Radio Holdings, Inc. that were removed from the Company's balance sheet in connection with the spin-off.

Cash used in continuing financing activities during fiscal 2006 of \$5.2 billion reflected share repurchases and payment of dividends to shareholders, partially offset by an increase in borrowings and the proceeds from stock option exercises.

Cash used in continuing financing activities during fiscal 2005 of \$2.9 billion reflected share repurchases, net repayments of borrowings and payment of dividends to shareholders, partially offset by proceeds from stock option exercises.

During the year ended September 29, 2007, the Company's borrowing activity was as follows:

(in millions)	September 30, 2006	Additions	Payments	Other Activity	September 29, 2007
Commercial paper borrowings	\$ 839	\$1,847	\$ —	\$ —	\$ 2,686
U.S. medium-term notes	6,499	1,100	(1,259)	—	6,340
Convertible senior notes	1,323	—	—	—	1,323
European medium-term notes	191	75	(103)	—	163
Preferred stock	353	—	(345)	(8)	—
Capital Cities/ABC debt	183	—	—	(2)	181
Film financing	276	288	(208)	(1)	355
Other <sup>(1)</sup>	619	1,680	(379)	(1,379)	541
Euro Disney borrowings <sup>(2)</sup>	2,172	—	—	304	2,476
Hong Kong Disneyland borrowings	1,070	—	—	37	1,107
<b>Total</b>	<b>\$13,525</b>	<b>\$4,990</b>	<b>\$(2,294)</b>	<b>\$(1,049)</b>	<b>\$15,172</b>

<sup>(1)</sup>Additions include \$1.35 billion of pre-spin-off borrowings of ABC Radio Holdings, Inc. reported in financing activities of continuing operations. Other activity includes the transfer of this debt in connection with the spin-off of ABC Radio Holdings, Inc.

<sup>(2)</sup>Other activity included a \$249 million increase from foreign currency translation as a result of the weakening of the U.S. dollar against the Euro.

The Company's bank facilities are as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring 2010	\$2,250	\$ —	\$2,250
Bank facilities expiring 2011	2,250	212	2,038
<b>Total</b>	<b>\$4,500</b>	<b>\$212</b>	<b>\$4,288</b>

These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company's public debt rating and can range from 0.175% to 0.75%. As of September 29, 2007, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in 2011, which if utilized, reduces available borrowing under this facility. As of September 29, 2007, \$282 million of letters of credit had been issued, of which \$212 million was issued under this facility.

The Company may use commercial paper borrowings up to the amount of its above unused bank facilities, in conjunction with term debt issuance and operating cash flow, to retire or refinance other borrowings before or as they come due.

As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2007. The Company paid a \$637 million dividend (\$0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006. The Company paid a \$519 million dividend (\$0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005; and paid a \$490 million dividend (\$0.24 per share) during the second quarter of fiscal 2005 related to fiscal 2004.

During fiscal 2007, the Company repurchased 202 million shares of Disney common stock for \$6.9 billion. During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for \$6.9 billion. During fiscal 2005, the Company repurchased 91 million shares of Disney common stock for \$2.4 billion. On May 1, 2007, the Board of Directors of the Company increased the share repurchase authorization to a total of 400 million shares. As of September 29, 2007, the Company had remaining authorization in place to repurchase approximately 323 million additional shares. The repurchase program does not have an expiration date.

We believe that the Company's financial condition is strong and that its cash balances, 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 metrics such as interest coverage and leverage ratios. As of September 29, 2007, Moody's Investors Service's long and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; and Standard & Poor's long and short-term debt ratings for the Company were A- and A-2, respectively, on CreditWatch positive. On October 4, 2007, Standard and Poor's raised the long and short-term debt ratings to A and A-1, respectively, and placed the Company on stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 29, 2007, by a significant margin. The Company's bank facilities also specifically exclude certain entities, such as Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default.

Prior to November 14, 2007, Hong Kong Disneyland's commercial term loan and revolving credit facility agreement contained semi-annual financial performance covenants and had a final maturity of October 26, 2015. In anticipation of the prospect that the covenants would not be met as of the September 29, 2007 measurement date, effective November 14, 2007, the agreement was amended to remove the financial performance covenants, shorten the maturity of the loan to September 30, 2008 and decrease the amount of the revolving credit facility from HK\$1 billion (approximately \$129 million) to HK\$800 million (approximately \$103 million). The commercial term loan had a balance of approximately \$284 million as of the effective date of the amendment, and the full amount of the revised revolving credit facility became available as of that date.

To support operating needs in the near-term, the Company agreed to waive management fees for fiscal 2008 and fiscal 2009 and defer royalties for those years, with payment of the deferred royalties dependent upon the future operating performance of Hong Kong Disneyland. Hong Kong Disneyland expects to need additional sources of financing to meet its financial and development needs at and beyond the maturity of the commercial loan and revolving credit facility and is currently engaged in discussions with the Company and Hong Kong Disneyland's majority shareholder (the Government of the Hong Kong Special Administrative Region) regarding financing arrangements to assist in meeting these needs. The Company expects that such financing likely would include additional investment by the Company.

Euro Disney has covenants under its debt agreements that limit its investment and financing activities. Beginning with fiscal year 2006, Euro Disney has also been required to meet financial performance covenants that necessitated improvements to its operating margin. As a result of revenue growth in excess of increases in costs and expenses during fiscal year 2007, Euro Disney believes that it is in compliance with these covenants for fiscal 2007. There can be no assurance that these covenants will be met for any particular measurement period in the future. To the extent that conditions are such that the covenants appear unlikely to be met, management would pursue measures to meet the covenants or would seek to obtain waivers from the debt holders.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF BALANCE SHEET ARRANGEMENTS

The Company has various contractual obligations which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our consolidated financial statements but are required to be disclosed in the footnotes to the financial statements. For example, the Company is contractually committed to acquire broadcast programming and make certain minimum lease payments for the use of property under operating lease agreements.

The following table summarizes our significant contractual obligations and commitments on an undiscounted basis at September 29, 2007 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal and interest payments on outstanding borrowings. Additional details regarding these obligations are provided in the footnotes to the financial statements, as referenced in the table:

(in millions)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 7) <sup>(1)</sup>	\$22,219	\$4,064	\$ 3,462	\$ 3,687	\$11,006
Operating lease commitments (Note 14)	1,850	327	512	363	648
Capital lease obligations (Note 14)	784	39	76	75	594
Sports programming commitments (Note 14)	19,210	2,493	5,143	5,479	6,095
Broadcast programming commitments (Note 14)	3,577	1,943	914	505	215
Total sports and other broadcast programming commitments	22,787	4,436	6,057	5,984	6,310
Other <sup>(2)</sup>	3,976	1,100	1,162	1,632	82
Total contractual obligations <sup>(3)</sup>	\$51,616	\$9,966	\$11,269	\$11,741	\$18,640

<sup>(1)</sup> Amounts exclude market value adjustments totaling \$150 million, which are recorded in the balance sheet. Amounts include interest payments based on contractual terms and current interest rates for variable rate debt.

<sup>(2)</sup> Other commitments primarily comprise contractual commitments for the construction of two new cruise ships and creative talent and employment agreements including obligations to actors, producers, sports personnel, television and radio personalities and executives.

<sup>(3)</sup> Contractual commitments include the following:

Liabilities recorded on the balance sheet	\$16,611
Commitments not recorded on the balance sheet	35,005
	<u>\$51,616</u>

The Company also has obligations with respect to its pension and post retirement medical benefit plans. See Note 9 to the Consolidated Financial Statements.

**Contingent Commitments and Contractual Guarantees** The Company also has certain contractual arrangements that would require the Company to make payments or provide funding if certain circumstances occur. The Company does not currently expect that these arrangements will result in any significant amounts being paid by the Company. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contingent commitments and contractual guarantees.

**Legal and Tax Matters** As disclosed in Notes 8 and 14 to the Consolidated Financial Statements, the Company has exposure for certain legal and tax 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, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements.

**Film and Television Revenues and Costs** We expense the cost of film and television productions over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if estimates of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years of the date of the initial theatrical release. For television series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting future film cost amortization and/or impairment) is domestic theatrical performance. Revenues derived from other markets subsequent to the domestic theatrical release (e.g. the home video or international theatrical markets) have historically been highly correlated with domestic theatrical performance. Domestic theatrical performance varies primarily based upon the public interest and demand for a particular film, the quality of competing films at the time of release, as well as the level of marketing effort. Upon a film's release and determination of domestic theatrical performance, the Company's estimates of revenues from succeeding windows and markets are revised based on

historical relationships and an analysis of current market trends. The most sensitive factor affecting our estimate of Ultimate Revenues for released films is the extent of home entertainment sales achieved. Home entertainment sales vary based on the volume and quality of competing home video products as well as the manner in which retailers market and price our products.

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program's rating. Program ratings, which are an indication of market acceptance, directly affect the Company's ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require the immediate write-off of any unamortized production costs.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program's ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. Rights costs for multi-year sports programming arrangements are amortized based upon the ratio of the current period's gross revenues to Ultimate Revenues (the Projected Revenue Method) or on a straight-line basis, as appropriate. Gross revenues include both advertising revenues and an allocation of affiliate fees. If the annual contractual payments related to each season over the term of a multi-year sports programming arrangement approximate each season's rights cost based on the Projected Revenue Method, we expense the related annual payments during the applicable season. If Ultimate Revenues change significantly from projections, rights costs amortization may be accelerated or slowed.

Costs of film and television productions and programming rights for our broadcast businesses and cable networks are subject to regular recoverability assessments in accordance with applicable accounting rules. The net realizable value of the television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are: early morning, daytime, late night, primetime, news, children, and sports (includes network and cable). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. Individual programs are written-off when there are no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

**Revenue Recognition** The Company has revenue recognition policies for its various operating segments that 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 home entertainment and software product revenues for estimated future returns of merchandise 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. If we underestimate the level of returns and concessions in a particular period, we

may record less revenue in later periods when returns exceed the estimated amount. Conversely, if we overestimate the level of returns and concessions for a period, we may have additional revenue in later periods when returns and concessions are less than estimated.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a three-year time period based on estimated usage patterns, which are derived from historical usage patterns. A change in these estimated usage patterns could have an impact on the timing of revenue recognition.

**Pension and Postretirement Medical Plan Actuarial Assumptions** The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. We decreased our discount rate to 6.35% at the end of fiscal 2007 from 6.40% at the end of fiscal 2006 to reflect market interest rate conditions at our June 30, 2007 measurement date. This decrease in the discount rate will affect net periodic pension and postretirement medical expense in fiscal 2008. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total net periodic pension and postretirement medical expense for fiscal 2008 by \$122 million and would increase the projected benefit obligation at September 29, 2007 by \$999 million, respectively. A one percentage point increase in the assumed discount rate would decrease these amounts by \$74 million and \$849 million, respectively.

To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense. Our long-term expected return on plan assets was 7.50% in both 2007 and 2006, respectively. A one percentage point change in the long-term return on pension plan asset assumption would impact fiscal 2008 annual pension and postretirement medical expense by approximately \$51 million.

See Note 9 to the Consolidated Financial Statements for more information on our pension and postretirement medical plans.

**Goodwill, Intangible Assets and Investments** SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that goodwill and other indefinite-lived intangible assets be tested for impairment on an annual basis. In assessing the recoverability of goodwill and other indefinite-lived intangible assets, market values and projections regarding estimated future cash flows and other factors are used 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.

As required by SFAS 142, goodwill is allocated to various reporting units, which are generally one reporting level below the operating segment. SFAS 142 requires the Company to compare the fair value of

each reporting unit to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. The factor most sensitive to change with respect to our discounted cash flow analyses is the estimated future cash flows of each reporting unit which is, in turn, sensitive to our estimates of future revenue growth and margins for these businesses. If actual revenue growth and/or margins are lower than our expectations, the impairment test results could differ. A present value technique was not used to determine the fair value of the ABC Television Network, a business within the Television Broadcasting reporting unit within the Media Networks operating segment. To determine the fair value of the ABC Television Network, we used a revenue multiple, as a present value technique may not consistently capture the full fair value of the ABC Television Network and there is little comparable market data available due to the scarcity of television networks. If there were a publicly disclosed sale of a comparable network, this may provide better market information with which to estimate the value of the ABC Television Network and could impact our impairment assessment. We applied what we believe to be the most appropriate valuation methodology for each of the reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

SFAS 142 requires the Company to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies, as well as volatility inherent in the external markets for these investments. In assessing potential impairment for these investments, we consider these factors as well as forecasted financial performance of our investees. If these forecasts are not met, impairment charges may be required.

We completed our impairment testing as of September 29, 2007, which resulted in a non-cash impairment charge of \$26 million related to ESPN Radio and Radio Disney FCC licenses. During fiscal 2006, the Company recorded a non-cash impairment charge of \$32 million related to FCC licenses primarily associated with ESPN Radio stations. These impairment charges reflected overall market declines in certain radio markets in which we operate. During fiscal 2005, the Company adopted EITF D-108 and recorded a non-cash impairment charge of \$57 million primarily associated with ESPN and Radio Disney FCC licenses.

**Contingencies and Litigation** We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these claims. These estimates have been developed in consultation with outside counsel and are 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. Our recorded estimates of liability related to income tax audits are made in consultation with outside tax and legal counsel where appropriate and are based upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities in consideration of applicable tax statutes and related interpretations and precedents. The outcome of such proceedings and the ultimate liability borne by the Company may differ from our estimates based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

**Stock Option Compensation Expense** Each year during the second quarter, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel (the Annual Grant). Prior to the fiscal 2006 Annual Grant, the fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model. Beginning with the fiscal 2006 Annual Grant, the Company has changed to the binomial valuation model. The binomial valuation model considers certain characteristics of fair value option pricing that are not considered under the Black-Scholes model. Similar to the Black-Scholes model, the binomial valuation model takes into account variables such as volatility, dividend yield, and the risk-free interest rate. However, the binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being cancelled due to the termination of the option holder) in computing the value of the option. Accordingly, the Company believes that the binomial valuation model should produce a fair value that is more representative of the value of an employee option.

In fiscal years 2007, 2006, and 2005, the weighted average assumptions used in the options-pricing models were as follows:

	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2005 <sup>(2)</sup>
Risk-free interest rate	<b>4.5%</b>	4.3%	3.7%
Expected term (years) <sup>(3)</sup>	<b>4.61</b>	5.09	4.75
Expected volatility	<b>26%</b>	26%	27%
Dividend yield	<b>0.79%</b>	0.79%	0.79%
Termination rate	<b>7.4%</b>	4.0%	n/a
Exercise multiple	<b>1.38</b>	1.48	n/a

<sup>(1)</sup> Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.

<sup>(2)</sup> The Company utilized the Black-Scholes model during fiscal 2005.

<sup>(3)</sup> The expected term assumption is included for fiscal 2005 during which we utilized the Black-Scholes model. Under the binomial model, expected term is not an input assumption.

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value and therefore, the expense related to future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the assumed volatility and expected exercise multiple. Increases or decreases in either the assumed volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively.

The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions. See Note 11 to the Consolidated Financial Statements for more detailed information. If the assumed volatility of 26% used by the Company during 2007 was increased or decreased by five percentage points (i.e. to 31% or to 21%), the weighted average grant date fair value of our 2007 stock option grants would have increased or decreased by 10%.

The expected exercise multiple may be influenced by the Company's future stock performance, stock price volatility, and employee turnover rates. If the exercise multiple assumption of 1.38 used by the Company during 2007 were increased to 1.6 or decreased to 1.2, the weighted average binomial value of our 2007 stock option grants would have increased by 7% or decreased by 12%, respectively.

