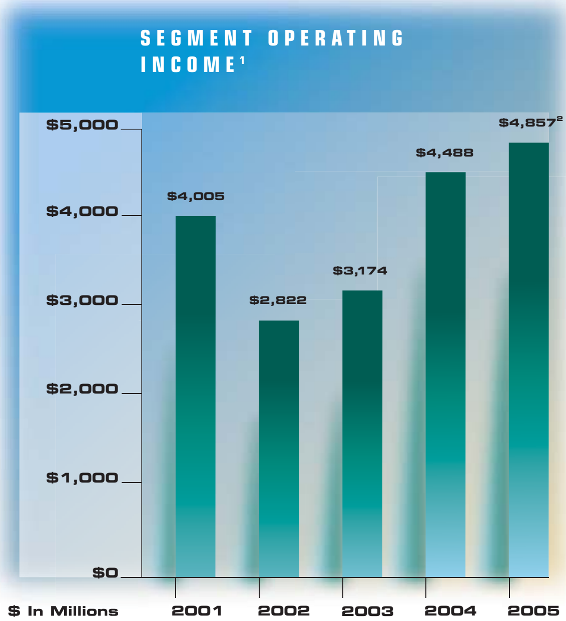
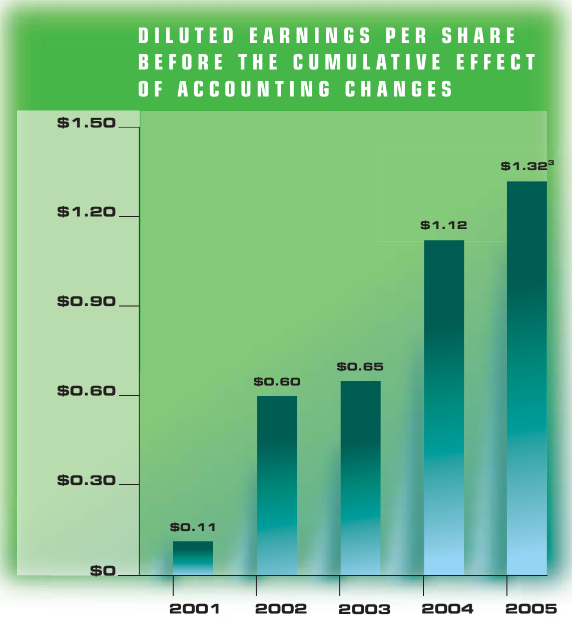
The Walt Disney Company
2005 ANNUAL REPORT

SUMMARY FINANCIAL HIGHLIGHTS

($ in millions, except per share amounts)

	2001	2002	2003	2004	**2005**
Revenues					
Media Networks	$ 9,569	$ 9,733	$10,941	$11,778	**$13,207**
Parks and Resorts	7,004	6,465	6,412	7,750	**9,023**
Studio Entertainment	6,009	6,691	7,364	8,713	**7,587**
Consumer Products	2,590	2,440	2,344	2,511	**2,127**
	$25,172	$25,329	$27,061	$30,752	**$31,944**
Segment operating income[1]					
Media Networks	$ 1,758	$ 986	$ 1,213	$ 2,169	**$ 2,749**
Parks and Resorts	1,586	1,169	957	1,123	**1,178**
Studio Entertainment	260	273	620	662	**207**
Consumer Products	401	394	384	534	**520**
	4,005	2,822	3,174	4,488	**4,654**
Stock option expense					**203**
Segment operating income adjusted to exclude the impact of stock option expense[1]	$ 4,005	$ 2,822	$ 3,174	$ 4,488	**$ 4,857**
Diluted earnings per share before the cumulative effect of accounting changes	$ 0.11	$ 0.60	$ 0.65	$ 1.12	**$ 1.24**
Stock option expense per share					**0.08**
Diluted earnings per share before the cumulative effect of accounting changes and adjusted to exclude the impact of stock option expense[1]	$ 0.11	$ 0.60	$ 0.65	$ 1.12	**$ 1.32**
Cash provided by operations	$ 3,048	$ 2,286	$ 2,901	$ 4,370	**$ 4,269**
Free cash flow[1]	$ 1,253	$ 1,200	$ 1,852	$ 2,943	**$ 2,446**
Effect of Euro Disney and Hong Kong Disneyland consolidation				202	**594**
Free cash flow excluding Euro Disney and Hong Kong Disneyland[1]	$ 1,253	$ 1,200	$ 1,852	$ 3,145	**$ 3,040**





[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 excluding Euro Disney and Hong Kong Disneyland to cash provided by operations are provided at the end of this Financial Review. The reconciliation of the other items to the most comparable financial measures defined by GAAP is set forth in the tables above.

[2] Segment operating income for 2005 is adjusted to exclude the impact of stock option expense and is not a financial measure defined by GAAP. The reconciliation to total segment operating income is set forth in the table above.

[3] Diluted earnings per share before the cumulative effect of accounting change for 2005 is adjusted to exclude the impact of stock option expense and is not a financial measure defined by GAAP. The reconciliation to diluted earnings per share before the cumulative effect of accounting change is set forth in the table above.

