2006 Annual Report

Where dreams come true

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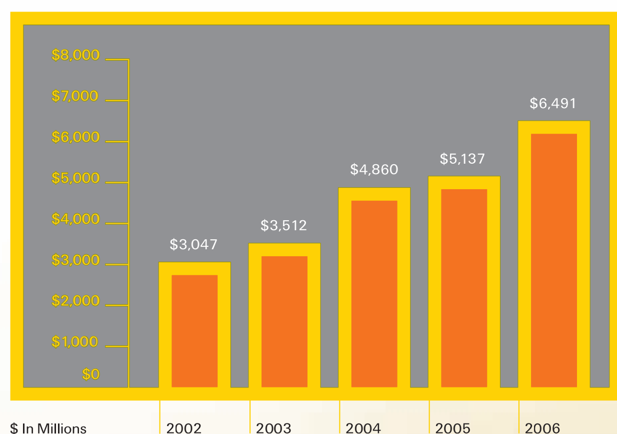
COVER: This photo, entitled "Where heroes become sidekicks," is part of the *Where Dreams Come True* campaign for Disney parks.

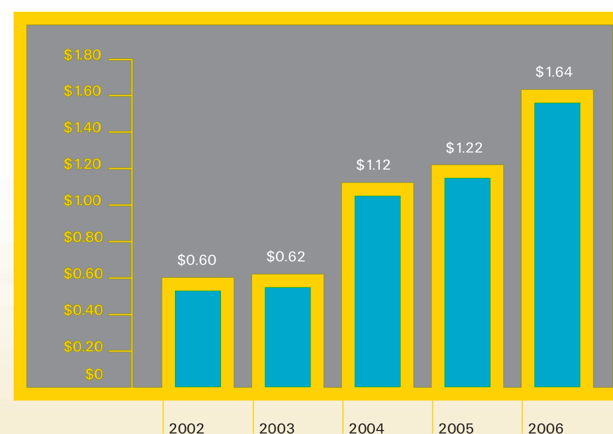
FINANCIAL HIGHLIGHTS

($ in millions, except per share amounts)	2002	2003	2004	2005	2006
Revenues					
Media Networks	$ 9,733	$10,941	$11,778	$13,207	**$14,638**
Parks and Resorts	6,465	6,412	7,750	9,023	**9,925**
Studio Entertainment	6,691	7,364	8,713	7,587	**7,529**
Consumer Products	2,440	2,344	2,511	2,127	**2,193**
	$25,329	$27,061	$30,752	$31,944	**$34,285**
Segment Operating Income[1][2]					
Media Networks	$ 1,227	$ 1,557	$ 2,574	$ 3,209	**$ 3,610**
Parks and Resorts	1,157	946	1,077	1,178	**1,534**
Studio Entertainment	273	620	662	207	**729**
Consumer Products	390	389	547	543	**618**
	$ 3,047	$ 3,512	$ 4,860	$ 5,137	**$ 6,491**
Diluted earnings per share before the cumulative effect of accounting changes[3]	$ 0.60	$ 0.65	$ 1.12	$ 1.24	**$ 1.64**
Cumulative effect of accounting changes	—	(0.03)	—	(0.02)	**—**
Diluted earnings per share[3]	$ 0.60	$ 0.62	$ 1.12	$ 1.22	**$ 1.64**
Cash provided by operations	$ 2,286	$ 2,901	$ 4,370	$ 4,269	**$ 6,058**
Free cash flow[1]	$ 1,200	$ 1,852	$ 2,943	$ 2,446	**$ 4,759**
Effect of Euro Disney and Hong Kong Disneyland consolidation	—	—	202	594	**150**
Free cash flow before consolidation of Euro Disney and Hong Kong Disneyland[1]	$ 1,200	$ 1,852	$ 3,145	$ 3,040	**$ 4,909**

Segment Operating Income [1][2]



Diluted Earnings Per Share [3]



[1] These items are not financial measures defined by Generally Accepted Accounting Principles (GAAP). Reconciliations of (a) total segment operating income to income before income taxes, minority interests and the cumulative effect of accounting changes, (b) free cash flow to cash provided by operations, and (c) free cash flow before consolidation of Euro Disney and Hong Kong Disneyland to cash provided by operations are provided at the end of the Financial Review.

[2] Segment operating income in 2006 and 2005 was impacted by stock option expense of $197 million and $203 million, respectively as the Company began expensing employee stock options pursuant to the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R) in 2005.

[3] Diluted earnings per share in 2006 and 2005 was impacted by stock option expense of $0.07 and $0.08, respectively as the Company began expensing employee stock options pursuant to the provisions of SFAS 123R in 2005.

LETTER TO SHAREHOLDERS

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

I am pleased to share with you that fiscal 2006 was an exceptional year for your Company by nearly every measure. Before reporting our financial successes and celebrating the tremendous creative energy emanating from every corner of Disney, however, I'd like to express my profound gratitude to every one of our employees worldwide who make it all happen. In truth, the real magic of Disney can be found in their enthusiasm, talent and dedication – something I respect and admire greatly.

Nurturing an environment that encourages the finest creative work is vital to our efforts, which is why it gives me great pleasure to say that everywhere you turn at Disney today, there's a thrilling sense that the sky really is the limit. Regardless of the generation, this creative energy is being embraced by consumers of all ages and all walks of life all around the world, whether they are young kids watching *Hannah Montana* on Disney Channel, sports fans glued to *Monday Night Football* on ESPN or families experiencing the fantasy and wonder of a Walt Disney World vacation.

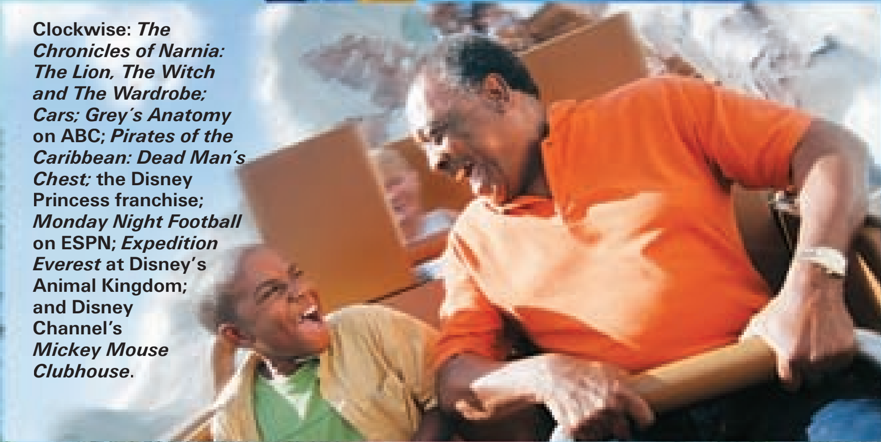
Central to the Disney legacy is this unparalleled heritage of creative excellence, endless imagination and technological innovation. From *Snow White* to this summer's new *Pirates of the Caribbean* adventure, our skill is in creating extraordinary worlds, compelling stories, memorable characters and rewarding experiences for audiences everywhere. Synonymous with the Disney name is creative strength, and this year we made a tremendous move to build upon that great tradition with the acquisition of another globally recognized powerhouse of creativity and technology, Pixar Animation Studios.

Robert A. Iger, president and chief executive officer, The Walt Disney Company, on the set of the upcoming Disney film *Pirates of the Caribbean: At World's End*.

Pixar's unprecedented string of hits, which continued this year with *Cars*, can be attributed to its incredible artistic talent and spirit of innovation, coupled with an uncanny ability to develop memorable characters and tell a great, relatable story. Ever since the debut of Mickey Mouse in *Steamboat Willie*, animation has been the bedrock of Disney, so with this important acquisition, we further our commitment to outstanding animation, embracing our heritage and securing our legacy for the future.

While the addition of Pixar enhances Disney's position as the worldwide leader in quality family entertainment, we also remain at the forefront of technological advancement for the purposes of both entertainment and distribution, and we are focused on expanding the breadth and depth of all our businesses globally. We believe these strategies will continue to promote sustained future growth, just as they did in fiscal 2006, a year in which Disney saw record revenues, record cash flow and record net earnings, as well as operating growth in each of our business segments.

Highlighting our financial achievements this year, revenue hit an all-time high of $34 billion, a 7% increase over the previous year. In addition, earnings per share for the year increased 34% to $1.64, reflecting growth in each of our businesses – Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products.



Clockwise: ***The Chronicles of Narnia: The Lion, The Witch and The Wardrobe; Cars; Grey's Anatomy*** **on ABC;** ***Pirates of the Caribbean: Dead Man's Chest;*** **the Disney Princess franchise;** ***Monday Night Football*** **on ESPN;** ***Expedition Everest*** **at Disney's Animal Kingdom; and Disney Channel's** ***Mickey Mouse Clubhouse*****.**

From movie theaters, DVDs and books to theme park attractions, toys and even Halloween costumes, Disney's wildly popular *Pirates* franchise continues to capture the imaginations of consumers everywhere.

As you can guess, everyone at Disney is excited and optimistic, but cautiously so. As an entertainment company, we face an ever-changing, often challenging environment; however, we know that nothing succeeds better or creates more value than quality. We are also aware that the dynamic nature of our business demands agility, adaptability and curiosity, the combination of which encourages active experimentation coupled with wise investment.

To exemplify this philosophy, consider Disney's recent adoption of new distribution technologies. From iPods and cell phones to ABC.com, it is our intent to listen to consumers by making Disney entertainment available wherever, however and whenever they want it. We are among the first media companies to embrace exciting new technologies such as these, which puts us at the forefront in delivering first-rate entertainment that is, at the same time, consumer-friendly.

This approach is vital to the Company's future growth. And clearly innovation and imagination continue to be the essential components required to get us there, as we seek to build our outstanding creative franchises across different businesses, platforms and markets, drawing in new and traditional audiences spanning multiple generations.

One such example can be seen in the continued, runaway success of *Pirates of the Caribbean: Dead Man's Chest*, which was the number one movie of 2006 and the third-biggest release in motion picture history, surpassing the $1 billion mark at the worldwide box office. But we didn't stop there. *Pirates* books topped the best-seller lists, characters from the movie were added to the *Pirates* attractions at Disneyland and Walt Disney World, our Halloween costumes were the hit of the season and even adults got into the spirit with strong sales for our line of high-end *Pirates*-themed couture. And the *Pirates* DVD, released just before Christmas, broke records, selling five million units in its first day of release, while the iTunes downloadable version has also done remarkable business. We're confident that *Pirates* fever will continue into this year as we await the release of our third installment of the franchise, *Pirates of the Caribbean: At World's End*, which opens in May.

A French rat named Remy aspires to be a world class chef in Pixar's upcoming animated movie, *Ratatouille*.

***WALL· E*, from Academy Award®-winning director Andrew Stanton *(Finding Nemo)*, is scheduled for release June 2008.**

Disney's strong presence in movie theaters didn't end with Captain Jack. *Cars* was the number one domestic animated movie of the year, and our merchandise program captured the interest of kids around the world, producing $1 billion in retail sales for our licensees. We expect continued high performance from *Cars* following its holiday DVD release. We're also excited about Pixar's next animated movie, *Ratatouille*, which will be released this summer. And I'm pleased to give you an exclusive first look at the title character of their next movie, *WALL· E* (pictured here), which will be released the following year.

From the big screen to the TV screen, Disney's creative strength was abundant. ABC has delivered three of the Top 5 series so far this season among the key Adults 18-49 demographic that advertisers pay a premium to reach. They included *Desperate Housewives, Lost* and the number one program in the demo, *Grey's Anatomy*, which were joined by two of the most popular new shows of the season, *Ugly Betty* and *Brothers & Sisters*. All of these series, I might add, were produced by Disney-owned Touchstone Television, enabling us to continue reaping financial rewards for each of these hits well into the future. Add to the list the reality series that riveted the nation, *Dancing With the Stars*, and ABC is poised for continued success into the coming year and beyond.

Our cable group delivered equally impressive results, highlighted by the strong performance of ESPN, which delivered double-digit growth in both revenue and operating profit. ESPN's ratings increased substantially this year, driven by *Monday Night Football* and NBA playoff coverage, among other events. In fact, last year, more people watched ESPN's four domestic cable channels than ever before, a position of strength we expect will continue into 2007 with the return of America's fastest-growing spectator sport, NASCAR.

Disney Channel also made headlines with the cultural phenomenon *High School Musical*, which truly took the world by storm, setting records across multiple categories, including *Billboard*'s best-selling record of the year, the top-selling TV home entertainment title of the year, and a *New York Times* best seller, not to mention outstanding ratings on Disney Channel. Our millions of *High School Musical* fans can look forward to even more fun in the coming year as we debut a sequel to the movie, a national concert tour, thousands of licensed musical performances in local schools and drama clubs across the country and a new line of merchandise.

As an incubator of creativity and talent, Disney Channel is second to none, generating the kind of popular new characters and stories that have made it a top television destination for kids from toddlers to tweens. This year alone, *Hannah Montana, Mickey Mouse Clubhouse* and *The Cheetah Girls 2* have joined the ranks of *That's So Raven, The Suite Life of Zack & Cody* and *Little Einsteins* to make Disney Channel an undisputed leader in entertainment for kids and families.

Always filled with excitement and magical experiences, our Disney Parks and Resorts also had a terrific year, highlighted by Disneyland's 50th anniversary celebration, which resulted in outstanding attendance at Disneyland Park in particular. Also spurring attendance were new attractions such as the exhilarating new E-ticket adventure *Expedition Everest* at Disney's Animal Kingdom and *The Seas with Nemo and Friends* at Epcot. In addition, we are encouraged by the enthusiastic early reaction to *The Year of a Million Dreams*, a first-of-its-kind celebration that will grant more than one million special dreams to Guests visiting the Walt Disney World and Disneyland Resorts.

The incredible realms of fantasy and adventure created by our Imagineers, along with our 50 years of experience in providing world-class Guest service, have made our Disney theme parks among the world's leading vacation destinations. This has allowed us to expand into successful related businesses, whether it's our Disney cruises, our Disney Vacation Club or our newest vacation touring experience, Adventures by Disney.

Growing all of our businesses, particularly internationally, is critical to our future. I'm pleased to report that we made progress in 2006, especially in the rapidly emerging markets of China and India. In those two countries alone, there are more than 800 million consumers under 21 years of age, which poses a remarkable opportunity for Disney entertainment to be enjoyed by a largely untapped audience.

In China, Hong Kong Disneyland, which opened in September 2005, anchors our presence. We are also rapidly boosting our retail merchandising through the licensing of thousands of "Disney Corners" at department stores throughout the region, while increasing our presence in the booming mobile entertainment sector. To expand in India, we made the strategic acquisition of one of the country's leading kids television networks, Hungama. In addition, Disney channels in India reach 30 million households and hold the largest share of the children's television market. I should add that *High School Musical* has been such a smash hit that we are localizing it with an original Bollywood version, which is currently in production in India.

Regardless of where our audiences are in the world, authority is shifting from the creators and distributors of media to consumers. That is why we need to continue to anticipate and meet changing demands for our content by providing it on the platforms they use most on a well-priced, well-timed basis.

A sequel to the smash hit movie *High School Musical* will premiere in August on Disney Channel.

Disney content remains among the most requested on iTunes. In 2006, DisneyChannel.com was the number one entertainment Web site for Kids age 6-14; Disney Mobile launched in 2006 and is the first comprehensive mobile phone service specifically developed to meet the needs of parents and kids.

Viewers requested almost 30 million episodes on ABC.com in the first 10 weeks of the 2006-07 TV season alone.

With our groundbreaking deals last year to make our television shows and movies available on iTunes, as well as our new on-demand services provided through ABC.com and DisneyChannel.com, we have been at the forefront of responding to the consumer. Already, our shows, movies and Disney animated shorts, including classic Mickey Mouse cartoons from the 1930s, have been played or downloaded more than 100 million times on these platforms. Given the strong performance of our media networks and DVD sales, this is an encouraging early sign that this wave of digital activity is expanding the market.

Speaking of digital advances, in January, we are launching an all-new version of Disney.com, the number one online entertainment site for kids and families. The new Web site will be highly customizable, multi-faceted and rich in content, all based on the age and interests of the user. Guests will be able to watch videos, movies, television shows and shorts, as well as listen to music, create their own play lists and enjoy a stunning array of games. The site will also offer direct vacation planning services and information, as well as enhanced on-line communities and shopping capabilities. In short, Disney.com will be the one-stop online destination for the world of Disney.

The kind of creative energy, openness to innovation and global commitment that I've briefly shared here, is indicative of our determination to maintain Disney's long-standing tradition of developing and distributing the finest in quality family entertainment. It has also enhanced our reputation both on Wall Street and on Main Street. In fact, last September, *BusinessWeek* magazine named Disney the number one company for new college graduates to launch their careers, a distinction for which we are quite proud.

As we seek to uphold the outstanding reputation afforded the Disney name, we have also bolstered our commitment to social responsibility. While Disney has a long history of involvement in philanthropy and environmental affairs, we also realize the central role we play in the lives of families everywhere. So, in October, we decided to put our brand and characters to work for them with a new healthy foods program, including healthier food options for kids at our parks and in our licensed consumer products here in the United States. This decision makes sense from both a social and a business perspective, and we are looking forward to rolling out this initiative globally.

While every movie, show, experience, product and project we undertake is backed by a team dedicated to doing its part to further the Disney legacy, on a personal note, I would like to recognize a great leader in this endeavor.

P X A R

From apparel and toys to books and electronics, Disney Consumer Products brings smiles to the faces of kids around the world.

Senator George J. Mitchell has been a member of our Board of Directors for 12 years, most recently serving as chairman. George embodies the word "statesman," and we were extremely fortunate to have been the beneficiaries of his counsel and leadership. He has been a tremendous source of advice and wisdom to me personally, and to the Company. As he leaves the Disney family, all of us thank him for his service and are deeply grateful to him for his many contributions.

I'd also like you to join me in welcoming our new non-executive chairman, John E. Pepper, Jr., the former chairman and chief executive of Procter & Gamble. John is an incredibly gifted and experienced executive with a strong background in corporate management, global brand building and leadership development. The strength of his character and his professional acumen will serve the shareholders and employees of our Company well.

It seems impossible to believe that it's been a year since I wrote my first letter to you as CEO of Disney. At that time, we pledged to advance several goals: that we would be admired for our performance, for the quality and integrity of our people and products, and for being contemporary, innovative and willing to take the intelligent risks necessary to carry us into the future. While we still have a long path to the pinnacle – wherever that may be – I do believe we have begun to make progress toward those goals.

In this role, I have a unique and special responsibility to our audiences and Guests everywhere: they expect us to do our best every day. They want to be amazed, delighted and entertained. They are looking for the kind of magic that will transport them from their everyday lives and into worlds that can only be created by Disney. They expect quality.

That provides us with a unique challenge that, even after more than 80 years, we know we must continually reinvent ourselves and reimagine our future in order to meet their high expectations.

I think I speak for everyone at Disney when I say, that's the fun part! I know that's true for one group in particular, our Imagineers. These men and women are the true magicians of our day. For more than 50 years, they have conceived, designed, developed and built our Disney theme parks and attractions around the world, and to show you how they are imagining the future of Disney for our Guests, we have decided to dedicate the following pages to the thing they do best – dream.

What you are about to see is conceptual artwork of projects we are building, developing or still just dreaming about. Some will be open soon, some may never be built, but all of them will give you a unique window into what's on the horizon at Disney, and what our Imagineers have on their drawing boards.

Before you turn the page, on behalf of the men and women of The Walt Disney Company who work hard every day to create the special memories and experiences that our consumers worldwide enjoy around the clock, I'd like to thank you personally for your continued support. We are in the midst of an exciting and dynamic time in the history of Disney, and we're honored that you've chosen to join us.

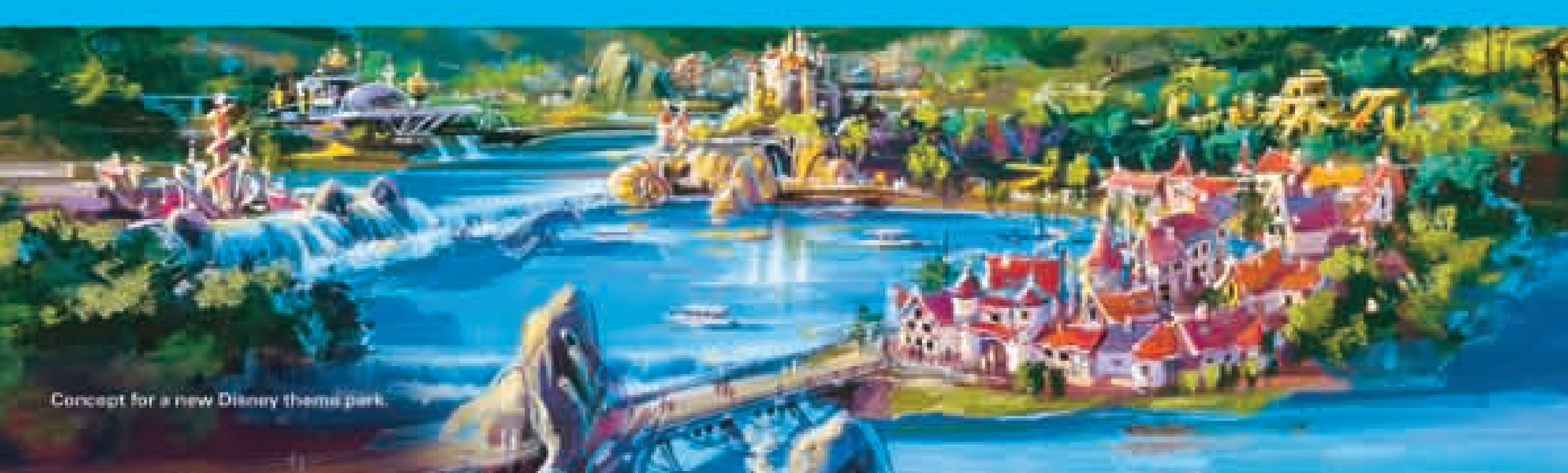
Robert A. Iger

Robert A. Iger
President and Chief Executive Officer,
The Walt Disney Company
December 12, 2006

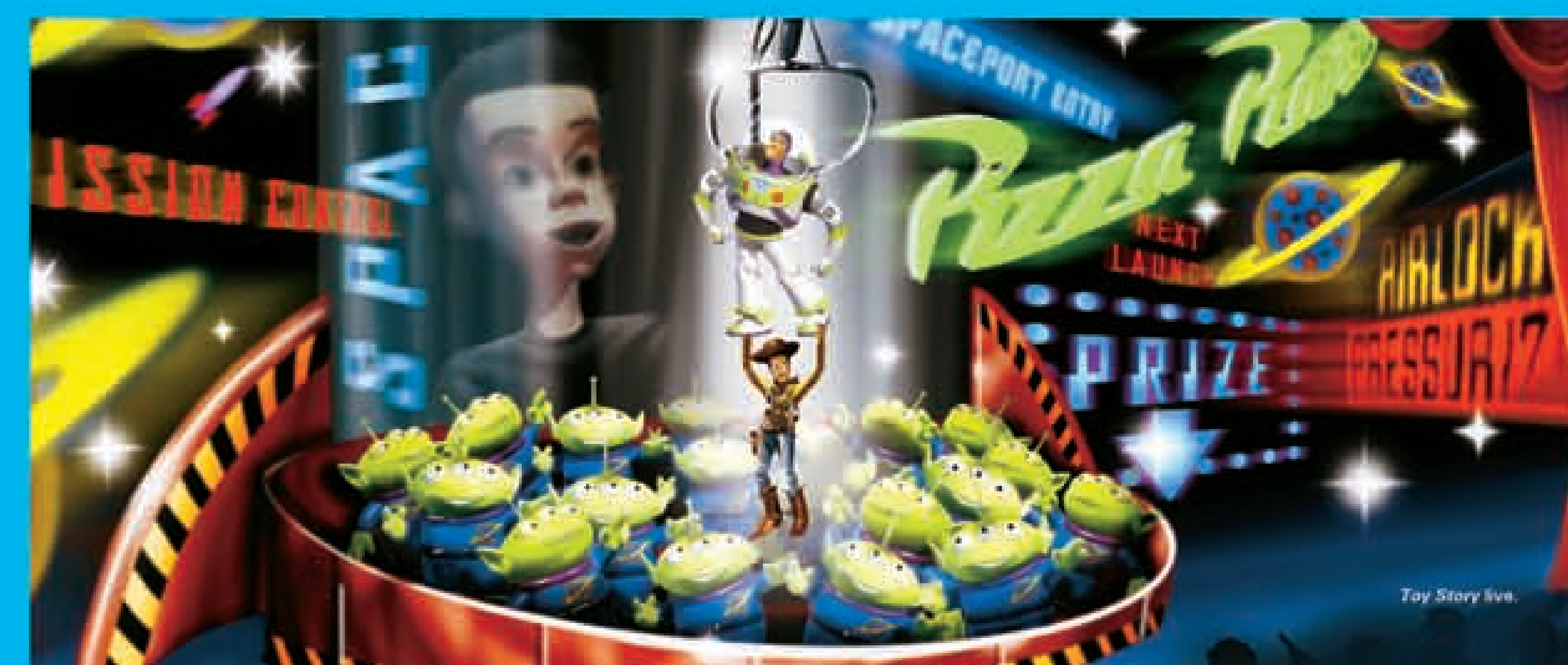
Dreaming...

New nighttime water spectacular.

Pirate-themed adventure.


Concept for a new Disney theme park.

New urban entertainment center.



Toy Story live.

FINANCIAL REVIEW

We believe that Disney's long-term prosperity fundamentally rests on our ability to create exceptional content that audiences around the world embrace, to deliver that content, to the greatest extent possible, to consumers when, how and where they want it, and to do so in a way that delivers economic value to our shareholders over the long term. Allocating capital profitably and managing our day-to-day operations to maximize Disney's opportunity for both creative and financial success are the most important ways that we serve the owners of our Company.

Creativity and innovation, especially around branded products with franchise potential, are critical factors that drive our Company's performance, reinforce the promise of our brands and strengthen our relationship with consumers around the world. In order to gauge how efficiently we are translating our creative successes into economic value, we track three primary financial metrics: earnings per share (EPS), return on invested capital (ROIC), and after tax cash flow. We believe that we must deliver strong results on all of these metrics over time. None of them, taken alone, is a sufficient indicator of value creation, but we believe delivering attractive results for all three of these metrics over the long run will drive long-term economic prosperity for our Company. Fiscal 2006 was the fourth consecutive year that Disney delivered solid improvement in each of these key metrics.

As we target these long-term financial goals, we will continually fortify our established businesses because they remain a vital part of our future. These businesses maintain and build our brands, even as they continue to deliver attractive earnings growth and substantial cash flow. At the same time, we will embrace and seek to capitalize on the changes that are transforming the media business. Across the Company, we are pioneering new distribution opportunities and investing in a wide variety of initiatives to position Disney as a preeminent player in the rapidly evolving media marketplace.

Two primary factors guide how we allocate capital both internally and to new ventures; first, the potential size and strategic relevance of the market opportunity an initiative offers and, second, whether or not we can capture and sustain a competitive advantage in the business we are considering entering. Sustainable competitive advantages – such as the tremendous strength of our Company's brands, Disney's spectacular library, our fundamental storytelling and creative capabilities, our ability to monetize creative success across many businesses and our experienced front-line management teams – can deliver enhanced financial performance. We constantly seek to translate these benefits into greater profitability, growth potential and ultimately, attractive returns on investment.