In connection with the acquisition of Pixar on May 5, 2006, the Company converted previously issued vested and unvested Pixar stock-based awards into Disney stock-based awards consisting of 44 million stock options and one million RSUs. The fair value of these awards was estimated using the Black-Scholes option pricing model, as the information required to use the binomial valuation model was not reasonably available. The methodology utilized to determine the assumptions in the Black-Scholes model was consistent with that used by the Company for its option pricing models.

## ACCOUNTING CHANGES

**SFAS 159** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective for the Company's 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 159 on its financial statements.

**SFAS 158** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statement Nos. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. SFAS 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. The Company adopted the recognition provisions of SFAS 158 in fiscal year 2007. See Note 9 to the Consolidated Financial Statements for information regarding the impact of adopting the recognition provisions of SFAS 158. The Company has not yet adopted the measurement provisions which are not effective until fiscal year 2009.

**SFAS 157** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for the Company's 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 157 on its financial statements.

**SAB 108** In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate

whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 at the end of fiscal 2007, and the adoption did not have a material impact on the Company's financial statements.

**FIN 48** In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company's 2008 fiscal year and will result in a reduction of approximately \$160 million to beginning retained earnings in fiscal year 2008.

**EITF D-108** In September 2004, the Emerging Issues Task Force (EITF) issued Topic No. D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108). EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. Any impairments arising from the initial application of a direct value method are reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Capital Cities/ABC, Inc. in 1996, the Company applied the residual value method to value the acquired FCC licenses. The Company adopted EITF D-108 for the fiscal year ended October 1, 2005 and recorded a non-cash, \$57 million pre-tax charge (\$36 million after-tax) as a cumulative effect of accounting change.

## 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 shareholders. 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 and we undertake no obligation to update these statements. There can be no assurance, however, that our expectations will necessarily come to pass. Significant factors affecting these expectations are set forth under Item 1A – Risk Factors of this Report on Form 10-K.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies, and the fair market value of certain investments in debt and equity securities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility 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. By policy, the Company maintains fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow 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 U.S. dollar equivalent 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, transactions. The Company also uses forward contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the Euro, British pound, Japanese yen, and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. 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 U.S. dollar equivalent value of the related exposures.

It is the Company's policy to enter into foreign currency and interest rate derivative 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 or any other hedging transactions for speculative purposes.

## VALUE AT RISK (VAR)

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange, and market sensitive equity 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 fiscal 2007 year end. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivative contracts and market sensitive equity investments. 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.

VAR on a combined basis increased to \$33 million at September 29, 2007 from \$21 million at September 30, 2006. The increase was primarily due to higher volatility and a higher market value of currency-sensitive instruments.

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

Fiscal Year 2007	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
Year end VAR	\$26	\$17	\$1	\$33
Average VAR	\$17	\$14	\$1	\$23
Highest VAR	\$26	\$17	\$1	\$33
Lowest VAR	\$12	\$12	\$1	\$18
Beginning of year VAR (year end fiscal 2006)	\$22	\$10	\$1	\$21

The VAR for Euro Disney and Hong Kong Disneyland is immaterial as of September 29, 2007. In calculating the VAR it was determined that credit risks are the primary driver for changes in the value of Euro Disney's debt rather than interest rate risks. Accordingly, we have excluded Euro Disney's borrowings from the above VAR calculation.

# CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)	2007	2006	2005
Revenues	<b>\$ 35,510</b>	\$ 33,747	\$ 31,374
Costs and expenses	<b>(28,729)</b>	(28,392)	(27,443)
Gains on sales of equity investments and businesses	<b>1,052</b>	70	26
Restructuring and impairment (charges) and other credits, net	<b>—</b>	18	(32)
Net interest expense	<b>(593)</b>	(592)	(597)
Equity in the income of investees	<b>485</b>	473	483
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change	<b>7,725</b>	5,324	3,811
Income taxes	<b>(2,874)</b>	(1,837)	(1,174)
Minority interests	<b>(177)</b>	(183)	(177)
Income from continuing operations before the cumulative effect of accounting change	<b>4,674</b>	3,304	2,460
Discontinued operations, net of tax	<b>13</b>	70	109
Cumulative effect of accounting change	<b>—</b>	—	(36)
Net income	<b>\$ 4,687</b>	\$ 3,374	\$ 2,533
Diluted Earnings per share:			
Earnings per share, continuing operations before the cumulative effect of accounting change	<b>\$ 2.24</b>	\$ 1.60	\$ 1.19
Earnings per share, discontinued operations	<b>0.01</b>	0.03	0.05
Cumulative effect of accounting change per share	<b>—</b>	—	(0.02)
Earnings per share <sup>(1)</sup>	<b>\$ 2.25</b>	\$ 1.64	\$ 1.22
Basic Earnings per share:			
Earnings per share, continuing operations before the cumulative effect of accounting change	<b>\$ 2.33</b>	\$ 1.65	\$ 1.21
Earnings per share, discontinued operations	<b>0.01</b>	0.03	0.05
Cumulative effect of accounting change per share	<b>—</b>	—	(0.02)
Earnings per share <sup>(1)</sup>	<b>\$ 2.34</b>	\$ 1.68	\$ 1.25
Weighted average number of common and common equivalent shares outstanding:			
Diluted	<b>2,092</b>	2,076	2,089
Basic	<b>2,004</b>	2,005	2,028

<sup>(1)</sup>Total earnings per share may not equal the sum of the column due to rounding.

## CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	2007	2006	September 29,	September 30,
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents			\$ 3,670	\$ 2,411
Receivables			5,032	4,707
Inventories			641	694
Television costs			559	415
Deferred income taxes			862	592
Other current assets			550	743
Total current assets			11,314	9,562
Film and television costs			5,123	5,235
Investments			995	1,315
<b>Parks, resorts and other property, at cost</b>				
Attractions, buildings and equipment			30,260	28,843
Accumulated depreciation			(15,145)	(13,781)
			15,115	15,062
Projects in progress			1,147	913
Land			1,171	1,192
			17,433	17,167
<b>Intangible assets, net</b>				
Goodwill			2,494	2,907
Other assets			22,085	22,505
			1,484	1,307
			\$ 60,928	\$ 59,998
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Accounts payable and other accrued liabilities			\$ 5,949	\$ 5,917
Current portion of borrowings			3,280	2,682
Unearned royalties and other advances			2,162	1,611
Total current liabilities			11,391	10,210
Borrowings			11,892	10,843
Deferred income taxes			2,573	2,651
Other long-term liabilities			3,024	3,131
Minority interests			1,295	1,343
<b>Commitments and contingencies (Note 14)</b>				
<b>Shareholders' equity</b>				
Preferred stock, \$.01 par value				
Authorized – 100 million shares, Issued – none			—	—
Common stock, \$.01 par value				
Authorized – 3.6 billion shares,				
Issued – 2.6 billion shares at September 29, 2007 and 2.5 billion at September 30, 2006			24,207	22,377
Retained earnings			24,805	20,630
Accumulated other comprehensive loss			(157)	(8)
			48,855	42,999
Treasury stock, at cost, 637.8 million shares at September 29, 2007 and 436.0 million shares at September 30, 2006			(18,102)	(11,179)
			30,753	31,820
			\$ 60,928	\$ 59,998

See Notes to Consolidated Financial Statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	2007	2006	2005
<i>Operating Activities of Continuing Operations</i>			
Net income	<b>\$ 4,687</b>	\$ 3,374	\$ 2,533
Income from discontinued operations	(13)	(70)	(109)
Depreciation and amortization	1,491	1,437	1,341
Gains on sales of equity investments and businesses	(1,052)	(70)	(26)
Deferred income taxes	(260)	(139)	(265)
Equity in the income of investees	(485)	(473)	(483)
Cash distributions received from equity investees	420	458	402
Write-off of aircraft leveraged lease	—	—	101
Cumulative effect of accounting change	—	—	36
Minority interests	177	183	177
Net change in film and television costs	115	860	568
Equity-based compensation	419	373	370
Other	(65)	(54)	(150)
Changes in operating assets and liabilities			
Receivables	(355)	(85)	(156)
Inventories	52	(63)	22
Other assets	9	(55)	(90)
Accounts payable and other accrued liabilities	77	304	(255)
Income taxes	181	(20)	123
Cash provided by continuing operations	<b>5,398</b>	5,960	4,139
<i>Investing Activities of Continuing Operations</i>			
Investments in parks, resorts and other property	(1,566)	(1,292)	(1,813)
Sales of investments	5	1,073	24
Working capital proceeds from The Disney Store North America sale	—	—	100
Proceeds from sales of equity investments and businesses	1,530	81	29
Acquisitions	(588)	(55)	(9)
Proceeds from sales of fixed assets and other	1	(27)	(13)
Cash used in continuing investing activities	<b>(618)</b>	(220)	(1,682)
<i>Financing Activities of Continuing Operations</i>			
Commercial paper borrowings, net	1,847	85	654
Borrowings	3,143	2,806	422
Reduction of borrowings	(2,294)	(1,950)	(1,775)
Dividends	(637)	(519)	(490)
Repurchases of common stock	(6,923)	(6,898)	(2,420)
Euro Disney equity offering	—	—	171
Equity partner contributions	—	51	147
Exercise of stock options and other	1,245	1,259	392
Cash used in continuing financing activities	<b>(3,619)</b>	(5,166)	(2,899)
<i>Cash Flows of Discontinued Operations</i>			
Net cash provided by operating activities of discontinued operations	23	98	130
Net cash used in investing activities of discontinued operations	(3)	(7)	(9)
Net cash provided by financing activities of discontinued operations	78	23	2
Increase/(decrease) in cash and cash equivalents	1,259	688	(319)
Cash and cash equivalents, beginning of year	2,411	1,723	2,042
Cash and cash equivalents, end of year	<b>\$ 3,670</b>	\$ 2,411	\$ 1,723
Supplemental disclosure of cash flow information:			
Interest paid	<b>\$ 551</b>	\$ 617	\$ 641
Income taxes paid	<b>\$ 2,796</b>	\$ 1,857	\$ 1,572

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions, except per share data)	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
BALANCE AT SEPTEMBER 30, 2004	2,040	\$12,447	\$15,732	\$(236)	\$ (1,862)	\$26,081
Exercise of stock options and issuance of restricted stock and stock options	20	841	—	—	1	842
Common stock repurchases	(91)	—	—	—	(2,420)	(2,420)
Dividends (\$0.24 per share)	—	—	(490)	—	—	(490)
Other comprehensive loss (net of tax of \$197 million)	—	—	—	(336)	—	(336)
Net income	—	—	2,533	—	—	2,533
BALANCE AT OCTOBER 1, 2005	1,969	13,288	17,775	(572)	(4,281)	26,210
Exercise of stock options and issuance of restricted stock and stock options	57	1,676	—	—	—	1,676
Acquisition of Pixar	279	7,413	—	—	—	7,413
Common stock repurchases	(243)	—	—	—	(6,898)	(6,898)
Dividends (\$0.27 per share)	—	—	(519)	—	—	(519)
Other comprehensive income (net of tax of \$394 million)	—	—	—	564	—	564
Net income	—	—	3,374	—	—	3,374
BALANCE AT SEPTEMBER 30, 2006	2,062	22,377	20,630	(8)	(11,179)	31,820
Exercise of stock options and issuance of restricted stock and stock options	57	1,823	—	—	—	1,823
Common stock repurchases	(202)	—	—	—	(6,923)	(6,923)
Dividends (\$0.31 per share)	—	7	(644)	—	—	(637)
Other comprehensive income (net of tax of \$66 million)	—	—	—	112	—	112
Adoption of SFAS 158 (see Note 9) (net of tax of \$154 million)	—	—	—	(261)	—	(261)
Distribution of ABC Radio business	—	—	132	—	—	132
Net income	—	—	4,687	—	—	4,687
<b>BALANCE AT SEPTEMBER 29, 2007</b>	<b>1,917</b>	<b>\$24,207</b>	<b>\$24,805</b>	<b>\$(157)</b>	<b>\$(18,102)</b>	<b>\$30,753</b>

Accumulated other comprehensive income/(loss) is as follows:

	September 29, 2007	September 30, 2006
Market value adjustments for investments and hedges	\$ (42)	\$ 29
Foreign currency translation and other	164	87
Minimum pension liability adjustment	n/a	(124)
Unrecognized pension and postretirement medical expense	(279)	n/a
	<u>\$(157)</u>	<u>\$ (8)</u>

Comprehensive income/(loss) is as follows:

	2007	2006	2005
Net income	\$4,687	\$3,374	\$2,533
Market value adjustments for investments and hedges	(71)	(2)	92
Foreign currency translation and other	77	(19)	20
Minimum pension liability adjustment, increase/(decrease) (see Note 9)	106	585	(448)
Comprehensive income	<u>\$4,799</u>	<u>\$3,938</u>	<u>\$2,197</u>

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 ten owned television stations, as well as the ESPN Radio Network, and Radio Disney Network (the Radio Networks) and 46 owned radio stations. Both the television and radio networks have affiliated stations providing coverage to households throughout the United States. The Company has cable/satellite networks and international television operations that 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 that operate through consolidated subsidiary companies are the ESPN-branded networks, Disney Channel, International Disney Channel, SOAPnet, Toon Disney, ABC Family Channel, and Jetix 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 and Lifetime Entertainment Services. The Company also produces original television programming for network, first-run syndication, pay, and international syndication markets, along with original animated television programming for network, pay, and international syndication markets. Additionally, the Company operates ABC-, ESPN-, ABC Family-, SOAPnet- and Disney-branded internet website businesses, as well as Club Penguin, an online virtual world for kids.

On June 12, 2007, the Company completed the spin-off of its wholly owned subsidiary, ABC Radio Holdings, Inc., and its merger into a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio Business, consisting of 22 large-market radio stations and the ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company's ESPN Radio or Radio Disney network and station businesses. Additional information regarding this transaction is included in Note 3.

#### PARKS AND RESORTS

The Company owns and operates the Walt Disney World Resort in Florida and the Disneyland Resort in California. The Walt Disney World Resort includes four theme parks (the Magic Kingdom, Epcot, Disney-MGM Studios, and Disney's Animal Kingdom), seventeen resort hotels, a retail, dining, and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks, and other recreational facilities. The Disneyland Resort includes two theme parks (Disneyland and Disney's California Adventure), three resort hotels, and

a retail, dining and entertainment district. The Company manages and has a 40% equity interest in Euro Disney S.C.A. (Euro Disney), a publicly-held French entity that is a holding company for Euro Disney Associés S.C.A. (Disney S.C.A.), in which the Company has a direct 18% interest. Consequently, the Company has a 51% effective ownership interest in Disney S.C.A., the primary operating company of Disneyland Resort Paris, which includes the Disneyland Park, the Walt Disney Studios Park, seven themed hotels, two convention centers, a shopping, dining and entertainment complex, and a 27-hole golf facility. The Company also manages and has a 43% equity interest in Hong Kong Disneyland, which includes one theme park and two resort hotels. 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'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 club ownership interests through the Disney Vacation Club and operates the Disney Cruise Line out of Port Canaveral, Florida. Also included in Parks and Resorts is the ESPN Zone, which operates eight sports-themed dining and entertainment facilities around the United States.

#### STUDIO ENTERTAINMENT

The Company produces and acquires live-action and animated motion pictures for worldwide distribution to the theatrical, home entertainment, and television markets. The Company distributes these products through its own distribution and marketing companies in the United States and foreign markets primarily under the Walt Disney Pictures, Touchstone Pictures, and Miramax banners, as well as Dimension for titles released prior to September 30, 2005. On May 5, 2006, the Company completed an all stock acquisition of Pixar, a digital animation studio. As a result of the acquisition the Company now produces feature animation films under both the Disney and Pixar banners. Refer to Note 3 for information about the acquisition. The Company also produces stage plays and musical recordings.

#### 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 retail and online distribution of products through The Disney Store and DisneyShopping.com. The Disney Store is owned and operated in Europe and franchised in North America and Japan. The Company publishes books and magazines for children and families and computer software and video game products for the entertainment and educational marketplace.