TABLE of CONTENTS

LETTER TO SHAREHOLDERS

To the Shareholders and Cast Members of The Walt Disney Company

I'm writing this first letter to you during the holiday season, a period of reflection, celebration and gratitude, and I cannot help but think how appropriate the timing is. I certainly have a lot to be thankful for since stepping into my new role a few months ago. I'm both humbled and grateful to be part of a company that is so meaningful to so many. Above all else, I am thankful for the tremendous creativity, commitment and hard work of the men and women who make up The Walt Disney Company, one of the most loved and respected companies in the world. In fiscal year 2005, the Disney team reinforced its position as an industry leader in quality, creativity and innovation, while generating double-digit earnings growth for our shareholders.

This is noteworthy, because it was also a year of transition. After more than two decades at the helm of this organization, Michael Eisner stepped down as chief executive officer on October 1. Under his leadership, The Walt Disney Company expanded from a movie studio and a small theme park business into a multinational entertainment enterprise, reaching hundreds of millions of people worldwide and providing them with incredible entertainment experiences, wonderful sports television, and high quality news and information. He left us a strong platform on which to build the next generation of Disney success, and I am personally grateful for his wide-ranging contributions. I, along with the rest of the Company, also wish him well on his new adventures, which I am sure will be successful, fulfilling and noteworthy.

Robert A. Iger, president and chief executive officer, The Walt Disney Company.

Creativity continues to be the essence of Disney, even as our businesses expand across borders and media platforms. It is the foundation for almost everything we do, the source of our strength and our success, and the fuel that will power us into the future. Fostering and encouraging that creativity – from movies to television, from animation to live-action, from theme parks to consumer products to our online business – is our top priority. As digital technology platforms proliferate, their ability to penetrate markets and attract consumers is reliant upon the kind of branded, in-demand, high quality, creative content for which Disney has always been known.

Since the Disney Brothers Studio first opened its doors as an animation company 82 years ago, we've seen seismic shifts in the technology of entertainment – and we've been at the forefront of a few of these shifts ourselves. From silent movies to talking pictures to television to home video, Disney has grown as entertainment options have expanded. Now, innovations such as video-on-demand and high definition television – delivered to the home through broadcast, cable, and satellite – have created more demand for content. And, a new level of convenience is now revolutionizing consumer choices – thanks to the next generation of DVD, digital video recorders, online purchases on PCs, and iPods – that is creating equally revolutionary opportunities for our Company.

In order to thrive in this new era and to deliver long-term growth and increased shareholder value, we have established three strategic priorities: creative innovation, global expansion, and application of technology.

The Walt Disney Company had a great year creatively in 2005. The ABC television network has raised the bar for quality television, delivering five of the Top 10 series so far this season among Adults 18-49 – the age group for which advertisers pay a premium – including *Lost*, *Grey's Anatomy* and the number one program in this demographic, *Desperate Housewives*.

This April, the fearsome legend of the yeti comes to life when the thrilling new *Expedition Everest* attraction opens at Disney's Animal Kingdom at Walt Disney World.

Our theme park operations marked Disneyland's 50th anniversary by introducing several fantastic new attractions that thrilled our Guests and helped make *The Happiest Celebration on Earth* truly memorable at our theme parks in the U.S. and around the world. Our launch of Hong Kong Disneyland in September was a triumph of creativity – from the feng shui design of the park to the innovative new attractions unveiled there. *Expedition Everest*, an entirely new and thrilling entertainment experience, will open at Disney's Animal Kingdom in spring 2006.

Disney's highly acclaimed theatrical production of *Mary Poppins* has been playing to sell-out crowds in London, and Broadway is eagerly anticipating its arrival in 2006. And a new stage adaptation of *Tarzan*®, with new music by Phil Collins, will swing onto the Great White Way this spring.

In November, we introduced our first fully computer-animated film, *Chicken Little*, which was enthusiastically embraced by millions of moviegoers around the world. And our animation team has an exciting slate of films underway that will continue Disney's great tradition of storytelling in the computer animated film format.

Disney's *Chicken Little* was a hit in theaters around the world.

In addition, The Walt Disney Studios, along with our partners at Walden Media, released *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* to an impressive worldwide opening weekend of more than $100 million at the box office. The tremendous results of this dazzling film enhanced Disney's reputation as a leader in quality creative family entertainment and opened the door for future features based on the magical world created by C.S. Lewis. And coming in summer 2006 is the highly anticipated *Cars*, from the creative team at Pixar.

Disney creativity not only delights our audiences, it also allows us to establish franchises that generate ongoing returns by transcending any one business, as evidenced by the film pictured on the cover of this report – *Pirates of the Caribbean 2: Dead Man's Chest*. Not only is *Pirates* expected to be one of this summer's blockbusters, with a second sequel already in the works, it shows positive signs of being a true franchise property.

From Mickey Mouse to Winnie the Pooh, *Disney's Little Einsteins*, the Disney Princesses and on to the infinity of Buzz Lightyear and beyond, we are committed to create characters and stories with staying power that lasts beyond a single movie or a TV show. These franchises provide the kind of dependable, long-term success that is invaluable in the often unpredictable entertainment industry.

Under our second strategic priority of global expansion, we are working to create and expand relationships with millions of new consumers around the world.

China has the world's largest population and one of the fastest growing economies, which makes it an extremely attractive market for Disney. Disney's animated characters are popular throughout the country; *Mickey Mouse Magazine* is the number one children's magazine in China. This past year marked a major milestone in our approach to China, with the successful grand opening of Hong Kong Disneyland.

This phenomenal new theme park introduces Disney to a broad new audience, in much the same way the original Disneyland introduced Americans to Disney products 50 years ago. Since the park began operations, it has welcomed more than a million Guests to the world of Mickey Mouse, Snow White, Mulan and other beloved Disney characters.