Delivering attractive returns that are comfortably above our Company's weighted average cost of capital is the basis by which we can create value for shareholders. Since strategic investment can sometimes pressure near-term returns, even while creating the foundation for future performance, we assess trends in financial metrics over time rather than looking only at short-term results.

FISCAL 2006 RESULTS

During fiscal 2006, Disney delivered record earnings per share of $1.64, an increase of 34% over fiscal 2005. Our Company's earnings this year were particularly gratifying because all of our operating segments delivered double-digit growth.

We achieved this strong earnings performance while investing to position our Company for growth in the future. During 2006, we invested in a wide variety of content-based projects for a broad range of distribution platforms. We also made investments to further establish Disney in important emerging international markets like China, Russia and India. Looking ahead, we will continue to allocate resources in these burgeoning areas and at the same time will continue to fortify Disney's existing businesses. In 2007, we expect to increase our overall capital spending by approximately $400 to $500 million, with roughly half of this increase going toward our Theme Parks and the majority of the rest allocated toward digital initiatives at Media Networks.

BUSINESS SEGMENT PERFORMANCE

STUDIO ENTERTAINMENT

In 2006, our Studio Entertainment segment contributed substantial profit growth while also serving as one of the Company's most important creative engines. The success of our Disney branded titles, including *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe, Pirates of the Caribbean: Dead Man's Chest* and *Cars* – coupled with our efforts to reduce overall film investment, marketing and distribution expenses – helped Studio Entertainment to more than triple its operating profit versus fiscal 2005.

The Studio's results reinforce our strategy to allocate resources toward developing Disney-branded franchises that can be leveraged across the Company. *Cars,* for example, not only contributed to the Studio's 2006 performance, but also served as the basis for one of Disney Consumer Products' most successful merchandise programs. We are also exploring adding a *Cars*-based attraction at one or more of our theme parks around the world.

The acquisition of Pixar was an important and valuable step for our Company. Although the transaction resulted in EPS dilution in 2006 and will result in even greater dilution in 2007, the broad-based effect of *Cars* illustrates that Pixar's creative output and talent have a wide-ranging impact on creative efforts across our Company. We believe that this company-wide impact improves our long-term earnings potential. The success of the integration to date and the wonderful characters and stories that we expect to leverage across the Company for years to come underscore our confidence in the value-creating potential of this acquisition.

MEDIA NETWORKS

Media Networks was our most profitable segment in 2006, led by the strong performance of our cable networks. Here too, success comes from providing our consumers with high quality programming associated with our well known and trusted brands. This success is enhanced by our ability to leverage programming across many distribution platforms, rather than just one. ESPN's multi-media delivery of top quality sports programming like *Monday Night Football*, Major League Baseball, NBA and (starting in 2007) NASCAR across TV, internet, broadband, wireless, print and radio outlets is a great example of our efforts in this regard.

In 2006 Disney Channel further demonstrated its importance as a creative engine and brand building vehicle with successful shows like *Hannah Montana, The Suite Life of Zack and Cody* and the teen phenomenon *High School Musical,* to name a few. In addition to traditional cable television, Disney Channel's popular programming can now be accessed at outlets like DisneyChannel.com and the iTunes music store.

Our commitment to quality branded programming and a multi-platform approach drove ESPN and Disney Channel to again deliver increased viewership and ratings. Overall, the group delivered solid growth in revenue and operating profit, more than making up for ongoing investment in new digital and programming initiatives designed to drive future performance.

In our broadcasting businesses, ABC's programming line-up continued to resonate with viewers across the country, bolstering the network's ratings and helping deliver substantially improved profitability in 2006. As with ESPN and Disney Channel, ABC is also taking important steps to distribute its most popular shows on new digital platforms including ABC.com, the iTunes music store and, starting in fall 2007, via video on demand in some markets.

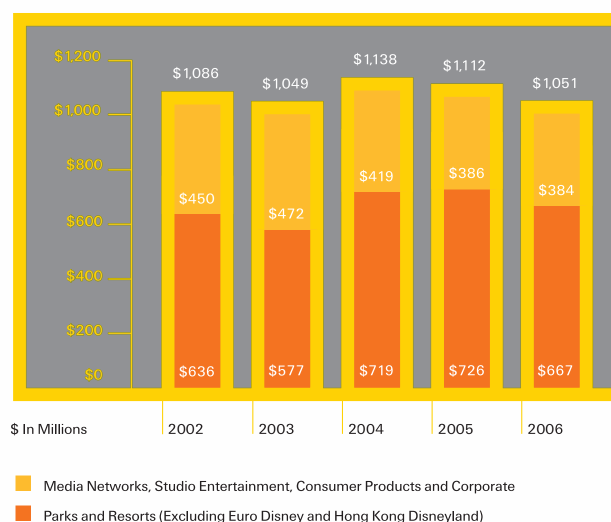
During the past year, we also entered into an agreement to merge our ABC Radio assets into Citadel Broadcasting. The terms of this proposed transaction were recently amended to facilitate the closing of the deal, which is now scheduled for late in the second calendar quarter of 2007. Upon closing, we will distribute the ABC Radio assets to our shareholders. As such, our shareholders, rather than Disney itself, will own a stake in the combined radio company. We continue to believe that this transaction and strategic combination allows us to maximize the value of these assets to our shareholders.

PARKS & RESORTS

In 2006, Disney Theme Parks and Resorts continued to enjoy a powerful and enduring competitive advantage driven by the strength of the Disney brand and character properties. The 50th anniversary celebration, coupled with new guest programs designed to let guests customize their Disney vacation, helped deliver increases in attendance, guest spending and hotel occupancies for the year. All of these positive factors in turn spurred double-digit gains in revenue and operating profit for the year.[1] Notably, we also further improved operating margins for our domestic theme parks in 2006.

In 2007, we expect to increase capital spending at our domestic parks as we continue to refresh and update our portfolio of assets in conjunction with the launch of the new *The Year of a Million Dreams* celebration at our U.S. parks. We expect expenditures at our U.S. parks will remain meaningfully below our $1 billion per year target cap for domestic theme park capital spending.[2] This segment also will continue to generate substantial levels of free cash flow, even taking into account the ongoing investments we are making to further enrich the Disney theme park experience. Our research suggests that the "immersion" in the world of Disney afforded by the parks is a vital means of engaging with our audiences around the world and a key driver of affinity for the Disney brand, stories, and characters.

The Walt Disney Company
Capital Expenditures
Excluding Euro Disney and Hong Kong Disneyland



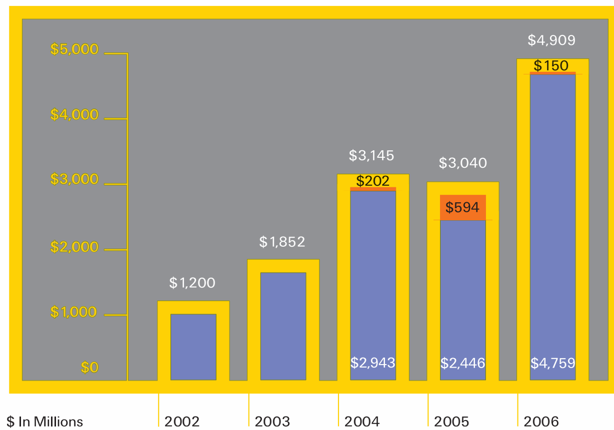
CONSUMER PRODUCTS

Disney's Consumer Products business also generated strong results for the year. Merchandise licensing, the largest business under the Consumer Products umbrella, leveraged both new and existing creative properties like *Pirates, Cars* and *Princess* to help Consumer Products deliver double-digit growth in operating profit for the year. At the same time, we have continued to allocate substantial resources toward development spending for Buena Vista Games, our non-sports video game business.[3] We expect to continue to increase our investment in video games over time as we believe this business offers Disney the opportunity to create products that reinforce and leverage our character properties, while delivering attractive earnings growth and returns on our investment.

FREE CASH FLOW

Over the past several years, we have continued to strengthen our financial performance, while our capital needs have been relatively stable. The combination of these factors helped us deliver over $4.7 billion in free cash flow for fiscal year 2006 – a record for the Company and a reflection of our commitment to maximize the cash efficiency of our operations and our balance sheet.[4] In 2006, our after tax free cash flow per share was well above our earnings per share, with much of the difference due to our move to decrease our overall investment in live action films, the timing of certain spending and amortization expenses, and timing and improvements in working capital. While we expect to generate substantial cash flow going forward, we don't expect this disparity to repeat itself in 2007.

The Walt Disney Company
Free Cash Flow

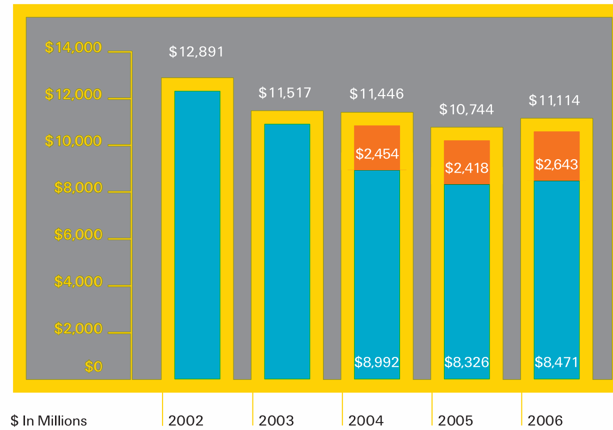


Free Cash Flow Impact of Euro Disney and Hong Kong Disneyland

Free Cash Flow Including Euro Disney and Hong Kong Disneyland

Disney's strong cash flow performance continues to give our Company a tremendous amount of financial flexibility by helping to maintain our solid, A3/A- credit rating and ready access to both debt and equity capital that we can put to work for our shareholders. Over the last several years, we have significantly reduced our net borrowing levels, even as we have returned substantial capital to our shareholders through share repurchase and dividends. We have also taken advantage of the interest rate environment, locking in low fixed rates on over 80% of our net debt portfolio as of the end of fiscal year 2006. We enjoy an attractive average effective yield on our debt portfolio of just under 5%, with a weighted average maturity of more than 9 years.[5]

The Walt Disney Company
Net Borrowings at Fiscal Year End



Net Borrowings of Euro Disney and Hong Kong Disneyland

Net Borrowings Excluding Euro Disney and Hong Kong Disneyland

SHAREHOLDER RETURNS

At the end of fiscal 2004, having achieved our targeted debt reduction, we began to aggressively repurchase Disney stock as a means of returning value to our shareholders. From August 2004 through the end of fiscal 2006, we have bought almost 350 million Disney shares for over $9.6 billion. In Fiscal 2006 alone, we repurchased 243 million shares of Disney stock for approximately $6.9 billion. We believe our repurchase activity reflects not only our discipline in returning value to shareholders, but also our confidence in our ability to grow shareholder value over time.

We are also proud of our track record of returning value to shareholders through annual dividends. In December 2006, Disney's Board of Directors declared a cash dividend of $0.31 per share or approximately $640 million in total. This marks the 51st consecutive year that Disney has paid a dividend and the third consecutive year of double-digit growth in dividends per share.

Of course, our overall goal is to deliver attractive total shareholder returns over time. For the 20 year period through fiscal 2006, an investment in Disney has yielded a compound annual return of 12.6%, roughly 90 basis points above the S&P 500. Over the past twelve months, our strong financial performance has helped deliver a total return to Disney shareholders of over 37% versus over 14% for the S&P.[6]

OUTLOOK

The consistently strong creative and financial results Disney has delivered over the past several years are gratifying. At the same time, we are by no means complacent. Disney occupies a special place in the hearts and minds of our consumers, and we seek to maintain that privileged place with each consumer or guest experience. With this in mind, we continue to strive to deliver outstanding creative content across all of our platforms, to build upon the wealth of Disney characters, franchises and properties, and to develop new and innovative ways to delight our audiences.

Our financial success comes from doing all of this while operating within a framework that delivers economic value. At Disney we understand that these two goals – uncompromising quality and financial discipline – must coexist in order to deliver on the high expectations of all of our stakeholders.

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

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[1] Accounting rules require The Walt Disney Company to consolidate 100% of Euro Disney and Hong Kong Disneyland's financial results (Disney's effective ownership is 51% and 43% respectively). The Parks & Resorts segment recognized gains in revenue and operating profit for the year both including and excluding this consolidation.

[2] Our discussion and supporting charts regarding Disney's capital expenditures exclude the impact of consolidating Euro Disney and Hong Kong Disneyland (discussed in Footnote 1). Measures excluding Euro Disney and Hong Kong Disneyland are not financial measures defined by GAAP. Reconciliations of these non-GAAP financial measures to equivalent GAAP financial measures are available at the end of this Financial Review.

[3] Development spending at Buena Vista Games in Fiscal Year 2006 was approximately $100 million.

[4] 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.

[5] These figures also exclude the debt of Euro Disney and Hong Kong Disneyland. 98% of Euro Disney and Hong Kong Disneyland net debt is fixed and the average effective yield of that debt is 4.7% with a weighted average maturity of 13.1 years.

[6] As of December 8, 2006.

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

	2002	2003	2004	2005	2006
Segment operating income	$3,047	$3,512	$4,860	$5,137	**$6,491**
Corporate and unallocated shared expenses	(417)	(447)	(428)	(536)	**(529)**
Amortization of intangible assets	(21)	(18)	(12)	(11)	**(11)**
Gains on sale of equity investment and businesses	34	16	—	26	**70**
Restructuring and impairment (charges) and other credits, net	—	(16)	(64)	(32)	**18**
Net interest expense	(453)	(793)	(617)	(597)	**(592)**
Income before income taxes, minority interests and the cumulative effect of accounting changes	$2,190	$2,254	$3,739	$3,987	**$5,447**

CAPITAL EXPENDITURES

The consolidation of Euro Disney and Hong Kong Disneyland increased reported capital expenditures because the capital expenditures of those operations are now included in our financial results, so for comparability purposes, we also look at capital expenditures excluding capital expenditures of those operations.

	2002	2003	2004	2005	2006
Media Networks	$ 151	$ 203	$ 221	$ 228	**$ 227**
Parks and Resorts					
Domestic	636	577	719	726	**667**
International	—	—	289	711	**248**
Studio Entertainment	37	49	39	37	**41**
Consumer Products	58	44	14	10	**16**
Corporate	204	176	145	111	**100**
	1,086	1,049	1,427	1,823	**1,299**
Less: Capital expenditures of Euro Disney and Hong Kong Disneyland	—	—	(289)	(711)	**(248)**
	$1,086	$1,049	$1,138	$1,112	**$1,051**

FREE CASH FLOW

The Company defines "Free Cash Flow" as cash provided by operations less investments in parks, resorts and other property. Please see the Company's Consolidated Statements of Cash Flows on page 75 of this Annual Report.

	2002	2003	2004	2005	2006
Cash provided by operations	$ 2,286	$ 2,901	$ 4,370	$ 4,269	**$ 6,058**
Investments in parks, resorts and other property	(1,086)	(1,049)	(1,427)	(1,823)	**(1,299)**
Free cash flow	$ 1,200	$ 1,852	$ 2,943	$ 2,446	**$ 4,759**

2004	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided by operations	$ 4,283	$ 87	$ 4,370
Investments in parks, resorts and other property	(1,138)	(289)	(1,427)
Free cash flow	$ 3,145	$(202)	$ 2,943

2005	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided by operations	$ 4,152	$ 117	$ 4,269
Investments in parks, resorts and other property	(1,112)	(711)	(1,823)
Free cash flow	$ 3,040	$(594)	$ 2,446

2006	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash provided by operations	**$ 5,960**	**$ 98**	**$ 6,058**
Investments in parks, resorts and other property	**(1,051)**	**(248)**	**(1,299)**
Free cash flow	**$ 4,909**	**$(150)**	**$ 4,759**

NET BORROWINGS

The Company defines "net borrowings" as total borrowings less cash and cash equivalents. The consolidation of Euro Disney and Hong Kong Disneyland increases net borrowings because the borrowings of those operations are now included in the consolidated borrowings, so for comparability purposes, we also look at net borrowings excluding net borrowings of those operations.

	2002	2003	2004	2005	2006
Current portion of borrowings	$ 1,663	$ 2,457	$ 4,093	$ 2,310	**$ 2,682**
Long-term portion of borrowings	12,467	10,643	9,395	10,157	**10,843**
Total borrowings	$14,130	$13,100	$13,488	$12,467	**$13,525**
Cash and cash equivalents	(1,239)	(1,583)	(2,042)	(1,723)	**(2,411)**
Net borrowings	$12,891	$11,517	$11,446	$10,744	**$11,114**
Less: net borrowings of Euro Disney and Hong Kong Disneyland	—	—	(2,454)	(2,418)	**(2,643)**
Net borrowings excluding Euro Disney and Hong Kong Disneyland	$12,891	$11,517	$ 8,992	$ 8,326	**$ 8,471**

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 travel and leisure businesses generally and may, among other things, affect 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 are set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2006 under the heading "Item 1-A, Risk Factors."

STUDIO ENTERTAINMENT

Johnny Depp reprised the role of Captain Jack Sparrow in the box office phenomenon, *Pirates of the Caribbean: Dead Man's Chest* (previous page); *Pirates of the Caribbean: At World's End,* the highly anticipated third installment of the franchise, is set to open Memorial Day weekend (top); Pixar and director Brad Bird (*The Incredibles*) have the recipe for delicious summer success with the new computer-animated comedy-adventure, *Ratatouille* (bottom).

The Walt Disney Studios enjoyed one of its best years on record, as a slate of extraordinary live-action and animated motion pictures, best-selling DVD releases, chart-topping CDs and theatrical stage productions connected with audiences all over the world. During the year, the Studios announced a comprehensive business strategy that emphasizes a renewed focus on family entertainment featuring the Disney name. Adding to its monumental year, the acquisition of Pixar Animation Studios reinforced the Studios' commitment to feature animation and creative filmmaking.

Topping the Studios' list of milestones for 2006 was the record-breaking worldwide phenomenon *Pirates of the Caribbean: Dead Man's Chest*, the number one domestic animated film of the year, Disney/Pixar's *Cars* and the runaway success of *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*. These great Disney titles produced a treasure trove of benefits for virtually every area of the Company.

Walt Disney Pictures' *Pirates of the Caribbean: Dead Man's Chest*, reuniting the powerhouse team of producer Jerry Bruckheimer, director Gore Verbinski and a stellar cast headed by Johnny Depp, sailed into the record books as the third biggest film in motion picture history and became Disney's biggest film of all time with more than $1 billion in worldwide box office. The swashbuckling sensation opened to a record three-day domestic box office gross of over $135 million and became the top-grossing film of the year in the U.S. and around the world. The film's success drove Buena Vista International to its unprecedented 12th consecutive year of over $1 billion in overseas box office.

The *Pirates* success story continued throughout the year with the release of the DVD in December. The title quickly became the year's top-selling domestic release.

Now that *Pirates* fever is gripping moviegoers around the world, the scheduled May 25 release of the franchise's third installment, *Pirates of the Caribbean: At World's End*, is already generating enormous excitement and anticipation. With Captain Jack Sparrow exiled to an eternity in Davy Jones' Locker, Will Turner, Elizabeth Swann and the newly returned Captain Barbossa must struggle against an array of enemies, both human and serpentine, to rescue him.

The Chronicles of Narnia was the third biggest selling DVD of 2006, with sales of more than 12 million units domestically. Andrew Adamson has returned to direct the highly anticipated sequel *Prince Caspian*, in which more than 1,300 years have passed since the Pevensie children's last visit to Narnia. Much of the magic has been lost under the leadership of a race of men from Telmar, and now it's up to Prince Caspian, the rightful heir to the Narnian throne, along with the children and an army of fantastical creatures, to reclaim the kingdom. The adventure resumes in summer 2008.

Disney/Pixar's *Cars* got off to a fast start in June and crossed the finish line as a box office winner, earning a worldwide gross of over $450 million. With its universally appealing characters and story, breakthrough computer imagery and inspired direction by Academy Award®-winning filmmaker John Lasseter, the film delivered thrills and entertainment all over the world. The holiday DVD release of *Cars* became the number two domestic release of the year, selling more than 13 million units. Internationally, the DVD also sped to the top.

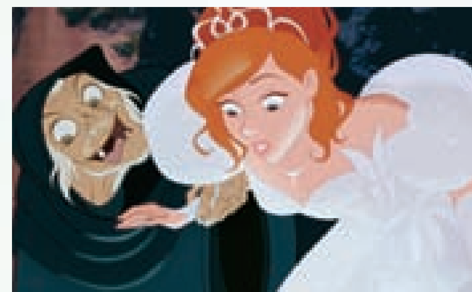
Thanks to the acquisition of Pixar, John Lasseter is now serving as chief creative officer and Ed Catmull is president of Pixar and Disney Animation. Their leadership is helping to bring an exciting new period of creativity and innovation to Disney's legendary animation studio.

Disney's *Meet the Robinsons,* scheduled for release this March, follows the adventures of Lewis, an orphan who dreams of finding the family he's never known. His journey takes an unexpected turn when it leads him into a world where anything is possible... THE FUTURE. There he meets an incredible assortment of characters and a family beyond his wildest imagination, the Robinsons, who help lead him on an amazing and hilarious adventure.

In June, Pixar and acclaimed director Brad Bird (*The Incredibles*) will be serving up a hilarious new computer-animated comedy called *Ratatouille*. A French rat named Remy wants more than the routine rodent life, aspiring to become a world class chef. He gets the chance to pursue his dream when fate leads him to the restaurant made famous by his culinary hero, Auguste Gusteau. Flavored with a colorful cast of characters, exquisite Parisian backdrops and the unmatched imagery for which Pixar is renowned, *Ratatouille* offers a tantalizing recipe for imaginative fun and unexpected delights.

DisneyToon Studios will release an original animated film for the home entertainment market, *Cinderella III*, which explores what would have happened if the glass slipper didn't fit.

As part of the Studios' overall strategy, 2007 will see an increased focus on outstanding family films under the Disney banner. Leading the way will be *Pirates of the Caribbean: At World's End*, followed by *Underdog*, which will combine live-action adventures with a CG canine hero in an all-new take on the popular '70s cartoon series. Holiday moviegoers will be *Enchanted* with the classic Disney animated/live-action fairy tale that reveals what happens to a Disney princess who comes to life in the real world. Starring Amy Adams, Patrick Dempsey and Susan Sarandon, the motion picture features new songs by Oscar®-winners Alan Menken and Stephen Schwartz. Also in production for a holiday 2007 release is *National Treasure 2: The Book of Secrets*, which follows the further adventures of archeologist Ben Gates, again played by Academy Award-winner Nicolas Cage.



In the 2007 holiday release *Enchanted*, actress Amy Adams stars as an animated princess trapped in the real world.

Concept art of the mysterious Telmarine Castle from *Prince Caspian*, the second installment of Disney's hit new franchise, *The Chronicles of Narnia*.

In 2007, Touchstone Pictures takes a ride on the wild side with the comedy *Wild Hogs*. John Travolta, Tim Allen, Martin Lawrence and William H. Macy star as four frustrated middle-aged suburbanites seeking to shake up their lives by hitting the open road as would-be renegade bikers. Popular comedy star Steve Carell teams up with rising young comic Dane Cook for more laughs in Touchstone Pictures' *Dan in Real Life*, the story of a strict single father of teenage daughters who turns out to be the one in need of a chaperone when he falls for his brother's new girlfriend.

Miramax Films' strategic move to return to its roots as a top provider of quality independent and modestly budgeted films from outstanding filmmakers paid off with *Tsotsi,* winning the 2006 Oscar for Best Foreign Film. Additionally, by leveraging existing franchises, the fourth film in the *Scary Movie* series scared up a worldwide gross of $177 million. The fall release of *The Queen*, with its tour-de-force performance by Helen Mirren, won kudos at festivals around the world. Miramax's slate of award-worthy films came on strong toward year's end with *Venus,* starring Peter O'Toole, and Anthony Minghella's *Breaking and Entering*. In 2007, Oscar-winner Daniel Day-Lewis stars as a turn-of-the-century Texas prospector in a drama about the early years of the oil industry, *There Will Be Blood*. Also coming from Miramax are *Becoming Jane* with Anne Hathaway and Dame Maggie Smith, *The Hoax* starring Richard Gere and Alfred Molina, and the directorial debut of Ben Affleck with *Gone, Baby, Gone*.

In addition to *Pirates 2, Cars* and *Narnia*, Buena Vista Worldwide Home Entertainment scored big in 2006 with the release of *High School Musical*, which became the top-selling TV movie on DVD of all time. The division also got a big boost from the Platinum Editions of *Lady and the Tramp* and *The Little Mermaid*, as well as the Disney Video Premiere of *Bambi II*. The Studios' commitment to new technology was evident with its adoption of Blu-ray Discs and the landmark announcement that Disney, Pixar, Touchstone and Miramax films would be available through Apple's iTunes Store, where an impressive 125,000 movies were downloaded in just the first week.

A stray beagle named Sunshine is transformed into a brilliant, talking superhero in the upcoming Disney summer comedy, *Underdog*.

Buena Vista Worldwide Home Entertainment had five of the top-selling titles of 2006 with *High School Musical, Cars, Pirates of the Caribbean: Dead Man's Chest*, *The Chronicles of Narnia*, and *The Little Mermaid* Platinum Edition.

The amazing performance of Rascal Flatts' *Me and My Gang*, *High School Musical* and *Hannah Montana* contributed to Buena Vista Music Group's success in 2006. The division achieved a major first during the summer when it placed three titles in the Top 10 on *Billboard's* Top 200 album chart, with *High School Musical*, the *Cars* soundtrack and *Me and My Gang*. *High School Musical* remained in the Top 10 for 25 weeks, and became the year's number one best-selling album across all genres, receiving triple platinum certification. Additionally, *Me and My Gang* ranked as the top-selling country album of the year and as the number two album for the year across all genres. *Hannah Montana* made history when it became the first TV soundtrack to debut on *Billboard's* Top 200 chart at number one. Hollywood Records also released new albums by such popular acts as Jesse McCartney, Aly & AJ and Breaking Benjamin. Walt Disney Records celebrated its 50th anniversary with its biggest year ever, marking its 11th consecutive year as the world's number one children's label.

Popular Disney titles continued to find success on Broadway and on theater stages all around the world. *The Lion King*, which will celebrate its 10th anniversary on Broadway this year, has been seen by more than 39 million people worldwide and recently became the first Disney production to play in Shanghai, with a South African production set to open in the spring. On Broadway, *Beauty and the Beast* celebrated its 12th anniversary and 5,000th performance, while around the world, the stage play has performed in 14 countries to 26 million people. Disney Theatrical Productions also opened two new musicals on Broadway in 2006: *Tarzan*® at the Richard Rodgers Theater and *Mary Poppins* at the magnificent New Amsterdam Theatre. The division is additionally developing new stage productions for *The Little Mermaid* and *The Man on the Ceiling*.

Disney Live Family Entertainment produces brand-enhancing family shows around the globe with more than 2,500 performances in 180 cities from Beijing to Buenos Aires. Licensed to Feld Entertainment, *Disney On Ice* and *Disney Live!* performed to more than 11 million guests with nine different productions.

Disney Theatrical Productions scored another smash hit with the Broadway debut of *Mary Poppins* at the New Amsterdam Theatre, starring Ashley Brown and Gavin Lee.

Acclaimed actress Helen Mirren gave a royal tour-de-force performance as the conflicted Elizabeth II in Miramax Films' *The Queen*.