#### 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 the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses and exclude amortization of certain intangible assets, gains on sale of equity investments and businesses, restructuring and impairment (charges) and other credits, net interest expense, income taxes, minority interests, and the cumulative effect of accounting change. Segment operating income results include equity in the income of investees. Equity investees consist primarily of A&E Television Networks and Lifetime Television, which are cable businesses included in the Media Networks segment. Corporate and unallocated shared expenses principally consist of corporate functions, executive management, and certain unallocated administrative support functions.

Equity in the income of investees by segment is as follows:

	2007	2006	2005
Media Networks <sup>(1)</sup>	\$484	\$444	\$460
Parks and Resorts	—	1	—
Consumer Products	—	28	23
Corporate	1	—	—
	<b>\$485</b>	<b>\$473</b>	<b>\$483</b>

<sup>(1)</sup>Substantially all of these amounts relate to investments at Cable Networks.

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

	2007	2006	2005
<b>Revenues</b>			
Media Networks	\$15,046	\$14,100	\$12,637
Parks and Resorts	10,626	9,925	9,023
Studio Entertainment			
Third parties	7,308	7,410	7,499
Intersegment	183	119	88
	<b>7,491</b>	<b>7,529</b>	<b>7,587</b>
Consumer Products			
Third parties	2,530	2,312	2,215
Intersegment	(183)	(119)	(88)
	<b>2,347</b>	<b>2,193</b>	<b>2,127</b>
Total consolidated revenues	<b>\$35,510</b>	<b>\$33,747</b>	<b>\$31,374</b>
<b>Segment operating income</b>			
Media Networks	\$ 4,285	\$ 3,480	\$ 3,040
Parks and Resorts	1,710	1,534	1,178
Studio Entertainment	1,201	729	207
Consumer Products	631	618	543
Total segment operating income	<b>\$ 7,827</b>	<b>\$ 6,361</b>	<b>\$ 4,968</b>

	2007	2006	2005
<b>Reconciliation of segment operating income to income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change</b>			
Segment operating income	\$ 7,827	\$ 6,361	\$ 4,968
Corporate and unallocated shared expenses	(497)	(522)	(543)
Amortization of intangible assets	(16)	(11)	(11)
Equity-based compensation plan modification charge	(48)	—	—
Gains on sales of equity investments and businesses	1,052	70	26
Restructuring and impairment (charges) and other credits, net	—	18	(32)
Net interest expense	(593)	(592)	(597)
Income from continuing operations before income taxes, minority interests and the cumulative effect of accounting change	<b>\$ 7,725</b>	<b>\$ 5,324</b>	<b>\$ 3,811</b>
<b>Capital expenditures from continuing operations</b>			
Media Networks	\$ 265	\$ 220	\$ 218
Parks and Resorts			
Domestic	816	667	726
International	256	248	711
Studio Entertainment	85	41	37
Consumer Products	36	16	10
Corporate	108	100	111
Total capital expenditures from continuing operations	<b>\$ 1,566</b>	<b>\$ 1,292</b>	<b>\$ 1,813</b>
<b>Depreciation expense from continuing operations</b>			
Media Networks	\$ 184	\$ 179	\$ 175
Parks and Resorts			
Domestic	790	780	756
International	304	279	207
Studio Entertainment	31	30	26
Consumer Products	18	23	25
Corporate	132	126	132
Total depreciation expense from continuing operations	<b>\$ 1,459</b>	<b>\$1,417</b>	<b>\$1,321</b>
<b>Identifiable assets</b>			
Media Networks <sup>(1)(2)</sup>	\$27,692	\$27,281	
Parks and Resorts <sup>(2)</sup>	16,311	15,929	
Studio Entertainment <sup>(2)</sup>	10,812	11,159	
Consumer Products <sup>(2)</sup>	1,553	1,505	
Corporate <sup>(2)(3)</sup>	4,560	4,124	
Total consolidated assets	<b>\$60,928</b>	<b>\$59,998</b>	

	2007	2006	2005
<i>Supplemental revenue data</i>			
Media Networks			
Advertising	\$ 7,112	\$ 7,222	\$ 6,708
Affiliate Fees	6,139	5,538	5,098
Parks and Resorts			
Merchandise, food and beverage	3,454	3,221	2,879
Admissions	3,342	3,085	2,771
Revenues			
United States and Canada	\$27,286	\$26,027	\$24,236
Europe	5,898	5,266	5,207
Asia Pacific	1,732	1,917	1,451
Latin America and Other	594	537	480
	<b>\$35,510</b>	<b>\$33,747</b>	<b>\$31,374</b>
<i>Segment operating income</i>			
United States and Canada	\$ 6,042	\$ 4,808	\$ 3,794
Europe	1,192	918	738
Asia Pacific	437	542	386
Latin America and Other	156	93	50
	<b>\$ 7,827</b>	<b>\$ 6,361</b>	<b>\$ 4,968</b>
<i>Identifiable assets</i>			
United States and Canada <sup>(1)</sup>	\$52,052	\$52,097	
Europe	6,588	5,624	
Asia Pacific	2,077	2,111	
Latin America and Other	211	166	
	<b>\$60,928</b>	<b>\$59,998</b>	

<sup>(1)</sup> Identifiable assets include amounts associated with equity method investments of \$714 and \$1,065 in 2007 and 2006, respectively.

<sup>(2)</sup> Goodwill and intangible assets, by segment, are as follows:

	2007	2006
Media Networks	\$18,403	\$19,257
Parks and Resorts	173	173
Studio Entertainment	5,065	5,036
Consumer Products	691	690
Corporate	247	256
	<b>\$24,579</b>	<b>\$25,412</b>

<sup>(3)</sup> Primarily deferred tax assets, investments, fixed assets, 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 that established a facility that permits DFI to sell receivables arising from the sale of vacation club memberships on a periodic basis. In connection with this facility, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

### Accounting Changes

*SFAS 159* In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SFAS 159 is

effective for the Company's 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 159 on its financial statements.

*SFAS 158* In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statement Nos. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. SFAS 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. The Company adopted the recognition provisions of SFAS 158 in fiscal year 2007. See Note 9 for information regarding the impact of adopting the recognition provision of SFAS 158. The Company has not yet adopted the measurement provisions which are not effective until fiscal year 2009.

*SFAS 157* In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for the Company's 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of SFAS 157 on its financial statements.

*SAB 108* In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. The Company adopted SAB 108 at the end of fiscal 2007, and the adoption did not have a material impact on the Company's financial statements.

*FIN 48* In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company's 2008 fiscal year and will result in a reduction of approximately \$160 million to beginning retained earnings in fiscal year 2008.



**EITF D-108** In September 2004, the Emerging Issues Task Force (EITF) issued Topic No. D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108). EITF D-108 requires that a direct value method be used to value intangible assets acquired in business combinations completed after September 29, 2004. EITF D-108 also requires the Company to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method. Any impairments arising from the initial application of a direct value method are reported as a cumulative effect of accounting change. For radio station acquisitions subsequent to the acquisition of Capital Cities/ABC, Inc. in 1996, the Company applied the residual value method to value the acquired FCC licenses. The Company adopted EITF D-108 for the fiscal year ended October 1, 2005 and recorded a non-cash \$57 million pre-tax charge (\$36 million after-tax) as a cumulative effect of accounting change.

**Reclassifications** Certain reclassifications have been made in the fiscal 2006 and fiscal 2005 financial statements and notes to conform to the fiscal 2007 presentation.

As a result of the spin-off of the ABC Radio business in fiscal 2007, ABC Radio is reported as discontinued operations for all periods presented (see Note 3 for further discussion). Previously, the ABC Radio business was included in the Media Networks segment. Prior period information has been reclassified to conform to the current presentation.

**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** 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. Certain of the Company's existing contracts with cable and satellite operators include annual live programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a three-year time period based on estimated usage patterns that are derived from historical usage patterns. Revenues from corporate sponsors at the theme parks are generally recognized over the period of the applicable agreements commencing with the opening of the related attraction.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video and video game sales, net of anticipated returns and customer incentives, are recognized on the date that video units are made 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.

Merchandise licensing advances and guarantee royalty payments are recognized based on the contractual royalty rate when the licensed product is sold by the licensee. Non-refundable advances and minimum guarantee royalty payments in excess of royalties earned are generally recognized as revenue at the end of the contract term.

Taxes collected from customers and remitted to governmental authorities are presented in the Consolidated Statements of Income on a net basis.

**Advertising Expense** Advertising costs are expensed as incurred. Advertising expense for fiscal 2007, 2006 and 2005 was \$2.6 billion, \$2.5 billion and \$2.9 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 accumulated other comprehensive income/(loss), respectively. All other equity securities are accounted for using either the cost method or the equity method.

The Company regularly 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.

**Translation Policy** The U.S. dollar is the functional currency for the majority of our international operations. The local currency is the functional currency for Euro Disney, Hong Kong Disneyland, JETIX and international locations of The Disney Stores.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for nonmonetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in net earnings.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive 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 include capitalizable production costs, production overhead, interest, development costs, and acquired production costs and 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 are recorded when the license period begins and the program is available for use. Marketing, distribution, and general and administrative costs are expensed as incurred.

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 (Ultimate Revenues) from all sources on an individual production basis. Ultimate Revenues for film productions includes revenue that will be earned within ten years of the date of the initial theatrical release. For television network series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film libraries, remaining

revenues include amounts to be earned for up to twenty years from the date of acquisition. Film development costs for projects that have been abandoned or have not been set for production within three years are generally written off.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Rights costs for multi-year sports programming arrangements are amortized based upon the ratio of the current period's gross revenues to Ultimate Revenues (the Projected Revenue Method) or on a straight-line basis over the useful life, as appropriate. Ultimate Revenues for multi-year sports programming rights include both advertising revenues and an allocation of affiliate fees. If the annual contractual payments related to each season over the term of a multi-year sports programming arrangement approximate each season's rights cost based on the Projected Revenue Method, we expense the related annual payments during the applicable season. Individual programs are written-off when there are no plans to air or sublicense the program.

The net realizable value of network television broadcast program licenses and rights is reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are early morning, daytime, late night, primetime, news, children, and sports (includes network and cable). The net realizable values of other cable programming are reviewed on an aggregated basis for each cable channel.

*Internal-Use Software Costs* The Company expenses costs incurred in the preliminary project stage of developing or acquiring 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. As of September 29, 2007 and September 30, 2006, capitalized software costs, net of accumulated depreciation, totaled \$555 million and \$491 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, ranging from 3-10 years.

*Software Product Development Costs* Software product development costs incurred prior to reaching technological feasibility are expensed. We have determined that technological feasibility of the software is not established until substantially all product development is complete. The software product development costs that have been capitalized to date have been insignificant.

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

Attractions	25 – 40 years
Buildings and improvements	40 years
Leasehold improvements	Life of lease or asset life if less
Land improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years

*Goodwill and Other Intangible Assets* The Company performs an annual impairment test at fiscal year end for goodwill and other indefinite-lived intangible assets, including FCC licenses and trademarks. As required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill

is allocated to various reporting units, which are generally one level below our operating segments.

To determine if there is potential goodwill impairment, SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis. 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 within the reporting unit is less than the carrying value of its goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate, except for the ABC Television Network, a business within the Media Networks operating segment, for which we used a revenue multiple. We used a revenue multiple as a present value technique may not consistently capture the full fair value of the ABC Television Network, and there is little comparable market data available due to the scarcity of television networks. We applied what we believe to be the most appropriate valuation methodology for each of our reporting units. If we had established different reporting units or utilized different valuation methodologies, the impairment test results could differ.

SFAS 142 requires the Company to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

We completed our impairment testing as of September 29, 2007, which resulted in a non-cash impairment charge of \$26 million related to ESPN Radio and Radio Disney FCC licenses. During fiscal 2006, the Company recorded a non-cash impairment charge of \$32 million related to FCC licenses primarily associated with ESPN Radio stations. These impairment charges reflected overall market declines in certain radio markets in which we operate. During fiscal 2005, the Company adopted EITF D-108 and recorded a non-cash impairment charge of \$57 million primarily associated with ESPN and Radio Disney FCC licenses.

Amortizable intangible assets, principally copyrights, are generally amortized on a straight-line basis over periods of up to 31 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 (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. 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 gains 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 losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in 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 rates and exchange rates change 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.

From time to time, the Company may enter into risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts are intended to offset certain economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. Cash flows from hedging activities 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 is based upon the weighted average number of common and common equivalent shares outstanding during the year which is calculated using the treasury-stock method for equity-based awards and assumes conversion of the Company's convertible senior notes (see Note 7). Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of income from continuing operations and the weighted average number of common and common equivalent shares outstanding for calculating diluted earnings per share from continuing operations is as follows:

	2007	2006	2005
Income from continuing operations before the cumulative effect of accounting change	<b>\$4,674</b>	\$3,304	\$2,460
Interest expense on convertible senior notes (net of tax)	<b>21</b>	21	21
	<b><u>\$4,695</u></b>	<u>\$3,325</u>	<u>\$2,481</u>
Weighted average number of common shares outstanding (basic)	<b>2,004</b>	2,005	2,028
Weighted average dilutive impact of equity-based compensations awards	<b>43</b>	26	16
Weighted average assumed conversion of convertible senior notes	<b>45</b>	45	45
Weighted average number of common and common equivalent shares outstanding (diluted)	<b><u>2,092</u></b>	<u>2,076</u>	<u>2,089</u>

For fiscal 2007, 2006 and 2005, options for 25 million, 88 million and 96 million shares, respectively, were excluded from the diluted EPS calculation because they were anti-dilutive.

### NOTE. 3 SIGNIFICANT ACQUISITIONS AND DISPOSITIONS AND RESTRUCTURING AND IMPAIRMENT CHARGES

**Acquisition of Pixar** On May 5, 2006 (the Closing Date), the Company completed an all stock acquisition of Pixar, a digital animation studio (the Acquisition). Disney believes that the creation of high quality feature animation is a key driver of success across many of its businesses and provides content useful across a variety of traditional and new platforms throughout the world. The acquisition of Pixar is intended to support the Company's strategic priorities of creating the finest content, embracing leading-edge technologies, and strengthening its global presence. The results of Pixar's operations have been included in the Company's consolidated financial statements since the Closing Date.

To purchase Pixar, Disney exchanged 2.3 shares of its common stock for each share of Pixar common stock, resulting in the issuance of 279 million shares of Disney common stock, and converted previously issued vested and unvested Pixar equity-based awards into approximately 45 million Disney equity-based awards.

The Acquisition purchase price was \$7.5 billion (\$6.4 billion, net of Pixar's cash and investments of approximately \$1.1 billion). The value of the stock issued was calculated based on the market value of the Company's common stock using the average stock price for the five-day period beginning two days before the acquisition announcement date on January 24, 2006. The fair value of the vested equity-based awards issued at the Closing Date was estimated using the Black-Scholes option pricing model, as the information required to use a binomial valuation model was not reasonably available.

In connection with the Acquisition, the Company recorded a non-cash, non-taxable gain from the deemed termination of the existing Pixar distribution agreement. Under our previously existing distribution agreement with Pixar, the Company earned a distribution fee that, based on current market rates at the Closing Date, was favorable to the Company. In accordance with EITF 04-1, *Accounting for Pre-Existing Relationships between the Parties to a Business Combination* (EITF 04-1), the Company recognized a \$48 million gain, representing the net present value of the favorable portion of the distribution fee over the remaining life of the distribution agreement. In addition, the Company abandoned the Pixar sequel projects commenced by the Company prior to the acquisition and recorded a pre-tax impairment charge totaling \$26 million, which represents the costs of these projects incurred through the abandonment date. These two items are classified in "Restructuring and impairment (charges) and other credits, net" in the Consolidated Statements of Income.