Left to right: A touch of gold was given to some classic Disneyland attractions in celebration of the park's 50th anniversary; Dumbo the Flying Elephant and a giant teacup arrive in Washington, D.C. before going on display at the Smithsonian's National Museum of American History; Teri Hatcher and James Denton from the hit ABC series *Desperate Housewives* celebrate Disneyland's 50th by taking a spin in a golden teacup.

The critically acclaimed *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* was a worldwide box office hit and is on track to become a sensational new franchise across the entire Company.

Mickey Mouse Magazine is the number one children's magazine in China.

In addition to China, India also represents huge growth potential for us over the long term. In fiscal year 2005, we launched our 23rd international Disney Channel, as well as Toon Disney, in India, with its wealth of Disney content and characters, helping to build the brand in this burgeoning market. And as we look for growth opportunities in other emerging markets, such as Russia, we are continuing to expand our businesses in established markets throughout Europe.

It is important to note that, while India, China and other markets around the world promise great opportunity, there are near-term challenges and limits on initial returns in these markets. However, to achieve our goals over the long term, we are making important inroads and strategic investments today, to create growth opportunities for tomorrow.

Technology – and our ability to leverage it effectively – is the third critically important part of our long-term growth strategy. Video games, personal video players, broadband-based devices and other mobile content providers are having an increasing impact on our businesses. As technology rapidly evolves, a new generation of consumers is quickly embracing all it has to offer, and Disney will be there to provide original and compelling content to meet this growing demand.

At Disney, we recognize that the development of new technology provides us with the opportunity – and the challenge – to make it possible for more people to enjoy our content in more ways, at more times and in more places than ever before. We have to be

Michael Eisner and Bob Iger presided over the Hong Kong Disneyland grand opening festivities on September 12, 2005 with Donald Tsang, Chief Executive of the Government of the Hong Kong Special Administrative Region and Zeng Qinghong, Vice President of the People's Republic of China.

Through Disney's groundbreaking partnership with Apple, select ABC and Disney Channel programs such as *Lost* are now available for purchase on Apple's new video iPod.

willing to break with some traditional business models, in order to give consumers what they want – great entertainment at a fair price delivered in ways that are convenient and easy to access.

Our groundbreaking association with Apple to provide ABC and Disney Channel content on the Apple iPod demonstrates our commitment to reach and serve the consumer through the use of new technology. We saw this as a great opportunity to keep consumers connected with their favorite programs, such as *Lost* and *Desperate Housewives*. More than half of the one million videos sold in the first three weeks on iTunes were those shows, whose weekly television ratings held strong or actually improved.

As we navigate an increasingly complex environment, in which the first-mover advantage will be of more importance than ever, the Apple deal has served as a catalyst to help our team think increasingly outside the prevailing business models by taking intelligent risks to the benefit of our consumers as well as our shareholders.

We're moving forward to embrace technology across all of our business units, including the recent launch of the Mobile ESPN phone and Disney Mobile, which is coming in 2006. One will keep sports fans in touch with the latest sports news and the other will be a safe, fun-to-use product for families. Thanks to the strong affinity of consumers with the Disney brand, our consumer products operation is aggressively pursuing opportunities in the interactive video gaming arena,

Chicken Little was the first feature film to be shown in Disney Digital 3-D™, a truly immersive technological innovation that adds a new dimension to the movie-going experience.

From Buena Vista Games, *Kingdom Hearts II*, the much-anticipated video-game sequel – developed and published by Square Enix – will appear on PlayStation®2 in spring 2006.

Mickey Mouse visits the set of *SportsCenter* during the popular *ESPN the Weekend* event at Walt Disney World in Florida.

switching from a licensing model to creating and marketing games ourselves, such as *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe*, which is experiencing very strong holiday sales after an initial shipment of two million units. We believe this new strategy can significantly increase our returns in this growing industry.

As technology expands the array of entertainment and consumption options, the value of familiar and trusted brands increases dramatically. Fortunately, we have some of the strongest brands in the entertainment industry, particularly Disney and ESPN. Millions of people look to the Disney brand for family entertainment, and sports fans know that ESPN is the ultimate destination for all things sports. Disney and ESPN have been able to reach beyond traditional entertainment platforms; for example, the number one children's Web site is Disney.com and the number one sports site is ESPN.com.

This has been a year of milestones for all of us at Disney. I am honored to step into the role of CEO, confident in our team and excited by the possibilities before us. We must continue to cultivate a culture of creativity, to move boldly and to take the intelligent risks necessary for innovation, growth and success in the future. A future that, as always, will be propelled by the power of Disney's creative spirit.

Robert A. Iger

Robert A. Iger
President and Chief Executive Officer,
The Walt Disney Company
December 14, 2005

Thank you Michael, for 21 years of magic...

"Twenty-one years ago, Michael Eisner brought an innovative spirit, a renewed vision and great leadership to the quiet, three* billion dollar Disney studio, transforming it into The Walt Disney Company of today, a nearly $60* billion undisputed world leader in media and entertainment. All of us at Disney thank you, Michael, for your many contributions, which have done so much to build upon the legacy of this fantastic enterprise, and for two decades of creativity, imagination and Disney magic."

- Bob Iger and the entire Disney Cast

* Enterprise value as of September 30, 1984 and October 1, 2005, respectively.