Disney looks into the future with its wildly imaginative new computer-animated comedy-adventure, *Meet the Robinsons*, arriving in theaters on March 30.

PARKS AND RESORTS

The Year of a Million Dreams kicked-off in October when the Spangler family of Ohio got the Magic Kingdom at Walt Disney World all to themselves!

WHERE "ONCE UPON A TIME" HAPPENS EVERY DAY

Disneyland's 50th anniversary – *The Happiest Celebration on Earth* – established an emotional connection with consumers all around the world. Millions of Guests responded to our invitation by coming home to *their* Disney park and joining the celebration, driving impressive gains in attendance, revenue and operating income.

That success has led to Parks and Resorts' newest initiative, *Where Dreams Come True*. Regardless of boundaries or cultures, families everywhere share the belief that Disney parks are a magical escape where they can experience a world of fantasy and imagination. *Dreams* brings that belief to life through attractions, entertainment and, most importantly, Disney Cast Members, who are raising Disney's already high levels of Guest service to even greater heights.

New online planning tools, consumer-centric programs and in-park digital technologies are helping Guests enhance and personalize their vacation experiences at Disney parks. This level of customization is a distinct advantage that further differentiates Disney's strong brand in a rapidly expanding worldwide leisure travel market.

GLOBAL APPEAL, LOCAL FOCUS

Where Dreams Come True also serves as the long-term unifying theme for products and services at each Disney park around the world.

In the U.S., *The Year of a Million Dreams* celebrates magical Guest and Cast Member interactions that create a world where fantasy is real and reality is fantastic.

Outside the U.S., *Dreams* will be celebrated at both Tokyo Disneyland Resort and our newest park, Hong Kong Disneyland, as well as during Disneyland Resort Paris' 15th anniversary.

Wherever the Guest experience takes place – in Disney parks, on the high seas, on a guided tour of exotic locales, through Disney's vacation ownership program, or fantastic new concepts still on the drawing board – we remain dedicated to the promise that our Cast Members turn the ordinary into the extraordinary. Making dreams come true every day is central to our global growth strategy.

WHERE STORIES COME TO LIFE

Whether broadening the appeal of Disney parks or leveraging creative franchises from favorite films, every Disney vacation moment is rich with our unique content and inspires Guests to keep coming back for more.

CREATING INSTANT CLASSICS: *EXPEDITION EVEREST*

After two years of construction during which the Himalayan Mountains rose above Disney's Animal Kingdom, *Expedition Everest* opened last April, taking Guests on a runaway train ride past a Nepalese mining town and up into the mountain for an encounter with the largest and most complex *Audio-Animatronics*® figure ever built by Walt Disney Imagineering – the Yeti!

ENHANCING A LEGEND: *PIRATES OF THE CARIBBEAN*

Since the debut of the original *Pirates of the Caribbean* attraction in 1967, more than 500 million Guests have enjoyed this swashbuckling adventure. The attraction's continued popularity inspired the successful *Pirates* film franchise and, in a fanciful plot twist worthy of Walt Disney himself, the films re-inspired the attraction at Disneyland and Walt Disney World with new characters. In July, the updated attractions, featuring the incredibly life-like Captain Jack Sparrow *Audio-Animatronics*, premiered along with the franchise's second installment, *Dead Man's Chest*. The re-imagined attraction received an enthusiastic response, proving yet again that a timeless story never grows old, only better.

Every day, Disney Cast Members turn the ordinary into the extraordinary, making dreams come true for our Guests around the world.

Autopia **– which opened at Hong Kong Disneyland in July 2006 – is one of Disney's truly classic theme park attractions, found at all five Disney resorts around the world.**

EXTENDING CREATIVE FRANCHISES: *FINDING NEMO* AND *BUZZ LIGHTYEAR*

Three new attractions based on the 2003 Disney/Pixar hit *Finding Nemo* have homes in Florida and California. First, *Finding Nemo: The Musical* at Disney's Animal Kingdom brings the undersea world to life in a stage spectacular featuring original songs by Tony Award®-winning *Avenue Q* co-composer Robert Lopez. The second *Nemo*-themed attraction, called *The Living Seas with Nemo & Friends*, opened in the fall at Epcot, where the characters interact with 65 species of real marine life in a six-million-gallon saltwater aquarium.

Finally, *Finding Nemo Submarine Voyage* sets sail in summer 2007 in the former home of Disneyland's legendary *Submarine Voyage*. Guests will embark on a journey to observe an active undersea volcano and discover that their favorite fish friends, including Marlin and Dory, are along for the ride. To bring the story to life, proprietary imaging technology from Walt Disney Imagineering will make the underwater characters appear as if they're swimming right outside Guests' portholes.

At Disneyland Resort Paris, *Buzz Lightyear Laser Blast* (based on Disney/Pixar's *Toy Story 2*) completes the installation of a *Buzz Lightyear*-themed attraction at every Disney resort around the world. Space Rangers of all ages can't resist this highly competitive and temptingly repeatable experience.

WHERE MAGIC HAPPENS

Today's technology offers limitless ways to create highly immersive interactive storytelling experiences, giving our Guests the freedom and flexibility to customize and personalize their vacation experiences.

STORYTELLING THE IMAGINEERING WAY: *TURTLE TALK WITH CRUSH* AND *STITCH ENCOUNTER*

Using life-like computer-animation technology created by Imagineering, two separate theater-style shows are engaging audiences in real-time, spontaneous conversations with beloved characters. At *Turtle Talk with Crush* in Disney's California Adventure and at Walt Disney World's Epcot, Guests in the "people tank" can chat with the 152-year-old sea turtle from *Finding Nemo*. And at Hong Kong Disneyland's *Stitch Encounter*, the feisty blue alien from the 2002 hit comedy *Lilo & Stitch* jokes, plays and flirts with Guests in Cantonese, English and Putonghua.

CONNECTING WITH GUESTS IN NEW WAYS: DISNEYPARKS.COM

Would-be Disney princesses, pirates, adventurers and space explorers of all ages are enjoying the family-friendly interactive vacation planning tools at DisneyParks.com. The online "Dream Track" helps Guests customize their vacations with specific styles of entertainment, generates a personalized map that guides them to their priority activities and provides tips for even more customized family fun.

VIRTUAL FUN FOR YOUNGER GUESTS: VIRTUAL MAGIC KINGDOM

In 2005, a new kind of online theme park experience was introduced: Virtual Magic Kingdom (VMK), a Web-based world with electronic adventures that match real-world activities at both Disneyland and Walt Disney World's Magic Kingdom. Since then, an estimated 1.7 million online characters have been created and more than 90,000 VMK players came to our parks to continue their online experiences with real-world quests. This combination of real- and Web-world adventures generates powerful incentives for a new generation of Disney fans to spend more of their leisure time with us.

Finding Nemo: The Musical **opened in November at Disney's Animal Kingdom.**

Buzz Lightyear Laser Blast **opened in April at Disneyland Resort Paris, making the popular attraction available at every Disney resort worldwide.**

Disney Cruise Line will offer its first European itinerary in summer 2007.

WHERE MAGIC KNOWS NO BOUNDS

Walt Disney Parks and Resorts continues to develop a range of new, branded travel and leisure businesses crafted to appeal to the booming global vacation market.

HONG KONG DISNEYLAND RESORT

As the flagship for the Disney brand's expansion into China, Hong Kong Disneyland is proof that Disney creativity truly crosses borders and cultures. Guests from Hong Kong, mainland China and throughout Asia have given the park and hotels satisfaction ratings that are among the highest for any Disney resort. Three new Tomorrowland attractions, expanded admissions programs and more seasonal events will continue to promote Hong Kong Disneyland's development in this region of the world.

DISNEY CRUISE LINE

Disney Cruise Line continues to explore new horizons with itineraries that appeal to repeat Guests and first-timers alike.

The *Disney Magic* launched a seven-night Caribbean cruise with visits to Costa Maya, Cozumel and two visits to Disney's private island, Castaway Cay. And the *Disney Wonder* embarked on 10- and 11-night Southern Caribbean itineraries with ports of call in Barbados, St. Kitts, St. Thomas, St. Lucia, Antigua and Castaway Cay.

During summer 2007, Guests will sail from Barcelona to eight ports of call in Spain, Italy and France on four 10- and 11-night cruises, and visit some of the most historic and famous places in the world, including Rome, Florence, Pisa, Marseilles and Cannes along the way.

Adventures by Disney offers guided group vacations to some of the world's most exciting destinations, including Costa Rica (pictured here).

ADVENTURES BY DISNEY

Adventures by Disney, a story-based guided group vacation experience, features small-group activities in authentic settings highlighted by Disney's uncompromising attention to detail. Debuting in 2005 with trips to Hawaii and Wyoming, this family-friendly program grew in 2006 with an expanded list of itineraries to several popular international destinations, including London, Paris, Italy and Costa Rica. In 2007, additional destinations will include France, England, Spain, Ireland, Austria and the Czech Republic.

Key to the experience is Disney's signature touch for service, comfort and convenience. Immersed in the history and wonder of each destination, Guests reconnect as a family and build lasting memories together, while our Adventure Guides take care of all the details. The result is a seamless, effortless and always-fresh family adventure.

DISNEY VACATION CLUB

In 2006, Disney Vacation Club (DVC) membership grew to more than 100,000 families from all 50 states and 100 countries investing in flexible, affordable Disney vacation experiences.

DVC features a portfolio of seven "Home Resorts" (five at Walt Disney World Resort, one on Florida's Atlantic Coast and one on South Carolina's Hilton Head Island). The program's flexible vacation point system lets members customize their vacation, choose travel dates, accommodation type and length of stay.

Due to strong demand, capacity is being expanded at Disney's Saratoga Springs Resort & Spa in Florida, where a third phase of construction is currently underway. And in late 2006, DVC announced the addition of its eighth resort – Disney's Animal Kingdom Villas, which is expected to open its first phase in fall 2007. As demand continues to grow, the DVC experience can be extended to any of the world's most popular and appealing destinations, providing significant growth potential for this fast-growing business.

CONSUMER PRODUCTS

Disney Consumer Products (DCP) is the world's leading licensor, offering an array of products that fosters the imaginations of children and families around the world.

GROWING UP WITH DISNEY

FROM INFANT TO PRESCHOOL

The infant and toddler business has flourished at DCP for many years, and this business has expanded into new categories, such as travel gear, furniture and feeding products. Additionally, 2006 saw the launch of *Classic Disney* and *Walt Disney Signature* infant lines at upscale retailers in the U.S.

With worldwide distribution in more than 30 countries and in 25 different languages, the Baby Einstein franchise released new DVD titles and expanded into a new line of products, such as personal care, diaper bags and feeding.

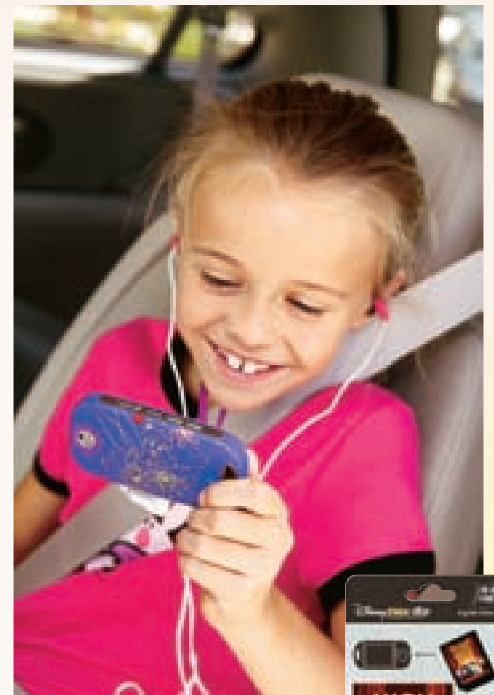
Preschoolers have embraced imaginative toys and books based on Disney Channel's *Mickey Mouse Clubhouse* and *Little Einsteins* series.

In spring 2007, a brand new series, *My Friends Tigger & Pooh*, will premiere, inspiring an entirely new line of Pooh products.

DRESSING UP AND MAKING BELIEVE

In 2006, the Disney Princess franchise continued to reign as the leading girls lifestyle brand with the release of *The Little Mermaid* Platinum Edition DVD and more than 2,000 cross-category products. In 2007, Disney Princess will unveil the new *Season of Enchantment* DVD, which will bring new stories to life through entertainment from Walt Disney Pictures and Buena Vista Worldwide Home Entertainment.

The Disney Fairies franchise, launched in 2005, is already captivating girls around the world with successful new best-selling books like *Rani in the Mermaid Lagoon* and *Disney Fairies* magazines in Europe. Coming up, audiences will hear Tinker Bell speak for the very first time in *Tinker Bell,* the movie from DisneyToon Studios, which will bring to life the amazing world of Disney Fairies in computer-animation and will be supported with a broad consumer products line at major retailers around the world.



Previous page: *Cars* was the most successful film merchandise program since *The Lion King*.

Above: The new Disney Mix Max plays full-length movies such as *High School Musical* on its 2.5-inch color display.

ACTION, ADVENTURE AND BOYS AT PLAY

Celebrating its 15th season on-air in 2007, *Power Rangers* ranks as a Top 3 action brand in toys, while *Cars* was the most successful film merchandise program since *The Lion King*. *Pirates of the Caribbean* was also successful and DCP will now leverage the film as a year-round franchise. With great entertainment and original content from Buena Vista Games (BVG), like the highly anticipated *Spectrobes*, DCP can now reach boys of all ages.

A WHOLE NEW GENERATION OF TWEENS

Young fans of *That's So Raven* responded to the franchise's retail expansion in North America, and the runaway success of *High School Musical* prompted the launch of a full line of apparel, home décor, novels, interactive games and electronics. Disney Channel's newest tween hit series, *Hannah Montana*, has inspired a new fashion line in the U.S. and plans are underway to expand the line into Europe.

BVG has leveraged the success of Disney Channel properties with handheld video games based on *That's So Raven*, *Hannah Montana* and *The Suite Life of Zack and Cody*.

Disney Princess is the leading girls lifestyle brand.

Pirates of the Caribbean **has become a leading brand for boys across all categories.**

GROWING IN NEW DIRECTIONS

DRIVING TECHNOLOGY FORWARD

Disney's Mix Sticks audio/MP3 player was lauded as the "quintessential sell-out item" of the holiday season by *The Washington Post* and now ranks among the Top 10 best-selling flash-based MP3 players in the marketplace. In 2006, DCP introduced the Disney Mix Max, a portable personal media player for kids that plays full-length movies, audio and jpegs on a 2.5-inch color display.

BVG is at the forefront of emerging technologies, developing titles compatible with new gaming platforms such as Nintendo's Wii, Sony's Playstation 3 and Microsoft's Xbox 360. In 2006, DCP continued to invest in video games and saw revenue growth due to self-published titles such as *Pirates of the Caribbean: Dead Man's Chest*.

DisneyShopping.com also brings merchandise to millions online, offering product personalization features and unique Disney collections.

EXPANDING OUR BUSINESS INTERNATIONALLY

DCP broadened its presence in key international markets, such as China and Latin America, and within emerging markets such as Russia, South Africa and Poland. In Europe and Japan, the Disney Stores posted solid results in 2006.

DCP introduced a comprehensive Disney-branded food program, available at retailers such as Kroger in the U.S., Carrefour in France and Metro in Germany. The program includes healthy foods such as fresh fruits in kid-size packages, as well as snacks, meals and popular staples that offer controlled levels of calories, fat and sugar and no added trans fats.

Disney Channel's new preschool series, *Mickey Mouse Clubhouse* inspired an array of interactive and imaginative toys.

In the Asia-Pacific region, DCP forged a relationship with the Vietnamese government and continued its aggressive strategy of opening licensed specialty stores in key shopping malls throughout China — where there are currently over 4,200 of these Disney Corners. These factors contributed to DCP's significant growth in retail sales, operating income and revenue in the region.

DESIGNER DISNEY FOR THE YOUNG AND YOUNG AT HEART

In 2006, DCP worked with fine furniture retailer Drexel Heritage to introduce the Walt Disney Signature home furnishings collection, inspired by Walt's distinctive *art moderne* studio office and living spaces.

Disney was also recognized by leading trade publication *Women's Wear Daily* as being among the Top 100 fashion brands in the world, ahead of venerable labels like Louis Vuitton. Reinforcing this reputation was the launch of a luxury handbag line from designer Judith Lieber and two fine jewelry lines with items ranging from $500 to $30,000. In Japan, DCP introduced an upscale line of kimonos adorned with *Disney Princess* characters retailing for up to $6,000. In the world of beauty products, plans are underway for a cosmetics launch internationally.

MEDIA NETWORKS

BROADCASTING

Disney Media Networks includes the Company's cable networks and broadcasting assets. The group continues to deliver on the Company's three strategic priorities by providing compelling creative content to global audiences via an array of delivery technologies, including broadcast, cable, satellite, Internet, broadband and wireless.

Driven by high quality content, the ABC Television Network maintained its momentum during the 2005-06 season with more than 162 million people tuning in each week for daytime drama, world class journalism, primetime entertainment and late night laughs.

ABC Daytime was again number one in daytime drama among Women 18-49 for the ninth year in a row, anchored by the Emmy®-winning daytime drama, *General Hospital*. In 2006, Rosie O'Donnell joined *The View*, and she and her co-hosts are delivering the show's best ratings in years.

Meanwhile, more people still get their news from ABC News than from any other source. With Charles Gibson in the anchor chair, *World News with Charles Gibson* continues the network's commitment to excellence in journalism. Complemented by an afternoon Webcast downloaded by millions of people as well as content available throughout the day at ABCNews.com, *World News* now fully operates in the 24-hour digital space. At *Good Morning America*, the anchor team of Diane Sawyer and Robin Roberts welcomed Chris Cuomo to the news desk along with new weather anchor Sam Champion.

In late night, *Jimmy Kimmel Live* was the only show to deliver year-over-year ratings growth among key demographics, and the network has renewed the show for another year.

In primetime, ABC delivered its second consecutive year of ratings growth among its key demographics, the only broadcast network to achieve growth for the 2005-06 season. Additionally, ABC emerged as the number one network among upscale young adults, an audience prized by advertisers.

ABC's primetime growth for 2005-06 was driven by the quality of its programming, with strong returning scripted series, including *Lost*, *Desperate Housewives* and *Grey's Anatomy*, which were created by Touchstone Television, as well as reality hits, such as *Extreme Makeover: Home Edition* and *Dancing With the Stars*.

Building on this successful foundation, ABC entered the 2006-07 fall season with a strong slate of shows generating critical acclaim and significant advertiser interest. Upfront sales for the new season delivered $2.3 billion in total primetime advertising commitments and more than $3 billion for the network across all day parts. ABC also achieved the largest pricing increase of any network in every day part.

Advertisers supported the move of *Grey's Anatomy* to Thursdays, and were also enthusiastic about the return of *Dancing With the Stars* as well as newcomers *Ugly Betty* and *Brothers & Sisters*. Viewer excitement for new and returning series helped ABC deliver its most competitive start to a new season in almost 30 years, and the best start for any network since 1999-2000. Eleven weeks into the season, excluding sports to reflect the absence of *Monday Night Football* from its line-up this year, ABC increased its primetime audience over the prior year, airing seven of the Top 20 series among Adults 18-49,

Grey's Anatomy has become a big hit for ABC…*seriously*.

***General Hospital* is TV's number one daytime drama.**

With Rosie O'Donnell on *The View*, ABC's daytime line-up was number one for the second year in a row.

as well as three of the Top 5 shows among that key demographic. Early results also showed ABC maintaining its leadership position among upscale audiences and emerging as the top English-language broadcaster among Hispanic audiences.

While ABC continues to deliver content that is *in demand*, success in the digital, consumer-driven era also requires making that content available *on demand* so viewers can get it anytime, anywhere and any way they want.

In October 2005, ABC (along with Disney Channel) became the first network to put television content online with the groundbreaking deal to sell episodes via Apple's iTunes Music Store. In the first year, more than 12.8 million episodes of Disney-ABC shows were sold. More than 50 of the group's television series are now available on iTunes.

In May 2006, the network continued to pioneer new platforms with the launch of its own broadband player on ABC.com. During the 60-day pilot of the player, ABC.com had great success with its ad-supported video streaming of ABC shows including *Lost* and *Desperate Housewives*. The results indicated a significant market for this service and also suggested that it is additive to television watching.

ABC launched a permanent version of the player on September 22, with strong advertiser support. The site streamed six shows for the fall season, including returning hits *Lost*, *Desperate Housewives* and *Grey's Anatomy* as well as new shows *Ugly Betty*, *Six Degrees* and *The Nine*. Viewer demand for these shows generated almost 19 million requests for episodes during the first six weeks alone.

Desperate Housewives **and** ***Lost*** **are two of the most popular shows on television.**

The network's affiliates, including ABC's owned stations, participate in the ABC.com broadband player through advertising sales, branding opportunities and Web site links. The ABC Owned Television Stations 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. The ABC-owned stations average more than 1,600 hours of news per year in their respective markets, and participate in community outreach projects to support charitable causes. Eight of the 10 stations ranked number one in households from sign-on to sign-off on average for the major ratings sweeps, and all operate Internet platforms that collectively reach four million unique users each month. The stations recently introduced local digital weather channels, and also keep viewers updated on news, weather and real-time traffic via wireless phone service. The ABC.com opportunity adds to their efforts to create an array of new businesses that extend beyond their traditional broadcasting service.

The popularity of the ABC.com player adds to the Company's considerable success in monetizing its biggest hits in ancillary markets as well as non-traditional platforms. ABC's megahits *Lost*, *Desperate Housewives* and *Grey's Anatomy* are all produced by Touchstone Television, giving the Company ownership of these series. This ownership includes the rights to showcase programs on multiple platforms, creating the flexibility to more fully exploit this valuable content. For example, fans can now follow *Lost* on ABC, on iTunes, on ABC.com, on podcasts and video podcasts and on DVD, depending on their schedule and viewing preferences.

Brothers & Sisters **is the number one new series among women.**

The only series featured on ABC.com during the new fall season that was not produced by Touchstone was *The Nine*. ABC became the first network to strike a deal to share digital rights with another studio in a way that gives both parties the potential to monetize the content on new platforms.

Touchstone Television is now a major source of high quality content for ABC. The studio developed and produced eight new primetime series across two networks for the new season, including *Ugly Betty*, *Six Degrees*, *Brothers & Sisters*, *Day Break*, *The Knights of Prosperity*, *In Case of Emergency* and *October Road* for ABC.

The success of Touchstone Television fuels more than ABC's fall line-up; it also supplies Buena Vista International Television (BVITV) with quality content to export around the world. Responsible for the Company's branded and non-branded international program distribution, BVITV distributes television and new media content to broadcasters, operators and platforms across 240 territories worldwide, licensing programming from Touchstone Television, 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.

Domestically, Buena Vista Television (BVT) continues to be a leader in broadcast, cable and emerging media syndication, distributing first-run series such as the ratings powerhouse *Live with Regis and Kelly* (produced by WABC-TV), as well as the popular game show *Who Wants To Be A Millionaire* and *Ebert & Roeper* (production of both is overseen by Buena Vista Productions). In 2006, BVT launched off-network hits *According to Jim* and *Scrubs* into syndication, and closed high-profile sales for *Desperate Housewives* and *Grey's Anatomy*, with *Lost* soon to follow. BVT also distributes motion pictures from The Walt Disney Studios to network television, cable, pay television, pay-per-view, video-on-demand, broadband and mobile platforms. Top-performing movie packages currently include the box office blockbusters *Pirates of the Caribbean: Dead Man's Chest* and *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*.

ABC's successful programming also contributes to the Company's publishing group. Hyperion released 195 new titles during the 2005-06 fiscal year, including Mitch Albom's latest book, *For One More Day*. Several new releases featured ABC on-air talent, including *Burnt Toast* by Teri Hatcher of *Desperate Housewives*, *Myths, Lies and Downright Stupidity* by ABC News' John Stossel, *Real Men Don't Apologize* by Jim Belushi and *Ask Supernanny* by Jo Frost. Hyperion also published *Bad Twin*, a book related to the *Lost* series, which became a best-seller.

By concentrating on the Company's three strategic priorities – creative content, innovative technology, and international expansion – the broadcasting division of Disney Media Networks achieves ratings and revenues, while creating strong franchises that support the entire Company.

Lost **draws viewers in more than 200 territories worldwide.**

Diane Sawyer and Robin Roberts welcomed Chris Cuomo (left) and Sam Champion (right) to *GMA*.

More people watched ABC's *Dancing With the Stars* finale than any other telecast of the season.

Ugly Betty is one of the most-watched new shows of the year.

World News with Charles Gibson delivered the highest-rated election night coverage.

MEDIA NETWORKS

CABLE NETWORKS

Nearly 90 million people in more than 100 countries saw Disney Channel's hit original movie ***High School Musical*** (previous page) in 2006.

Mickey Mouse Clubhouse **is Disney Channel's most successful preschool series ever.**

The Cable Networks Group includes Disney Channel Worldwide's portfolio of kids' channels; ABC Family, targeting young adults; SOAPnet, a channel serving soap fans; Jetix, international channels focusing on high-energy action/adventure programming; and ESPN, the worldwide leader in sports. It also includes the Company's equity stake in Lifetime Entertainment Services and A&E Television Networks. Together, these assets create a strong foundation for exploiting international expansion and digital media opportunities.

Disney Channels and Disney-branded programming blocks now reach more than half a billion people around the world on a monthly basis, making the business a key driver of the Disney brand and a strong global platform for content.

In 2006, Disney Channel successfully launched Playhouse Disney's *Mickey Mouse Clubhouse*, a new 3D computer-animated preschool series produced by Walt Disney Television Animation. It quickly became a top-rated program with preschoolers and Playhouse Disney's first Top 5 basic cable show for this audience. Disney Channel's wide reach also provided a springboard for its newest live action series, *Hannah Montana*, which quickly became a top-rated basic cable series for kids and tweens. In October the *Hannah Montana* soundtrack became the first television soundtrack ever to debut at number one on *Billboard*'s Top 200 album chart.

The Emmy Award-winning Disney Channel original movie *High School Musical* reflects the franchise potential of high-quality creative

In 2006, *The Cheetah Girls 2* was the number one TV movie among kids 6-14.

Hannah Montana **is the number one basic cable series for kids and tweens.**

The Suite Life of Zack & Cody is a Top 5 basic cable show among kids.

Breakout hit *Kyle XY* is ABC Family's most successful original series ever.

content paired with global access to audiences. Launched on Disney Channel in the U.S. to record-breaking audiences in January 2006, *High School Musical* has since premiered in more than 100 countries and has been seen by more than 88 million people worldwide. By the end of the fiscal year, the movie's best-selling soundtrack had gone platinum in nine countries and was certified gold in seven more, and fans had bought more than 2.7 million DVD units. Students in thousands of schools around the world will stage their own live productions of the musical in 2007.

High School Musical content continues to generate 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, Disney Publishing Worldwide, Walt Disney Records, Buena Vista Worldwide Home Entertainment, Buena Vista International Television and Disney Theatrical Productions.

Driven by listener demand, songs from the *High School Musical* and *Hannah Montana* soundtracks played in heavy rotation on Radio Disney, the only 24-hour kids and family radio network. Radio Disney is now available to 97% of the U.S. via broadcast, satellite and cable platforms and via streaming live broadcasts at RadioDisney.com and on the iTunes Radio Tuner.