The Company allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values, which were determined primarily through third-party appraisals. The goodwill that arose from the Acquisition reflected the value to Disney from:

- Acquiring a talented, assembled workforce, particularly the creative and technological talents of key senior management and film directors with a successful track record of producing high quality feature animation
- Securing all of the economic results of future films produced by Pixar
- Obtaining the benefits of leveraging future Pixar-created intellectual property across Disney's diversified revenue streams and portfolio of entertainment assets
- Improving the results of Disney feature animation films

The following table summarizes the allocation of the purchase price:

	Estimated Fair Value	Weighted Average Useful Lives (years)
Cash and cash equivalents	\$ 11	
Investments	1,073	
Prepaid and other assets	45	
Film costs	538	12
Buildings and equipment	225	16
Intangibles	233	17
Goodwill	5,557	
Total assets acquired	\$7,682	
Liabilities	64	
Deferred income taxes	123	
Total liabilities assumed	\$ 187	
Net assets acquired	<u>\$7,495</u>	

The weighted average useful life determination for intangibles excludes \$164 million of indefinite-lived Pixar trademarks and trade-names. Goodwill of \$4.8 billion, \$0.6 billion, and \$0.2 billion was allocated to the Studio Entertainment, Consumer Products, and Parks and Resorts operating segments, respectively. The goodwill is not amortizable for tax purposes.

The following table presents unaudited pro forma results of Disney for fiscal 2006 as though Pixar had been acquired as of the beginning of fiscal 2006. These pro forma results do not necessarily represent what would have occurred if the Acquisition had taken place as of the beginning of fiscal 2006 and do not represent the results that may occur in the future. The pro forma amounts represent the historical operating results of Disney and Pixar with adjustments for purchase accounting.

	Fiscal Year 2006 (unaudited)
Revenues	\$34,299
Income before cumulative effect of accounting change	3,395
Net Income	3,395
Earnings per share:	
Diluted	<u>\$ 1.52</u>
Basic	<u>\$ 1.56</u>

**Other Acquisitions** On August 1, 2007, the Company acquired all of the outstanding shares of Club Penguin Entertainment, Inc. (CPE), a Canadian company that operates clubpenguin.com, an online virtual world for children. The purchase price included upfront cash consideration of approximately \$350 million and additional consideration of up to \$350 million that may be paid if CPE achieves predefined earnings targets for calendar years 2008 and 2009.

On February 1, 2007, the Company acquired all the outstanding shares of NASN Limited, an Irish company that operates cable television networks in Europe dedicated to North American sporting events and related programming, for consideration valued at \$112 million consisting of cash and assumption of debt.

We are in the process of finalizing the valuation of the assets acquired and liabilities assumed for both acquisitions.

**ABC Radio Transaction** On June 12, 2007, the Company completed the spin-off of its wholly-owned subsidiary, ABC Radio Holdings, Inc., and its merger into a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio business, consisting of 22 large-market radio stations and the

ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company's ESPN Radio or Radio Disney network and station businesses.

As a result of the spin-off and merger, Company shareholders received approximately 0.0768 shares of Citadel common stock in exchange for each share of Disney common stock held as of June 6, 2007. Approximately 151.7 million shares of Citadel common stock were issued to Company shareholders in the merger. As part of the transaction, the Company retained \$1.35 billion of cash, representing the proceeds from debt raised by ABC Radio Holdings, Inc. prior to the spin-off. This debt and the assets and other liabilities of the ABC Radio business were removed from the Company's balance sheet as a distribution at book value. Consequently, there was no gain or loss recorded and the negative net book value of \$132 million was credited to retained earnings.

Fiscal 2007 results of the ABC Radio business through June 12, 2007 have been reported as discontinued operations. Previously reported results have been reclassified to reflect this presentation.

Summarized financial information for the discontinued ABC Radio business is as follows (in millions):

INCOME STATEMENT DATA:

	2007	2006	2005
Revenues	\$372	\$538	\$570
Income from discontinued operations before income taxes	45	123	176

BALANCE SHEET DATA:

	June 12, 2007	September 30, 2006
Assets		
Current assets	\$ 132	\$ 129
Property and equipment	56	60
FCC licenses	476	476
Goodwill	726	726
Other assets	7	4
	<u>1,397</u>	<u>1,395</u>
Liabilities		
Current liabilities	25	20
Borrowings	1,350	—
Long-term liabilities	154	149
Net assets of discontinued operations	<u>\$ (132)</u>	<u>\$1,226</u>

**Dispositions** On November 21, 2006, in connection with the execution of new long-term agreements for the provision of programming to cable service provider Comcast Corporation (Comcast), the Company sold its 39.5% interest in E! Entertainment Television (E!) to Comcast (which owned the remainder of the interest in E!) for \$1.23 billion, which resulted in a pre-tax gain of \$780 million (\$487 million after-tax). On October 2, 2006, the Company sold its 50% stake in Us Weekly for \$300 million, which resulted in a pre-tax gain of \$272 million (\$170 million after-tax). These gains are reported in "Gains on sales of equity investments and businesses" in the Consolidated Statements of Income.

The following disposals occurred during fiscal 2006 and fiscal 2005:

- A cable television equity investment in Spain was sold for \$67 million on November 23, 2005, resulting in a pre-tax gain of \$57 million.
- The Discover Magazine business was sold for \$14 million on October 7, 2005, resulting in a pre-tax gain of \$13 million.
- The Mighty Ducks of Anaheim was sold for \$39 million on June 20, 2005, resulting in a pre-tax gain of \$26 million.

These gains were reported in "Gains on sales of equity investments and businesses" in the Consolidated Statements of Income.

On November 21, 2004, the Company sold substantially all of The Disney Store chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place (TCP). The Company received \$100 million for the working capital transferred to the buyer at the closing of the transaction. During fiscal 2005, the Company recorded a loss on the working capital that was transferred to the buyer and additional restructuring and impairment charges related to the sale (primarily for employee retention and severance and lease termination costs) totaling \$32 million.

The changes in the carrying amount of goodwill for the years ended September 29, 2007 and September 30, 2006 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products	Total
Balance at October 1, 2005	\$16,895	\$ 27	\$ 23	\$ 29	\$16,974
Goodwill acquired during the year	23	146	4,790	613	5,572
Other, net	(19)	—	(22)	—	(41)
Balance at September 30, 2006	16,899	173	4,791	642	22,505
Goodwill acquired during the year	475	—	—	21	496
Goodwill disposed of during the year	(726)	—	—	—	(726)
Capital Cities/ABC, Inc. acquisition adjustment and other, net	(187)	—	(3)	—	(190)
<b>Balance at September 29, 2007</b>	<b>\$16,461</b>	<b>\$173</b>	<b>\$4,788</b>	<b>\$663</b>	<b>\$22,085</b>

During the fourth quarter of fiscal 2007, certain preacquisition tax contingencies related to the Company's 1996 acquisition of Capital Cities/ABC, Inc. were reversed against goodwill.

#### NOTE 4. INVESTMENTS

Investments consist of the following:

	September 29, 2007	September 30, 2006
Investments, equity basis <sup>(1)</sup>	<b>\$706</b>	\$1,075
Investments, other	<b>237</b>	188
Investment in aircraft leveraged leases	<b>52</b>	52
	<b>\$995</b>	\$1,315

<sup>(1)</sup>Equity investments consist of investments in companies over which the Company has significant influence but not the majority of the equity or risks and rewards.

*Investments, Equity Basis* A summary of combined financial information for equity investments, which include cable investments such as A&E Television Networks (37.5% owned) and Lifetime Entertainment Services (50.0% owned), is as follows:

	2007	2006	2005
<i>Results of Operations:</i>			
Revenues	<b>\$4,351</b>	\$4,447	\$4,317
Net Income	<b>\$1,137</b>	\$1,170	\$1,275

	September 29, 2007	September 30, 2006
<i>Balance Sheet:</i>		
Current assets	<b>\$2,383</b>	\$2,620
Non-current assets	<b>1,331</b>	1,562
	<b>\$3,714</b>	\$4,182
Current liabilities	<b>\$1,113</b>	\$1,048
Non-current liabilities	<b>1,060</b>	1,154
Shareholders' equity	<b>1,541</b>	1,980
	<b>\$3,714</b>	\$4,182

During fiscal 2007, the Company sold its interests in E! and Us Weekly. See Note 3 for further discussion.

*Investments, Other* As of September 29, 2007 and September 30, 2006, the Company held \$99 million and \$82 million, respectively, of securities classified as available-for-sale. As of September 29, 2007 and September 30, 2006, the Company also held \$138 million and \$106 million, respectively, of non-publicly traded cost-method investments.

In 2007 and 2006, the Company had no realized gain or loss on sales of available-for-sale securities. In 2005, the Company recognized \$14 million in net gains on sales of available for sale securities. Realized gains and losses are determined principally on an average cost basis.

In 2007, 2006 and 2005, the Company recorded non-cash charges of \$18 million, \$0 million and \$42 million, respectively, to reflect other-than-temporary losses in value of certain investments.

*Investment in Aircraft Leveraged Leases* During the fourth quarter of 2005, the Company recorded a \$101 million pre-tax charge, or \$0.03 per share, to write-off its remaining investment in aircraft leveraged leases with Delta Air Lines, Inc. (Delta) resulting from Delta's bankruptcy filing in September 2005. This charge was reported in "Net interest expense" in the Consolidated Statements of Income. Our remaining aircraft leveraged lease investment of \$52 million is with FedEx Corp.

#### NOTE 5. EURO DISNEY AND HONG KONG DISNEYLAND

The Company has a 51% effective ownership interest in the operations of Euro Disney and a 43% ownership interest in the operations of Hong Kong Disneyland which are both consolidated under FIN 46R, *Consolidation of Variable Interest Entities*.

The following table presents a condensed consolidating balance sheet for the Company as of September 29, 2007, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	\$ 3,066	\$ 604	\$ 3,670
Other current assets	7,379	265	7,644
Total current assets	10,445	869	11,314
Investments	1,766	(771)	995
Fixed assets	12,597	4,836	17,433
Other assets	31,143	43	31,186
Total assets	<u>\$55,951</u>	<u>\$4,977</u>	<u>\$60,928</u>
Current portion of borrowings	\$2,910	\$ 370	\$ 3,280
Other current liabilities	7,437	674	8,111
Total current liabilities	10,347	1,044	11,391
Borrowings	8,679	3,213	11,892
Deferred income taxes and other long-term liabilities	5,423	174	5,597
Minority interests	749	546	1,295
Shareholders' equity	30,753	—	30,753
Total liabilities and shareholders' equity	<u>\$55,951</u>	<u>\$4,977</u>	<u>\$60,928</u>

The following table presents a condensed consolidating income statement of the Company for the year ended September 29, 2007, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation <sup>(1)</sup>	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	\$ 33,695	\$ 1,815	\$ 35,510
Cost and expenses	(26,857)	(1,872)	(28,729)
Gains on sales of equity investments and businesses	1,052	—	1,052
Net interest expense	(430)	(163)	(593)
Equity in the income of investees	390	95	485
Income (loss) from continuing operations before income taxes and minority interests	7,850	(125)	7,725
Income taxes	(2,849)	(25)	(2,874)
Minority interests	(327)	150	(177)
Income from continuing operations	4,674	—	4,674
Discontinued operations, net of tax	13	—	13
Net income	<u>\$ 4,687</u>	<u>\$ —</u>	<u>\$ 4,687</u>

<sup>(1)</sup> These amounts include Euro Disney and Hong Kong Disneyland under the equity method of accounting. As such, royalty and management fee income from these operations is included in Revenues and our share of their net income is included in Equity in the income of investees.

The following table presents a condensed consolidating cash flow statement of the Company for the year ended September 29, 2007, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided by continuing operations	\$ 5,137	\$ 261	\$ 5,398
Investments in parks, resorts, and other property	(1,310)	(256)	(1,566)
Other investing activities	948	—	948
Cash used in continuing financing activities	(3,619)	—	(3,619)
Cash flows from discontinued operations	98	—	98
Increase in cash and cash equivalents	1,254	5	1,259
Cash and cash equivalents, beginning of year	1,812	599	2,411
Cash and cash equivalents, end of year	<u>\$ 3,066</u>	<u>\$ 604</u>	<u>\$ 3,670</u>

*Euro Disney Financial Restructuring* Effective October 1, 2004, Euro Disney, the Company, and Euro Disney's lenders finalized a Memorandum of Agreement (MOA) related to the financial restructuring of Euro Disney (the 2005 Financial Restructuring). The MOA provided for new financing as well as the restructuring of Euro Disney's existing financing at that time. The transactions contemplated by the MOA were fully implemented on February 23, 2005 with the completion of a €253 million equity rights offering. The MOA included the following provisions:

#### *Royalties and Management Fees*

- Royalties and management fees for fiscal 2005 through fiscal 2009, totaling €25 million per year, payable to the Company are to be unconditionally deferred and converted into subordinated long-term borrowings
- Royalties and management fees for fiscal 2007 through fiscal 2014, of up to €25 million per year, payable to the Company are subject to conditional deferrals and will be converted into subordinated long-term borrowings if operating results do not achieve specified levels. Based on operating results and subject to third-party confirmation, the Company does not expect royalties and management fees subject to conditional deferral for fiscal 2007 to be converted into subordinated long-term borrowings

#### *New Financing*

- €253 million equity rights offering, of which the Company's share was €100 million
- New ten-year €150 million line of credit from the Company for liquidity needs, which reduces to €100 million after five years. There were no borrowings under the new line of credit as of September 29, 2007

The MOA provided for a 2% interest rate increase for certain tranches of Euro Disney's debt, resulting in a substantial modification of a portion of this debt. Relevant accounting rules required that the substantially modified portion be accounted for as though it had been extinguished and replaced with new borrowings recorded at fair value, which resulted in a \$61 million gain recorded in "Net interest expense" in the Consolidated Statement of Income during the year ended October 1, 2005.

Certain indirect, wholly-owned subsidiaries of The Walt Disney Company have liability as current or former general partners of Disney S.C.A. In addition to their equity interest in Disney S.C.A., certain of these subsidiaries of the Company have been capitalized with interest-bearing demand notes with an aggregate face value of €200 million.

NOTE 6.  
FILM AND TELEVISION COSTS

Film and Television costs are as follows:

	September 29, 2007	September 30, 2006
<b>Theatrical film costs</b>		
Released, less amortization	<b>\$1,889</b>	\$2,041
Completed, not released	<b>164</b>	265
In-process	<b>912</b>	928
In development or pre-production	<b>168</b>	135
	<u><b>3,133</b></u>	<u>3,369</u>
<b>Television costs</b>		
Released, less amortization	<b>804</b>	882
Completed, not released	<b>295</b>	210
In-process	<b>278</b>	228
In development or pre-production	<b>10</b>	17
	<u><b>1,387</b></u>	<u>1,337</u>
Television broadcast rights	<u><b>1,162</b></u>	<u>944</u>
	<b>5,682</b>	5,650
Less current portion	<b>559</b>	415
Non-current portion	<u><b>\$5,123</b></u>	<u>\$5,235</u>

Based on management's total gross revenue estimates as of September 29, 2007, approximately 80% of unamortized film and television costs for released productions (excluding amounts allocated to acquired film and television libraries) are expected to be amortized during the next three years. Approximately \$603 million of accrued participation and residual liabilities will be paid in fiscal year 2008. The Company expects to amortize, based on current estimates, approximately \$1.4 billion in capitalized film production costs during fiscal 2008.

At September 29, 2007, acquired film and television libraries have remaining unamortized costs of \$473 million, which are generally amortized straight-line over a weighted-average remaining period of approximately 11 years.