Clockwise: With Bob Hope and Mickey at the Disney-MGM Studios groundbreaking in 1986; Jane Eisner and Mickey join Michael in christening the *Disney Magic* prior to its inaugural cruise in July 1998; Mickey and Michael during the grand opening of Hong Kong Disneyland in September 2005; Announcing the acquisition of Cap Cities/ABC, with Tom Murphy, in 1995; sharing a moment with Julie Andrews during Disneyland's 50th anniversary celebration.

FINANCIAL REVIEW

OVERVIEW

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 in a way that maximizes Disney's opportunity for both creative *and* financial success are the most important ways that we serve the owners of our Company.

To measure how we are doing as we seek to sustain robust financial performance over time, we track three major financial metrics: 1) earnings, 2) free cash flow and 3) return on investment. We believe that we must deliver strong results on all three 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.

As we target these long-term financial goals, we will continually fortify our established businesses and brands because they remain a vital part of our future. 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 that 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. These advantages can be realized in many ways, such as the ability to charge a higher price for the differentiated experience we offer, the ability to cut through the clutter of products vying for consumer attention, or a more efficient cost structure. We constantly seek to translate these benefits into enhanced 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. While we still have room for further improvement, we are pleased that our return on invested capital increased for the third consecutive year in 2005 even as we continued throughout that timeframe to invest for the long term.

2005 EARNINGS

Disney's earnings for 2005 reflect the impact of changes in accounting rules, resulting in the expensing of the fair value of stock options and the revaluing of certain of our FCC licenses. In aggregate, these changes reduced reported earnings by $0.10 per share. Before giving effect to these accounting changes, Disney delivered earnings per share of $1.32 for the year[1]. Comparable earnings per share in 2004 were $1.12, yielding earnings per share growth for the year of 18%, which is particularly gratifying as it follows substantial growth in the prior two years.

BUSINESS SEGMENT PERFORMANCE

MEDIA NETWORKS Media Networks stands out as the largest driver of our Company's performance again this year. Our strong ESPN and Disney brands, which consumers recognize and trust, as well as sought-after, relevant programming, remain key to the success of our cable networks. We continue to invest in high-quality content to both drive performance and deliver further on the promise of our brands. In 2005, our cable group continued to generate growing levels of revenues and substantial operating profit, with ESPN and the Disney Channel maintaining leadership positions in their respective categories. We expect Disney's cable networks, led by ESPN, to drive strong financial results for years to come.

Similarly, on the broadcasting side, the ABC Network's competitive position and financial performance were bolstered by compelling content that stands out from the myriad programming choices offered to consumers. In 2005, the strength of our primetime line-up allowed us to achieve our goal of returning the ABC Network to profitability, and we are on our way to delivering further, substantial improvement in ABC's results this coming year.

STUDIO ENTERTAINMENT In Studio Entertainment, our results for the year were unsatisfactory and below what we delivered in 2004. There were several reasons for this underperformance. First, in our fourth fiscal quarter, we released a significantly greater number of films than we did in the prior-year quarter. Absorbing both the production cost expense of these film releases and the associated promotional and advertising costs significantly pressured our operating profit. This cost pressure was exacerbated by the disappointing box office performance of several of our titles. Our Studio performance also reflected a challenging theatrical and home video marketplace.

Our management team is aggressively focused on returning Studio results to a markedly higher level of performance. We continue to employ tactics designed to improve the returns and temper the volatility associated with the hit-driven film business, tactics that include controlling our overall spending on new films, shifting our investment in live-action films toward Disney-branded titles (which have historically generated higher rates of return than our non-Disney films) and focusing resources on projects with franchise potential. Fundamentally, we recognize that our Studio must deliver compelling films that audiences love. If we accomplish that, improved financial performance will follow. Our success so far in fiscal 2006 with *Chicken Little* and *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* indicates that we are on the right track.

[1] Earnings per share excluding the impact of stock option expense is not a financial measure defined by Generally Accepted Accounting Principles (GAAP). Excluding the impact of stock option expense increased earnings per share by $0.08 of the $0.10 referred to above.

PARKS & RESORTS We work hard to ensure that a Disney theme park and resort experience is imbued with the magic and quality that consumers around the globe expect from a Disney vacation. In fiscal 2005 at our domestic parks, our successful efforts in this regard drove increases in attendance, hotel occupancy and Guest spending, leading to gains in both revenue and operating profit for this segment[2]. In fiscal 2005, we also continued to drive modest improvement in operating margins for our domestic theme park operations, which remains one of our most important priorities. As long as the travel and tourism market remains healthy, we continue to expect to drive margin improvement through a combination of higher volumes, higher asset utilization, productivity gains and vigilant cost control.