High School Musical was supported online at DisneyChannel.com, the number one entertainment Web site for kids ages 6-14. In June, a broadband player was added to the site, and viewers enthusiastically embraced the chance to watch streaming installments of popular Disney Channel shows in six languages, including *That's So Raven* and *The Suite Life of Zack & Cody*. The broadband player received more than 53 million requests for episodes in the first six months.

ABC Family, now in 91 million American homes, also had great success this year pairing compelling content with multiple platforms to reach viewers. The summer hit *Kyle XY* is one example of this innovative strategy in action. Produced by Touchstone Television, the first episode of the new series was provided free on Apple's iTunes the week before its premiere to drive viewership. ABC Family aired *Kyle XY* on Monday nights, where it quickly became the highest-rated original series in the channel's history. The ABC Television Network then broadcast each episode as part of its summer primetime schedule on Fridays, and episodes were then made available for purchase on iTunes and offered free with ads on the ABCFamily.com broadband site the following day. This cross-platform strategy drove record numbers of viewers to the show on ABC Family, making the season finale of *Kyle XY* the channel's most watched original series telecast of all time.

In 2006, SOAPnet also used both traditional and non-traditional platforms to better serve soap opera fans. One of the fastest growing basic cable channels, SOAPnet expanded its reach by 17% year-over-year, and can now be found in more than 53 million homes. With the addition of *The Young and the Restless* to its line-up this year, the channel now airs the five top-rated soaps from all broadcast networks. In partnership with ABC Daytime, SOAPnet launched SOAPNETIC, a new broadband service featuring a video-rich site that covers all nine daytime soaps with clips, exclusive content, interviews and behind-the-scenes peeks. In addition to strengthening the channel's relationship with soap fans, SOAPNETIC also gives SOAPnet and ABC Daytime a great place to experiment with content to help continue the evolution of soaps.

By leveraging the Company's strategic priorities, the Cable Networks Group has expanded its reach and now delivers high-quality content to more people in more ways than ever before.

Playhouse Disney will launch the new computer-animated series *My Friends Tigger & Pooh* in 2007.

Interactive preschool series *Little Einsteins* takes young viewers on global adventures.

No other company delivers more high-quality sports content across multimedia outlets and new technologies around the world than ESPN through its six domestic and 31 international television networks, regional syndication, 11 Internet sites and broadband distribution, three radio networks, wireless content, three magazines as well as book publishing, podcasts, DVDs and more. ESPN's ability to engage fans across media led to multiyear rights agreements, increased advertising sales, and renewed major affiliate distribution agreements for ESPN's multiple services, solidifying ESPN's position for years to come.

DOMESTIC NETWORKS

ESPN's four most-distributed domestic cable television networks, ESPN (92 million households), ESPN2 (91), ESPN Classic (62) and ESPNEWS (51), which celebrated its 10th year, each enjoyed record viewing in fiscal

NASCAR returns to ESPN and ABC with full force multimedia and technology applications.

2006, with more people watching on a total-day basis than ever. A record 190 million people tuned in at some point during fourth quarter (FY'06) to at least one of the four networks. ESPNU, a college sports television network, launched a companion Web site, while ESPN Deportes grew its media usage on its television, magazine, online and wireless services.

The move of *Monday Night Football* from ABC to ESPN has produced the largest household audience among all cable television programs ever. ESPN's *Monday Night Football* "Surround" strategy with content across media and college football drove increased demand in the sales upfront marketplace. In 2007, America's fastest-growing sport, NASCAR, returns to ESPN and ABC.

The NCAA women's basketball tournament was the most viewed ever on ESPN.

ESPN's *Monday Night Football* coverage set television viewing and ESPN.com content records.

In August, ESPN became the overarching sports brand on ABC. "ESPN on ABC," builds on the legacy of ABC Sports and capitalizes on the leading television sports brand. For 10 years, ESPN has been selected the favorite TV network among Adult Men.* In the fall, *Saturday Night Football*, the first-ever weekly primetime college football series on broadcast television, won the night in ratings several times. Among the championship events on ABC in 2006 were the Super Bowl, which drew the second-largest audience in TV history; the Rose Bowl, which was the highest-rated college football game since 1987 with highlights resulting in the first and most-downloaded sports video podcast; the NBA Finals, sporting double-digit ratings increases over the previous year; and FIFA World Cup from Germany, which attracted its highest viewing ever from a non-U.S. site. ESPN utilized 22 media outlets globally for the World Cup.

ESPN ORIGINAL ENTERTAINMENT

ESPN original entertainment focused on sports-themed documentaries in 2006 and plans two major projects in 2007, *The Bronx is Burning*, based on the 1977 New York Yankees, and the horse racing drama *Ruffian*, to premiere on ABC.

ESPN RADIO, the nation's largest sports radio network, heard on nearly 750 stations nationwide (350 full-time), drew an average 11 million listeners each week.

ESPN INTERNATIONAL

ESPN International, which serves an estimated 200 million television homes in 190 countries and territories in 15 languages, launched its first branded network in the U.K., ESPN Classic Sport. ESPN Classic Sport now reaches 18 million homes in Europe through its networks in France, Italy and a regional feed to 40 countries. A 10th customized *SportsCenter* debuted in Japan (joining Argentina, Asia, Brazil, Canada, India, Latin America, Mexico, Taiwan and Hong Kong) with an Australian and New Zealand version that launched in January. ESPN International's leading global sports syndication business added NASCAR to its multi-sports lineup with distribution to 120 countries, and by year-end,

The multi-faceted ESPN360 broadband service televised more than 200 live events including simulcasts of World Cup Soccer games.

**Source: Keleman Assoc.*

wireless content distribution grew to 32 countries on five continents in seven languages via 35 carriers.

ESPN.COM AND NEW MEDIA

Building on its U.S. online sports leadership with 18 million unique users in 2006, ESPN.com launched a pioneering, integrated online multimedia player that provides a single interface to ESPN's broadband media: ESPN Motion; ESPN360 with its hundreds of live games and on-demand content; video games; and pay-per-view. ESPN.com enhanced its lineup of Fantasy Football, interactive *Monday Night Football* "Surround," an array of MyESPN and SportsNation community tools, and the ESPN Podcenter. During FIFA World Cup, soccernet-branded audio podcasts on iTunes were number one in sports and number four overall in downloads.

Mobile ESPN modified its MVNO (Mobile Virtual Network Operator) model to apply its widely acclaimed, cutting-edge sports applications to ESPN's existing mobile content licensing business for broader distribution.

ESPN Full Circle, which debuted in March, presented single premier games across several media platforms using non-traditional innovative methods and grew the aggregate audience in each case.

ESPN PUBLISHING AND CONSUMER PRODUCTS

ESPN The Magazine (1.95 million circulation) won the prestigious 2006 National Magazine Award for General Excellence in the one to two million category, and its NFL preview issue was its largest issue ever in pages and ad revenue. ESPN Books released 12 titles in 2006.

ESPN's Consumer Products division has expanded its X Games and BASS-branded products line to 7,500 retail outlets nationwide, and launched a College GameDay apparel line in 1,500 stores, including college campus retailers. An ESPN-branded Visa credit card was introduced in September, providing fans with sports experience rewards, and a long-term agreement with EA Sports featured ESPN integration within several EA titles.

ESPN continually advances the ball in creative content, technology and global reach.

NBA playoff ratings and viewership were up on ABC and ESPN.

The new Disney.com homepage.

WALT DISNEY INTERNET GROUP

Disney Xtreme Digital brings together an exciting array of content from around The Walt Disney Company, allowing guests to customize their online experience with favorite themes, video, games and online buddies.

As millions of people worldwide make digital entertainment part of their everyday lives, the Walt Disney Internet Group (WDIG) is at the forefront of developing high-quality interactive entertainment for our guests, marrying our heritage of great entertainment with innovative technology solutions to develop future high-growth businesses.

With more than 40 Web sites worldwide, including category leaders Disney.com, ABC.com and ESPN.com, Disney reaches more than 50 million* unique visitors per month, which ranks it among the Top 10 Internet properties in the U.S.

During 2006, WDIG began development on an entirely new Disney.com to better meet customer needs and take advantage of the latest technologies. Already a number one-ranked online entertainment site for kids and families,* the new Disney.com adds innovations in community and premium entertainment. Disney XD, the broadband centerpiece of the site, offers customizable content including videos, games, and chat options for online fans wanting to discuss everything from their favorite *Hannah Montana* episodes to the swordfighting abilities of *Pirates of the Caribbean*'s Captain Jack Sparrow. The new Disney.com also features highly customized content for different age groups such as preschoolers, tweens and families.

Disney's Toontown Online, the first massively multiplayer online game for kids and families, reached a key milestone in 2006, with more than 15 million "Toons" created in the game since it launched in 2003. Building on the success of *Toontown*, *Pirates of the Caribbean Online* was unveiled at the Electronic Entertainment Expo (E3) to rave reviews. The game features popular characters from the film franchise and is set to launch in 2007.

Continuing its market leadership position, Disney Connection, a broadband content portal for families available through select high-speed Internet providers, now reaches more than 35% of all broadband homes in the U.S.

In China, WDIG teamed with leading game developer Shanda Interactive Entertainment to develop and distribute an online casual game based on popular Disney characters.

In summer 2006, WDIG launched Disney Mobile, the first comprehensive mobile phone service specifically developed to meet the needs of families. Initial feedback from parents, kids, the mobile industry and top tier media outlets has been extremely positive.

An early leader in mobile content, WDIG continues its global expansion, with content now available in 42 international markets. Milestones from the past year include the introductions of the first 3D mobile animation in India and one of the first truly multiplayer mobile games in the U.S., *Pirates of the Caribbean Online*.

***Pirates of the Caribbean Online*, a massively multiplayer online game, sets sail in 2007.**

**Source: comScore Media Metrix September 2006*

In 2006, Disney continued to benefit from its ongoing effort to develop and grow international markets. The role of Walt Disney International in this effort is multi-faceted: ensuring the Company's brands, stories and characters are increasingly familiar in international markets; creating locally relevant product; exploiting new technologies; and leveraging economic and infrastructure growth around the world.

To accelerate growth in the emerging markets of China, India, Russia, South Korea and Latin America, Walt Disney International has organized these territories under five managing directors, each with full operational responsibilities. In the more developed markets of Western Europe and Japan, Walt Disney International has created regional and in-country steering committees, consisting of business unit heads to facilitate development and execution of Company-wide initiatives.

WALT DISNEY INTERNATIONAL

Disney's Broadway production of *The Lion King* opened in Shanghai last July, playing to capacity audiences for its record-breaking run in China.

Significant achievements have already been made this year within emerging markets. *The Lion King* stage play opened at the Shanghai Grand Theatre, delivering a new level of Disney entertainment to China. Rich, immersive content such as *The Lion King* is integral to building brand awareness in these markets. For this reason, shortly after the Company opened its first office in Russia, a Cinderella Ball was held at the Kremlin Palace – attended by 800 little princes and princesses – to coincide with the television broadcast and DVD release of the classic Disney animated feature.

In India, Disney acquired the leading Indian children's television channel, Hungama, as well as an equity interest in UTV Software, an integrated media company specializing in Indian filmed entertainment and television production. These investments have accelerated the Company's presence in a market where local content is king.

Looking forward, the team in Russia will seek to expand Disney's presence on television to further build the brand while leveraging the growth of the retail, theatrical and new media sectors with innovative content. In Latin America, where significant inroads have already been made to establish Disney's core businesses, the Company has tapped into the immense local content market by producing local versions of *High School Musical* and *Desperate Housewives*. Together with the impact of assertive strategies in developed markets, these initiatives are designed to encourage strong overall growth for Disney in international markets.

Disney Consumer Products has more than 4,200 Disney Corners across 25 cities in China, reaching more than 25 million consumers.

In China, Pooh and Tigger took a break from their inaugural five-city sell-out tour of *Disney Live* to visit the Great Wall in August 2006.

In Russia, the Kremlin played host to a Cinderella Ball in honor of one of Disney's most popular princesses.

CORPORATE RESPONSIBILITY

Disney President and CEO Robert Iger presented Los Angeles Mayor Antonio Villaraigosa with a donation of $5 million from The Walt Disney Company Foundation to Childrens Hospital Los Angeles as part of Disney's ongoing support for children's hospitals around the world.

The Walt Disney Company is mindful of the long-term interests of the Company's many stakeholders, who include shareholders, customers, Cast Members and those who live in the broader communities that Disney serves.

Included among these vitally important stakeholders, is the tremendous group of people who work for Disney. They are the wellspring of creativity and energy from which Disney's legendary magic derives. For this reason, Disney's human resources department is dedicated to the training, education, health, safety and workplace equality of its more than 130,000 employees.

Disney won praise for its healthy food initiative, which sets nutritional guidelines for food served at Disney resorts or sold under the Disney brand.

These employees also play a key role in Disney's efforts to serve children and families around the world. Disney VoluntEARS, which is made up of thousands of employee volunteers, contributed more than 485,000 hours of service to organizations primarily focused around helping children and families in need. In total, Disney's Worldwide Outreach Program in 2006 donated more than $170 million in cash and in-kind support to non-profit organizations in communities around the world. For more information about Disney's global charitable outreach please visit www.DisneyHand.com.

The Company also strives to serve the interests of families through its new healthy food initiative to promote and deliver healthy options to parents and children at Disney Parks and Resorts, as well as on store shelves. The new policies put limits on portion size, calories, fat, saturated fat and sugar in kid-focused products, and in all Disney-operated restaurants found within its Parks and Resorts.

At Disney, we believe that the quality of the environment affects the welfare of everyone. For this reason, Environmentality™ is not just a slogan – it's a way of doing business. The term means integrating the Company's business needs with its environmental values and concerns.

A number of Environmentality initiatives have resulted in reducing resource consumption and greenhouse gas emissions. For example, retrofitting equipment and systems during the past few years has resulted in gross savings of more than $5 million and waste minimization efforts have yielded nearly $10 million in savings. In 2005, Disney donated and recycled more than 63,000 tons of materials, resulting in an estimated 40% diversion from landfills and reduced disposal costs of $1.5 million. Similarly, in 2006, X Games Environmentality helped X Games 12 achieve a significant waste diversion rate of 71%. Disney's many environmental efforts have been recognized by the U.S. Environmental Protection Agency, which granted the Company a 2006 WasteWise Award.

Environmental education and wildlife conservation are also of prime importance at Disney. Jiminy Cricket's Environmentality Challenge was established in 1995 and provides teachers in California, Florida and Hong Kong with tools that integrate environmental education, project-based learning, and creativity into their lessons.

The Disney Wildlife Conservation Fund celebrated a milestone in 2006 – the donation of $10 million since the fund was established. Also in 2006, Disney's Animal Kingdom, which promotes conservation as part of its mission, became the first U.S. facility to transfer endangered white rhinos back to Africa to re-establish a rhino population that has been extinct in Uganda since 1972.

Marcia Cross of ABC's *Desperate Housewives* shares a princess moment with a young friend at the Elizabeth Glaser Pediatric AIDS Foundation's "A Time for Heroes" benefit, sponsored by Disney.

Visit www.DisneyWildlifeFund.com for a complete list of conservation projects and www.Environmentality.com for more information on Disney's Environmentality program.

The Company also focuses on the environment of the workplace and is committed to the promotion and maintenance of responsible labor practices in Disney's licensing and direct sourcing operations throughout the world. Toward this end, Disney has implemented a wide-ranging International Labor Standards (ILS) program that includes policies, practices and protocols designed to protect the interests of workers engaged in the manufacture of Disney merchandise, whether for licensees or for direct sale at Disney properties. These policies are outlined in the Disney Code of Conduct for Manufacturers, which is translated into 50 languages and outlines minimum working conditions and standards in factories making Disney-branded products. The code is reinforced through key programs designed to provide and support education, cooperation, monitoring and collaboration efforts.

Remediation plans are developed and communicated in cases where improvements should be implemented.

Disney continues to expand its collaborative efforts and interactions aimed at responsible labor practices at key levels of influence, from factories and industries to institutions and governments, allowing Disney to play a greater role in the advancement of policy and practice. To follow the progress of Disney's ILS group, please visit www.DisneyLaborStandards.com.

Throughout its operations, Disney is focused on delivering value to its shareholders. As such, the Company monitors developing practices in corporate governance and adopts changes that are determined to be in the best interests of shareholders. Over 70% of Disney's directors are currently independent, including its new chairman, John E. Pepper, Jr., former Chairman and CEO of Procter & Gamble. Other highlights of Disney's corporate governance policies include:

- the separation of the chairman and CEO,
- a majority election policy in its Governance Guidelines,
- an anti-greenmail bylaw, and
- the annual election of all directors.

Disney was recognized as a leader in corporate governance practices in the 2006 Corporate Governance Quotient ranking established by Institutional Shareholder Services (ISS), the world's leading corporate governance advisory service. For more details about Disney's corporate governance practices, please visit: www.corporate.disney.go.com/corporate/governance.

This represents only a brief summary of what The Walt Disney Company does to serve the interests of its many and varied stakeholders. The one aspect all these programs share in common is that they are dynamic and changing. As Disney stakeholders' interests evolve, so do the Company's approaches to serving them. And so, with its eye on the future, the Company strives to meet the high expectations evoked by the Disney name and all it stands for.

An Environmentality enthusiast recycles plastic bottles at X Games 12 as part of the X Games Environmentality program.

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

CONSOLIDATED RESULTS

(in millions, except per share data)	2006	2005	2004	% change 2006 vs. 2005	% change 2005 vs. 2004
Revenues	**$ 34,285**	$ 31,944	$ 30,752	**7%**	4%
Costs and expenses	**(28,807)**	(27,837)	(26,704)	**3%**	4%
Gains on sale of equity investment and businesses	**70**	26	—	**>100%**	nm
Restructuring and impairment (charges) and other credits, net	**18**	(32)	(64)	**nm**	(50)%
Net interest expense	**(592)**	(597)	(617)	**(1)%**	(3)%
Equity in the income of investees	**473**	483	372	**(2)%**	30%
Income before income taxes, minority interests and the cumulative effect of accounting change	**5,447**	3,987	3,739	**37%**	7%
Income taxes	**(1,890)**	(1,241)	(1,197)	**52%**	4%
Minority interests	**(183)**	(177)	(197)	**3%**	(10)%
Income before the cumulative effect of accounting change	**3,374**	2,569	2,345	**31%**	10%
Cumulative effect of accounting change	**—**	(36)	—	**nm**	nm
Net income	**$ 3,374**	$ 2,533	$ 2,345	**33%**	8%
Earnings per share before the cumulative effect of accounting change:					
Diluted[1]	**$ 1.64**	$ 1.24	$ 1.12	**32%**	11%
Basic	**$ 1.68**	$ 1.27	$ 1.14	**32%**	11%
Cumulative effect of accounting change per share	**$ —**	$ (0.02)	$ —	**nm**	nm
Earnings per share:					
Diluted[1]	**$ 1.64**	$ 1.22	$ 1.12	**34%**	9%
Basic	**$ 1.68**	$ 1.25	$ 1.14	**34%**	10%
Average number of common and common equivalent shares outstanding:					
Diluted	**2,076**	2,089	2,106		
Basic	**2,005**	2,028	2,049		

[1] 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 2006, 2005, and 2004.

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 — 2006 vs. 2005
- Non-Segment Items — 2006 vs. 2005
- Pension and Benefit Costs
- Business Segment Results — 2005 vs. 2004
- Non-Segment Items — 2005 vs. 2004
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, and Off Balance Sheet Arrangements
- Accounting Policies and Estimates
- Accounting Changes
- Forward-Looking Statements

CONSOLIDATED RESULTS

2006 VS. 2005

Revenues for the year increased 7%, or $2.3 billion, to $34.3 billion. The increase was primarily due to the following:

- the performance at our domestic theme parks, led by the success of the 50th anniversary celebration of Disneyland;
- 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*;
- higher affiliate revenues at ESPN due to contractual rate increases;
- advertising revenue growth at the ABC Television Network;
- increased sales of Touchstone Television series; and
- the first full year of theme park operations at Hong Kong Disneyland as compared to the prior year when the park opened in mid-September 2005.

These increases were partially offset by a decline in DVD unit sales at home entertainment and fewer domestic Miramax theatrical releases in the current year.

Net income increased 33%, or $841 million, to $3.4 billion 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, the strong performance at both of our domestic theme parks, growth at ESPN, and improved primetime results at the ABC Television Network. Diluted earnings per share for the year increased 34%, or $0.42, to $1.64, compared to the prior-year earnings per share of $1.22.

In addition to the items discussed above, results for fiscal 2006, 2005, and 2004 included items in the following table which affect the comparability of the results from year to year (in millions, except for per share data):

	2006		2005		2004	
Favorable/(Unfavorable) Impact To	**Net Income**	**Diluted EPS**	**Net Income**	**Diluted EPS**	**Net Income**	**Diluted EPS**
Non-taxable gain on deemed termination of Pixar distribution agreement (Note 3)	**$ 48**	**$ 0.02**	$ —	$ —	$ —	$ —
Sales of a cable television equity investment in Spain and Discover Magazine business (Note 3)	**44**	**0.02**	—	—	—	—
Benefit from the resolution of certain income tax matters (Note 8)	**40**	**0.02**	126	0.06	120	0.06
Impairment of Pixar related sequel projects (Note 3)	**(16)**	**(0.01)**	—	—	—	—
Benefit from the restructuring of Euro Disney's borrowings (Note 5)	—	—	38	0.02	—	—
Income tax benefit from the repatriation of foreign earnings under the American Jobs Creation Act (Note 8)	—	—	32	0.02	—	—
Gain on the sale of the Mighty Ducks of Anaheim (Note 3)	—	—	16	0.01	—	—
Write-off of investments in leveraged leases (Note 4)	—	—	(68)	(0.03)	—	—
Write-down related to MovieBeam venture	—	—	(35)	(0.02)	—	—
Impairment charge for a cable television investment in Latin America	—	—	(20)	(0.01)	—	—
Restructuring and impairment charges related to the sale of The Disney Stores North America (Note 3)	—	—	(20)	(0.01)	(40)	(0.02)
Total [1]	**$116**	**$ 0.06**	$ 69	$ 0.03	$ 80	$ 0.04

[1] Total diluted earnings per share impact for the year ended September 30, 2006 and October 1, 2005 does not equal the sum of the column due to rounding.

2005 VS. 2004

Revenues for fiscal 2005 increased 4%, or $1.2 billion, to $31.9 billion. The increase in revenues was due to growth at Media Networks and Parks and Resorts, partially offset by a decline at Studio Entertainment. The Media Networks growth was driven by higher affiliate fees at Cable Networks and higher advertising revenues. The increase at Parks and Resorts was due to an additional six months of Euro Disney revenues in fiscal 2005 compared to fiscal 2004 as Euro Disney's results were consolidated beginning in mid fiscal 2004 and higher occupied room nights, theme park attendance, and guest spending at the domestic resorts. The decline at Studio Entertainment was primarily due to an overall decline in DVD unit sales.

Net income for the year increased 8%, or $188 million, to $2.5 billion. The increase in net income was primarily due to growth at Media Networks, partially offset by a decrease at Studio Entertainment. Additionally, we adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (SFAS 123R), increasing expense for the year by $253 million ($160 million after-tax or $0.08 per share). Diluted earnings per share before the cumulative effect of an accounting change for the valuation of certain FCC licenses was $1.24, an increase of 11%, or $0.12, compared to the prior-year earnings per share of $1.12. We adopted Emerging Issues Task Force Topic D-108, *Use of the Residual Method to Value Acquired Assets Other Than Goodwill* (EITF D-108), which resulted in a cumulative effect of accounting change totaling $57 million ($36 million after-tax or $0.02 per share) relating to the valuation of certain FCC licenses (see Note 2 to the Consolidated Financial Statements). Diluted earnings per share after the cumulative effect of the accounting change was $1.22.

BUSINESS SEGMENT RESULTS — 2006 VS. 2005

(in millions)	2006	2005	2004	change 2006 vs. 2005	change 2005 vs. 2004
Revenues:					
Media Networks	**$14,638**	$13,207	$11,778	**11%**	12%
Parks and Resorts	**9,925**	9,023	7,750	**10%**	16%
Studio Entertainment	**7,529**	7,587	8,713	**(1)%**	(13)%
Consumer Products	**2,193**	2,127	2,511	**3%**	(15)%
	$34,285	$31,944	$30,752	**7%**	4%
Segment operating income[1]:					
Media Networks	**$ 3,610**	$ 3,209	$ 2,574	**12%**	25%
Parks and Resorts	**1,534**	1,178	1,077	**30%**	9%
Studio Entertainment	**729**	207	662	**>100%**	(69)%
Consumer Products	**618**	543	547	**14%**	(1)%
	$ 6,491	$ 5,137	$ 4,860	**26%**	6%

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. The following table reconciles segment operating income to income before income taxes, minority interests, and the cumulative effect of accounting change.

(in millions)	2006	2005	2004	change 2006 vs. 2005	change 2005 vs. 2004
Segment operating income[1]	**$6,491**	$5,137	$4,860	**26%**	6%
Corporate and unallocated shared expenses	**(529)**	(536)	(428)	**(1)%**	25%
Amortization of intangible assets	**(11)**	(11)	(12)	**—**	(8)%
Gains on sale of equity investment and businesses	**70**	26	—	**>100%**	nm
Restructuring and impairment (charges) and other credits, net	**18**	(32)	(64)	**nm**	(50)%
Net interest expense	**(592)**	(597)	(617)	**(1)%**	(3)%
Income before income taxes, minority interests, and the cumulative effect of accounting change	**$5,447**	$3,987	$3,739	**37%**	7%

[1] 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.

Depreciation expense is as follows:

(in millions)	2006	2005	2004
Media Networks			
Cable Networks	**$ 81**	$ 80	$ 70
Broadcasting	**106**	102	102
Total Media Networks	**187**	182	172
Parks and Resorts			
Domestic	**780**	756	710
International[1]	**279**	207	95
Total Parks and Resorts	**1,059**	963	805
Studio Entertainment	**30**	26	22
Consumer Products	**23**	25	44
Corporate	**126**	132	155
Total depreciation expense	**$1,425**	$1,328	$1,198

[1] Represents 100% of Euro Disney and Hong Kong Disneyland's depreciation expense for all periods since the Company began consolidating the results of operations and cash flows of these businesses beginning April 1, 2004.