NOTE 7.  
BORROWINGS

The Company's borrowings at September 29, 2007 and September 30, 2006, including the impact of interest rate swaps designated as hedges, are summarized below:

			2007				
	2007	2006	Stated Interest Rate <sup>(1)</sup>	Interest rate and Cross-Currency Swaps <sup>(2)</sup>		Effective Interest Rate <sup>(3)</sup>	Swap Maturities
				Pay Variable	Pay Fixed		
Commercial paper borrowings	<b>\$ 2,686</b>	\$ 839	5.37%	\$ —	\$ —	5.37%	—
U.S. medium-term notes	<b>6,340</b>	6,499	6.02%	1,485	—	5.67%	2008-2022
Convertible senior notes	<b>1,323</b>	1,323	2.13%	—	—	2.13%	—
European medium-term notes	<b>163</b>	191	4.80%	163	—	5.03%	2010-2011
Preferred stock	—	353	—	—	—	—	—
Capital Cities/ABC debt	<b>181</b>	183	9.05%	—	—	8.79%	—
Film financing	<b>355</b>	276	—	—	—	—	—
Other <sup>(4)</sup>	<b>541</b>	619	—	—	—	—	—
	<u><b>11,589</b></u>	<u>10,283</u>	5.14%	1,648	—	4.95%	—
<b>Euro Disney (ED) and Hong Kong</b>							
<b>Disneyland (HKDL):</b>							
ED – CDC loans	<b>1,418</b>	1,246	5.04%	—	—	5.12%	—
ED – Credit facilities & other	<b>568</b>	486	7.66%	—	501	6.64%	2008-2009
ED – Other advances	<b>490</b>	440	3.21%	—	19	3.22%	2009
HKDL – Senior and subordinated loans	<b>1,107</b>	1,070	6.55%	—	232	6.82%	2008-2011
	<u><b>3,583</b></u>	<u>3,242</u>	5.67%	—	752	5.63%	—
Total borrowings	<b>15,172</b>	13,525	5.27%	1,648	752	5.11%	—
Less current portion	<b>3,280</b>	2,682	—	60	—	—	—
Total long-term borrowings	<u><b>\$11,892</b></u>	<u>\$10,843</u>	—	<u>\$1,588</u>	<u>\$752</u>	—	—

<sup>(1)</sup> 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 29, 2007; these rates are not necessarily an indication of future interest rates.

<sup>(2)</sup> Amounts represent notional values of interest rate and cross-currency swaps.

<sup>(3)</sup> The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps on the stated rate of interest. Other adjustments to the stated interest rate such as purchase accounting adjustments and debt issuance costs did not have a material impact on the overall effective interest rate.

<sup>(4)</sup> Includes market value adjustments for debt with qualifying hedges totaling \$150 million and \$196 million at September 29, 2007 and September 30, 2006, respectively.

**Commercial Paper** At September 29, 2007, the Company had \$2.7 billion of commercial paper debt outstanding and bank facilities totaling \$4.5 billion to support its commercial paper borrowings, with half of the facilities scheduled to expire in 2010 and the other half in 2011. These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company's public debt rating and can range from 0.175% to 0.75%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in 2011, which if utilized, reduces available borrowing under this facility. As of September 29, 2007, \$282 million of letters of credit had been issued, of which \$212 million was issued under this facility, leaving total available borrowing capacity of nearly \$4.3 billion under these bank facilities. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 29, 2007 by a significant margin. The Company's bank facilities also specifically exclude certain entities, including Euro Disney and Hong Kong Disneyland, from any representations, covenants, or events of default. As of September 29, 2007, the Company had not borrowed against the facilities.

**\$5 Billion Shelf Registration Statement** At September 29, 2007, the Company had a shelf registration statement which allows the Company to borrow up to \$5 billion using 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. As of September 29, 2007, \$3.35 billion has been issued under the shelf registration statement. Our ability to issue debt is subject to market conditions and other factors impacting our borrowing capacity. As of September 29, 2007, the remaining unused capacity under the shelf registration is \$1.65 billion.

**U.S. Medium-Term Note Program** At September 29, 2007, the total debt outstanding under U.S. medium-term note programs was \$6.3 billion. The maturities of current outstanding borrowings range from 1 to 86 years and stated interest rates range from 4.94% to 10.30%.

**Convertible Senior Notes** At September 29, 2007, the Company has outstanding \$1.3 billion of convertible senior notes due on April 15, 2023. The notes bear interest at a fixed annual rate of 2.13% and are redeemable at the Company's option any time after April 15, 2008 at par. The notes are redeemable at the investor's option at par on April 15, 2008, April 15, 2013, and April 15, 2018, and upon the occurrence of certain fundamental changes, such as a change in control. The notes are convertible into common stock, under certain circumstances including if the Company calls the notes for redemption, at a conversion rate of 33.9443 shares of common stock per \$1,000 principal amount of notes. This is equivalent to a conversion price of \$29.46. The conversion rate is subject to adjustment if certain events occur, such as the payment of a common stock dividend, the issuance of rights or warrants to all holders of the Company's common stock that allow the holders to purchase shares of the Company's common stock during a specified period of time, and subdivision, combinations or certain reclassifications of the Company's common stock.

**European Medium-Term Note Program** At September 29, 2007, the Company had a 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 or dual currency notes. The size of the program is \$4 billion. The remaining capacity under the program is \$3.8 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. In 2007, \$75 million of debt was issued under the program. At September 29, 2007, the total debt outstanding under the program was \$163 million. The maturities of out-

standing borrowings range from 3 to 4 years and stated interest rates range from 4.72% to 4.90%. The Company has outstanding borrowings under the program denominated in U.S. dollars.

**Preferred Stock** In connection with the acquisition of ABC Family in October 2001, the Company assumed Series A Preferred Stock with a 9% coupon, payable quarterly, valued at approximately \$400 million reflecting an effective cost of capital of 5.25%. The Series A Preferred Stock was callable commencing August 1, 2007 and was scheduled to mature August 1, 2027. The Company called and redeemed all of the Series A Preferred Stock on August 2, 2007. The Series A Preferred Stock was classified as borrowings given its substantive similarity to a debt instrument.

**Capital Cities/ABC Debt** In connection with the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed various debt previously issued by Capital Cities/ABC, Inc. At September 29, 2007, the outstanding balance was \$181 million with maturities ranging from 2 to 14 years and stated interest rates ranging from 8.75% to 9.65%.

**Film Financing** In August 2005, the Company entered into a film financing arrangement with a group of investors whereby the investors will fund up to approximately \$500 million for 40% of the production and marketing costs of a slate of up to thirty-two live-action films, excluding certain titles such as *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe* and, in general, sequels to previous films, including the *Pirates of the Caribbean* sequels, not included in the slate, in return for approximately 40% of the future net cash flows generated by these films. By entering into this transaction, the Company is able to share the risks and rewards of the performance of its live-action film production and distribution activity with outside investors. As of September 29, 2007, the investors have participated in the funding of twenty-one films. The cumulative investment in the slate by the investors, net of the cash flows generated by the slate that are returned to the investors, is classified as borrowings. Interest expense recognized from these borrowings is variable and is determined using the effective interest method based on the projected profitability of the film slate.

The last film of the slate is anticipated to be completed in fiscal 2009. The Company has the option at 5, 10 and 15 years from inception of the film financing arrangement to buy the investors' remaining interest in the slate at a price that is based on the then remaining projected future cash flows that the investors would receive from the slate. As of September 29, 2007, borrowings under this arrangement totaled \$355 million.

#### *Euro Disney and Hong Kong Disneyland Borrowings*

**Euro Disney – CDC loans.** Pursuant to Euro Disney's original financing and the terms of a 1994 financial restructuring, Euro Disney borrowed funds from the CDC. As of September 29, 2007, these borrowings consisted of approximately €243 million (\$343 million at September 29, 2007 exchange rates) of senior debt and €278 million (\$393 million at September 29, 2007 exchange rates) of subordinated debt. The senior debt is collateralized primarily by the theme park, certain hotels, and land assets of Disneyland Resort Paris (except for Walt Disney Studios Park) with a net book value of approximately €1.5 billion (\$2.1 billion at September 29, 2007 exchange rates), whereas the subordinated debt is unsecured. Interest on the senior and subordinated debt is payable semiannually. The loans bear interest at a fixed rate of 5.15% and mature from fiscal year 2015 to fiscal year 2024. In accordance with the terms of the 2005 Financial Restructuring, principal payments falling between 2004 and 2016 have been deferred by 3.5 years. In return, the interest rate on principal of €48 million (\$68 million at September 29, 2007 exchange rates) was increased to 7.15%, the interest rate on prin-



principal of €43 million (\$61 million at September 29, 2007 exchange rates) was increased to 6.15%, and €10 million (\$14 million at September 29, 2007 exchange rates) of principal was prepaid effective February 23, 2005. Also, pursuant to the terms of the 2005 Financial Restructuring, €125 million (\$177 million at September 29, 2007 exchange rates) of subordinated loans were converted into senior loans during fiscal year 2005.

Euro Disney also executed a credit agreement with the CDC to finance a portion of the construction costs of Walt Disney Studios Park. As of September 29, 2007, approximately €482 million (\$682 million at September 29, 2007 exchange rates) of subordinated loans were outstanding under this agreement. The loans bear interest at a fixed rate of 5.15% per annum, unless interest or principal payments are deferred under the provisions of the loans, during which time the interest rate on the deferred amounts is the greater of 5.15% or EURIBOR plus 2.0%. The loans mature between fiscal years 2015 and 2028. Also, pursuant to the 2005 Financial Restructuring, the CDC agreed to forgive €2.5 million (\$4 million at September 29, 2007 exchange rates) of interest on these loans per year starting December 31, 2004 and continuing through 2011 and to conditionally defer and convert to subordinated long-term debt, interest payments up to a maximum amount of €20 million (\$28 million at September 29, 2007 exchange rates) per year for each of the fiscal years 2005 through 2012 and €23 million (\$33 million at September 29, 2007 exchange rates) for each of the fiscal years 2013 and 2014.

*Euro Disney – Credit facilities and other.* Pursuant to Euro Disney's original financing with a syndicate of international banks and the terms of a 1994 financial restructuring, Euro Disney borrowed funds which are collateralized primarily by the theme park, hotels, and land assets of Disneyland Resort Paris (except for Walt Disney Studios Park) with a net book value of approximately €1.5 billion (\$2.1 billion at September 29, 2007 exchange rates). At September 29, 2007, the total balance outstanding was €401 million (\$568 million at September 29, 2007 exchange rates). The impact of the 2005 Financial Restructuring on the credit facilities included the deferral of certain principal payments for 3.5 years, with the final maturity of the loans remaining unchanged. In return for these concessions, the interest rate was increased to EURIBOR plus 3% (7.79% at September 29, 2007) from EURIBOR plus amounts ranging from 0.84% to 1.00% and €96 million (\$136 million at September 29, 2007 exchange rates) of principal was prepaid on February 23, 2005 using debt security deposits. The loans mature between fiscal years 2008 and 2013.

*Euro Disney – Other advances.* Advances of €331 million (\$469 million at September 29, 2007 exchange rates) bear interest at a fixed rate of 3.0%. The remaining advances of €15 million (\$21 million at September 29, 2007 exchange rates) bear interest at EURIBOR plus 3% (7.79% at September 29, 2007). The advances are scheduled to mature between fiscal years 2013 and 2017, of which €15 million (\$21 million at September 29, 2007 exchange rates) are collateralized by certain hotels assets. The impact of the 2005 Financial Restructuring on the other advances includes the deferral either directly or indirectly of principal payments for 3.5 years.

Euro Disney has covenants under its debt agreements that limit its investment and financing activities. Beginning with fiscal year 2006, Euro Disney has also been required to meet financial performance covenants that necessitated improvements to its operating margin. As a result of revenue growth in excess of increases in costs and expenses during fiscal year 2007, Euro Disney believes that it is in compliance with these covenants for fiscal 2007. There can be no assurance that these covenants will be met for any particular measurement period in the future. To the extent that conditions are such that the

covenants appear unlikely to be met, management would pursue measures to meet the covenants or would seek to obtain waivers from the debt holders.

*Hong Kong Disneyland — Senior loans.* Hong Kong Disneyland's senior loans are borrowings pursuant to a term loan facility of HK\$2.3 billion (\$296 million at September 29, 2007 exchange rates) and a revolving credit facility of HK\$1.0 billion (\$129 million at September 29, 2007 exchange rates). The balance of the senior loans as of September 29, 2007 was HK\$2.2 billion (\$284 million at September 29, 2007 exchange rates). The revolving credit facility has not been drawn down as of September 29, 2007. These facilities are collateralized by bank accounts, fixed assets, land and other assets of the Hong Kong Disneyland theme park with a net book value of approximately HK\$12 billion (\$1.5 billion at September 29, 2007 exchange rates). At September 29, 2007, both facilities had a rate of three month HIBOR + 1.25% and were scheduled to mature in fiscal 2016. The spread above HIBOR is 1.25% through November 15, 2010 and 1.375% for the last five years of the facilities. As of September 29, 2007, the rate on the senior loans was 5.98%.

Prior to November 14, 2007, Hong Kong Disneyland's commercial term loan and revolving credit facility agreement contained semi-annual financial performance covenants and had a final maturity of October 26, 2015. In anticipation of the prospect that the covenants would not be met as of the September 29, 2007 measurement date, effective November 14, 2007, the agreement was amended to remove the financial performance covenants, shorten the maturity of the loan to September 30, 2008 and decrease the amount of the revolving credit facility from HK\$1 billion (approximately \$129 million) to HK\$800 million (approximately \$103 million). The commercial term loan had a balance of approximately \$284 million as of the effective date of the amendment, and the full amount of the revised revolving credit facility became available as of that date.

To support operating needs in the near-term, the Company agreed to waive management fees for fiscal 2008 and fiscal 2009 and defer royalties for those years, with payment of the deferred royalties dependent upon the future operating performance of Hong Kong Disneyland. Hong Kong Disneyland expects to need additional sources of financing to meet its financial and development needs at and beyond the maturity of the commercial loan and revolving credit facility and is currently engaged in discussions with the Company and Hong Kong Disneyland's majority shareholder (the Government of the Hong Kong Special Administrative Region) regarding financing arrangements to assist in meeting these needs. The Company expects that such financing likely would include additional investment by the Company.

*Hong Kong Disneyland — Subordinated loans.* Hong Kong Disneyland has a subordinated unsecured loan facility of HK\$5.6 billion (\$724 million at September 29, 2007 exchange rates), which has been fully drawn, that is scheduled to mature on September 12, 2030. Pursuant to the terms of the loan facility, interest incurred prior to March 2006 of HK\$433 million (\$56 million at September 29, 2007 exchange rates) is not payable until the loan matures and is therefore classified as long-term borrowings. In addition, pursuant to the terms of the loan facility, interest of HK\$332 million (\$43 million at September 29, 2007 exchange rates) is accrued and is dependent upon the achievement of certain financial measurements. The interest rate on this loan is subject to biannual revisions under certain conditions, but is capped at an annual rate of 6.75% (until March 12, 2014), 7.625% (until March 12, 2022) and 8.50% (until September 12, 2030). As of September 29, 2007, the rate on the subordinated loans was 6.75%.

Total borrowings excluding market value adjustments, have the following scheduled maturities:

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney and Hong Kong Disneyland	Total
2008	\$ 2,895	\$ 370	\$ 3,265
2009	1,165	118	1,283
2010	889	124	1,013
2011	826	173	999
2012	1,578	217	1,795
Thereafter	4,086	2,581	6,667
	<u>\$11,439</u>	<u>\$3,583</u>	<u>\$15,022</u>

The Company capitalizes interest on assets constructed for its parks, resorts, and other property and on theatrical productions. In 2007, 2006 and 2005, total interest capitalized was \$37 million, \$30 million, and \$77 million, respectively.