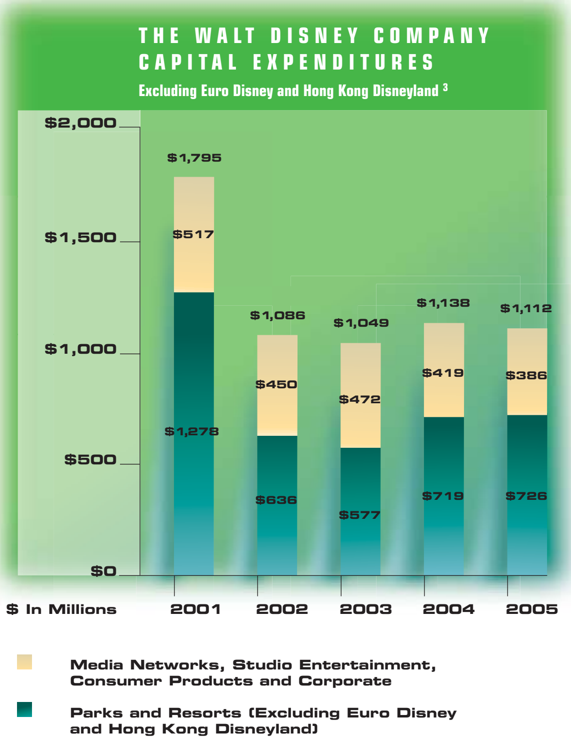
We believe that investing in our unparalleled portfolio of global theme park assets and consistently providing the outstanding Guest experience for which Disney is known will help ensure that we continue to enjoy a significant competitive advantage in this business, which will help us achieve our financial goals. Having completed a multi-year period of substantial reinvestment in our parks business, we are confident that we can deliver a superior Guest experience *and* improve financial performance while holding capital spending for our domestic operations to meaningfully under $1 billion per year. At the same time, we believe our theme parks segment will continue to deliver substantial levels of free cash flow, even after taking into account ongoing investment.

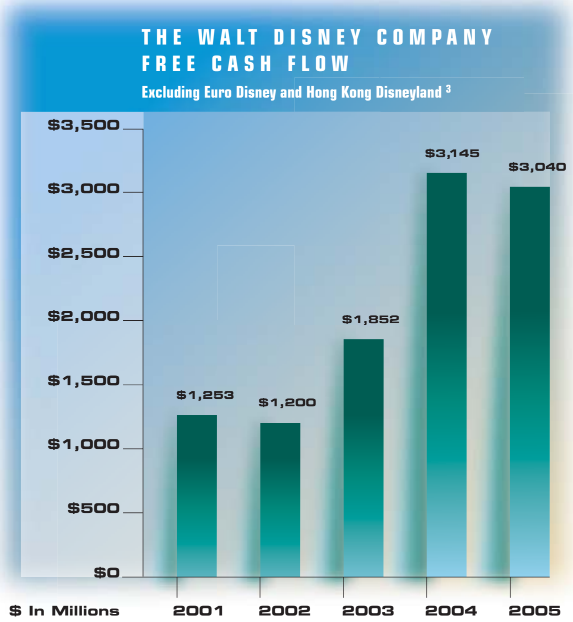
CONSUMER PRODUCTS In 2005, Disney's merchandise licensing business, the largest business under the Consumer Products umbrella, was able to deliver revenue and operating income growth for the year by tapping the popularity of Disney's enduring properties like Mickey Mouse and Winnie the Pooh, and newer hits like Disney Princess.

Notwithstanding this growth from our licensing operation, overall operating income growth for Consumer Products was tempered by continued development spending at Buena Vista Games, our non-sports video games business. We continue to believe that video gaming presents an excellent opportunity to further leverage and nurture our content in a fast-growing medium, and we expect it to provide a source of attractive returns down the road. We remain focused on generating broad-based growth in Consumer Products through our targeted licensing strategies, new franchise development, and investment in new product categories, such as video gaming and Disney-branded electronics.

FREE CASH FLOW[3]

Over the past several years, Disney's overall financial performance has strengthened, while capital needs – in particular those associated with our domestic theme parks – have moderated. This combination allowed us again to deliver significant cash from operations and free cash flow. In fiscal 2005, we generated roughly $4.2 billion in cash from operations and over $3 billion in free cash flow, in each case excluding cash flow and capital expenditures of Euro Disney and Hong Kong Disneyland.

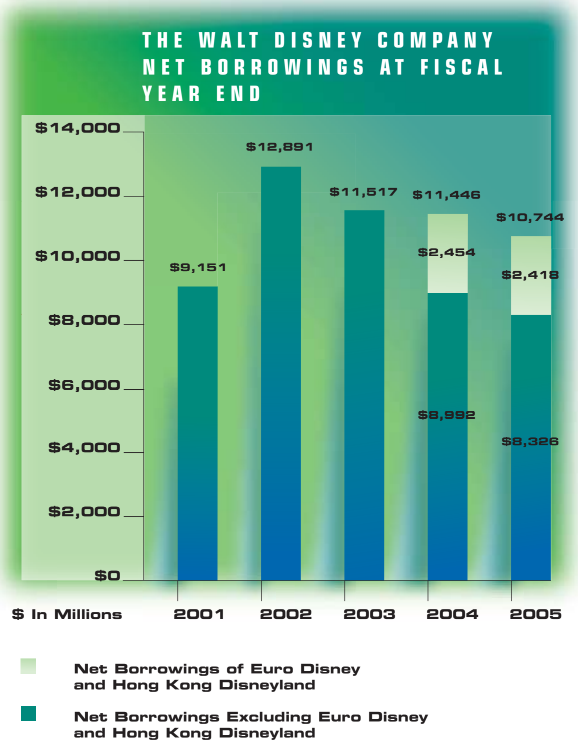




[2] Under FIN 46R, a new accounting rule implemented in 2004, we began consolidating Euro Disney and Hong Kong Disneyland in The Walt Disney Company's financial statements, even though our effective ownership in Euro Disney and Hong Kong Disneyland is only 51% and 43%, respectively. Disney's Parks and Resorts segment recognized gains in revenue and operating profit for the year both including and excluding this consolidation.