MEDIA NETWORKS

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

(in millions)	2006	2005	2004	change 2006 vs. 2005	change 2005 vs. 2004
Revenues:					
Cable Networks	**$ 8,001**	$ 7,262	$ 6,410	**10%**	13%
Broadcasting	**6,637**	5,945	5,368	**12%**	11%
	$14,638	$13,207	$11,778	**11%**	12%
Segment operating income:					
Cable Networks	**$ 3,004**	$ 2,745	$ 2,329	**9%**	18%
Broadcasting	**606**	464	245	**31%**	89%
	$ 3,610	$ 3,209	$ 2,574	**12%**	25%

Revenues Media Networks revenues increased 11%, or $1.4 billion, to $14.6 billion, consisting of a 10% increase, or $739 million, at the Cable Networks and a 12% increase, or $692 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of $478 million from cable and satellite operators and $188 million in advertising 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 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 Company's contractual arrangements with cable and satellite operators are renewed or renegotiated from time to time in the ordinary course of business. Certain of these arrangements are currently in negotiation. Consolidation in the cable and satellite distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various cable and satellite programming services that are as favorable as those currently in place. If this were to occur, revenues from Cable Networks could increase at slower rates than in the past or could stabilize or decline. Certain of the Company's existing contracts with cable and satellite operators as well as contracts in negotiation include annual live programming commitments. In these cases, revenues subject to the commitments, which are generally collected ratably over the year, are deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

The increase in Broadcasting revenues was due to growth at the ABC Television Network and increased sales of Touchstone Television series. The growth at the ABC Television Network was primarily due to an increase in primetime advertising revenues resulting from higher rates, strong upfront sales, and continued strength in ratings. The ABC Television Network also experienced increased advertising revenues from the Super Bowl, partially offset by lower advertising revenues from the absence of Monday Night Football (MNF) which moved to ESPN. Increased sales of Touchstone Television series 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, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses, labor costs, and general and administrative costs, increased 10%, or $1.0 billion, to $11.5 billion consisting of a 10% increase, or $474 million, at the Cable Networks, and a 10% increase, or $540 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 license agreements and an additional NFL game. ESPN also incurred higher costs for its branded mobile phone services, which the Company recently announced would be transitioned into its existing wireless licensing business, and higher general and administrative expenses. The increase in Broadcasting was due to higher programming expenses at the ABC Television Network, increased production and distribution costs related to the sale of Touchstone Television series, higher costs at the internet operations and Radio, and the increased number and costs of pilot productions. The increase in programming expenses at the ABC Television Network reflected costs related to the Super Bowl 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. Higher costs at Radio included an impairment charge related to FCC licenses, primarily associated with ESPN Radio stations, reflecting an overall market decline in certain radio markets in which we operate. See Note 2 to the Consolidated Financial Statements for further information.

Sports Programming Costs The Company has various contractual commitments for the purchase of television rights for sports and other programming, including the National Basketball Association (NBA), NFL, MLB, NASCAR, 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.

In February 2003, the Company's NFL contract was extended for an additional three years ending with the telecast of the 2006 Pro Bowl. The aggregate fee for the three-year period was $3.7 billion. The implementation of the contract extension resulted in a $180 million reduction in NFL programming costs at ESPN in fiscal 2004 as compared to fiscal 2003. The majority of this decrease was in the first quarter of fiscal 2004. These costs were relatively level in fiscal 2005 and 2006. Cash payments under the contract were $0.9 billion for fiscal 2006 and $1.2 billion for both fiscal 2005 and 2004.

In April 2005, the Company entered into a new agreement with the NFL for the right to broadcast NFL Monday Night Football games on ESPN. The contract provides for total payments of approximately $8.9 billion over an eight-year period, commencing with the 2006-2007 season. The payment terms of the new contract provide for average increases in the annual payments of approximately 4% per year. Our expense recognition of the costs of

the new contract reflect this payment schedule. The Company has rights to 21 games in the 2006-2007 season, which began in the fourth quarter of the Company's fiscal year 2006.

Segment Operating Income Segment operating income increased 12%, or $401 million, to $3.6 billion for the year due to an increase of $259 million at the Cable Networks and an increase of $142 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN. The increase at Broadcasting was due to improved primetime performance at the ABC Television Network and increased sales of Touchstone Television series, partially offset by higher costs at Internet Group and Radio, and the increased number and costs of pilot productions. Also included in segment operating income is income from equity investees of $444 million for the twelve months ended September 30, 2006 compared to $460 million for the prior year period.

ABC Radio Transaction On February 6, 2006, the Company and Citadel Broadcasting Corporation (Citadel) announced an agreement to merge the ABC Radio business, which consists of 22 of the Company's owned radio stations and the ABC Radio Network, with Citadel. The ESPN Radio and Radio Disney networks and station businesses are not included in the transaction. The merger is expected to occur after the ABC Radio business is distributed to Disney shareholders (the Distribution). The agreement was subsequently amended on November 19, 2006. Under the amended terms, (i) Disney's stockholders are expected to collectively hold approximately 57% of Citadel's common stock post-merger, and (ii) the Company would retain between $1.10 billion and $1.35 billion in cash, depending upon the market price of Citadel's common stock over a measurement period ending prior to the closing. This cash will be obtained from loan proceeds raised by ABC Radio from a third party lender prior to the Distribution. Based on Citadel's stock price on November 20, 2006, the Company estimates that the aggregate value of the retained cash and Citadel common stock to be received by Disney shareholders would be approximately $2.5 billion. The amended agreement provides that the closing will occur no earlier than May 31, 2007, subject to regulatory approvals, and that either party may terminate the agreement if the closing does not occur by June 15, 2007.

Subsequent Event – 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 interests in E!) for $1.2 billion, which resulted in a pre-tax gain of approximately $0.8 billion ($0.5 billion after-tax), which will be recorded in the first quarter of fiscal 2007.

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 sales at Disney Vacation Club. 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. Disneyland Resort Paris also experienced increased revenues, 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 motion picture 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 current year titles included *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe, Cinderella* Platinum Release, and *Chicken Little*, while prior-year titles included Disney/Pixar's *The Incredibles, National Treasure, Aladdin* Platinum Release, and *Bambi* Platinum Release.

The increase in worldwide theatrical motion picture 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 prior-year titles, which included *The Incredibles* and *National Treasure*. The increase was partially offset by lower revenue resulting from fewer domestic Miramax theatrical releases in the current year.

Costs and Expenses Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, product costs, and participation costs, decreased 8%, or $580 million. Lower costs and expenses were primarily due to a decrease in worldwide home entertainment, partially offset by increases in worldwide theatrical motion picture distribution and higher music distribution expenses.

The decline in costs and expenses 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 and expenses in worldwide theatrical motion picture 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 and expenses resulting from fewer domestic Miramax theatrical releases in the current year.

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

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, 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 30, 2006, the investors have participated in the funding of thirteen 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.

Pixar Acquisition On May 5, 2006, the Company acquired Pixar in an all-stock transaction and Pixar became a wholly-owned subsidiary of the Company. 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 in the Company's Annual Report on Form 10-K for the year ended September 30, 2006.

CONSUMER PRODUCTS

Revenues Revenues increased 3%, or $66 million, to $2.2 billion, primarily due to increases of $112 million at Buena Vista Games 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 Buena Vista Games 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 Buena Vista Games. The decreases in costs and expenses at The Disney Stores were primarily due to the sale of The Disney Store North America chain in the first quarter of fiscal 2005. Costs and expenses increased at Buena Vista Games due to higher costs of goods sold driven by increased volumes, increased product 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 Buena Vista Games. Growth at Merchandise Licensing was due to higher earned royalties across multiple product categories. The decrease at Buena Vista Games was driven by increased product development spending on future self-published titles.

Subsequent Event – Sale of Us Weekly On October 2, 2006, the Company sold its 50 percent stake in *Us Weekly* for $300 million, which resulted in a pre-tax gain of approximately $270 million ($170 million after-tax), which will be recorded in the first quarter of fiscal 2007.

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)**	$(605)	**17%**
Aircraft leveraged lease investment write-down	**—**	(101)	**nm**
Interest and investment income	**114**	48	**>100%**
Gain on restructuring of Euro Disney debt	**—**	61	**nm**
Net interest expense	**$(592)**	$(597)	**(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 the prior year, Hong Kong Disneyland's interest expense was capitalized when the park was under construction.

Interest and investment income for the year 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 3.6 percentage points from 31.1% in 2005 to 34.7% 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.

PENSION AND BENEFIT COSTS

Pension and postretirement medical benefit plan costs affect results in all of our segments, with the majority of these costs being borne by the Parks and Resorts segment. The Company recognized pension and postretirement medical benefit plan expenses of $462 million, $314 million, and $374 million for fiscal years ended 2006, 2005, and 2004, respectively. The increase in fiscal 2006 was due primarily to a decrease in the discount rate used to measure the present value of plan obligations. The discount rate assumption decreased from 6.30% to 5.25%, reflecting trends in prevailing market interest rates at our June 30, 2005 valuation date.

We expect pension and postretirement medical costs to decrease to $273 million in fiscal 2007 with approximately one-half of these costs being borne by the Parks and Resorts segment. The decrease is primarily due to an increase in the discount rate assumption from 5.25% to 6.40%, reflecting increases in prevailing market interest rates on our June 30, 2006 valuation date. The assumed discount rate for pension 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.

During fiscal 2006, the Company contributed approximately $400 million to its pension and postretirement medical plans, which included voluntary contributions above the minimum requirements for the pension plans. Based on the January 1, 2006 funding valuation, the Company is not required to make any contributions to its pension plans during fiscal 2007. The Company currently expects to contribute, at a minimum, $19 million to its pension and postretirement medical plans during fiscal 2007. The Company may make additional contributions into its pension plans in fiscal 2007 depending on how the funded status of those plans change and as we gain more clarity with respect to the Pension Protection Act of 2006 (PPA) that was signed into law on August 17, 2006. The United States Treasury Department is in the process of developing implementation guidance for the PPA; however, it is likely the PPA will accelerate minimum funding requirements beginning in fiscal 2009. The Company may choose to pre-fund some of this anticipated funding.

Pension obligations exceed plan assets for a number of our pension plans. In this situation, the accounting rules require that we record an additional minimum pension liability. The minimum pension liability adjustment at year end fiscal 2006 and fiscal 2005 is as follows (in millions):

	Minimum Liability at Fiscal Year End		Decrease
	2006	2005	in 2006
Pretax	**$197**	$1,124	$(927)
Aftertax	**$124**	$ 709	$(585)

The decrease in the minimum pension liability in fiscal 2006 was primarily due to the increase in the discount rate from 5.25% to 6.40%. The accounting rules do not require that changes in the additional minimum pension liability adjustment be recorded in current period earnings, but rather they are recorded directly to equity through accumulated other comprehensive income. Expense recognition under the pension accounting rules is based upon long-term trends over the expected life of the Company's workforce. See Note 9 to the Consolidated Financial Statements for further discussion.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). See Note 2 to the Consolidated Financial Statements for further discussion.

BUSINESS SEGMENT RESULTS – 2005 VS. 2004

MEDIA NETWORKS

Revenues Media Networks revenues increased 12%, or $1.4 billion, to $13.2 billion, consisting of a 13% increase, or $852 million, at the Cable Networks and an 11% increase, or $577 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of $690 million from cable and satellite operators and $172 million in advertising 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 due to contractual rate increases and subscriber growth at ESPN and the Disney Channels. Increased advertising revenue was due to higher rates at ESPN and higher ratings at ABC Family.

Increased Broadcasting revenues were due to growth at the ABC Television Network and Television Production and Distribution. ABC Television Network revenues increased primarily due to higher primetime advertising revenue resulting from higher ratings and advertising rates. The growth at Television Production and Distribution was driven by higher license fee revenues from domestic markets as a result of the syndication of *My Wife and Kids* and higher revenue in international markets from sales of *Desperate Housewives* and *Lost*.

Costs and Expenses Costs and expenses, consisting primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses, labor costs, and general and administrative costs, increased 9%, or $849 million, to $10.5 billion consisting of an 11% increase, or $491 million, at the Cable Networks, and a 7% increase, or $358 million, at Broadcasting. The increase at Cable Networks was driven by increases at ESPN from higher general and administrative expenses, increased production costs, and investments in new business initiatives, including ESPN branded mobile phone services. Higher general and administrative expenses, programming expenses, and marketing costs at the Disney Channels also contributed to the increase at Cable Networks. The increase at Broadcasting was driven by higher production and participation costs at TV Production and Distribution. The adoption of SFAS 123R increased expenses in fiscal year 2005 at Cable Networks and at Broadcasting by $36 million and $64 million, respectively.

Segment Operating Income Segment operating income increased 25%, or $635 million, to $3.2 billion for the year due to an increase of $416 million at the Cable Networks and an increase of $219 million at Broadcasting. The increase at Cable Networks was due to growth at ESPN from higher affiliate revenues and advertising revenues, partially offset by higher costs and expenses at ESPN. Additionally, equity in the income of investees at Cable Networks increased $55 million driven by higher affiliate revenue at Lifetime Television. The increase at Broadcasting was driven by higher primetime advertising revenues at the ABC Television Network and higher license fee revenues from syndication of *My Wife and Kids* and international sales of *Lost* and *Desperate Housewives* at Television Production and Distribution.

MovieBeam The Company launched MovieBeam, an on-demand electronic movie rental service in three domestic cities in October 2003. The Company suspended service in April 2005 while evaluating its go-forward business model and negotiating a refinancing of the business with strategic and financial investors. Based on negotiations with investors, the Company concluded that any such refinancing would not be sufficient to recover all of its investment related to the MovieBeam venture and recognized $56 million ($35 million after-tax or $0.02 per share) of impairment charges during the year ended October 1, 2005. In January 2006, the Company completed a refinancing transaction with outside investors that resulted in the Company retaining only a minority interest in the MovieBeam venture.

PARKS AND RESORTS

Revenues Revenues at Parks and Resorts increased 16%, or $1.3 billion, to $9.0 billion. The Company began consolidating the results of Euro Disney and Hong Kong Disneyland at the beginning of the third quarter of fiscal 2004, which resulted in fiscal 2004 segment results including only six months of operations of these businesses while fiscal 2005 includes a full year of operations. The impact of fiscal 2005 including an additional six months of operations as compared to fiscal 2004 accounted for an 8% or $672 million increase in Parks and Resorts revenue for the year that represents the revenues of Euro Disney and Hong Kong Disneyland for the first half of fiscal 2005. Excluding the impact of including the additional six months of Euro Disney and Hong Kong Disneyland operations, fiscal 2005 revenues grew 8%, or $601 million, primarily due to growth of $364 million at the Walt Disney World Resort and $213 million at the Disneyland Resort.

At the Walt Disney World Resort, increased revenues were due to higher occupied room nights, theme park attendance and guest spending, and increased sales at Disney Vacation Club. Increased occupied room nights reflected increased visitation to the resort reflecting the ongoing recovery in travel and tourism, the popularity of Disney as a travel destination, and the availability of additional rooms in both the first and second quarters of the prior year. During the third quarter, the Company launched two programs, *Disney's Magical Express* and *Extra Magic Hours*, which were designed to increase occupancy at the Walt Disney World hotels. Increased theme park attendance reflected increased international and domestic guest visitation, driven by the *Happiest Celebration on Earth* promotion which celebrates the 50th anniversary of Disneyland. Higher guest spending was primarily due to higher food and beverage purchases, ticket price increases, and fewer promotional offers compared to the prior year.

At the Disneyland Resort, increased revenues were driven by higher guest spending and attendance at the theme parks due to increased ticket prices and the 50th anniversary celebration, respectively.

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 2005	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2004
Increase in Attendance	5%	10%	4%	—	5%	7%
Increase in Per Capita Guest Spending	2%	4%	14%	7%	5%	6%
Occupancy	83%	77%	90%	87%	83%	78%
Available Room Nights (in thousands)	8,777	8,540	810	816	9,587	9,356
Per Room Guest Spending	$199	$198	$272	$253	$206	$204

The increase in available room nights was primarily due to the opening of Disney's Pop Century Resort, which has approximately 2,900 rooms, late in the first quarter of fiscal 2004 and the re-opening of approximately 1,000 rooms in the French Quarter portion of the Port Orleans hotel in the second quarter of fiscal 2004. 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.

Costs and Expenses Costs and expenses increased 18%, or $1.2 billion, to $7.8 billion. As noted above, fiscal 2005 included an additional six months of Euro Disney and Hong Kong Disneyland operations, which accounted for an 11% or $722 million increase in costs and expenses for the year. In addition, the adoption of SFAS 123R increased expenses by $42 million in fiscal year 2005. The remaining increase of $454 million was primarily due to higher costs at Walt Disney World and Disneyland and increased pre-opening costs at Hong Kong Disneyland. Walt Disney World incurred higher volume-related expenses, increased costs associated with new attractions and service programs, information technology, and higher fixed costs. Disneyland incurred higher volume-related expenses, increased marketing and sales costs due to the 50th anniversary celebration, and higher fixed costs.

Segment Operating Income Segment operating income increased 9%, or $101 million, to $1.2 billion primarily due to growth at the Walt Disney World and Disneyland Resort. These increases were partially offset by higher pre-opening expenses at Hong Kong Disneyland in the second half of the year and stock option expense associated with the adoption of SFAS 123R in fiscal year 2005.

STUDIO ENTERTAINMENT

Revenues Revenues decreased 13%, or $1.1 billion, to $7.6 billion, primarily due to a decrease of $1.1 billion in worldwide home entertainment. The decline in revenues at worldwide home entertainment was due to an overall decline in DVD unit sales resulting from a lower performing slate of current year titles, including a decline in the ratio of home video unit sales to the related total domestic box-office results for feature films. Successful current year titles included *The Incredibles, National Treasure, Bambi* Platinum Release, and *Aladdin* Platinum Release, while the prior year included Disney/Pixar's *Finding Nemo, Pirates of the Caribbean: The Curse of the Black Pearl*, and *The Lion King* Platinum Release.

Costs and Expenses Costs and expenses decreased 8%, or $671 million, due to lower costs in worldwide theatrical motion picture distribution and in worldwide home entertainment. The decline in costs and expenses at worldwide theatrical distribution was primarily due to lower distribution costs and lower production cost amortization. Distribution costs were lower as the prior year included higher profile films that had extensive marketing campaigns to launch the films. The decrease in production cost amortization was driven by lower film cost write-offs. These cost decreases were partially offset by increased production cost amortization, and distribution costs at Miramax due to an increased number of releases and higher write-offs. Lower costs in worldwide home entertainment were primarily due to lower distribution costs, production cost amortization, and participation costs. Distribution costs and production cost amortization were lower as a result of decreased unit sales. Participation costs were lower as the prior year included *Finding Nemo* and *Pirates of the Caribbean: The Curse of the Black Pearl*, which had higher participation costs due to better performance than current year titles. Pixar received an equal share of profits (after distribution fees) as co-producer of *Finding Nemo* and *The Incredibles*. The adoption of SFAS 123R increased expenses by $41 million in fiscal year 2005.

Segment Operating Income Segment operating income decreased 69%, or $455 million, to $207 million, primarily due to lower overall unit sales in worldwide home entertainment and a decline at Miramax, partially offset by better performance in worldwide theatrical motion picture distribution.

Miramax In March 2005, the Company entered into agreements with Miramax co-chairmen, Bob and Harvey Weinstein, and their new production company. Pursuant to those agreements, the Company, among other things, substantially resolved all economic issues relating to the Weinsteins' existing employment agreements; terminated the Weinsteins' then-existing employment agreements and entered into revised employment agreements with them through September 30, 2005; sold interests in certain films in various stages of production to the Weinsteins' new company; and provided it with the opportunity to acquire certain development projects, as well as sequel rights to certain library product. The Company retains certain co-financing, distribution, and participation rights in several of these properties. The Company also retains the Miramax and Dimension film libraries and the name "Miramax Films," while the Weinsteins took the Dimension name to their new company. No material charges were recorded as a result of the execution of the agreements.

CONSUMER PRODUCTS

Revenues Revenues decreased 15%, or $384 million, to $2.1 billion, primarily due to a decrease of $543 million as a result of the sale of The Disney Store North America in the first quarter of fiscal 2005. This decrease was partially offset by increases at Merchandise Licensing and Buena Vista Games of $118 million and $53 million, respectively.

The increase in Merchandise Licensing was due to higher revenues across multiple product categories and recognition of contractual minimum guarantee revenues that increased by $49 million in fiscal 2005 compared to fiscal 2004. The increase at Buena Vista Games was due to the performance of *The Incredibles* licensed products, recognition of contractual minimum guarantee revenue, which increased by $17 million in fiscal 2005 compared to fiscal 2004, and higher sales of Game Boy Advance games.

Costs and Expenses Costs and expenses decreased 19%, or $370 million, to $1.6 billion, due to a decrease of $528 million related to the sale of The Disney Store North America chain, partially offset by higher product development spending at Buena Vista Games, increased operating expenses at Merchandise Licensing, and $20 million of stock option expense associated with the adoption of SFAS 123R in fiscal year 2005.

Segment Operating Income Segment operating income decreased 1%, or $4 million, to $543 million, primarily due to lower operating income at The Disney Store, partially offset by growth in Merchandise Licensing.

Disney Stores Effective 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. Pursuant to the terms of sale, The Disney Store North America retained its lease obligations related to the stores transferred to the buyer and became a wholly owned subsidiary of TCP. TCP is required to pay the Company a royalty on substantially all of the physical retail store sales beginning on the second anniversary of the closing date of the sale.

During fiscal year 2004, the Company recorded $64 million of restructuring and impairment charges related to The Disney Stores. The bulk of these charges were impairments of the carrying value of fixed assets related to the stores that were sold.

The following table provides revenue and operating (loss) income for The Disney Store North America prior to divestiture:

(in millions)	2005	2004
Revenues	$85	$628
Operating (loss) income	(9)	6

NON-SEGMENT ITEMS – 2005 VS. 2004

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses increased 25%, from $428 million to $536 million, primarily due to the favorable resolution of certain legal matters that reduced expenses in fiscal year 2004 and stock option expense associated with the adoption of SFAS 123R. The adoption of SFAS 123R in fiscal 2005 increased expenses by $50 million.

NET INTEREST EXPENSE

(in millions)	2005	2004	change 2005 vs. 2004
Interest expense	$(605)	$(629)	(4)%
Aircraft leveraged lease investment write-down	(101)	(16)	nm
Interest and investment income	48	28	71%
Gain on restructuring of Euro Disney debt	61	—	nm
Net interest expense	$(597)	$(617)	(3)%

Excluding an increase of $36 million due to the consolidation of Euro Disney and Hong Kong Disneyland for a full twelve months in fiscal 2005 compared to six months in fiscal 2004, interest expense decreased 10%, or $60 million for the year primarily due to lower average debt balances, partially offset by higher effective interest rates.

Aircraft leveraged lease charges increased as a result of the write-off of our leveraged-lease investment with Delta Air Lines, Inc. (Delta) after Delta's bankruptcy filing in September 2005. In fiscal 2004, we took a partial write-down of our investment with Delta consistent with our agreement with Delta to reduce lease payments. In the event of a material modification to the remaining Delta aircraft leases or foreclosure of the Delta aircraft by the debt holders, certain tax payments of up to $40 million, as of September 30, 2006, could be accelerated. The expected tax payments are currently reflected on our balance sheet as a deferred tax liability and are not expected to result in a further charge to earnings.

Fiscal year 2005 interest and investment income included $19 million in gains from the sales of investments.

Net interest expense was also impacted by a $61 million gain (primarily non-cash) that was recorded by Euro Disney as a result of the restructuring of Euro Disney's borrowings. See Note 5 to the Consolidated Financial Statements.

EFFECTIVE INCOME TAX RATE

The effective income tax rate decreased 0.9 percentage points from 32.0% in 2004 to 31.1% in 2005. The effective tax rates reflect the release of reserves as a result of the favorable resolution of certain tax matters in both fiscal 2005 and fiscal 2004. In addition, fiscal 2005 reflects the favorable impact of a one-time deduction 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 $688 million during the year ended September 30, 2006. The change in cash and cash equivalents is as follows:

(in millions)	2006	2005	2004
Cash provided by operating activities	**$ 6,058**	$ 4,269	$ 4,370
Cash used by investing activities	**(227)**	(1,691)	(1,484)
Cash used by financing activities	**(5,143)**	(2,897)	(2,701)
Increase/(decrease) in cash and cash equivalents	**$ 688**	$ (319)	$ 185

OPERATING ACTIVITIES

Cash provided by operations increased 42% or $1.8 billion to $6.1 billion driven by operating income growth at all of the segments, partially offset by higher income tax payments.

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 the fiscal years 2006, 2005, and 2004 are as follows:

(in millions)	2006	2005	2004
Beginning balances:			
Production and programming assets	**$ 5,937**	$ 6,422	$ 6,773
Programming liabilities	**(1,083)**	(939)	(1,029)
	4,854	5,483	5,744
Spending:			
Film and television production	**2,901**	2,631	2,610
Broadcast programming	**3,694**	3,712	3,693
	6,595	6,343	6,303
Amortization:			
Film and television production	**(3,526)**	(3,243)	(3,018)
Broadcast programming	**(3,929)**	(3,668)	(3,610)
	(7,455)	(6,911)	(6,628)
Change in film and television production and programming costs	**(860)**	(568)	(325)
Pixar film costs acquired	**538**	—	—
Other non-cash activity	**—**	(61)	64
Ending balances:			
Production and programming assets	**5,650**	5,937	6,422
Programming liabilities	**(1,118)**	(1,083)	(939)
	$ 4,532	$ 4,854	$ 5,483

INVESTING ACTIVITIES

Investing activities 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 for the last three years are as follows:

(in millions)	2006	2005	2004
Media Networks	**$ 227**	$ 228	$ 221
Parks and Resorts:			
Domestic	**667**	726	719
International [1]	**248**	711	289
Studio Entertainment	**41**	37	39
Consumer Products	**16**	10	14
Corporate	**100**	111	145
	$1,299	$1,823	$1,427

[1] Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures for all periods since the Company began consolidating the results of operations and cash flows of these two businesses effective with the beginning of the third quarter of fiscal 2004.

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions and recurring capital and capital improvements. The decrease in capital expenditures was primarily due to lower investment at Hong Kong Disneyland resulting from substantial completion of the park prior to its opening in September 2005, as well as lower expenditures at the domestic theme parks due to increased investment in the prior year in preparation for the Disneyland 50th anniversary celebration.

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

Corporate and unallocated shared capital expenditures were primarily for information technology software and hardware.

Other Investing Activities During fiscal 2006, $1.1 billion of investments were liquidated and the sales of a cable television equity investment and a magazine business generated $81 million. In addition, the Company purchased $82 million of financial investments.

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.

During fiscal 2004, the Company purchased $67 million of financial investments, made $46 million of equity contributions to Hong Kong Disneyland in the first six months of the year prior to consolidation, and acquired the film library and intellectual property rights for the *Muppets* and *Bear in the Big Blue House* for $68 million ($45 million in cash).

FINANCING ACTIVITIES

Cash used in financing activities during fiscal 2006 of $5.1 billion reflected share repurchases and payment of dividends to shareholders, partially offset by an increase in borrowings and the proceeds from stock option exercises.

During the year ended September 30, 2006, the Company's borrowing activity was as follows:

(in millions)	October 1, 2005	Additions	Payments	Other Activity	September 30, 2006
Commercial paper borrowings	$ 754	$ 85	$ —	$ —	**$ 839**
U.S. medium-term notes	5,849	2,250	(1,600)	—	**6,499**
Convertible senior notes	1,323	—	—	—	**1,323**
Other U.S. dollar denominated debt	305	—	—	—	**305**
Privately placed debt	158	—	(104)	—	**54**
European medium-term notes	213	88	(110)	—	**191**
Preferred stock	363	—	—	(10)	**353**
Capital Cities / ABC debt	186	—	—	(3)	**183**
Film financing	75	336	(135)	—	**276**
Other	288	—	(1)	(27)	**260**
Euro Disney borrowings[1]	2,036	—	—	136	**2,172**
Hong Kong Disneyland borrowings	917	132	—	21	**1,070**
Total	$12,467	$2,891	$(1,950)	$117	**$13,525**

[1]Other activity included a $109 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	213	2,037
Total	$4,500	$213	$4,287

In February 2006, the Company amended its two bank facilities. The amendments included an extension of the maturity of one of the facilities from 2009 to 2011. In addition, the Company also increased the amount of letters of credit that can be issued to $800 million from $500 million under the facility expiring in 2011, which if utilized, reduces available borrowing under this facility. As of September 30, 2006, $261 million of letters of credit had been issued, of which $213 million was issued under the facilities. 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 30, 2006, the Company had not borrowed under these bank facilities.