NOTE 8.  
INCOME TAXES

	2007	2006	2005
<i>Income From Continuing Operations Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Changes</i>			
Domestic (including U.S. exports)	\$7,344	\$4,983	\$3,500
Foreign subsidiaries	381	341	311
	<u>\$7,725</u>	<u>\$5,324</u>	<u>\$3,811</u>
<i>Income Tax (Benefit) Provision</i>			
Current			
Federal	\$2,368	\$1,612	\$1,078
State	303	125	163
Foreign	330	243	221
	<u>3,001</u>	<u>1,980</u>	<u>1,462</u>
Deferred			
Federal	(118)	(182)	(253)
State	(9)	39	(35)
	<u>(127)</u>	<u>(143)</u>	<u>(288)</u>
	<u>\$2,874</u>	<u>\$1,837</u>	<u>\$1,174</u>

September 29,  
2007

September 30,  
2006

<i>Components of Deferred Tax Assets and Liabilities</i>		
<i>Deferred tax assets</i>		
Accrued liabilities	\$ (1,153)	\$(1,120)
Foreign subsidiaries	(526)	(674)
Equity-based compensation	(303)	(259)
Other, net	(37)	—
Total deferred tax assets	<u>(2,019)</u>	<u>(2,053)</u>
<i>Deferred tax liabilities</i>		
Depreciable, amortizable and other property	3,286	3,470
Licensing revenues	340	404
Leveraged leases	50	96
Other, net	—	88
Total deferred tax liabilities	<u>3,676</u>	<u>4,058</u>
Net deferred tax liability before valuation allowance	1,657	2,005
Valuation allowance	54	54
Net deferred tax liability	<u>\$ 1,711</u>	<u>\$ 2,059</u>

	2007	2006	2005
<i>Reconciliation of Effective Income Tax Rate</i>			
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.3	2.0	2.2
Adjustments with respect to prior year tax matters	(1.0)	(0.8)	(3.3)
Foreign sales corporation and extraterritorial income	(0.5)	(2.2)	(2.3)
Repatriation of earnings of foreign subsidiaries	—	—	(0.9)
Other, including tax reserves and related interest	1.4	0.5	0.1
	<u>37.2%</u>	<u>34.5%</u>	<u>30.8%</u>

In 2007 the Company derived tax benefits of \$37 million from an exclusion provided under U.S. income tax laws with respect to certain extraterritorial income attributable to foreign trading gross receipts ("FTGRs"). This exclusion was repealed as part of the *American Jobs Creation Act of 2004* (the "Act"), which was enacted on October 22, 2004. The Act provides for a phase-out such that the exclusion for the Company's otherwise qualifying FTGRs generated in fiscal 2005, 2006 and 2007 are limited to approximately 85%, 65% and 15%, respectively. No exclusion is available for transactions originating after the first quarter of fiscal 2007.

The Act also provided for a one-time tax deduction of 85% of certain foreign earnings that were repatriated in fiscal 2005. During the fourth quarter of fiscal 2005, the Company repatriated foreign earnings eligible for this deduction and recorded a tax benefit of \$32 million as a result of the reversal of deferred taxes previously provided on these earnings.

The Act made a number of other changes to the income tax laws including the creation of a new deduction relating to qualifying domestic production activities which will affect the Company in the current and future years. The deduction equals three percent of qualifying net income for fiscal 2006 and 2007, six percent for fiscal 2008 through 2010, and nine percent for fiscal 2011 and thereafter. Our tax provisions for fiscal 2007 and fiscal 2006 reflect benefits of \$41 million and \$25 million, respectively, resulting from this deduction.

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. At the current time, the Internal Revenue Service continues to examine the Company's federal income tax returns for 2001 through 2004. During fiscal 2006, the Company settled certain state income tax disputes and released \$40 million in related tax reserves that were no longer required. During fiscal 2005, the Company reached settlements with the Internal Revenue Service regarding all assessments proposed with respect to its federal income tax returns for 1996 through 2000, and a settlement with the California Franchise Tax Board regarding assessments proposed with respect to its state tax returns for 1994 through 2003. These favorable settlements resulted in the Company releasing \$102 million in tax reserves which were no longer required with respect to the settled matters.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to beginning retained earnings for the year of adoption. FIN 48 is effective for the Company's 2008 fiscal year and will result in a reduction of approximately \$160 million to beginning retained earnings in fiscal year 2008.

In fiscal years 2007, 2006 and 2005, income tax benefits attributable to equity-based compensation transactions that were allocated to shareholders' equity amounted to \$123 million, \$106 million and \$64 million, respectively.

## NOTE 9.

## PENSION AND OTHER BENEFIT PROGRAMS

The Company maintains pension plans and postretirement medical benefit plans covering most of its employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 and ABC employees generally hired after January 1, 1987 are not eligible for postretirement 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.

On September 29, 2007, the Company adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 requires the recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in the statement of financial position and changes in that funded status to be recognized in comprehensive income in the year in which the changes occur. The incremental effect of applying SFAS 158 on individual line items to our balance sheet as of September 29, 2007 including tax effects is as follows:

	Prior to adopting SFAS 158	Effect of adopting SFAS 158	As Reported under SFAS 158
Investments	\$ 1,008	\$ (13)	\$ 995
Other non-current assets	1,857	(373)	1,484
Accounts payable and accrued liabilities	(5,926)	(23)	(5,949)
Other long-term liabilities	(3,018)	(6)	(3,024)
Deferred income taxes	(2,727)	154	(2,573)
Accumulated other comprehensive (income)/loss	(104)	261	157

The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and assumptions associated with the pension and postretirement medical benefit plans based upon the actuarial valuations prepared as of June 30, 2007 and 2006 (the Plan Measurement Dates).

	Pension Plans		Postretirement Medical Plans	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
<i>Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:</i>				
Projected benefit obligations				
Beginning obligations	<b>\$(4,705)</b>	\$(4,951)	<b>\$ (936)</b>	\$(1,172)
Service cost	<b>(167)</b>	(187)	<b>(26)</b>	(34)
Interest cost	<b>(297)</b>	(256)	<b>(59)</b>	(61)
Actuarial gain/(loss)	<b>(92)</b>	548	<b>(19)</b>	308
Plan amendments and other	<b>(128)</b>	—	<b>—</b>	—
Benefits paid	<b>147</b>	141	<b>29</b>	23
Ending obligations	<b>\$(5,242)</b>	\$(4,705)	<b>\$(1,011)</b>	\$(936)
Fair value of plans' assets				
Beginning fair value	<b>\$ 4,181</b>	\$ 3,410	<b>\$ 317</b>	\$ 260
Actual return on plan assets	<b>726</b>	425	<b>57</b>	48
Contributions	<b>428</b>	507	<b>27</b>	32
Benefits paid	<b>(147)</b>	(141)	<b>(29)</b>	(23)
Expenses	<b>(28)</b>	(20)	<b>—</b>	—
Ending fair value	<b>\$ 5,160</b>	\$ 4,181	<b>\$ 372</b>	\$ 317
Funded status of the plans				
Unrecognized net loss	<b>\$ (82)</b>	\$ (524)	<b>\$ (639)</b>	\$ (619)
Unrecognized prior service cost (benefit)	<b>n/a</b>	692	<b>n/a</b>	12
Contributions after Plan Measurement Date	<b>n/a</b>	18	<b>n/a</b>	(16)
Net balance sheet impact	<b>4</b>	41	<b>3</b>	4
Amounts recognized in the balance sheet under SFAS 158:				
Non-current assets	<b>\$ 275</b>	\$ n/a	<b>\$ —</b>	\$ n/a
Current liabilities	<b>(9)</b>	n/a	<b>(14)</b>	n/a
Non-current liabilities	<b>(344)</b>	n/a	<b>(622)</b>	n/a
	<b>\$ (78)</b>	\$ n/a	<b>\$ (636)</b>	\$ n/a
Amounts recognized in the balance sheet under prior accounting rules				
Prepaid benefit cost	<b>\$ n/a</b>	\$ 283	<b>\$ n/a</b>	\$ —
Accrued benefit liability	<b>n/a</b>	(253)	<b>n/a</b>	(619)
Additional minimum pension liability adjustment	<b>n/a</b>	197	<b>n/a</b>	—
	<b>\$ n/a</b>	\$ 227	<b>\$ n/a</b>	\$ (619)

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2007	2006	2005	2007	2006	2005
Service costs	<b>\$ 166</b>	\$ 186	\$ 137	<b>\$ 22</b>	\$ 34	\$ 31
Interest costs	<b>297</b>	256	233	<b>59</b>	61	59
Expected return on plan assets	<b>(302)</b>	(250)	(223)	<b>(21)</b>	(16)	(14)
Amortization of prior year service costs	<b>4</b>	1	1	<b>(1)</b>	(1)	(1)
Recognized net actuarial loss	<b>47</b>	148	59	<b>2</b>	43	32
Special termination benefits	<b>5</b>	—	—	<b>—</b>	—	—
Net periodic benefit cost	<b>\$ 217</b>	\$ 341	\$ 207	<b>\$ 61</b>	\$ 121	\$ 107
Assumptions:						
Discount rate	<b>6.35%</b>	6.40%	5.25%	<b>6.35%</b>	6.40%	5.25%
Rate of return on plan assets	<b>7.50%</b>	7.50%	7.50%	<b>7.50%</b>	7.50%	7.50%
Salary increases	<b>4.00%</b>	4.00%	3.75%	<b>n/a</b>	n/a	n/a
Year 1 increase in cost of benefits	<b>n/a</b>	n/a	n/a	<b>9.00%</b>	9.00%	10.00%
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	<b>n/a</b>	n/a	n/a	<b>5.00%</b>	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	<b>n/a</b>	n/a	n/a	<b>2015</b>	2012	2012

Net periodic benefit cost for the current year is based on assumptions determined at the June 30 valuation date of the prior year.

Accumulated other comprehensive loss, before tax, as of September 29, 2007 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Unrecognized prior service credit/(cost)	\$ (77)	\$ 14	\$ (63)
Unrecognized net actuarial gain/(loss)	(372)	3	(369)
Total amounts included in accumulated other comprehensive income/(loss)	(449)	17	(432)
Prepaid/(accrued) pension cost	371	(653)	(282)
Net balance sheet impact	<u>\$ (78)</u>	<u>\$(636)</u>	<u>\$(714)</u>

Amounts included in accumulated other comprehensive loss, before tax, as of September 29, 2007 that are expected to be recognized as components of net periodic benefit cost during fiscal 2008 are:

	Pension Benefits	Other Postretirement Plans	Total
Prior service credit/(cost)	\$(12)	\$ 1	\$(11)
Net actuarial gain/(loss)	(25)	(2)	(27)
Total	<u>\$(37)</u>	<u>\$(1)</u>	<u>\$(38)</u>

#### PLAN FUNDED STATUS

At September 29, 2007, the Company had pension plans that were underfunded, having accumulated benefit obligations exceeding the fair value of plan assets. The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$323 million, \$283 million and \$2 million, respectively, as of September 29, 2007 and \$2.1 billion, \$1.9 billion and \$1.6 billion as of September 30, 2006, respectively.

The Company's total accumulated pension benefit obligations at September 29, 2007 and September 30, 2006 were \$4.8 billion and \$4.4 billion, respectively, of which 96.2% and 96.1%, respectively, were vested.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$1.0 billion and \$372 million, respectively, at September 29, 2007 and \$936 million and \$317 million, respectively, at September 30, 2006.

#### PLAN ASSETS

The assets of the Company's defined benefit plans are managed on a commingled basis in a third party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity Securities	40%	60%
Debt Securities	25%	35%
Alternative Investments	10%	30%
Cash	0%	5%

Alternative investments include venture capital funds, private equity funds and real estate, among other investments.

The Company's defined benefit plans asset mix at the Plan Measurement Dates is as follows:

Asset Class	June 30, 2007	June 30, 2006
Equity Securities	55%	54%
Debt Securities	27%	25%
Alternative Investments	13%	13%
Cash	5%	8%
Total	100%	100%

Equity securities include 2.8 million shares of Company common stock or \$97 million (2% of total plan assets) and \$84 million (2% of total plan assets) at September 29, 2007 and September 30, 2006, respectively.

The cash allocation exceeded the policy range limit on June 30, 2006, due to a \$314 million employer contribution into the plans in June 2006, which was invested over time.

#### PLAN CONTRIBUTIONS

During fiscal 2007, the Company contributed \$390 million and \$26 million to its pension and postretirement medical plans, respectively, which included discretionary contributions above the minimum requirements for the pension plans. Based on current actuarial projections, the Company anticipates that the funded status of the pension plans will be sufficient so that the Company will not be required to make additional contributions during fiscal 2008 under the funding regulations associated with the Pension Protection Act of 2006 (PPA). However, final funding requirements for fiscal 2008 will be determined based on our January 1, 2008 funding actuarial valuation. Additionally, the Company may also choose to make discretionary contributions above the minimum requirements. The Company anticipates contributing approximately \$30 million to post retirement medical and other pension plans not subject to the PPA.

#### ESTIMATED FUTURE BENEFIT PAYMENTS

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Post Retirement Medical Plans <sup>(1)</sup>
2008	\$ 181	\$ 29
2009	198	31
2010	216	33
2011	233	36
2012	252	38
2013 – 2017	1,597	235

<sup>(1)</sup>Estimated future benefit payments are net of expected Medicare subsidy receipts of \$53 million over the next ten fiscal years.

#### ASSUMPTIONS

Certain actuarial assumptions, such as the discount rate, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligation amounts.

**Discount Rate** – The assumed discount rate for pension and post-retirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

*Long-term rate of return on plan assets* – The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	8% – 10%
Debt Securities	4% – 7%
Alternative Investments	8% – 20%

*Healthcare cost trend rate* — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. For the 2007 actuarial valuation, we assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over eight years until reaching 5.0%.

A one percentage point (ppt) change in the key assumptions would have the following effects on the projected benefit obligations as of September 29, 2007 and on cost for fiscal 2008:

Increase/(decrease)	Pension and Postretirement Medical Plans			Postretirement Medical Plans	
	Discount Rate		Expected Long-Term Rate of Return On Assets	Assumed Healthcare Cost Trend Rate	
	Net Periodic Pension and Postretirement Medical Cost	Projected Benefit Obligations		Net Periodic Postretirement Medical Cost	Accumulated Benefit Obligations
1 ppt decrease	\$122	\$ 999	\$ 51	\$(25)	\$(146)
1 ppt increase	(74)	(849)	(51)	26	184

#### MULTI-EMPLOYER PLANS

The Company participates in various multi-employer pension plans under union and industry-wide agreements. In 2007, 2006 and 2005, the contributions to these plans, which are generally expensed as incurred, were \$54 million, \$51 million and \$37 million, respectively.

#### DEFINED CONTRIBUTION PLANS

The Company has savings and investment plans that allow eligible employees to allocate up to 20% of their 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 2007, 2006 and 2005, the costs of these plans were \$42 million, \$39 million and \$35 million, respectively.

#### NOTE 10.

##### SHAREHOLDERS' EQUITY

As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2007. The Company paid a \$637 million dividend (\$0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006. The Company paid a \$519 million dividend (\$0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005; and paid a \$490 million dividend (\$0.24 per share) during the second quarter of fiscal 2005 related to fiscal 2004.

During fiscal 2007, the Company repurchased 202 million shares of Disney common stock for \$6.9 billion. During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for \$6.9 billion. During fiscal 2005, the Company repurchased 91 million shares of Disney common stock for \$2.4 billion. On May 1, 2007, the Board of Directors of the Company increased the share repurchase authorization to a total of 400 million shares. As of September 29, 2007, the Company had remaining authorization in place to repurchase approximately 323 million additional shares. The repurchase program does not have an expiration date.

The par value of the Company's outstanding common stock totaled approximately \$26 million.

The Company also has 1.0 billion shares of Internet Group stock at \$.01 par value authorized. No shares are issued and outstanding.