[3] Our discussions and supporting charts regarding Disney's capital expenditures and free cash flow exclude the impact of consolidating Euro Disney and Hong Kong Disneyland for 2004 and 2005 (discussed previously in Footnote 2) in order to make those years comparable to prior periods. Free cash flow, and each of the 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 the Financial Review.

This strong cash flow performance gives our Company a tremendous amount of financial flexibility by helping to maintain our solid, investment-grade credit ratings and ready access to both debt and equity capital that we can put to work for our shareholders. In fiscal 2005, we further strengthened our balance sheet and financial position by reducing net borrowings to roughly $8.3 billion, a reduction of more than $4.5 billion from peak net borrowing levels of $12.9 billion in fiscal 2002[4]. We have also taken advantage of the interest rate environment, locking in low fixed rates on nearly 90% of our net debt portfolio at the end of fiscal 2005. 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].



SHAREHOLDER RETURNS

In December 2005, the Disney Board of Directors declared a cash dividend of $0.27 per share, or approximately $520 million in total, making this our 50th consecutive year of dividend payments to shareholders. This year's payment represents a 12.5% increase over the prior year and the second consecutive year of double-digit growth in our dividend.

From August 2004 through December 2005, we invested more than $3.9 billion to purchase approximately 154 million shares of Disney stock. During fiscal 2005 alone, we repurchased more than 91 million shares of Disney stock, for roughly $2.4 billion. Our repurchase activity not only reflects our discipline in returning cash to shareholders, but also our confidence in our ability to grow shareholder value over time. We expect that we will continue to return value to our investors through share repurchase in fiscal 2006.

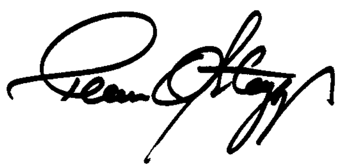
Over the long run, we strive to outperform the broader stock market, measured by total return to shareholders. Disney's executive compensation plan supports this goal, with significant components of compensation linked to Company performance relative to the S&P 500[6]. For the 20-year period from fiscal 1985 to fiscal 2005, an investment in Disney yielded a compound annual return that was more than 300 basis points above the S&P 500. Looking back over the medium-term, Disney's stock price performance has lagged the S&P, especially during the period between 1998 and 2001, as we struggled with performance issues and external challenges at certain of our businesses, and as near-term results were dampened by the substantial capital investment we made in our theme parks. Since then, however, as our performance has improved, so has the performance of Disney's stock. From fiscal 2002 through fiscal 2005, Disney stock modestly outperformed the S&P 500. We are working hard to continue and improve on this trend.

OUTLOOK

Our management team is proud of Disney's reputation as a solid, long-term investment based on sound fundamentals, and we are committed to upholding the trust our shareholders have placed in us with their investments in Disney.

As technology and the growth of emerging markets continue to force changes in worldwide distribution of and access to entertainment, we will remain committed to leveraging Disney's powerful set of assets, strong brands, and relationships with our customers and distribution partners in innovative ways to take advantage of these changes. In 2006, we plan to invest in a broad array of projects in the Internet, wireless, broadband and video game spaces that meet these criteria and that we believe will enable us to monetize our strong brands and creative content across these dynamic new platforms.

In all of these efforts, we realize that our overriding goal is to manage The Walt Disney Company in the best interests of its shareholders. We look forward to translating Disney's creative success into growth in earnings, coupled with improving returns on invested capital, strong cash flow and, ultimately, shareholder value.



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

[4] In both cases excluding the impact of consolidating Euro Disney and Hong Kong Disneyland. Net borrowings and net borrowings excluding borrowings of 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 the Financial Review.

[5] These data also exclude debt of Euro Disney and Hong Kong Disneyland. 84% of Euro Disney and Hong Kong Disneyland debt is fixed and the average effective yield on that indebtedness is 4.3% with a weighted average maturity of 13.6 years.

[6] For more information on Disney's executive compensation structure, refer to Disney's 2006 Proxy Statement.

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

	2001	2002	2003	2004	**2005**
Segment operating income	$ 4,005	$2,822	$3,174	$4,488	**$4,654**
Corporate and unallocated shared expenses	(406)	(417)	(443)	(428)	**(536)**
Amortization of intangible assets	(767)	(21)	(18)	(12)	**(11)**
Gain on sale of businesses and restructuring and impairment charges	(1,432)	34	—	(64)	**(6)**
Net interest expense	(417)	(453)	(793)	(617)	**(597)**
Equity in the income of investees	300	225	334	372	**483**
Income before income taxes, minority interests and the cumulative effect of accounting changes	$ 1,283	$2,190	$2,254	$3,739	**$3,987**

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.

	2004	**2005**
Media Networks	$ 221	**$ 228**
Parks and Resorts		
Domestic	719	**726**
International	289	**711**
Studio Entertainment	39	**37**
Consumer Products	14	**10**
Corporate and unallocated shared expenditures	145	**111**
	$1,427	**$1,823**
Less: Capital expenditures of Euro Disney and Hong Kong Disneyland	(289)	**(711)**
	$1,138	**$1,112**

FREE CASH FLOW

The Company defines "Free Cash Flow" as cash provided by operations less investments in parks, resorts and other property.