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 2006. The Company paid a $519 million dividend ($0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005; paid a $490 million dividend ($0.24 per share) during the second quarter of fiscal 2005 related to fiscal 2004; and paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 related to fiscal 2003.

During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for approximately $6.9 billion. During fiscal 2005, the Company repurchased 91 million shares of Disney common stock for $2.4 billion. During fiscal 2004, the Company repurchased 15 million shares of Disney common stock for approximately $335 million. As of September 30, 2006, the Company had authorization in place to repurchase approximately 206 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 30, 2006, Moody's Investors Service's long and short-term debt ratings for the Company were A3 and P-2, respectively, with stable outlook; and Standard & Poor's long and short-term debt ratings for the Company were A- and A-2, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 30, 2006, 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.

Beginning in fiscal year 2006, Hong Kong Disneyland is subject to semi-annual financial performance covenants under its commercial term loan and revolving credit facility agreement. The commercial term loan had a balance of approximately $293 million on September 30, 2006. The revolving credit facility has not been drawn on to date. In July 2006, lenders under the commercial term loan and revolving credit facility agreement provided a waiver to these covenants for the September 30, 2006 and March 31, 2007 measurement dates. The revolving credit facility will not be available for the period the waiver is in effect unless the covenants are, in fact, satisfied during the period. The covenants will be in effect for the September 30, 2007 measurement date.

Euro Disney has covenants under its debt agreements that limit its investing and financing activities. Beginning with fiscal year 2006, Euro Disney must also meet financial performance covenants that necessitate earnings growth. As a result of revenue growth in excess of increases in costs and expenses during fiscal year 2006, management believes that Euro Disney is in compliance with the covenants for fiscal 2006. Pursuant to the debt agreements, compliance with the covenants is subject to final third-party confirmation.

There can be no assurance that the covenants referred to in the prior two paragraphs will be met for any particular measurement period. To the extent that conditions are such that the covenants appear unlikely to be met, management would pursue measures to meet the covenants, including increasing revenues or reducing expenses, 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 30, 2006 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 footnotes to the financial statements, as referenced in the table:

		Payments Due by Period			
(in millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 7)[1]	$20,620	$3,266	$2,450	$2,112	$12,792
Operating lease commitments (Note 14)	1,577	306	485	329	457
Capital lease obligations (Note 14)	859	80	78	75	626
Sports programming commitments (Note 14)	16,625	2,407	4,318	3,939	5,961
Broadcast programming commitments (Note 14)	3,862	1,812	1,008	684	358
Total sports and other broadcast programming commitments	20,487	4,219	5,326	4,623	6,319
Other[2]	2,209	907	930	287	85
Total contractual obligations[3]	$45,752	$8,778	$9,269	$7,426	$20,279

[1] Amounts exclude market value adjustments totaling $196 million, which are recorded in the balance sheet. Amounts include interest payments based on contractual terms and current interest rates for variable rate debt.

[2] Other commitments primarily comprise creative talent and employment agreements including obligations to actors, producers, sports personnel, television and radio personalities and executives.

[3] Contractual commitments include the following:

Liabilities recorded on the balance sheet	$14,776
Commitments not recorded on the balance sheet	30,976
	$45,752

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 (Contingent Commitments). The Company does not currently expect that these Contingent Commitments will result in any amounts being paid by the Company. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contractual guarantees.

Information Technology Outsourcing The Company entered into agreements with two suppliers to outsource certain information technology functions and support services. The transition of services to the new suppliers began in late July 2005. The terms of these agreements extend five to seven years with an option for the Company to extend for an additional two to three years. The Company has retained all responsibility and authority for systems architecture, technology strategy, and product standards under the agreements. Payments under these agreements are excluded from the table above because the payments vary depending on usage, but the Company currently anticipates spending approximately $1.4 billion for these services over the next six years.

DVD Manufacturing Arrangement The Company has a sole-source arrangement with a third-party manufacturer to meet the Company's DVD manufacturing and warehousing requirements in the United States and a number of international markets that expires December 31, 2006. Payments under this arrangement are excluded from the table above since there are neither fixed nor minimum quantities under the arrangement. Total payments for fiscal 2006 were approximately $0.5 billion.

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 will be accelerated. Conversely, if estimates of Ultimate Revenues increase, film and television cost amortization will 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. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting 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. 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 syndication. 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. Amortization of these television programming assets is 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 valuation adjustments pursuant to 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. 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 Benefit Plan Actuarial Assumptions The Company's pension and postretirement medical benefit obligations and related costs are calculated using actuarial concepts, within the framework of Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* and Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other than Pensions*, respectively. 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 increased our discount rate to 6.40% in 2006 from 5.25% in 2005 to reflect market interest rate conditions at our June 30, 2006 measurement date. The assumed discount rate for pension 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. A one percentage point decrease in the assumed discount rate would increase total net periodic pension and postretirement medical expense for fiscal 2007 by $119 million and would increase the projected benefit obligation at October 1, 2006 by $947 million, respectively. A one percentage point increase in the assumed discount rate would decrease these amounts by $88 million and $780 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 2006 and 2005, respectively. A one percentage point change in the long-term return on pension plan asset assumption would impact fiscal 2007 annual pension and postretirement medical expense by approximately $43 million. See Note 9 to the Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). See Note 2 to the Consolidated Financial Statements for further discussion.

Goodwill, Intangible Assets, Long-lived Assets and Investments Statement of Financial Accounting Standards 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 Television Network, a business within the Television Broadcasting reporting unit within the Media Networks operating segment. To determine the fair value of the Television Network, we used a revenue multiple, as a present value technique would not capture the full fair value of the 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 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 value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values for goodwill and other indefinite-lived intangible assets are determined based on discounted cash flows, market multiples, 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 30, 2006, which resulted in a non-cash impairment charge of $32 million related to certain FCC licenses, primarily associated with ESPN Radio stations, reflecting an overall market decline in certain radio markets in which we operate.

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. The Internal Revenue Service has commenced its examination of 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 the fourth quarter of 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. During the first quarter of fiscal 2005, the favorable resolution of a tax matter resulted in the release of $24 million in tax reserves. During the fourth quarter of fiscal 2004, the Company reached a settlement with the Internal Revenue Service regarding all assessments proposed with respect to its federal income tax returns for 1993 through 1995. The favorable settlement resulted in the Company releasing $120 million in tax reserves that were no longer required with respect to the settled matters.

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 2006, 2005, and 2004, the weighted average assumptions used in the options-pricing models were as follows:

	2006[1]	2005[2]	2004[2]
Risk-free interest rate	**4.3%**	3.7%	3.5%
Expected term (years)	**5.09**	4.75	6.00
Expected volatility	**26%**	27%	40%
Dividend yield	**0.79%**	0.79%	0.85%
Termination rate	**4.00%**	n/a	n/a
Exercise multiple	**1.48**	n/a	n/a

[1] Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.
[2] The Company utilized the Black-Scholes model during fiscal 2005 and fiscal 2004.

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 for fiscal 2006 and 2005 considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions. Volatility for fiscal 2004 was estimated based upon historical share-price volatility. See Note 11 to the Consolidated Financial Statements for more detailed information. If the assumed volatility of 26% used by the Company during 2006 was increased or decreased by 5 percentage points (i.e. to 31% or to 21%), the weighted average binomial value of our 2006 stock option grants would have increased by 8% or decreased by 10%, respectively.

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 1.48 used by the Company during 2006 were increased to 1.7 or decreased to 1.3, the weighted average binomial value of our 2006 stock option grants would have increased by 4% or decreased by 9%, 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

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. SAB 108 must be implemented by the end of the Company's fiscal 2007. The Company is currently assessing the potential effect of SAB 108 on its financial statements.

SFAS 158 In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires recognition of the overfunded or underfunded sta-

tus 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 recognition provisions of SFAS 158 are effective for fiscal 2007, while the measurement date provisions are effective for fiscal year 2009. If SFAS 158 was applied at the end of fiscal 2006, using the Company's June 30, 2006 actuarial valuation, we would have recorded a pre-tax charge to accumulated other comprehensive income totaling $509 million ($320 million after tax) representing the difference between the funded status of the plans based on the project benefit obligation and the amounts recorded on our balance sheet at September 30, 2006.

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.

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, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN 48 is effective for the Company's 2008 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of FIN 48 on its financial statements.

SFAS 123R In the fourth quarter of fiscal 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that new, modified, and unvested share-based payment transactions with employees, such as stock options and restricted stock, be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The Company adopted SFAS 123R, effective October 1, 2004, using the modified retrospective method. This method required the restatement of interim financial statements in the year of adoption based on the amounts previously calculated and reported in the pro forma footnote disclosures required by SFAS 123. However, fiscal years prior to 2005 have not been restated.

The impact of the adoption of SFAS 123(R) is as follows:

(in millions, except per share amounts)	2006	2005
Stock option compensation expense[1]	**$ 245**	$ 253
Reduction in net income, net of tax	**155**	160
Reduction in diluted earnings per share	**0.07**	0.08
Reduction in cash flow from operating activities	**133**	24
Increase in cash flow from financing activities	**133**	24

[1] Stock option compensation expense is net of capitalized stock option compensation and includes amortization of previously capitalized stock option compensation costs. Capitalized stock option compensation totaled $52 million and $18 million in 2006 and 2005, respectively.

Prior to fiscal 2005, employee stock options were accounted for under the intrinsic value method in accordance with APB 25 and its related interpretations, and were generally granted at market value. Accordingly, compensation expense for stock option awards was generally not recognized in the Consolidated Statements of Income. The following table reflects pro forma net income and earnings per share for the year ended September 30, 2004, had the Company elected to adopt the fair value approach of SFAS 123 as reported in the footnotes to the Company's financial statement for that year. The pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted or options may be cancelled in future years.

(in millions, except per share data)	2004
Net income	
As reported	$2,345
Less stock option expense, net of tax[1]	(255)
Pro forma after option expense	$2,090
Diluted earnings per share	
As reported	$ 1.12
Pro forma after option expense	1.00
Basic earnings per share	
As reported	$ 1.14
Pro forma after option expense	1.02

[1] Does not include restricted stock unit (RSU) expense because RSUs were already being expensed prior to the adoption of SFAS 123R. See Note 11 to the Consolidated Financial Statements.

The impact of stock options and RSUs for fiscal 2006 and 2005, and on a pro forma basis for fiscal 2004, as if the Company had been expensing stock options as disclosed in our footnotes pursuant to SFAS 123, on income and diluted earnings per share was as follows (in millions, except per share amounts):

	As Reported		Pro Forma[1]
	2006	2005	2004
Stock option compensation expense	**$ 245**	$ 253	$ 405
RSU compensation expense	**137**	127	66
Total equity based compensation expense	**$ 382**	$ 380	$ 471
Reduction in net income, net of tax	**$ 241**	$ 240	$ 297
Reduction in diluted earnings per share	**$0.12**	$0.11	$0.14

[1] RSU compensation expense of $66 million in fiscal 2004 is not pro forma as RSUs were already being expensed prior to the adoption of SFAS 123R.

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. We 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.

FIN 46R In January 2003, the FASB issued Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R). Variable interest

entities (VIEs) are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

In connection with the adoption of FIN 46R, the Company concluded that Euro Disney and Hong Kong Disneyland are VIEs and that we are the primary beneficiary. As a result, the Company began consolidating Euro Disney and Hong Kong Disneyland's balance sheets on March 31, 2004, the end of the Company's second quarter of fiscal 2004, and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal 2004. Under FIN 46R transition rules, the operating results of Euro Disney and Hong Kong Disneyland continued to be accounted for on the equity method for the six months ended March 31, 2004. See Note 5 to the Consolidated Financial Statements.

We have concluded that the rest of our equity investments do not require consolidation as either they are not VIEs, or in the event that they are VIEs, we are not the primary beneficiary. The Company also has variable interests in certain other VIEs that have not been consolidated because the Company is not the primary beneficiary. These VIEs do not involve any material exposure to the Company.

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 in the Company's Annual Report on Form 10-K for the year ended September 30, 2006.

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 2006 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 was $21 million at September 30, 2006 and October 1, 2005.

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

Fiscal Year 2006	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
Year end VAR	$22	$10	$1	$21
Average VAR	$19	$13	$0	$22
Highest VAR	$22	$15	$1	$24
Lowest VAR	$18	$10	$0	$18
Beginning of year VAR (year end fiscal 2005)	$24	$12	$1	$21

The VAR for Euro Disney and Hong Kong Disneyland is immaterial as of September 30, 2006. 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)	2006	2005	2004
Revenues	**$ 34,285**	$ 31,944	$ 30,752
Costs and expenses	**(28,807)**	(27,837)	(26,704)
Gains on sale of equity investment and businesses	**70**	26	—
Restructuring and impairment (charges) and other credits, net	**18**	(32)	(64)
Net interest expense	**(592)**	(597)	(617)
Equity in the income of investees	**473**	483	372
Income before income taxes, minority interests and the cumulative effect of accounting change	**5,447**	3,987	3,739
Income taxes	**(1,890)**	(1,241)	(1,197)
Minority interests	**(183)**	(177)	(197)
Income before the cumulative effect of accounting change	**3,374**	2,569	2,345
Cumulative effect of accounting change	**—**	(36)	—
Net income	**$ 3,374**	$ 2,533	$ 2,345
Earnings per share before the cumulative effect of accounting change:			
Diluted	**$ 1.64**	$ 1.24	$ 1.12
Basic	**$ 1.68**	$ 1.27	$ 1.14
Cumulative effect of accounting change per share	**$ —**	$ (0.02)	$ —
Earnings per share:			
Diluted	**$ 1.64**	$ 1.22	$ 1.12
Basic	**$ 1.68**	$ 1.25	$ 1.14
Average number of common and common equivalent shares outstanding:			
Diluted	**2,076**	2,089	2,106
Basic	**2,005**	2,028	2,049

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	September 30, 2006	October 1, 2005
Assets		
Current assets		
Cash and cash equivalents	**$ 2,411**	$ 1,723
Receivables	**4,707**	4,585
Inventories	**694**	626
Television costs	**415**	510
Deferred income taxes	**592**	749
Other current assets	**743**	652
Total current assets	**9,562**	8,845
Film and television costs	**5,235**	5,427
Investments	**1,315**	1,226
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**28,843**	27,570
Accumulated depreciation	**(13,781)**	(12,605)
	15,062	14,965
Projects in progress	**913**	874
Land	**1,192**	1,129
	17,167	16,968
Intangible assets, net	**2,907**	2,731
Goodwill	**22,505**	16,974
Other assets	**1,307**	987
	$ 59,998	$ 53,158
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 5,917**	$ 5,339
Current portion of borrowings	**2,682**	2,310
Unearned royalties and other advances	**1,611**	1,519
Total current liabilities	**10,210**	9,168
Borrowings	**10,843**	10,157
Deferred income taxes	**2,651**	2,430
Other long-term liabilities	**3,131**	3,945
Minority interests	**1,343**	1,248
Commitments and contingencies (Note 14)		
Shareholders' equity		
Preferred stock, $.01 par value		
Authorized — 100 million shares, Issued — none	**—**	—
Common stock, $.01 par value		
Authorized — 3.6 billion shares,		
Issued — 2.5 billion shares at September 30, 2006 and 2.2 billion at October 1, 2005	**22,377**	13,288
Retained earnings	**20,630**	17,775
Accumulated other comprehensive loss	**(8)**	(572)
	42,999	30,491
Treasury stock, at cost, 436.0 million shares at September 30, 2006 and 192.8 million shares at October 1, 2005	**(11,179)**	(4,281)
	31,820	26,210
	$ 59,998	$ 53,158

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	2006	2005	2004
Operating Activities			
Net income	**$ 3,374**	$ 2,533	$ 2,345
Depreciation and amortization	**1,436**	1,339	1,210
Gains on sale of equity investment and businesses	**(70)**	(26)	—
Deferred income taxes	**(136)**	(262)	(98)
Equity in the income of investees	**(473)**	(483)	(372)
Cash distributions received from equity investees	**458**	402	408
Write-off of aircraft leveraged lease	**—**	101	16
Cumulative effect of accounting change	**—**	36	—
Minority interests	**183**	177	197
Net change in film and television costs	**860**	568	325
Equity based compensation	**382**	380	66
Other	**(40)**	(141)	9
Changes in operating assets and liabilities			
Receivables	**(78)**	(157)	(16)
Inventories	**(63)**	22	(40)
Other assets	**(52)**	(85)	(147)
Accounts payable and other accrued liabilities	**299**	(257)	560
Income taxes	**(22)**	122	(93)
Cash provided by operations	**6,058**	4,269	4,370
Investing Activities			
Investments in parks, resorts and other property	**(1,299)**	(1,823)	(1,427)
Sales of investments	**1,073**	25	14
Working capital proceeds from The Disney Store North America sale	**—**	100	—
Sales of equity investment and businesses	**81**	29	—
Other	**(82)**	(22)	(71)
Cash used in investing activities	**(227)**	(1,691)	(1,484)
Financing Activities			
Commercial paper borrowings, net	**85**	654	100
Borrowings	**2,806**	422	176
Reduction of borrowings	**(1,950)**	(1,775)	(2,479)
Dividends	**(519)**	(490)	(430)
Repurchases of common stock	**(6,898)**	(2,420)	(335)
Euro Disney equity offering	**—**	171	—
Equity partner contributions	**51**	147	66
Exercise of stock options and other	**1,282**	394	201
Cash used in financing activities	**(5,143)**	(2,897)	(2,701)
Increase/(decrease) in cash and cash equivalents	**688**	(319)	185
Cash and cash equivalents due to the initial consolidation of Euro Disney and Hong Kong Disneyland	**—**	—	274
Cash and cash equivalents, beginning of year	**1,723**	2,042	1,583
Cash and cash equivalents, end of year	**$ 2,411**	$ 1,723	$ 2,042
Supplemental disclosure of cash flow information:			
Interest paid	**$ 617**	$ 641	$ 624
Income taxes paid	**$ 1,857**	$ 1,572	$ 1,349

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, 2003	2,044	$12,154	$13,817	$(653)	$ (1,527)	$23,791
Exercise of stock options and issuance of restricted stock	11	293	—	—	—	293
Common stock repurchases	(15)	—	—	—	(335)	(335)
Dividends ($0.21 per share)	—	—	(430)	—	—	(430)
Other comprehensive income (net of tax of $245 million)	—	—	—	417	—	417
Net income	—	—	2,345	—	—	2,345
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**

Accumulated other comprehensive loss is as follows:

	September 30, 2006	October 1, 2005
Market value adjustments for investments and hedges	**$ 29**	$ 31
Foreign currency translation and other	**87**	106
Additional minimum pension liability adjustment	**(124)**	(709)
	$ (8)	$(572)

Comprehensive income is as follows:

	2006	2005	2004
Net income	**$3,374**	$2,533	$2,345
Market value adjustments for investments and hedges	**(2)**	92	47
Foreign currency translation and other	**(19)**	20	23
Additional minimum pension liability adjustment, increase/(decrease) (See Note 9)	**585**	(448)	347
Comprehensive income	**$3,938**	$2,197	$2,762

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 ABC Radio Network, ESPN Radio Network, and Radio Disney Network (the Radio Networks) and 71 owned radio stations. Both the television and radio networks have affiliated stations providing coverage to households throughout the United States. Most of the owned television and radio stations are affiliated with either the ABC Television Network or the Radio Networks. The Company has cable/satellite and international broadcast 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, Lifetime Entertainment Services, and E! Entertainment Television. 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-, and Disney-branded internet website businesses, as well as Disney Mobile, a mobile phone service specifically developed to meet the needs of parents and kids.

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. In addition, Disney Cruise Line is operated out of Port Canaveral, Florida. The Disneyland Resort includes two theme parks (Disneyland and Disney's California Adventure), three resort hotels, and Downtown Disney. 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 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, the Disney Village, a shopping, dining and entertainment center, and a 27-hole golf facility. The Company also manages and has a 43% equity interest in Hong Kong Disneyland, which opened in September 2005. During fiscal 2004, the Company began consolidating the results of Euro Disney and Hong Kong Disneyland (see Notes 2 and 5). The Company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation ownership interests through the Disney Vacation Club. Also included in Parks and Resorts is the ESPN Zone, which operates sports-themed dining and entertainment facilities.

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 most 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 intangible assets, gains on sale of equity investment 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, Lifetime Television, and E! Entertainment Television, which are cable businesses included in the Media Networks segment. Corporate and unallocated shared expenses prin-

cipally consist of corporate functions, executive management, and certain unallocated administrative support functions.

Equity in the income/(loss) of investees by segment is as follows:

	2006	2005	2004
Media Networks[(1)]	**$444**	$460	$405
Parks and Resorts[(2)]	**1**	—	(46)
Consumer Products	**28**	23	13
	$473	$483	$372

[(1)] Substantially all of these amounts relate to investments at Cable Networks. An immaterial amount relates to Broadcasting.

[(2)] Includes equity in the income (loss) of Euro Disney and Hong Kong Disneyland for the first two quarters of fiscal 2004 prior to the consolidation of the results of operations of these businesses beginning with the third quarter of fiscal 2004 as a result of the implementation of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*.

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. In addition, while all significant intersegment transactions have been eliminated, Studio Entertainment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect royalties on Consumer Products sales of merchandise based on certain Studio film properties. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm's length transactions.

	2006	2005	2004
Revenues			
Media Networks	**$14,638**	$13,207	$11,778
Parks and Resorts	**9,925**	9,023	7,750
Studio Entertainment			
Third parties	**7,410**	7,499	8,637
Intersegment	**119**	88	76
	7,529	7,587	8,713
Consumer Products			
Third parties	**2,312**	2,215	2,587
Intersegment	**(119)**	(88)	(76)
	2,193	2,127	2,511
Total consolidated revenues	**$34,285**	$31,944	$30,752
Segment operating income			
Media Networks	**$ 3,610**	$ 3,209	$ 2,574
Parks and Resorts	**1,534**	1,178	1,077
Studio Entertainment	**729**	207	662
Consumer Products	**618**	543	547
Total segment operating income	**$ 6,491**	$ 5,137	$ 4,860

	2006	2005	2004
Reconciliation of segment operating income to income before income taxes, minority interests and the cumulative effect of accounting change			
Segment operating income	**$ 6,491**	$ 5,137	$ 4,860
Corporate and unallocated shared expenses	**(529)**	(536)	(428)
Amortization of intangible assets	**(11)**	(11)	(12)
Gain on sales of equity investment and businesses	**70**	26	—
Restructuring and impairment (charges) and other credits, net	**18**	(32)	(64)
Net interest expense	**(592)**	(597)	(617)
Income before income taxes, minority interests and the cumulative effect of accounting change	**$ 5,447**	$ 3,987	$ 3,739
Capital expenditures			
Media Networks	**$ 227**	$ 228	$ 221
Parks and Resorts			
Domestic	**667**	726	719
International[(1)]	**248**	711	289
Studio Entertainment	**41**	37	39
Consumer Products	**16**	10	14
Corporate	**100**	111	145
Total consolidated capital expenditures	**$ 1,299**	$ 1,823	$ 1,427
Depreciation expense			
Media Networks	**$ 187**	$ 182	$ 172
Parks and Resorts			
Domestic	**780**	756	710
International[(1)]	**279**	207	95
Studio Entertainment	**30**	26	22
Consumer Products	**23**	25	44
Corporate	**126**	132	155
Total consolidated depreciation expense	**$ 1,425**	$ 1,328	$ 1,198
Identifiable assets			
Media Networks[(2)(3)]	**$27,281**	$26,926	
Parks and Resorts[(3)]	**15,929**	15,807	
Studio Entertainment[(3)]	**11,159**	5,965	
Consumer Products[(3)]	**1,505**	877	
Corporate[(3)(4)]	**4,124**	3,583	
Total consolidated assets	**$59,998**	$53,158	
Supplemental revenue data			
Media Networks			
Advertising	**$ 7,725**	$ 7,271	$ 6,611
Affiliate Fees	**5,575**	5,098	4,408
Parks and Resorts			
Merchandise, food and beverage	**3,221**	2,879	2,429
Admissions	**3,085**	2,771	2,547
Revenues			
United States and Canada	**$26,565**	$24,806	$24,012
Europe	**5,266**	5,207	4,721
Asia Pacific	**1,917**	1,451	1,547
Latin America and Other	**537**	480	472
	$34,285	$31,944	$30,752

	2006	2005	2004
Segment operating income			
United States and Canada	**$ 4,938**	$ 3,963	$ 3,307
Europe	**918**	738	868
Asia Pacific	**542**	386	582
Latin America and Other	**93**	50	103
	$ 6,491	$ 5,137	$ 4,860
Identifiable assets			
United States and Canada	**$52,097**	$45,809	
Europe	**5,624**	5,120	
Asia Pacific	**2,111**	2,110	
Latin America and Other	**166**	119	
	$59,998	$53,158	

(1) Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures and depreciation expense for all periods beginning April 1, 2004. Hong Kong Disneyland's capital expenditures totaled $95 million, $591 million, and $251 million for fiscal 2006, 2005, and 2004 respectively. The decrease in capital expenditures in fiscal 2006 was primarily due to lower investment at Hong Kong Disneyland resulting from the substantial completion of the park prior to its opening in September 2005, whereas fiscal 2004 included only six months of activity. Our equity partner contributed $47 million, $147 million, and $66 million, which are included as sources of cash in financing activities, in fiscal 2006, 2005, and the second half of fiscal 2004, respectively.

(2) Identifiable assets include amounts associated with equity method investments, including notes and other receivables of $1,065 and $1,039 in 2006 and 2005, respectively.

(3) Goodwill and intangible assets, by segment, are as follows:

	2006	2005
Media Networks	**$19,257**	$19,284
Parks and Resorts	**173**	27
Studio Entertainment	**5,036**	38
Consumer Products	**690**	92
Corporate	**256**	264
	$25,412	$19,705

(4) 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

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. SAB 108 must be implemented by the end of the Company's fiscal 2007. The Company is currently assessing the potential effect of SAB 108 on its financial statements.

SFAS 158 In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 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 recognition provisions of SFAS 158 are effective for fiscal 2007, while the measurement date provisions are effective for fiscal year 2009. If SFAS 158 was applied at the end of fiscal 2006, using the Company's June 30, 2006 actuarial valuation, we would have recorded a pre-tax charge to accumulated other comprehensive income totaling $509 million ($320 million after tax) representing the difference between the funded status of the plans based on the project benefit obligation and the amounts recorded on our balance sheet at September 30, 2006.

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.

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, if any, is to be reported as an adjustment to opening retained earnings for the year of adoption. FIN 48 is effective for the Company's 2008 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of FIN 48 on its financial statements.

SFAS 123R In the fourth quarter of fiscal 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which revises SFAS 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R requires that new, modified and unvested share-based payment transactions with employees, such as stock options and restricted stock, be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The Company adopted SFAS 123R effective October 1, 2004, using the modified retrospective method. This method required the restatement of interim financial statements in the year of adoption based on the amounts previously calculated and reported in the pro forma footnote disclosures required by SFAS 123. However, fiscal years prior to 2005 have not been restated.

The impact of the adoption of SFAS 123(R) is as follows:

	2006	2005
Stock option compensation expense[1]	**$ 245**	$ 253
Reduction in net income, net of tax	**155**	160
Reduction in diluted earnings per share	**0.07**	0.08
Reduction in cash flow from operating activities	**133**	24
Increase in cash flow from financing activities	**133**	24

[1] Stock option compensation expense is net of capitalized stock option compensation and includes amortization of previously capitalized stock option compensation costs. Capitalized stock option compensation totaled $52 million and $18 million in 2006 and 2005, respectively.