#### NOTE 11.

##### EQUITY-BASED COMPENSATION

Under various plans, the Company may grant stock options and other equity-based awards to executive, management, and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the market price at the date of grant. Effective in January 2003, options became exercisable ratably over a four-year period from the grant date, while options granted prior to January 2003 generally vest ratably over five years. Effective in the second quarter of 2005, options granted generally expire seven years after the grant date, while options granted prior to the second quarter of 2005 generally expire ten years after the date of grant. At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. Restricted stock units generally vest 50% on each of the second and fourth anniversaries of the grant date. Certain RSUs awarded to senior executives vest based upon the achievement of performance conditions. Stock options and RSUs are forfeited by employees who terminate prior to vesting. Shares available for future option and RSU grants at September 29, 2007 totaled 54 million. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares.

Each year, during the second quarter, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel (the Annual Grant). Prior to the fiscal 2006 Annual Grant, the fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model. Beginning

with the fiscal 2006 Annual Grant, the Company has changed to the binomial valuation model. The binomial valuation model considers certain characteristics of fair value option pricing that are not considered under the Black-Scholes model. Similar to the Black-Scholes model, the binomial valuation model takes into account variables such as volatility, dividend yield, and the risk-free interest rate. However, the binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being cancelled due to the termination of the option holder) in computing the value of the option. Accordingly, the Company believes that the binomial valuation model should produce a fair value that is more representative of the value of an employee option.

The weighted average expected option term assumption used by the Company for grants during fiscal 2006 (prior to the fiscal 2006 Annual Grant) and fiscal 2005 reflected the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107). The simplified method defines the expected term of an option as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

In fiscal years 2007, 2006 and 2005, the weighted average assumptions used in the option-pricing models were as follows:

	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2005 <sup>(2)</sup>
Risk-free interest rate	4.5%	4.3%	3.7%
Expected term (years) <sup>(3)</sup>	4.61	5.09	4.75
Expected volatility	26%	26%	27%
Dividend yield	0.79%	0.79%	0.79%
Termination rate	7.4%	4.0%	n/a
Exercise multiple	1.38	1.48	n/a

<sup>(1)</sup> Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.

<sup>(2)</sup> The Company utilized the Black-Scholes model during fiscal 2005.

<sup>(3)</sup> The expected term assumption is included for fiscal 2005 during which we utilized the Black-Scholes model. Under the binomial model, expected term is not an input assumption.

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the assumed volatility and expected exercise multiple. Increases or decreases in either the assumed volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively.

The following table summarizes information about stock option transactions (shares in millions):

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	212	\$25.85	212	\$27.06	221	\$26.50
Awards granted in Pixar acquisition	—	—	44	15.04	—	—
Awards forfeited	(5)	27.71	(7)	28.34	(7)	25.99
Awards granted	25	34.22	24	25.33	19	27.91
Awards exercised	(53)	24.52	(56)	21.42	(18)	20.22
Awards expired/cancelled	(2)	56.00	(5)	56.91	(3)	34.83
Outstanding at end of year	177	27.36	212	25.85	212	27.06
Exercisable at end of year	108	27.07	130	27.57	142	28.47

The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the vesting period. Compensation expense for RSUs is based upon the market price of the shares underlying the awards on the grant date; however, compensation expense for performance-based awards is adjusted to reflect the estimated probability of vesting.

The impact of stock options and RSUs on income and cash flow from continuing operations for fiscal 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Stock option compensation expense	\$ 213	\$ 241	\$ 248
RSU compensation expense	158	132	122
	371	373	370
Equity-based compensation plan modification charge <sup>(1)</sup>	48	—	—
Total equity-based compensation expense <sup>(2)(3)</sup>	419	373	370
Tax impact	(155)	(138)	(137)
Reduction in net income	\$ 264	\$ 235	\$ 233
Reduction in cash flow from continuing operating activities	\$ 116	\$ 133	\$ 24
Increase in cash flow from continuing financing activities	116	133	24

<sup>(1)</sup> In anticipation of the ABC Radio transaction, the Company needed to determine whether employee equity-based compensation awards would be adjusted for the dilutive impact of the transaction on the employee awards. Certain of the Company's plans required such adjustments to be made on an equitable basis. All other plans permitted such adjustments to be made. In order to treat all employees consistently with respect to the ABC Radio transaction (and other similar future transactions), the Company amended the plans such that all plans require equitable adjustments for such transactions. In connection with these amendments, the Company was required to record a non-cash charge of \$48 million in the first quarter of fiscal 2007 representing the estimated fair value of this modification with respect to vested equity-based employee compensation awards. The estimated fair value of the modification with respect to unvested awards remaining at September 29, 2007 is \$14 million and will be expensed over the vesting period of these awards.

<sup>(2)</sup> Excludes amounts related to discontinued operations of \$6 million, \$9 million and \$10 million in 2007, 2006 and 2005, respectively.

<sup>(3)</sup> Equity-based compensation expense is net of capitalized equity-based compensation and includes amortization of previously capitalized equity-based compensation costs. Capitalized equity-based compensation totaled \$103 million, \$52 million and \$18 million in 2007, 2006 and 2005, respectively.

The following tables summarize information about stock options vested and expected to vest at September 29, 2007 (shares in millions):

Range of Exercise Prices	Vested			Expected to Vest			
	Number of Options	Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life	Range of Exercise Prices	Number of Options <sup>(1)</sup>	Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life
\$ 0 — \$ 15	12	\$ 9.00	3.9	\$ 0 — \$ 15	4	\$ 12.17	5.1
\$16 — \$ 20	11	17.83	5.9	\$16 — \$ 20	3	19.31	7.6
\$21 — \$ 25	30	23.36	5.0	\$21 — \$ 25	16	24.71	6.8
\$26 — \$ 30	27	29.16	3.5	\$26 — \$ 30	17	27.78	7.4
\$31 — \$ 35	16	33.44	2.0	\$31 — \$ 35	19	34.24	7.9
\$36 — \$ 40	7	39.04	1.8				
\$41 — \$ 45	3	42.21	3.0		59		
\$46 — \$365	2	116.11	2.4				
	<u>108</u>						

<sup>(1)</sup>Number of options expected to vest are net of estimated forfeitures.

The following table summarizes information about RSU transactions (shares in millions):

	2007		2006		2005	
	Restricted Stock Units	Weighted Average Grant-Date Fair Value	Restricted Stock Units	Weighted Average Grant-Date Fair Value	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	23	\$25.74	15	\$26.04	9	\$22.58
Awards granted in Pixar acquisition	—	—	1	29.09	—	—
Granted	12	34.22	11	24.83	9	27.98
Vested	(6)	26.20	(2)	24.57	(2)	25.30
Forfeited	(2)	27.78	(2)	25.87	(1)	20.34
Unvested at end of year	<u>27</u>	<u>29.01</u>	<u>23</u>	25.74	<u>15</u>	26.04

RSUs representing 1.4 million shares, 2.2 million shares and 1.3 million shares that vest based upon the achievement of certain performance conditions were granted in 2007, 2006 and 2005, respectively. Approximately 4.2 million of the unvested RSUs as of September 29, 2007, vest upon the achievement of performance conditions.

The weighted average grant-date fair values of options granted during 2007, 2006 and 2005 were \$9.27, \$7.26 and \$7.71, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during 2007, 2006 and 2005 totaled \$735 million, \$506 million, and \$198 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at September 29, 2007 were \$948 million and \$399 million, respectively.

As of September 29, 2007, there was \$435 million of unrecognized compensation cost related to unvested stock options and \$340 million related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.8 years for stock options and RSUs.

Cash received from option exercises for 2007, 2006 and 2005 was \$1.3 billion, \$1.1 billion and \$370 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU activity for 2007, 2006 and 2005 totaled \$267 million, \$180 million and \$69 million, respectively.

In connection with the acquisition of Pixar on May 5, 2006, the Company converted previously issued vested and unvested Pixar stock-based awards into Disney stock-based awards consisting of 44 million stock options and 1 million RSUs. The fair value of these stock option awards was estimated using the Black-Scholes option pricing model, as the information required to use the binomial valuation model was not reasonably available. The methodology utilized to determine the assumptions in the Black-Scholes model was consistent with that used by the Company for its option-pricing models.



NOTE 12.  
DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	September 29, 2007	September 30, 2006
<i>Current receivables</i>		
Accounts receivable	\$ 4,724	\$ 4,451
Other	424	368
Allowance for doubtful accounts	(116)	(112)
	<u>\$ 5,032</u>	<u>\$ 4,707</u>
<i>Other current assets</i>		
Prepaid expenses	\$ 446	\$ 624
Other	104	119
	<u>\$ 550</u>	<u>\$ 743</u>
<i>Parks, resorts and other property, at cost</i>		
Attractions, buildings and improvements	\$ 14,857	\$ 14,209
Leasehold improvements	500	497
Furniture, fixtures and equipment	11,272	10,746
Land improvements	3,631	3,391
	<u>30,260</u>	<u>28,843</u>
Accumulated depreciation	(15,145)	(13,781)
Projects in progress	1,147	913
Land	1,171	1,192
	<u>\$ 17,433</u>	<u>\$ 17,167</u>
<i>Intangible assets</i>		
Copyrights	\$ 357	\$ 355
Other amortizable intangible assets	255	134
Accumulated amortization	(143)	(110)
Net amortizable intangible assets	469	379
FCC licenses	897	1,400
Trademarks	1,108	1,108
Other indefinite lived intangible assets	20	20
	<u>\$ 2,494</u>	<u>\$ 2,907</u>
<i>Other non-current assets</i>		
Receivables	\$ 571	\$ 500
Pension related assets	275	283
Other prepaid expenses	120	25
Other	518	499
	<u>\$ 1,484</u>	<u>\$ 1,307</u>
<i>Accounts payable and other accrued liabilities</i>		
Accounts payable	\$ 3,996	\$ 4,006
Payroll and employee benefits	1,290	1,229
Other	663	682
	<u>\$ 5,949</u>	<u>\$ 5,917</u>
<i>Other long-term liabilities</i>		
Deferred revenues	\$ 369	\$ 323
Capital lease obligations	274	292
Program licenses and rights	288	224
Participation and residual liabilities	239	265
Pension and postretirement medical plan liabilities	966	872
Other	888	1,155
	<u>\$ 3,024</u>	<u>\$ 3,131</u>

NOTE 13.  
FINANCIAL INSTRUMENTS

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

The Company typically uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities. Pay-floating swaps effectively convert fixed rate medium and long-term obligations to variable rate instruments indexed to LIBOR. Pay-floating swap agreements in place at year-end expire in 1 to 15 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps in place at year-end expire in 1 to 9 years. As of September 29, 2007 and September 30, 2006, respectively, the Company held \$157 million and \$192 million notional value of pay-fixed swaps that do not qualify as hedges. The changes in market values of all swaps that do not qualify as hedges have been included in earnings.

The impact of hedge ineffectiveness was not significant for fiscal 2007, 2006 and 2005. The net amount of deferred gains in AOCI from interest rate risk management transactions was \$1 million and \$5 million at September 29, 2007 and September 30, 2006, 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 transactions. The Company uses option strategies and forward contracts to hedge forecasted transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed five years within an established minimum and maximum range of annual exposure. The Company uses forward contracts to hedge foreign currency assets, liabilities and firm commitments. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the Euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings to U.S. dollars.

Mark to market gains and losses on contracts hedging forecasted foreign currency transactions are initially recorded to AOCI and are reclassified to current earnings when the hedged transactions are realized, offsetting changes in the value of the foreign currency transactions. At September 29, 2007 and September 30, 2006, the Company had pre-tax deferred gains of \$114 million and \$106 million, respectively, and pre-tax deferred losses of \$170 million and \$60 million, respectively, related to cash flow hedges on forecasted foreign currency transactions.

Deferred amounts to be recognized in earnings will change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. Deferred losses recorded in AOCI for contracts that will mature in the next twelve months totaled \$106 million. The Company reclassified after-tax gains of \$34 million and losses of \$6 million from AOCI to earnings during fiscal 2007 and 2006, respectively. These losses were offset by changes in the U.S. dollar equivalent value of the items being hedged.

During fiscal 2007 and 2006, the Company recorded the change in fair market value related to fair value hedges and the ineffectiveness related to cash flow hedges to earnings. The amounts of hedge ineffectiveness on cash flow hedges were not material for fiscal 2007, fiscal 2006 and fiscal 2005. The total impact of foreign exchange risk management activities on operating income in 2007, 2006 and 2005 were losses of \$139 million, \$27 million, and \$168 million, respectively. The net losses from these hedges offset changes in the U.S. dollar equivalent value of the related exposures being hedged.

**Fair Value of Financial Instruments** At September 29, 2007 and September 30, 2006, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings, and interest rate and foreign exchange risk management contracts.

At September 29, 2007 and September 30, 2006, the fair values of cash and cash equivalents, receivables and accounts payable approximated the carrying values. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or interest rates for the same or similar instruments and the related carrying amounts are as follows:

Asset/(Liability)	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 101	\$ 101	\$ 87	\$ 87
Borrowings	(15,172)	(15,594)	(13,525)	(13,837)
Risk management contracts:				
Foreign exchange forwards	\$ (98)	\$ (98)	\$ 49	\$ 49
Foreign exchange options	(1)	(1)	1	1
Interest rate swaps	25	25	32	32
Cross-currency swaps	—	—	1	1

**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 29, 2007 in the event of nonperformance by any single 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.

The Company's trade receivables and investments do not represent a significant concentration of credit risk at September 29, 2007 due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across geographic areas, and the diversification of the Company's portfolio among issuers.

#### NOTE 14. COMMITMENTS AND CONTINGENCIES

**Commitments** The Company has various contractual commitments for the purchase of broadcast rights for sports, feature films and other programming, aggregating approximately \$22.8 billion, including approximately \$1.1 billion for available programming as of September 29, 2007, and approximately \$19.2 billion related to sports programming rights, primarily NFL, NBA, NASCAR, MLB and College Football.

The Company has entered into operating leases for various real estate and equipment needs, including retail outlets and distribution

centers for consumer products, broadcast equipment, and office space for general and administrative purposes. Rental expense for the operating leases during 2007, 2006, and 2005, including common-area maintenance and contingent rentals, was \$482 million, \$455 million, and \$482 million, respectively.

The Company also has contractual commitments under various creative talent and employment agreements including obligations to actors, producers, sports personnel, television and radio personalities, and executives.

Contractual commitments for broadcast programming rights, future minimum lease payments under non-cancelable operating leases, and creative talent and other commitments totaled \$28.6 billion at September 29, 2007, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2008	\$ 4,436	\$ 327	\$1,100	\$ 5,863
2009	3,016	276	703	3,995
2010	3,041	236	459	3,736
2011	2,863	196	847	3,906
2012	3,121	167	785	4,073
Thereafter	6,310	648	82	7,040
	<u>\$22,787</u>	<u>\$1,850</u>	<u>\$3,976</u>	<u>\$28,613</u>

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment, which had gross carrying values of \$465 million and \$466 million at September 29, 2007 and September 30, 2006, respectively. Accumulated amortization primarily for broadcast equipment under capital lease totaled \$127 million and \$108 million at September 29, 2007 and September 30, 2006, respectively. Future payments under these leases as of September 29, 2007 are as follows:

2008	\$ 39
2009	39
2010	37
2011	38
2012	37
Thereafter	594
Total minimum obligations	<u>\$ 784</u>
Less amount representing interest	(492)
Present value of net minimum obligations	292
Less current portion	(18)
Long-term portion	<u>\$ 274</u>

**Contractual Guarantees** The Company has guaranteed certain special assessment and water/sewer revenue bonds issued by the Celebration Community Development District and the Enterprise Community Development District (collectively, the Districts). The bond proceeds were used by the Districts to finance the construction of infrastructure improvements and the water and sewer system in the mixed-use, residential community of Celebration, Florida. As of September 29, 2007, the remaining debt service obligation guaranteed by the Company was \$66 million, of which \$43 million was principal. The Company is responsible to satisfy any shortfalls in debt service payments, debt service and maintenance reserve funds, and to ensure compliance with specified rate covenants. To the extent that the Company has to fund payments under its guarantees, the Districts have an obligation to reimburse the Company from District revenues.