	2001	2002	2003	2004	**2005**
Cash provided by operations	$3,048	$2,286	$2,901	$4,370	**$4,269**
Investments in parks, resorts and other property	(1,795)	(1,086)	(1,049)	(1,427)	**(1,823)**
Free cash flow	$1,253	$1,200	$1,852	$2,943	**$2,446**

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

Please see the Company's Consolidated Statements of Cash Flows on page 76 of this Annual Report.

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.

	2001	2002	2003	2004	**2005**
Current portion of borrowings	$ 829	$ 1,663	$ 2,457	$ 4,093	**$ 2,310**
Long-term portion of borrowings	8,940	12,467	10,643	9,395	**10,157**
Total borrowings	$9,769	$14,130	$13,100	$13,488	**$12,467**
Cash and cash equivalents	(618)	(1,239)	(1,583)	(2,042)	**(1,723)**
Net borrowings	$9,151	$12,891	$11,517	$11,446	**$10,744**
Less: net borrowings of Euro Disney and Hong Kong Disneyland	—	—	—	(2,454)	**(2,418)**
Net borrowings excluding Euro Disney and Hong Kong Disneyland	$9,151	$12,891	$11,517	$ 8,992	**$ 8,326**

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 as well as developments beyond the Company's control. Actions that may be taken by the Company include restructuring or strategic initiatives, including capital investments or asset acquisitions or dispositions. Actions beyond the Company's control may include: 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 Company 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 October 1, 2005 under the heading "Item 1-A, Risk Factors."

THE WALT DISNEY COMPANY

PARKS AND RESORTS

Disneyland Resort
Walt Disney World Resort
Walt Disney Imagineering
Disneyland Resort Paris
Disney Vacation Club
ESPN Zone
The World of Disney Store
Tokyo Disney Resort
Hong Kong Disneyland
Disney Cruise Line

STUDIO ENTERTAINMENT

Walt Disney Pictures
Walt Disney Feature Animation
Touchstone Pictures
DisneyToon Studios
Buena Vista Home Entertainment
Buena Vista Home Entertainment International
Buena Vista Theatrical Group
Buena Vista International
Miramax Films
Buena Vista Music Group

MEDIA NETWORKS

ABC
ABC Family
Touchstone Television
Walt Disney Television Animation
Walt Disney Internet Group
ESPN
ABC Owned Television Stations
Buena Vista International Television
Buena Vista Television
Lifetime Entertainment Services
A&E Television Networks
Disney Channel Worldwide
SOAPnet
E! Networks
Hyperion
ABC Radio

CONSUMER PRODUCTS

Disney Softlines
Disney Toys
Buena Vista Games
Disney Hardlines
Disney Publishing Worldwide
Disney Shopping.com
Disney Home
Muppets Holding Company
Baby Einstein Company
Disney Store

STUDIO ENTERTAINMENT

Walt Disney Pictures delivered some of the year's most satisfying and innovative family films in 2005, while the Touchstone Pictures banner offered a slate of prestigious motion pictures for a wide variety of moviegoing tastes.

Left to right: Tim Allen stars in *The Shaggy Dog;* Johnny Depp is Captain Jack Sparrow in *Pirates of the Caribbean: Dead Man's Chest;* the imaginative worlds of C.S. Lewis come to life in *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe.*

The Pacifier and *Chicken Little* both passed the $100 million mark at the domestic box office while *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* was on track to become a strong performer in fiscal 2006.

As the year came to a close, production continued on *Pirates of the Caribbean: Dead Man's Chest*, the much anticipated sequel to the Studio's 2003 blockbuster swashbuckler *Pirates of the Caribbean: The Curse of the Black Pearl*. *Pirates of the Caribbean 3* is also in production, with release scheduled for summer 2007.

Tim Allen does double duty in 2006 as the star of two Disney films. In March, he takes a bite out of crime as a workaholic assistant district attorney who is mysteriously transformed into *The Shaggy Dog* in this fresh twist on the Disney classic. Kristen Davis, Robert Downey, Jr. and Danny Glover also star. In November, Tim brings joy to the world in *Santa Clause 3*, which finds Santa (alias Scott Calvin) stressed out by his annual overload, the arrival of a new baby, and the obnoxious efforts of Jack Frost to interfere with the holiday.

WALT DISNEY PICTURES

In 2005, *The Pacifier* cast popular action star Vin Diesel in a whole new light and scored a major success with audiences of all ages. Two more of the Studio's top performers from earlier in fiscal 2005 – *National Treasure* from producer Jerry Bruckheimer, and Disney/Pixar's *The Incredibles* – went on to gross more than $345 million and $630 million worldwide, respectively.

In December, Disney, in partnership with Walden Media, took moviegoers to an incredible world of fantasy and adventure with the holiday release of *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe.* Directed by Andrew Adamson, the film brought the beloved stories of C.S. Lewis to the big screen with its tremendously talented cast and spectacular digital effects. With six other *Narnia* books to draw upon, the wardrobe is wide open for further adventures in this magical realm.

At the centerpiece of Walt Disney Pictures' 2006 live-action slate is perhaps the most anticipated movie event of the year – *Pirates of the Caribbean: Dead Man's Chest*. The original cast of Johnny Depp, Orlando Bloom and Keira Knightley reunite in an epic tale, chronicling the further misadventures of Captain Jack Sparrow. In the film produced by Jerry Bruckheimer and directed by Gore Verbinski, Captain Jack sets sail on an all new adventure – filled with more intrigue, more spectacular special effects and more comedy. The film will be released in theaters this July.