Prior to fiscal 2005, employee stock options were accounted for under the intrinsic value method in accordance with APB 25 and its related interpretations, and were generally granted at market value. Accordingly, compensation expense for stock option awards was generally not recognized in the Consolidated Statements of Income. The following table reflects pro forma net income and earnings per share for the year ended September 30, 2004, had the Company elected to adopt the fair value approach of SFAS 123 as reported in the footnotes to the Company's financial statements for that year. The pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted or options may be cancelled in future years.

	2004
Net income	
As reported	$2,345
Less stock option expense, net of tax[1]	(255)
Pro forma after option expense	$2,090
Diluted earnings per share	
As reported	$ 1.12
Pro forma after option expense	1.00
Basic earnings per share	
As reported	$ 1.14
Pro forma after option expense	1.02

[1] Does not include restricted stock unit (RSU) expense because RSUs were already being expensed prior to the adoption of SFAS 123R. See Note 11 to the Consolidated Financial Statements.

The impact of stock options and RSUs for fiscal 2006 and 2005, and on a pro forma basis for fiscal 2004, as if the Company had been expensing stock options as disclosed in our footnotes pursuant to SFAS 123, on income and diluted earnings per share was as follows:

	As Reported		Pro Forma[1]
	2006	2005	2004
Stock option compensation expense	**$ 245**	$ 253	$ 405
RSU compensation expense	**137**	127	66
Total equity based compensation expense	**$ 382**	$ 380	$ 471
Reduction in net income, net of tax	**$ 241**	$ 240	$ 297
Reduction in diluted earnings per share	**$0.12**	$0.11	$0.14

[1] RSU compensation expense of $66 million in fiscal 2004 is not pro forma as RSUs were already being expensed prior to the adoption of SFAS 123R.

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes computational guidance to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee stock-based compensation, and a simplified method to determine the subsequent impact on the APIC Pool for employee stock-based compensation awards that are vested and outstanding upon adoption of SFAS 123(R).

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. We 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.

FIN 46R In January 2003, the FASB issued Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R). Variable interest entities (VIEs) are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

In connection with the adoption of FIN 46R, the Company concluded that Euro Disney and Hong Kong Disneyland are VIEs and that we are the primary beneficiary. As a result, the Company began consolidating Euro Disney and Hong Kong Disneyland's balance sheets on March 31, 2004, the end of the Company's second quarter of fiscal 2004, and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal 2004. Under FIN 46R transition rules, the operating results of Euro Disney and Hong Kong Disneyland continued to be accounted for on the equity method for the six months ended March 31, 2004 (see Note 5).

We have concluded that the rest of our equity investments do not require consolidation as either they are not VIEs, or in the event that they are VIEs, we are not the primary beneficiary. The Company also has variable interests in certain other VIEs that have not been consolidated because the Company is not the primary beneficiary. These VIEs do not involve any material exposure to the Company.

Reclassifications Certain reclassifications have been made in the fiscal 2005 and fiscal 2004 financial statements and notes to conform to the fiscal 2006 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 contracts with cable service providers include annual programming commitments. In these

cases, revenue subject to the commitment, that is generally collected ratably over the year 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.

Advertising Expense Advertising costs are expensed as incurred. Advertising expense incurred for fiscal 2006, 2005, and 2004 totaled $2.5 billion, $2.9 billion, and $3.0 billion, respectively.

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

Investments Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or shareholders' equity, 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, 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 previously noted 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 (AOCI).

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 direct negative 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 (Projected Revenue Method) from all sources on an individual production basis. Estimated remaining gross revenue for film productions includes revenue that will be earned within ten years of the date of the initial theatrical release. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition. Development costs for projects that have been abandoned or have not been set for production within three years are generally written off.

Television network series costs and multi-year sports rights are amortized under the Projected Revenue Method based on revenues from such programs or on a straight-line basis, as appropriate. 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 determining multi-year sports rights costs, gross revenues include both advertising revenues and an allocation of affiliate fees. If the annual contractual payments over the term of a multi-year sports programming arrangement approximate the rights cost based on the Projected Revenue Method, we expense the annual payments during the season. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on an accelerated basis related to the projected usage of the programs.

Estimates of total gross revenues can change significantly due to a variety of factors, including advertising rates and the level of market acceptance of the production. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted, if necessary. Such adjustments could have a material effect on results of operations in future periods. The net realizable value of 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 30, 2006 and October 1, 2005, capitalized software costs totaled $491 million and $483 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 did not use a present value technique or a market multiple approach to value the ABC Television Network as a present value technique would not capture its full fair value 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 value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values for goodwill and other indefinite-lived intangible assets are determined based on discounted cash flows, market multiples, or appraised values, as appropriate.

We completed our impairment testing as of September 30, 2006, which resulted in a non-cash impairment charge of $32 million related to certain FCC licenses, primarily associated with ESPN Radio stations, reflecting an overall market decline in certain radio markets in which we operate.

Amortizable intangible assets, principally copyrights, are amortized on a straight-line basis over periods ranging from 10 – 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 stock options 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 net income and the weighted average number of common and common equivalent shares outstanding for calculating diluted earnings per share is as follows:

	2006	2005	2004
Income before the cumulative effect of accounting change	**$3,374**	$2,569	$2,345
Interest expense on convertible senior notes (net of tax)	**21**	21	21
	$3,395	$2,590	$2,366
Weighted average number of common shares outstanding (basic)	**2,005**	2,028	2,049
Weighted average dilutive stock options and restricted stock	**26**	16	12
Weighted average assumed conversion of convertible senior notes	**45**	45	45
Weighted average number of common and common equivalent shares outstanding (diluted)	**2,076**	2,089	2,106

For fiscal 2006, 2005, and 2004, options for 88 million, 96 million and 124 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 Statement 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 excess of the purchase price over those fair values was recorded as goodwill, which is not amortizable for tax purposes. The fair values set forth below are subject to adjustment if additional information is obtained prior to the one-year anniversary of the Acquisition that would change the fair value allocation as of the acquisition date. 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	$7,495	

The weighted average useful life determination for intangibles excludes $164 million of indefinite-lived Pixar trademarks and tradenames. 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 following table presents unaudited pro forma results of Disney as though Pixar had been acquired as of the beginning of the respective periods presented. These pro forma results do not necessarily represent what would have occurred if the Acquisition had taken place on the dates presented and does 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. The $48 million non-cash gain pursuant to EITF 04-1 has been included in net income in fiscal year 2006.

	Fiscal Year 2006 (unaudited)	Fiscal Year 2005 (unaudited)
Revenues	**$34,299**	$31,973
Income before cumulative effect of accounting change	**3,395**	2,682
Net Income	**3,395**	2,646
Earnings per share:		
Diluted	**$ 1.52**	$ 1.12
Basic	**$ 1.56**	$ 1.15

ABC Radio Transaction On February 6, 2006, the Company and Citadel Broadcasting Corporation (Citadel) announced an agreement to merge the ABC Radio business, which consists of 22 of the Company's owned radio stations and the ABC Radio Network, with Citadel. The ESPN Radio and Radio Disney networks and station businesses are not included in the transaction. The merger is expected to occur after the ABC Radio business is distributed to Disney shareholders (the Distribution). The agreement was subsequently amended on November 19, 2006. Under the amended terms, (i) Disney's stockholders are expected to collectively hold approximately 57% of Citadel's common stock post-merger, and (ii) the Company would retain between $1.10 billion and $1.35 billion in cash, depending upon the market price of Citadel's common stock over a measurement period ending prior to the closing. This cash will be obtained from loan proceeds raised by ABC Radio from a third party lender prior to the Distribution. Based on Citadel's stock price on November 20, 2006, the Company estimates that the aggregate value of the retained cash and Citadel common stock to be received by Disney shareholders would be approximately $2.5 billion. The amended agreement provides that the closing will occur no earlier than May 31, 2007, subject to regulatory approvals, and that either party may terminate the agreement if the closing does not occur by June 15, 2007.

Other Dispositions The following disposals occurred during fiscal 2006 and fiscal 2005:

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

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

Effective 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. Pursuant to the terms of sale, The Disney Store North America retained its lease obligations related to the stores transferred to the buyer and became a wholly owned subsidiary of TCP. TCP is required to pay the Company a royalty on substantially all of the physical retail store sales beginning on the second anniversary of the closing date of the sale.

During the year ended September 30, 2004, the Company recorded $64 million of restructuring and impairment charges related to The Disney Store. The bulk of these charges were impairments of the carrying value of fixed assets related to the stores to be sold.

Other Acquisitions On February 17, 2004, the Company acquired the film library and intellectual property rights for the *Muppets* and *Bear in the Big Blue House* for $68 million. Substantially all of the purchase price was allocated to amortizable intangible assets.

NOTE 4.

INVESTMENTS

Investments consist of the following:

	September 30, 2006	October 1, 2005
Investments, equity basis[1]	**$1,075**	$1,062
Investments, other	**188**	112
Investment in aircraft leveraged leases	**52**	52
	$1,315	$1,226

[1] Equity investments consist of investments in affiliated 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), Lifetime Entertainment Services (50.0% owned), and E! Entertainment Television (39.6% owned), is as follows:

	2006	2005	2004
Results of Operations:			
Revenues	**$4,447**	$4,317	$3,893
Net Income	**$1,170**	$1,275	$1,017

	September 30, 2006	October 1, 2005
Balance Sheet:		
Current assets	**$2,620**	$2,323
Non-current assets	**1,562**	1,399
	$4,182	$3,722
Current liabilities	**$1,048**	$ 929
Non-current liabilities	**1,154**	915
Shareholders' equity	**1,980**	1,878
	$4,182	$3,722

Investments, Other As of September 30, 2006 and October 1, 2005, the Company held $82 million and $62 million, respectively, of securities classified as available-for-sale. As of September 30, 2006 and October 1, 2005, the Company also held $106 million and $50 million, respectively, of non-publicly traded cost-method investments.

In 2006, the Company had no realized gain or loss on sales of securities. In 2005 and 2004, the Company recognized $14 million and $2 million, respectively, in net gains on sales of securities. Realized gains and losses are determined principally on an average cost basis.

In 2006, the Company had no charges for other-than-temporary losses in value of investments. In 2005 and 2004, the Company recorded non-cash charges of $42 million and $23 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. During the fourth quarter of 2004, the Company recorded a $16 million pre-tax charge to write down its leveraged lease investment in Delta consistent with our agreement with Delta to reduce lease payments. These charges were reported in "Net interest expense" in the Consolidated Statements of Income. Based on Delta's bankruptcy filing, we believe it is unlikely that the Company will recover these investments. In the event of a material modification to the Delta aircraft leases or foreclosure of the remaining Delta aircraft by the debt holders, certain tax payments of up to $40 million, as of September 30, 2006, could be accelerated. The expected tax payments are currently reflected on our balance sheet as a deferred tax liability and are not expected to result in a further charge to earnings. Our remaining aircraft leveraged lease investment of $52 million is with FedEx Corp.

NOTE 5.

EURO DISNEY AND HONG KONG DISNEYLAND

The Company manages and has a 40% equity interest in Euro Disney, a publicly held French entity that is a holding company for 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. Additionally, the Company has a 43% interest in Hongkong International Theme Parks Limited, which operates Hong Kong Disneyland. Pursuant to FIN 46R (see Note 2), the Company

began consolidating 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. Euro Disney had revenues and net loss of $575 million and $122 million, respectively, for the six months ended March 31, 2004 while the Company still accounted for its investment on the equity method.

The following table presents a condensed consolidating balance sheet for the Company as of September 30, 2006, 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	$ 1,812	$ 599	$ 2,411
Other current assets	6,902	249	7,151
Total current assets	8,714	848	9,562
Investments	2,136	(821)	1,315
Fixed assets	12,627	4,540	17,167
Other assets	31,934	20	31,954
Total assets	$55,411	$4,587	$59,998
Current portion of borrowings	$ 2,681	$ 1	$ 2,682
Other current liabilities	6,989	539	7,528
Total current liabilities	9,670	540	10,210
Borrowings	7,602	3,241	10,843
Deferred income taxes and other long-term liabilities	5,642	140	5,782
Minority interests	677	666	1,343
Shareholders' equity	31,820	—	31,820
Total liabilities and shareholders' equity	$55,411	$4,587	$59,998

The following table presents a condensed consolidating income statement of the Company for the year ended September 30, 2006, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland.

	Before Euro Disney and Hong Kong Disneyland Consolidation[(1)]	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 32,692	$ 1,593	$ 34,285
Cost and expenses	(27,154)	(1,653)	(28,807)
Gains on sale of equity investment and business	70	—	70
Restructuring and impairment charges and other credits, net	18	—	18
Net interest expense	(468)	(124)	(592)
Equity in the income of investees	401	72	473
Income before income taxes and minority interests	5,559	(112)	5,447
Income taxes	(1,909)	19	(1,890)
Minority interests	(276)	93	(183)
Net income	$ 3,374	$ —	$ 3,374

[(1)] These amounts include Euro Disney and Hong Kong Disneyland under the equity method of accounting. As such, any 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 30, 2006, 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 operations	$ 5,960	$ 98	$ 6,058
Investments in parks, resorts, and other property	(1,051)	(248)	(1,299)
Other investing activities	1,037	35	1,072
Cash provided (used) by financing activities	(5,322)	179	(5,143)
Increase in cash and cash equivalents	624	64	688
Cash and cash equivalents, beginning of year	1,188	535	1,723
Cash and cash equivalents, end of year	$ 1,812	$ 599	$ 2,411

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 key provisions of the MOA are as follows:

Royalties and Management Fees

- Royalties and management fees totaling €58 million for fiscal 2004 were paid to the Company following completion of the rights offering
- Royalties and management fees for fiscal 2005 through fiscal 2009, totaling €25 million per year, payable to the Company are to be 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 will be converted into subordinated long-term borrowings if operating results do not achieve specified levels

Debt Covenants

- Certain covenant violations for fiscal 2003 and fiscal 2004 were waived
- Euro Disney received authorization for up to €240 million of capital expenditures for fiscal 2005 through fiscal 2009 for new attractions. Approximately €113 million has been incurred through the end of fiscal 2006.

Existing Borrowings

- Approximately €110 million of amounts outstanding on the existing line of credit from the Company and €60 million of deferred interest payable to Caisse des Dépôts et Consignations (CDC), a French state financial institution, were converted into long-term subordinated borrowings
- The interest rate on approximately €450 million of Euro Disney's senior borrowings was increased by approximately 2%
- Approximately €300 million of principal payments on senior borrowings were deferred for three and one-half years
- Principal payments on certain CDC borrowings were deferred for three and one-half years

- Euro Disney's security deposit requirement was eliminated and the existing deposit balance totaling €100 million was paid to senior lenders as a principal payment
- Interest payments for fiscal 2005 through fiscal 2012, of up to €20 million per year, payable to the CDC will be converted to long-term subordinated borrowings if operating results do not achieve specified levels. Interest payments of €20 million for fiscal 2005 were converted to borrowings in fiscal 2006. The Company expects interest payments of €20 million for fiscal 2006 to be converted into borrowings in fiscal 2007.
- Interest payments for fiscal 2013 through fiscal 2014, of up to €23 million per year, payable to the CDC will be converted to long-term subordinated borrowings if operating results do not achieve specified levels

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 30, 2006.

Any subordinated long-term borrowings due to the Company and CDC cannot be paid until all senior borrowings have been paid. See Note 7 for the terms of Euro Disney's borrowings.

The MOA resulted in the elimination of certain sublease arrangements between the Company's then wholly-owned subsidiary, Disney S.C.A. and Euro Disney. These subleases arose in connection with a financial restructuring of Euro Disney in 1994 whereby Disney S.C.A. (which was then in the form of a S.N.C.) entered into a lease agreement with a financing company with a non-cancelable term of 12 years related to substantially all of the Disneyland Park assets and then entered into a 12-year sublease agreement with Euro Disney on substantially the same payment terms. These lease transactions were eliminated for financial reporting purposes upon consolidation of Euro Disney by the Company as a result of the implementation of FIN 46R.

The MOA additionally provided for the contribution by Euro Disney of substantially all of its assets and liabilities (including most of the proceeds of the equity rights offerings referred to above) into Disney S.C.A., which became an 82% owned subsidiary of Euro Disney. Other wholly-owned subsidiaries of the Company retained the remaining 18% ownership interest. This enabled Euro Disney to avoid having to make €292 million of payments to Disney S.C.A. that would have been due if Euro Disney exercised the options under certain leases from Disney S.C.A. In connection with the 2005 Financial Restructuring, the Company increased its overall effective ownership interest in Disneyland Resort Paris' operations from 41% to 51%. Pursuant to the MOA, the Company must maintain at least a direct 39% ownership investment in Euro Disney through December 31, 2016.

As discussed above, 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 30, 2006	October 1, 2005
Theatrical film costs		
Released, less amortization	**$2,041**	$2,048
Completed, not released	**265**	407
In-process	**928**	838
In development or pre-production	**135**	112
	3,369	3,405
Television costs		
Released, less amortization	**882**	851
Completed, not released	**210**	259
In-process	**228**	245
In development or pre-production	**17**	33
	1,337	1,388
Television broadcast rights	**944**	1,144
	5,650	5,937
Less current portion	**415**	510
Non-current portion	**$5,235**	$5,427

Based on management's total gross revenue estimates as of September 30, 2006, approximately 79% 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. During fiscal year 2010, an amortization level of 80% will be reached. Approximately $566 million of accrued participation and residual liabilities will be paid in fiscal year 2007.

At September 30, 2006, acquired film and television libraries have remaining unamortized film costs of $548 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 30, 2006 and October 1, 2005, including the impact of interest rate swaps designated as hedges, are summarized below:

			2006				
				Interest rate and Cross-Currency Swaps[2]			
	2006	2005	Stated Interest Rate[1]	Pay Variable	Pay Fixed	Effective Interest Rate[3]	Swap Maturities
Commercial paper borrowings	**$ 839**	$ 754	5.56%	$ —	$ —	5.56%	—
U.S. medium-term notes	**6,499**	5,849	6.00%	1,385	—	5.44%	2007-2022
Convertible senior notes	**1,323**	1,323	2.13%	—	—	2.13%	—
Other U.S. dollar denominated debt	**305**	305	7.00%	—	—	7.00%	—
Privately placed debt	**54**	158	7.02%	54	—	7.41%	2007
European medium-term notes	**191**	213	5.55%	191	—	5.83%	2007-2010
Preferred stock	**353**	363	9.00%	—	—	9.00%	—
Capital Cities/ABC debt	**183**	186	9.07%	—	—	8.83%	—
Film financing	**276**	75	—	—	—	—	—
Other[4]	**260**	288	—	—	—	—	—
	10,283	9,514	5.34%	1,630	—	4.98%	—
Euro Disney (ED) and Hong Kong Disneyland (HKDL):							
ED – CDC loans	**1,246**	1,160	5.29%	—	—	5.04%	—
ED – Credit facilities & other	**486**	458	6.03%	—	501	5.90%	2008-2009
ED – Other advances	**440**	418	3.12%	—	19	3.12%	2009
HKDL – Senior and subordinated loans	**1,070**	917	3.98%	—	232	4.35%	2008-2011
	3,242	2,953	4.68%	—	752	4.68%	—
Total borrowings	**13,525**	12,467	5.18%	1,630	752	4.91%	—
Less current portion	**2,682**	2,310		357	—		
Total long-term borrowings	**$10,843**	$10,157		$1,273	$752		

[1] The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 2006; these rates are not necessarily an indication of future interest rates.
[2] Amounts represent notional values of interest rate and cross-currency swaps.
[3] The effective interest rate includes only the impact of 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.
[4] Includes market value adjustments for debt with qualifying hedges totaling $196 million and $213 million at September 30, 2006 and October 1, 2005, respectively.

Commercial Paper As of September 30, 2006, the Company had established bank facilities totaling $4.5 billion to support commercial paper borrowings, with half of the facilities scheduled to expire in 2010 and the other half in 2011. In February 2006, the Company amended its two bank facilities. The amendments included an extension of the maturity of one of the facilities from 2009 to 2011. In addition, the Company also increased the amount of letters of credit that can be issued to $800 million from $500 million under the facility expiring in 2011, which if utilized, reduces available borrowing under this facility. As of September 30, 2006, $261 million of letters of credit had been issued, of which $213 million was issued under the facilities, leaving total available borrowing capacity of $4.3 billion under these bank facilities. Under the bank facilities, the Company has the option to borrow at LIBOR-based rates plus a spread depending on the Company's senior unsecured debt rating. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 30, 2006 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 30, 2006, the Company had not borrowed against the facilities. At September 30, 2006, $839 million of commercial paper debt was outstanding.

$5 Billion Shelf Registration Statement At September 30, 2006, 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 30, 2006, $2.25 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 30, 2006, the remaining unused capacity under the shelf registration is $2.75 billion.

U.S. Medium-Term Note Program At September 30, 2006, the total debt outstanding under U.S. medium-term note programs was $6.5 billion. The maturities of current outstanding borrowings range from 1 to 87 years and stated interest rates range from 5.12% to 10.62%.

Convertible Senior Notes At September 30, 2006, 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, 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.

Other U.S. Dollar Denominated Debt At September 30, 2006, other U.S. dollar denominated debt consisted of $305 million of quarterly interest bonds (QUIBS) that bear interest of 7% and mature in 2031. The Company redeemed all of the QUIBS on November 22, 2006.

Privately Placed Debt In 1996, the Company raised $850 million of debt in a private placement. The notes pay 7.02% interest per annum and amortize semi-annually to maturity in 2007. The outstanding principal as of September 30, 2006 was $54 million.

European Medium-Term Note Program At September 30, 2006, the Company has 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 2006, $88 million of debt was issued under the program. At September 30, 2006, the total debt outstanding under the program was $191 million. The maturities of outstanding borrowings range from 1 to 4 years and stated interest rates range from 4.72% to 6.26%. The Company has outstanding borrowings under the program denominated in U.S. dollars and Hong Kong 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 is callable commencing August 1, 2007 and matures August 1, 2027. The Series A Preferred Stock is classified as borrowings given its substantive similarity to a debt instrument. At September 30, 2006, the total balance outstanding was $353 million.

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 30, 2006, the outstanding balance was $183 million with maturities ranging from 3 to 15 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, 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 30, 2006, the investors have participated in the funding of thirteen 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 30, 2006, borrowings under this arrangement totaled $276 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 30, 2006, these borrowings consisted of approximately €243 million ($308 million at September 30, 2006 exchange rates) of senior debt and €278 million ($353 million at September 30, 2006 exchange rates) of subordinated debt. The senior debt is collateralized primarily by the theme park, hotel, and land assets of Disneyland Resort Paris (except for Walt Disney Studios Park) with a net book value of approximately €1.3 billion ($1.6 billion at September 30, 2006 exchange rates), whereas the subordinated debt is unsecured. Interest on the senior debt is payable semiannually, and interest on the subordinated debt is payable annually. 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 (see Note 5), principal payments falling between 2004 and 2016 have been deferred by 3.5 years. In return, the interest rate on principal of €48 million ($61 million at September 30, 2006 exchange rates) was increased to 7.15%, the interest rate on principal of €43 million ($55 million at September 30, 2006 exchange rates) was increased to 6.15%, and €10 million ($13 million at September 30, 2006 exchange rates) of principal was prepaid effective February 23, 2005. Also, pursuant to the terms of the 2005 Financial Restructuring, €125 million ($159 million at September 30, 2006 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 30, 2006, approximately €461 million ($585 million at September 30, 2006 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 ($3 million at September 30, 2006 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 ($25 million at September 30, 2006 exchange rates) per year for each of the fiscal years 2005 through 2012 and €23 million ($29 million at September 30, 2006 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 €1.3 billion ($1.6 billion at September 30, 2006 exchange rates). At September 30, 2006, the total balance outstanding was €382 million ($486 million at September 30, 2006 exchange rate). 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% (5.81% at September 30, 2006) from EURIBOR plus amounts ranging from 0.84% to 1.00% and €96 million ($122 million at September 30, 2006 exchange rates) of principal was prepaid on February 23, 2005 using debt security deposits (see Note 5). The loans mature between fiscal years 2008 and 2013.

Euro Disney — Other advances. Advances of €331 million ($421 million at September 30, 2006 exchange rates) bear interest at a fixed rate of 3.0%. The remaining advances of €15 million ($19 million at September 30, 2006

exchange rates) bear interest at EURIBOR plus 3% (5.81% at September 30, 2006). The advances are scheduled to mature between fiscal years 2013 and 2017, of which €15 million ($19 million at September 30, 2006 exchange rate) are collateralized by certain theme parks 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 investing and financing activities. Beginning with fiscal year 2006, Euro Disney must also meet financial performance covenants that necessitate earnings growth. As a result of revenue growth in excess of increases in costs and expenses during fiscal year 2006, management believes that Euro Disney is in compliance with the covenants for fiscal 2006. Pursuant to the debt agreements, compliance with the covenants is subject to final third-party confirmation.

Hong Kong Disneyland — Senior loans. Hong Kong Disneyland's senior loans are borrowings pursuant to a term loan facility of HK$2.3 billion ($293 million at September 30, 2006 exchange rates) and a revolving credit facility of HK$1.0 billion ($128 million at September 30, 2006 exchange rates). The balance of the senior loans as of September 30, 2006 was HK$2.3 billion ($293 million at September 30, 2006 exchange rates). The term loan facility has not been drawn down as of September 30, 2006. Both facilities are collateralized by bank accounts, fixed assets, and land of the Hong Kong Disneyland theme park with a net book value of approximately HK$13 billion ($1.7 billion at September 30, 2006 exchange rates). Both facilities currently carry a rate of three month HIBOR + 1.25% and are 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 30, 2006, the rate on the senior loans was 5.81%.

Beginning in fiscal year 2006, Hong Kong Disneyland is subject to semi-annual financial performance covenants under its commercial term loan and revolving credit facility agreement. In July 2006, lenders under the commercial term loan and revolving credit facility agreement provided a waiver to these covenants for the September 30, 2006 and March 31, 2007 measurement dates. The revolving credit facility will not be available for the period the waiver is in effect unless the covenants are, in fact, satisfied during the period. The covenants will be in effect for the September 30, 2007 measurement date.

Hong Kong Disneyland — Subordinated loans. Hong Kong Disneyland has a subordinated unsecured loan facility of HK$5.6 billion ($721 million at September 30, 2006 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 the September 2005 park opening of HK$433 million ($56 million at September 30, 2006 exchange rates) is not payable until the loan matures and is therefore classified as long-term borrowings. 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 30, 2006 the rate on the subordinated loans was 3.29%.

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
2007	$ 2,636	$ 1	$ 2,637
2008	283	73	356
2009	937	121	1,058
2010	140	148	288
2011	751	204	955
Thereafter	5,340	2,695	8,035
	$10,087	$3,242	$13,329

The Company capitalizes interest on assets constructed for its parks, resorts, and other property and on theatrical and television productions. In 2006, 2005, and 2004, total interest capitalized was $30 million, $77 million, and $47 million, respectively.

NOTE 8.