The Company has also guaranteed certain bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. 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. In the event of a debt

service shortfall, the Company will be responsible to fund the shortfall. As of September 29, 2007, the remaining debt service obligation guaranteed by the Company was \$386 million, of which \$103 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls.

To date, tax revenues have exceeded the debt service payments for both the Celebration and Anaheim bonds.

ESPN STAR Sports, a joint-venture in which ESPN owns a 50% equity interest, has an agreement for global programming rights to International Cricket Council Events from 2007 through 2015. Under the terms of the agreement, ESPN and the other joint-venture partner have jointly guaranteed the programming rights obligation of \$1.0 billion over the remaining term of the agreement.

#### Legal Matters

*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. (DEI) 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 DEI terminating A. A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to DEI. In their lawsuit, Ms. Milne and DEI sought 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 terminated 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 terminated by operation of law; and that, as of November 5, 2004, SSI was entitled to no further royalties for uses of Winnie the Pooh. SSI filed (a) an answer denying the material allegations of the complaint and (b) counterclaims seeking a declaration that (i) Ms. Milne's grant of rights to DEI is void and unenforceable and (ii) DEI remains obligated to pay SSI royalties under the 1983 licensing agreement. The District Court ruled that Milne's termination notices were invalid. The Court of Appeals for the Ninth Circuit affirmed, and on June 26, 2006, the United States Supreme Court denied Milne's petition for a writ of certiorari. On June 23, 2003, SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne's, and asserted counterclaims against the Company allegedly arising from the Milne and Hunt terminations and the grant of rights to DEI for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement.

On October 19, 2006, the parties stipulated to SSI's filing its Fourth Amended Answer and Counterclaims (Fourth Amended Answer) seeking (a) to invalidate the Hunt termination notice, (b) to terminate the Company's rights vis-à-vis SSI, and (c) damages in excess of two billion dollars, among other relief. That stipulation also provided that Hunt and the Company need not respond to the Fourth Amended Answer until the conclusion of two events: the state court appeal in *Stephen Slesinger, Inc. v. The Walt Disney Company*, and the trial in the District Court on the validity of the Hunt termination notice. SSI then sought to withdraw both the Fourth Amended Answer and its stipulation, but on November 3, 2006, the District Court denied that request. SSI's motion for summary

judgment on the validity of Hunt's 2002 attempt to recapture E. H. Shepard's rights was granted on February 15, 2007, and thereafter, on March 27, 2007, the District Court dismissed as moot all claims against Hunt and three of SSI's counterclaims against the Company related to the Company's agreements with Milne and Hunt concerning the termination and disposition of their rights. In a related development, on January 23, 2007, and on August 22, 2007, SSI initiated proceedings in the United States Patent and Trademark Office (PTO) seeking, among other things, cancellation of certain Pooh trademark registrations. On February 22, 2007, the PTO suspended the first proceeding on the grounds that the relief sought is effectively duplicative of that sought in the Fourth Amended Answer, and on October 2, 2007, the Company moved to suspend the second proceeding on the same ground.

*Stephen Slesinger, Inc. v. The Walt Disney Company.* In this lawsuit, filed on February 27, 1991, 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. 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. On March 29, 2004, the Court granted the Company's motion for terminating sanctions against the plaintiff for a host of discovery abuses, including the withholding, alteration, and theft of documents and other information, and, on April 5, 2004, dismissed plaintiff's case with prejudice. On September 25, 2007, the California Court of Appeal affirmed the dismissal, and on November 5, 2007, plaintiff filed a petition seeking review by the California Supreme Court.

Management believes that it is not currently possible to estimate the impact, if any, that the ultimate resolution of these 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 the Company to suffer any material liability by reason of such actions.

## QUARTERLY FINANCIAL SUMMARY

(unaudited, in millions, except per share data)

	Q1	Q2	Q3	Q4
<b>2007<sup>(1)(2)</sup></b>				
Revenues	\$9,581	\$7,954	\$9,045	\$8,930
Income from continuing operations	1,676	919	1,196	883
Net income	1,701	931	1,178	877
Earnings per share from continuing operations:				
Diluted	\$ 0.78	\$ 0.43	\$ 0.58	\$ 0.44
Basic	0.81	0.45	0.60	0.46
Earnings per share:				
Diluted	\$ 0.79	\$ 0.44	\$ 0.57	\$ 0.44
Basic	0.83	0.46	0.59	0.45
<b>2006<sup>(1)(3)(4)</sup></b>				
Revenues	\$ 8,713	\$ 7,908	\$ 8,474	\$ 8,652
Income from continuing operations	713	724	1,095	772
Net income	734	733	1,125	782
Earnings per share from continuing operations:				
Diluted	\$ 0.36	\$ 0.37	\$ 0.51	\$ 0.36
Basic	0.37	0.38	0.53	0.37
Earnings per share:				
Diluted	\$ 0.37	\$ 0.37	\$ 0.53	\$ 0.36
Basic	0.38	0.38	0.54	0.38

<sup>(1)</sup>During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and now reports ABC Radio as discontinued operations for all periods presented (see Note 3 to the Consolidated Financial Statements for further discussion).

<sup>(2)</sup>Results for the first quarter of fiscal 2007 include gains from the sales of E! Entertainment and Us Weekly (\$0.31 per diluted share) and an equity-based compensation plan modification charge (\$0.01 per diluted share).

<sup>(3)</sup>Results for the third quarter of fiscal 2006 include a net benefit associated with the completion of the Pixar acquisition (\$0.01 per diluted share).

<sup>(4)</sup>Results for the first quarter of fiscal 2006 include gains on sales of a Spanish cable equity investment and Discover Magazine (\$0.02 per diluted share).

## SELECTED FINANCIAL DATA

(In millions, except per share data)

	2007 <sup>(1)(2)(5)</sup>	2006 <sup>(1)(3)(5)</sup>	2005 <sup>(1)(4)(5)</sup>	2004 <sup>(1)(6)</sup>	2003 <sup>(1)(7)</sup>
<b>Statements of income</b>					
Revenues	\$35,510	\$33,747	\$31,374	\$30,176	\$26,480
Income from continuing operations before the cumulative effect of accounting changes	4,674	3,304	2,460	2,223	1,212
Per common share					
Earnings from continuing operations before the cumulative effect of accounting changes					
Diluted	\$ 2.24	\$ 1.60	\$ 1.19	\$ 1.07	\$ 0.59
Basic	2.33	1.65	1.21	1.08	0.59
Dividends	0.31	0.27	0.24	0.21	0.21
<b>Balance sheets</b>					
Total assets	\$60,928	\$59,998	\$53,158	\$53,902	\$49,988
Long-term obligations	14,916	13,974	14,102	13,014	14,388
Shareholders' equity	30,753	31,820	26,210	26,081	23,791
<b>Statements of cash flows</b>					
Cash provided (used) by:					
Continuing operating activities	\$ 5,398	\$ 5,960	\$ 4,139	\$ 4,232	\$ 2,776
Continuing investing activities	(618)	(220)	(1,682)	(1,478)	(1,032)
Continuing financing activities	(3,619)	(5,166)	(2,899)	(2,704)	(1,523)

<sup>(1)</sup>During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and now reports ABC Radio as discontinued operations for all periods presented (see Note 3 to the Consolidated Financial Statements for further discussion). Previously, the ABC Radio business was included in the Media Networks segment. Prior period information has been reclassified to conform to the current presentation.

<sup>(2)</sup>The fiscal 2007 results include gains from the sales of E! Entertainment and Us Weekly (\$0.31 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.03 per diluted share) and an equity-based compensation plan modification charge (\$0.01 per diluted share). Including the impact of rounding, these items collectively resulted in a net benefit of \$0.32 per diluted share.

<sup>(3)</sup>During fiscal 2006, the Company completed an all stock acquisition of Pixar for \$7.5 billion. In addition, results include gains on sales of a Spanish cable equity investment and Discover Magazine (\$0.02 per diluted share), favorable adjustments related to prior-year income tax matters (\$0.02 per diluted share) and a net benefit associated with the completion of the Pixar acquisition (\$0.01 per diluted share). These items collectively resulted in a net benefit of \$0.05 per diluted share.

<sup>(4)</sup>The fiscal 2005 results include favorable adjustments related to prior-year income tax matters (\$0.06 per diluted share), a benefit from the restructuring of Euro Disney's borrowings (\$0.02 per diluted share), an income tax benefit from the repatriation of foreign earnings under the American Jobs Creation Act (\$0.02 per diluted share), a gain on the sale of the Mighty Ducks of Anaheim (\$0.01 per diluted share), a write-off of investments in leveraged leases (\$0.03 per diluted share), a write-down related to the MovieBeam venture (\$0.02 per diluted share), an impairment charge for a cable television investment in Latin America (\$0.01 per diluted share) and restructuring and impairment charges related to the sale of The Disney Stores North America (\$0.01 per diluted share). These items collectively resulted in a net benefit of \$0.04 per diluted share.

<sup>(5)</sup>The Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (SFAS 123R) effective at the beginning of fiscal 2005 and recorded \$213 million, \$241 million, and \$248 million of pre-tax stock option compensation expense for fiscal 2007, 2006 and 2005, respectively.

<sup>(6)</sup>During fiscal 2004, the Company adopted FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46), and as a result, consolidated the balance sheets of Euro Disney and Hong Kong Disneyland as of March 31, 2004 and the income and cash flow statements beginning April 1, 2004, the beginning of the Company's fiscal third quarter. Under FIN 46 transition rules, Euro Disney and Hong Kong Disneyland's operating results continued to be accounted for on the equity method for the six-month period ended March 31, 2004. In addition, the 2004 results include favorable adjustments to prior-year income tax matters (\$0.06 per diluted share) and restructuring and impairment charges (\$0.02 per diluted share), which resulted in a net benefit of \$0.04 per diluted share.

<sup>(7)</sup>The fiscal 2003 results include favorable adjustments to prior-year income tax matters (\$0.03 per diluted share) and a write-off of investments in leveraged leases (\$0.04 per diluted share), which together resulted in a net unfavorable impact of \$0.01 per diluted share.

## 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 accounting principles generally accepted in the United States of America. 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 registered public accounting firm audits the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and provides 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 three non-management Directors. The committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, control, auditing and financial reporting matters.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, management concluded that our internal control over financial reporting was effective as of September 29, 2007.

The effectiveness of our internal control over financial reporting as of September 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## STOCK EXCHANGES

Disney common stock is listed for trading on the New York stock exchange 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  
E-mail: investor.relations@disneyonline.com  
Internet: www.disneyshareholder.com

## DIRECT REGISTRATION SERVICES

The Walt Disney Company common stock can be issued in direct registration (book entry or uncertificated) form. The stock is DRS (Direct Registration System) eligible.

## OTHER INFORMATION

The Company has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2007 filed with the Securities and Exchange Commission certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure, and the Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

**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 shareholder upon written request to the address listed above.**

Please visit the Walt Disney Company Investor Relations site at [www.disney.com/investors](http://www.disney.com/investors). On this site, you can order financial documents online, send email inquiries, get instructions on how to transfer shares and review additional information about the Company.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' 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 29, 2007 and September 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 29, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, as of September 29, 2007, the Company changed its method of accounting for pension and other postretirement benefits. Also, during the year ended October 1, 2005, the Company changed the manner in which it values its FCC licenses.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Los Angeles, California  
November 21, 2007

## BOARD OF DIRECTORS

---

*John E. Pepper, Jr.*  
Chairman of the Board  
The Walt Disney Company  
Former Chairman and Chief Executive Officer  
The Procter & Gamble Company and  
Co-Chairman, National Underground Railroad  
Freedom Center

*Susan E. Arnold*  
President-Global Business Units  
The Procter & Gamble Company

*John E. Bryson*  
Chairman, President and Chief Executive Officer  
Edison International

*John S. Chen*  
Chairman, Chief Executive Officer and President  
Sybase, Inc.

*Judith L. Estrin*  
Chief Executive Officer  
Packet Design Management Company, LLC

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

*Steven P. Jobs*  
Chief Executive Officer  
Apple Computer, Inc.

*Fred H. Langhammer*  
Chairman, Global Affairs  
The Estée Lauder Companies Inc.

*Aylwin B. Lewis*  
Chief Executive Officer and President  
Sears Holdings Corporation

*Monica C. Lozano*  
Publisher and Chief Executive Officer  
*La Opinión*

*Robert W. Matschullat*  
Former Vice Chairman and  
Chief Financial Officer  
The Seagram Company Ltd.

*Orin C. Smith*  
Former President and Chief Executive Officer  
Starbucks Corporation

## SENIOR CORPORATE OFFICERS

---

*Robert A. Iger*  
President and Chief Executive Officer

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

*Alan N. Braverman*  
Senior Executive Vice President,  
General Counsel and Secretary

*Wesley A. Coleman*  
Executive Vice President  
Chief Human Resources Officer

*Christine M. McCarthy*  
Executive Vice President  
Corporate Finance and Real Estate and  
Treasurer

*Kevin A. Mayer*  
Executive Vice President  
Corporate Strategy, Business Development  
and Technology

*Zenia B. Mucha*  
Executive Vice President  
Corporate Communications

*Preston R. Padden*  
Executive Vice President  
Worldwide Government Relations

*Ronald L. Iden*  
Senior Vice President  
Global Security

*Brent A. Woodford*  
Senior Vice President  
Planning and Control

## PRINCIPAL BUSINESSES

---

### THE WALT DISNEY STUDIOS

*Richard W. Cook*  
Chairman, The Walt Disney Studios

### WALT DISNEY PARKS AND RESORTS

*James A. Rasulo*  
Chairman, Walt Disney Parks and Resorts

### MEDIA NETWORKS

*George W. Bodenheimer*  
Co-Chairman, Disney Media Networks and  
President, ESPN, Inc. and ABC Sports

*Anne M. Sweeney*  
Co-Chairman, Disney Media Networks and  
President, Disney•ABC Television Group

### DISNEY CONSUMER PRODUCTS

*Andrew P. Mooney*  
Chairman, Disney Consumer Products  
Worldwide

### WALT DISNEY INTERNATIONAL

*Andy Bird*  
President, Walt Disney International

### WALT DISNEY INTERNET GROUP

*Stephen H. Wadsworth*  
President, Walt Disney Internet Group

# BOARD OF DIRECTORS



*Susan E. Arnold*  
President-Global Business Units  
The Procter & Gamble  
Company



*John E. Bryson*  
Chairman, President and  
Chief Executive Officer  
Edison International



*John S. Chen*  
Chairman, Chief Executive  
Officer and President  
Sybase, Inc.



*Judith L. Estrin*  
Chief Executive Officer  
Packet Design, LLC



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



*Steven P. Jobs*  
Chief Executive Officer  
Apple Computer, Inc.



*Fred H. Langhammer*  
Chairman, Global Affairs  
The Estée Lauder  
Companies Inc.



*Aylwin B. Lewis*  
Chief Executive Officer  
and President  
Sears Holdings Corporation



*Monica C. Lozano*  
Publisher and  
Chief Executive Officer  
*La Opinión*



*Robert W. Matschullat*  
Former Vice Chairman and  
Chief Financial Officer  
The Seagram Company Ltd.



*John E. Pepper, Jr.*  
Chairman of the Board  
The Walt Disney Company  
Former Chairman and Chief  
Executive Officer  
The Procter & Gamble Company  
and Co-Chairman  
National Underground Railroad  
Freedom Center



*Orin C. Smith*  
Former President and  
Chief Executive Officer  
Starbucks Corporation



-THE CHRONICLES OF-

# NARNIA

PRINCE CASPIAN