INCOME TAXES

	2006	2005	2004
Income Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Change			
Domestic (including U.S. exports)	**$5,106**	$3,676	$3,279
Foreign subsidiaries	**341**	311	460
	$5,447	$3,987	$3,739
Income Tax (Benefit) Provision			
Current			
Federal	**$1,660**	$1,141	$ 835
State	**127**	166	90
Foreign	**243**	221	350
	2,030	1,528	1,275
Deferred			
Federal	**(179)**	(252)	(103)
State	**39**	(35)	25
	(140)	(287)	(78)
	$1,890	$1,241	$1,197

	September 30, 2006	October 1, 2005
Components of Deferred Tax Assets and Liabilities		
Deferred tax assets		
Accrued liabilities	**$(1,120)**	$(1,439)
Foreign subsidiaries	**(674)**	(715)
Equity based compensation	**(259)**	(165)
Total deferred tax assets	**(2,053)**	(2,319)
Deferred tax liabilities		
Depreciable, amortizable and other property	**3,470**	3,315
Licensing revenues	**404**	370
Leveraged leases	**96**	178
Other, net	**88**	63
Total deferred tax liabilities	**4,058**	3,926
Net deferred tax liability before valuation allowance	**2,005**	1,607
Valuation allowance	**54**	74
Net deferred tax liability	**$ 2,059**	$ 1,681

	2006	2005	2004
Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**2.0**	2.1	2.0
Impact of audit settlements	**(0.7)**	(3.2)	(3.2)
Foreign sales corporation and extraterritorial income	**(2.2)**	(2.2)	(2.6)
Repatriation of earnings of foreign subsidiaries	**—**	(0.8)	—
Other, including tax reserves and related interest	**0.6**	0.2	0.8
	34.7%	31.1%	32.0%

In 2006 the Company derived tax benefits of $118 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 will be limited to approximately 85%, 65%, and 15% of the exclusion, respectively. No exclusion will be 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. The U.S. Department of the Treasury and the IRS issued final regulations on May 25, 2006 which provide comprehensive rules, definitions, and examples to assist in the implementation of this new deduction. The Company has analyzed the final regulations and anticipates the issuance of further guidance relevant to the calculation of the Company's tax benefit. Based on existing guidance, our tax provision for fiscal 2006 reflects an estimated benefit of $25 million.

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. The Internal Revenue Service has commenced its examination of 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 the fourth quarter of 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. During the first quarter of fiscal 2005, the favorable resolution of a tax matter resulted in the release of $24 million in tax reserves. During the fourth quarter of fiscal 2004, the Company reached a settlement with the Internal Revenue Service regarding all assessments proposed with respect to its federal income tax returns for 1993 through 1995. The favorable settlement resulted in the Company releasing $120 million in tax reserves that were no longer required with respect to the settled matters.

In fiscal years 2006, 2005 and 2004, income tax benefits attributable to equity based compensation transactions that were allocated to shareholders' equity amounted to $106 million, $64 million and $25 million, respectively.

Deferred tax assets at October 1, 2005 were reduced by a $74 million valuation allowance, of which $24 million was attributable to certain acquired net operating losses. During fiscal 2006, the Company determined that a significant portion of these acquired net operating losses could be utilized with respect to our fiscal 2005 tax returns resulting in a $20 million reduction in current taxes payable. The realization of this tax benefit resulted in a reduction in the related valuation allowance and a corresponding adjustment being applied as a reduction to goodwill.

NOTE 9.

PENSION AND OTHER BENEFIT PROGRAMS

The Company maintains pension plans and postretirement medical benefit plans covering most of its domestic 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. The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and postretirement medical benefit plans based upon the actuarial valuations prepared as of June 30, 2006 and 2005 (the Plan Measurement Dates).

(in millions)	Pension Plans September 30, 2006	Pension Plans October 1, 2005	Postretirement Medical Plans September 30, 2006	Postretirement Medical Plans October 1, 2005
Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$(4,951)**	$(3,769)	**$(1,172)**	$ (954)
Service cost	**(187)**	(138)	**(34)**	(34)
Interest cost	**(256)**	(233)	**(61)**	(59)
Actuarial gain/(loss)	**548**	(937)	**308**	(150)
Benefits paid	**141**	126	**23**	25
Ending obligations	**$(4,705)**	$(4,951)	**$ (936)**	$(1,172)
Fair value of plans' assets				
Beginning fair value	**$ 3,410**	$ 3,139	**$ 260**	$ 215
Actual return on plan assets	**425**	308	**48**	61
Contributions	**507**	112	**32**	9
Benefits paid	**(141)**	(126)	**(23)**	(25)
Expenses	**(20)**	(23)	**—**	—
Ending fair value	**$ 4,181**	$ 3,410	**$ 317**	$ 260
Funded status of the plans	**$ (524)**	$(1,541)	**$ (619)**	$ (912)
Unrecognized net loss	**692**	1,516	**12**	381
Unrecognized prior service cost (benefit)	**18**	18	**(16)**	(17)
Contributions after Plan Measurement Date	**41**	181	**4**	3
Net balance sheet impact	**$ 227**	$ 174	**$ (619)**	$ (545)
Amounts recognized in the balance sheet consist of				
Prepaid benefit cost	**$ 283**	$ 35	**$ —**	$ —
Accrued benefit liability	**(253)**	(985)	**(619)**	(545)
Additional minimum pension liability adjustment	**197**	1,124	**—**	—
	$ 227	$ 174	**$ (619)**	$ (545)

The components of net periodic benefit cost are as follows:

(in millions)	Pension Plans 2006	Pension Plans 2005	Pension Plans 2004	Postretirement Medical Plans 2006	Postretirement Medical Plans 2005	Postretirement Medical Plans 2004
Service costs	**$ 186**	$ 137	$ 149	**$ 34**	$ 31	$ 35
Interest costs	**256**	233	216	**61**	59	60
Expected return on plan assets	**(250)**	(223)	(215)	**(16)**	(14)	(15)
Amortization of prior year service costs	**1**	1	2	**(1)**	(1)	(1)
Recognized net actuarial loss	**148**	59	77	**43**	32	66
Net periodic benefit cost	**$ 341**	$ 207	$ 229	**$121**	$107	$145
Assumptions:						
Discount rate	**6.40%**	5.25%	6.30%	**6.40%**	5.25%	6.30%
Rate of return on plan assets	**7.50%**	7.50%	7.50%	**7.50%**	7.50%	7.50%
Salary increases	**4.00%**	3.75%	4.00%	**n/a**	n/a	n/a
Year 1 increase in cost of benefits	**n/a**	n/a	n/a	**9.00%**	10.00%	10.00%
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	**n/a**	n/a	n/a	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**n/a**	n/a	n/a	**2012**	2012	2011

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

PLAN FUNDED STATUS

A number of the Company's pension plans were underfunded at September 30, 2006, having accumulated benefit obligations exceeding the fair value of plan assets. For these plans, the fair value of plan assets aggregated $1.6 billion, the accumulated benefit obligations aggregated $1.9 billion, and the projected benefit obligations aggregated $2.1 billion. As a result, the Company has recorded an additional minimum pension liability adjustment of $197 million as of September 30, 2006. The additional minimum pension liability adjustment at October 1, 2005 was $1.1 billion. The decrease in the additional minimum pension liability adjustment of $927 million ($585 million after tax) in the current year was primarily due to an increase in the discount rate from 5.25% at October 1, 2005 to 6.40% at September 30, 2006. The change in the additional minimum pension liability was recorded as a direct increase in shareholders' equity through accumulated other comprehensive income.

The Company's total accumulated pension benefit obligations at September 30, 2006 and October 1, 2005 were $4.4 billion and $4.6 billion, respectively, of which 96.1% and 97.3%, 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 $936 million and $317 million, respectively, at September 30, 2006 and $1.2 billion and $260 million, respectively, at October 1, 2005.

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 pension plan asset mix at the Plan Measurement Dates is as follows:

Asset Class	June 30, 2006	June 30, 2005
Equity Securities	**54%**	55%
Debt Securities	**25%**	29%
Alternative Investments	**13%**	15%
Cash	**8%**	1%
Total	**100%**	100%

Equity securities include 2.8 million shares of Company common stock or $84 million (2% of total plan assets) and $71 million (2% of total plan assets) at September 30, 2006 and October 1, 2005, 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 is being invested through December 2006 using the dollar cost averaging method.

PLAN CONTRIBUTIONS

During fiscal 2006, the Company contributed $367 million and $33 million to its pension and postretirement medical plans, respectively, which included voluntary contributions above the minimum requirements for the pension plans. Based on the January 1, 2006 funding valuation, the Company is not required to make any contributions to its pension plans during fiscal 2007. The Company may make additional contributions into its pension plans in fiscal 2007 depending on how the funded status of those plans change and as we gain more clarity with respect to the Pension Protection Act of 2006 (PPA) that was signed into law on August 17, 2006. The United States Treasury Department is in the process of developing implementation guidance for the PPA; however, it is likely the PPA will accelerate minimum funding requirements beginning in fiscal 2009. The Company may choose to pre-fund some of this anticipated funding.

ESTIMATED FUTURE BENEFIT PAYMENTS

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

	Pension Plans	Post Retirement Medical Plans
2007	$ 164	$ 27
2008	178	29
2009	194	31
2010	212	33
2011	232	35
2012 – 2016	1,468	214

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 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 2006 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 five 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 October 1, 2006 and on cost for fiscal 2007:

	Pension and Postretirement Medical Plans			Postretirement Medical Plans	
	Discount Rate		Expected Long-term Rate of Return On Assets	Assumed Healthcare Cost Trend Rate	
Increase/(decrease)	Net Periodic Pension and Postretirement Medical Cost	Projected Benefit Obligations	Net Periodic Pension and Postretirement Cost	Net Periodic Postretirement Medical Cost	Projected Benefit Obligations
1 ppt decrease	$119	$947	$43	$(21)	$(137)
1 ppt increase	(88)	(780)	(43)	28	172

MULTI-EMPLOYER PLANS

The Company participates in various multi-employer pension plans under union and industry-wide agreements. In 2006, 2005, and 2004, the contributions to these plans, which are generally expensed as incurred, were $51 million, $37 million, and $38 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 2006, 2005 and 2004, the costs of these plans were $39 million, $35 million and $33 million, respectively.

MEDICARE MODERNIZATION ACT

In May 2004, the FASB issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2) in response to a new law regarding prescription drug benefits under Medicare as well as a federal subsidy to sponsors of retiree healthcare benefit plans.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was reflected in accumulated postretirement medical benefit obligations beginning September 30, 2004 assuming that the Company will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and the Company will receive the federal subsidy.

The accumulated postretirement medical benefit obligations at September 30, 2004 decreased by approximately $110 million due to the effect of the federal subsidy, and net periodic postretirement medical benefit cost for 2006 and 2005 were reduced by approximately $16 million and $28 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 2006. The Company paid a $519 million dividend ($0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005; paid a $490 million dividend ($0.24 per share) during the second quarter of fiscal 2005 related to fiscal 2004; and paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 related to fiscal 2003.

During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for approximately $6.9 billion. During fiscal 2005, the Company repurchased 91 million shares of Disney common stock for approximately $2.4 billion. During fiscal 2004, the Company repurchased 15 million shares of Disney common stock for approximately $335 million. As of September 30, 2006, the Company had remaining authorization in place to repurchase approximately 206 million additional shares. The repurchase program does not have an expiration date.

The par value of the Company's outstanding common stock totaled approximately $25 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. In December 2004, the Company adopted a new approach to long-term incentive compensation, pursuant to which it increased the proportion of restricted stock units (RSUs) and decreased the proportion of stock options used in long-term incentive awards.

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 30, 2006 totaled 51 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.

In fiscal years 2006, 2005, and 2004, the weighted average assumptions used in the option-pricing models were as follows:

	2006[1]	2005[2]	2004[2]
Risk-free interest rate	**4.3%**	3.7%	3.5%
Expected term (years)	**5.09**	4.75	6.00
Expected volatility	**26%**	27%	40%
Dividend yield	**0.79%**	0.79%	0.85%
Termination rate	**4.00%**	n/a	n/a
Exercise multiple	**1.48**	n/a	n/a

[1] Commencing with the 2006 Annual Grant, the Company utilized the binomial valuation model.
[2] The Company utilized the Black-Scholes model during fiscal 2005 and fiscal 2004.

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 volatility assumption for fiscal 2006 and 2005 considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions. Volatility for fiscal 2004 was estimated based upon historical share-price volatility.

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

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**212**	**$27.06**	221	$26.50	219	$26.44
Awards granted in Pixar acquisition	**44**	**15.04**	—	—	—	—
Awards forfeited	**(7)**	**28.34**	(7)	25.99	(8)	24.40
Awards granted	**24**	**25.33**	19	27.91	27	24.61
Awards exercised	**(56)**	**21.42**	(18)	20.22	(11)	18.77
Awards expired/cancelled	**(5)**	**56.91**	(3)	34.83	(6)	33.56
Outstanding at end of year	**212**	**25.85**	212	27.06	221	26.50
Exercisable at end of year	**130**	**27.57**	142	28.47	132	28.39

The following tables summarize information about stock options outstanding at September 30, 2006 (shares in millions):

	Outstanding		
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life
$ 0 – $ 14	20	$ 8.63	5.2
$15 – $ 19	21	17.85	7.1
$20 – $ 24	72	23.69	6.4
$25 – $ 29	37	27.74	5.1
$30 – $ 34	46	31.52	3.8
$35 – $ 39	7	37.25	2.3
$40 – $ 44	7	41.35	4.2
$45 – $395	2	114.44	3.4
	212		

	Exercisable		
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Averaged Remaining Years of Contractual Life
$ 0 – $ 14	12	$ 7.61	4.5
$15 – $ 19	10	17.52	6.6
$20 – $ 24	30	22.83	5.8
$25 – $ 29	17	27.56	3.2
$30 – $ 34	45	31.54	3.8
$35 – $ 39	7	37.25	2.3
$40 – $ 44	7	41.35	4.2
$45 – $395	2	114.44	3.4
	130		

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

	2006		2005		2004	
	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	**15**	**$26.04**	9	$22.58	4	$19.84
Awards granted in Pixar acquisition	**1**	**29.09**	—	—	—	—
Granted	**11**	**24.83**	9	27.98	5	24.65
Vested	**(2)**	**24.57**	(2)	25.30	—	—
Forfeited	**(2)**	**25.87**	(1)	20.34	—	—
Unvested at end of year	**23**	**25.74**	15	26.04	9	22.58

RSUs representing 2.2 million shares, 1.3 million shares, and 0.3 million shares that vest based upon the achievement of certain performance conditions were granted in 2006, 2005, and 2004, respectively. Approximately 3.9 million of the unvested RSUs as of September 30, 2006 vest upon the achievement of performance conditions.

The weighted average grant-date fair values of options granted during 2006, 2005, and 2004 were $7.26, $7.71 and $9.94, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during 2006, 2005, and 2004 totaled $506 million, $198 million, and $68 million, respectively. The aggregate intrinsic values of stock options outstanding and exercisable at September 30, 2006 were $1.4 billion and $746 million, respectively.

As of September 30, 2006, there was $500 million of unrecognized compensation cost related to unvested stock options and $261 million related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.9 years for stock options and RSUs.

Cash received from option exercises for 2006, 2005, and 2004 was $1.1 billion, $370 million, and $201 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU activity for 2006, 2005, and 2004 totaled $180 million, $69 million, and $25 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 30, 2006	October 1, 2005
Current receivables		
Accounts receivable	**$ 4,451**	$ 4,351
Other	**368**	364
Allowance for doubtful accounts	**(112)**	(130)
	$ 4,707	$ 4,585
Other current assets		
Prepaid expenses	**$ 624**	$ 464
Other	**119**	188
	$ 743	$ 652
Parks, resorts and other property, at cost		
Attractions, buildings and improvements	**$ 14,209**	$ 13,633
Leasehold improvements	**497**	500
Furniture, fixtures and equipment	**10,746**	10,159
Land improvements	**3,391**	3,278
	28,843	27,570
Accumulated depreciation	**(13,781)**	(12,605)
Projects in progress	**913**	874
Land	**1,192**	1,129
	$ 17,167	$ 16,968
Intangible assets		
Copyrights	**$ 303**	$ 316
Other amortizable intangible assets	**134**	88
Accumulated amortization	**(58)**	(70)
Net amortizable intangible assets	**379**	334
FCC licenses	**1,400**	1,432
Trademarks	**1,108**	944
Other indefinite lived intangible assets	**20**	21
	$ 2,907	$ 2,731
Other non-current assets		
Receivables	**$ 500**	$ 426
Prepaid benefit costs	**283**	35
Other prepaid expenses	**25**	21
Other	**499**	505
	$ 1,307	$ 987
Accounts payable and other accrued liabilities		
Accounts payable	**$ 4,006**	$ 3,893
Payroll and employee benefits	**1,229**	967
Other	**682**	479
	$ 5,917	$ 5,339
Other long-term liabilities		
Deferred revenues	**$ 323**	$ 449
Capital lease obligations	**292**	287
Program licenses and rights	**224**	330
Participation and residual liabilities	**265**	207
Accrued benefit liabilities	**872**	1,530
Other	**1,155**	1,142
	$ 3,131	$ 3,945

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 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 16 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps in place at year-end expire in 2 to 9 years. As of September 30, 2006 and October 1, 2005 respectively, the Company held $192 million and $151 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 2006, 2005, and 2004. The net amount of deferred gains in AOCI from interest rate risk management transactions was $5 million and $8 million at September 30, 2006 and October 1, 2005 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 30, 2006 and October 1, 2005, the Company had pre-tax deferred gains of $106 million and $114 million, respectively, and pre-tax deferred losses of $60 million and $69 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 $15 million. The Company reclassified after-tax losses of $6 million and $108 million from AOCI to earnings during fiscal 2006 and 2005, respectively. These losses were offset by changes in the U.S. dollar equivalent value of the items being hedged.

During fiscal 2006 and 2005, 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 2006, fiscal 2005, and fiscal 2004. The total impact of foreign exchange risk management activities on operating income in 2006, 2005, and 2004 were losses of $27 million, $168 million, and $277 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 30, 2006 and October 1, 2005, 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 30, 2006 and October 1, 2005, 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:

	2006		2005	
Asset/(Liability)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	**$ 87**	**$ 87**	$ 62	$ 62
Borrowings	**(13,525)**	**(13,837)**	(12,467)	(12,733)
Risk management contracts:				
Foreign exchange forwards	**$ 49**	**$ 49**	$ 76	$ 76
Foreign exchange options	**1**	**1**	6	6
Interest rate swaps	**32**	**32**	22	22
Cross-currency swaps	**1**	**1**	3	3

Credit Concentrations The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties.

The Company would not realize a material loss as of September 30, 2006 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 30, 2006 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 $20.5 billion, including approximately $1.0 billion for available programming as of September 30, 2006, and approximately $16.6 billion related to sports programming rights, primarily NFL, 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 2006, 2005, and 2004, including common-area maintenance and contingent rentals, was $455 million, $482 million, and $518 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 $24.3 billion at September 30, 2006, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2007	$ 4,219	$ 306	$ 907	$ 5,432
2008	2,931	261	544	3,736
2009	2,395	224	386	3,005
2010	2,345	186	204	2,735
2011	2,278	143	83	2,504
Thereafter	6,319	457	85	6,861
	$20,487	$1,577	$2,209	$24,273

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment, which had gross carrying values of $508 million and $435 million at September 30, 2006 and October 1, 2005, respectively. Accumulated amortization primarily for broadcast equipment under capital lease totaled $108 million and $89 million at September 30, 2006 and October 1, 2005, respectively. Future payments under these leases as of September 30, 2006 are as follows:

2007	$ 80
2008	39
2009	39
2010	37
2011	38
Thereafter	626
Total minimum obligations	859
Less amount representing interest	(509)
Present value of net minimum obligations	350
Less current portion	(58)
Long-term portion	$ 292

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 30, 2006, the remaining debt service obligation guaranteed by the Company was $70 million, of which $45 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 30, 2006, the remaining debt service obligation guaranteed by the Company was $392 million, of which $106 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.

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 court denied that request and ordered that the Hunt termination trial commence on March 20, 2007.

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. Plaintiff's subsequent attempts to disqualify the judge who granted the terminating sanctions were denied in 2004, and its motion for a "new trial" was denied on January 26, 2005, allowing plaintiff to proceed with its noticed appeal from the April 5, 2004, order of dismissal. Argument of the appeal has not been scheduled.

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.

NOTE 15.

SUBSEQUENT EVENTS

On October 2, 2006, the Company sold its 50 percent stake in Us Weekly for $300 million, which resulted in a pre-tax gain of approximately $270 million ($170 million after-tax), which will be recorded in the first quarter of fiscal 2007.

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 interests in E!) for $1.2 billion, which resulted in a pre-tax gain of approximately $0.8 billion ($0.5 billion after-tax), which will be recorded in the first quarter of fiscal 2007.

QUARTERLY FINANCIAL SUMMARY

(unaudited, in millions, except per share data)	Q1	Q2	Q3	Q4
2006				
Revenues	**$8,854**	**$8,027**	**$8,620**	**$8,784**
Net income	**734**	**733**	**1,125**	**782**
Earnings per share:				
Diluted	**$ 0.37**	**$ 0.37**	**$ 0.53**	**$ 0.36**
Basic	**0.38**	**0.38**	**0.54**	**0.38**
Market price per share:				
High	**$26.19**	**$28.85**	**$31.03**	**$31.46**
Low	**22.89**	**23.77**	**26.75**	**28.15**
2005[1][2]				
Revenues	$8,666	$7,829	$7,715	$7,734
Income before the cumulative effect of accounting change	686	657	811	415
Net income	686	657	811	379
Earnings per share before the cumulative effect of accounting change:				
Diluted	$ 0.33	$ 0.31	$ 0.39	$ 0.20
Basic	0.34	0.32	0.40	0.21
Earnings per share:				
Diluted	$ 0.33	$ 0.31	$ 0.39	$ 0.19
Basic	0.34	0.32	0.40	0.19
Market price per share:				
High	$28.03	$29.99	$29.00	$26.50
Low	22.51	27.05	24.96	22.90

[1] Income and earnings per share before the cumulative effect of accounting change for fiscal 2005 do not reflect the $36 million ($0.02 per share) after-tax charge for the adoption of EITF D-108 which was recorded in the fourth quarter of fiscal 2005. See Note 2 to the Consolidated Financial Statements.

[2] The first three quarters of fiscal 2005 were restated pursuant to the adoption of SFAS 123R. See Note 2 to the Consolidated Financial Statements.

SELECTED FINANCIAL DATA

(in millions, except per share data)	2006[1][2]	2005[2][3]	2004[4]	2003[5]	2002[6]
Statements of income					
Revenues	**$34,285**	$31,944	$30,752	$27,061	$25,329
Income before the cumulative effect of accounting changes	**3,374**	2,569	2,345	1,338	1,236
Per common share					
Earnings before the cumulative effect of accounting changes:					
Diluted	**$ 1.64**	$ 1.24	$ 1.12	$ 0.65	$ 0.60
Basic	**1.68**	1.27	1.14	0.65	0.61
Dividends	**0.27**	0.24	0.21	0.21	0.21
Balance sheets					
Total assets	**$59,998**	$53,158	$53,902	$49,988	$50,045
Borrowings	**13,525**	12,467	13,488	13,100	14,130
Shareholders' equity	**31,820**	26,210	26,081	23,791	23,445
Statements of cash flows					
Cash provided (used) by:					
Operating activities	**$ 6,058**	$ 4,269	$ 4,370	$ 2,901	$ 2,286
Investing activities	**(227)**	(1,691)	(1,484)	(1,034)	(3,176)
Financing activities	**(5,143)**	(2,897)	(2,701)	(1,523)	1,511

[1] As shown in the table on page 58, the 2006 results include certain items which affected comparability. These items had an aggregate favorable impact of $0.06 per diluted share. During fiscal 2006, the Company completed an all stock acquisition of Pixar for $7.5 billion.

[2] The Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (SFAS 123R) effective at the beginning of fiscal 2005 and recorded $245 million and $253 million of pre-tax stock option compensation expense, or ($0.07) and ($0.08) per diluted share, for fiscal 2006 and 2005, respectively. See Note 2 to the Consolidated Financial Statements.

[3] As shown in the table on page 58, the 2005 results include certain items which affected comparability. These items had an aggregate favorable impact of $0.03 per diluted share.

[4] 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, as shown in the table on page 58, the 2004 results include certain items which affected comparability. These items had an aggregate favorable impact of $0.04 per diluted share.

[5] The 2003 results include a $56 million after-tax benefit from the resolution of certain income tax matters and an $83 million after-tax write-off of investments in leveraged leases. These items had an aggregate unfavorable impact of $0.01 on diluted earnings per share.

[6] The 2002 results include a $216 million pre-tax gain on the sale of investments and a $34 million pre-tax gain on the sale of the Disney Stores in Japan. These items had an aggregate favorable impact of $0.07 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 four 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 Rules 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 30, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2006 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 Luxemburg 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: corp.shareholder.services@disney.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 2006 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. 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

We have completed integrated audits of The Walt Disney Company's consolidated financial statements and of its internal control over financial reporting as of September 30, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

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 30, 2006 and October 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, during the year ended October 1, 2005, the Company changed the manner in which it values its FCC licenses and the manner in which it accounts for stock compensation costs. Also, during the year ended September 30, 2004, the Company changed the manner in which it evaluates whether variable interest entities should be consolidated and, accordingly, began consolidating Euro Disney and Hong Kong Disneyland as of March 31, 2004.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of September 30, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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 22, 2006

BOARD OF DIRECTORS

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Chairman, Chief Executive Officer and President
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La Opinión

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Former Vice Chairman and
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The Seagram Company Ltd.

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Chairman, DLA Piper Rudnick Gray Cary LLP

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President Emeritus
Georgetown University

John E. Pepper, Jr.[3]
Chief Executive Officer
National Underground Railroad Freedom Center

Orin C. Smith
Former President and Chief Executive Officer
Starbucks Corporation

[1] Retires as director and Chairman of the Board, The Walt Disney Company, effective December 31, 2006

[2] Retires as director effective March 8, 2007

[3] Chairman of the Board, The Walt Disney Company, effective January 1, 2007

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

Kerry Chandler
Senior Vice President
Corporate Responsibility

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

Oren R. Aviv
President, Production
Walt Disney Motion Pictures Group

Edwin E. Catmull
President, Pixar and Disney Animation Studios

John Lasseter
Chief Creative Officer, Pixar and
Disney Animation Studios
Principal Creative Advisor,
Walt Disney Imagineering

Thomas C. Schumacher
President, Disney Theatrical Productions, Ltd.

Walt Disney Parks and Resorts

James A. Rasulo
Chairman, Walt Disney Parks and Resorts

Allen R. Weiss
President, Worldwide Operations
Walt Disney Parks and Resorts

Meg G. Crofton
President, Walt Disney World Resort

Ed A. Grier
President, Disneyland Resort

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

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

John Hare
President, ABC Radio

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

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Chief Executive Officer
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Steven P. Jobs
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Apple Computer, Inc.

Fred H. Langhammer
Chairman, Global Affairs
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Companies Inc.

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Chief Executive Officer
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Sears Holdings Corporation

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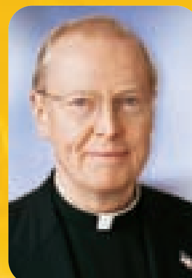
Chairman, DLA Piper
Rudnick Gray Cary LLP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National Underground
Railroad Freedom Center

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FINDING
NEMO
SUBMARINE VOYAGE
Opening Summer 2007 at
Disneyland