TOUCHSTONE PICTURES

Touchstone Pictures thrilled audiences in 2005 with *Flightplan*, starring Academy Award®-winning actress Jodie Foster. In December, director Lasse Hallstrom *(Chocolat, Cider House Rules)* showed us another side of the legendary lover in *Casanova*, with Heath Ledger starring in this rousing, critically acclaimed romantic comedy about the notorious heartthrob's efforts to win over a woman who refuses his advances.

Among the exciting films on Touchstone's 2006 release schedule are three projects from the industry's top filmmakers:

Academy Award winner Mel Gibson made motion picture history in 2004 when he directed *The Passion of the Christ*, and he again steps behind the camera to create *Apocalypto*. Gibson's original story takes place during the height of the Mayan civilization and follows the daring tale of a man who escapes certain death in order to return home to save his wife and family.

Director Andrew Davis *(The Fugitive, Holes)* takes moviegoers inside the exciting world of Coast Guard rescue missions with *The Guardian*. This exhilarating action-adventure movie stars Ashton Kutcher and Oscar®-winner Kevin Costner.

Rounding out 2006, producer Jerry Bruckheimer and Academy Award-winning actor Denzel Washington team up for *Déjà Vu*, a new edge-of-the-seat thriller that finds an FBI special agent using a unique "time window" device to try to solve a crime.

Left to right: *The Pacifier, Flightplan, Cars, Meet the Robinsons, American Dog, Chicken Little* and *Rapunzel*.

WALT DISNEY FEATURE ANIMATION

In November 2005, Walt Disney Feature Animation (WDFA) marked a major milestone in its fabled history with the highly successful release of *Chicken Little*, the Studio's first fully computer-animated motion picture. Combining Disney's legacy for great characters, imaginative storytelling, and technical innovation, the film propelled the Studio into a whole new dimension of filmmaking. *Chicken Little* won further acclaim for being the first feature to be shown in Disney Digital 3-D™.

Speeding to the finish line is *Cars*, the latest comedy-adventure from Pixar Animation Studios. Oscar-winning director John Lasseter is in the driver's seat for this funny, fast-paced film, which features the vocal talents of Paul Newman, Owen Wilson, Bonnie Hunt and "Larry the Cable Guy." Fueled by plenty of humor, action, heartfelt drama and amazing new technical feats, the high octane cast of characters get their kicks on Route 66 this summer.

An ambitious slate of computer-generated animation is currently in the pipeline at WDFA. In December 2006, Disney animation leaps into the future with *Meet the Robinsons* – which will also be presented in Disney Digital 3-D – an inventive adventure that spans the space-time continuum of fun and fantasy, and is based on the bestselling book by William Joyce.

Future releases in production include *American Dog*, the imaginative new comedy-adventure from Chris Sanders, the creator of *Lilo & Stitch*. With a style all its own, the film follows Henry, a famous TV dog, who finds himself stranded in the Nevada desert. Out in the world for the first time, Henry's tidy life of scripted triumphs has come to an end, and his 2,000-mile trek through the real world is just beginning.

Also on the horizon, Disney animation great Glen Keane makes his directorial debut with *Rapunzel*. With his unique instincts for performance, great art and storytelling, Keane is aiming to raise the bar still further in this newest telling of the classic fairy tale.

DISNEYTOON STUDIOS

DisneyToon Studios had some winning Disney Video Premiere titles for Home Entertainment in 2005 when the Studio returned to China for *Mulan II*, followed by summer fun for the whole "ohana" (family) with *Lilo and Stitch II: Stitch Has a Glitch*. Fall saw the release of *Pooh's Heffalump Halloween*, starring the newest character in the Hundred Acre Wood, Lumpy. The year ended with the release of *Kronk's New Groove*, featuring the lovable lunkhead from *The Emperor's New Groove.*

In 2006, DisneyToon Studios will bring new stories featuring some of the world's most beloved and endearing characters. The year opens with the domestic DVD release and international theatrical release of *Bambi 2*, which takes place during an untold chapter in the life of the young fawn. *Brother Bear II* continues the adventures of Kenai, Koda, and their goofy moose pals Rutt and Tuke. The film also features songs written and sung by Melissa Etheridge. Finally, DisneyToon Studios ends the year by teaming popular singer and actress Reba McEntire with Patrick Swayze for *The Fox and the Hound II.*

Clockwise: *The Fox and the Hound II, Bambi 2* and *Brother Bear II.* Opposite page: Movie poster for *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* in France (above); stage adaptations of *Mary Poppins* and *Tarzan* will open on Broadway in 2006.

MIRAMAX

For the fourth consecutive year, Miramax Films, the world's leading independent film company, had the most Academy Award-nominations of any studio. In 2005, three of Miramax's films, including Martin Scorsese's *The Aviator, Finding Neverland* and *The Chorus*, received a total of 20 Academy Award nominations and won six Oscars.

Miramax and Dimension Films enjoyed success with other titles in 2005, including the Robert Rodriguez-helmed *Sin City*, which grossed more than $150 million worldwide, and *Shall We Dance?*, starring Oscar-winner Susan Sarandon, Richard Gere and Jennifer Lopez.

Miramax has several new titles in the pipeline, including *Kinky Boots* from director Julian Jarrold, *Gone Baby Gone* helmed by first-time director Ben Affleck and *Hoax* starring Richard Gere and directed by Lasse Hallstrom. Acquisitions include *Tsotsi, Heart of the Game, Venus* and *The Queen.* Among Miramax's co-financed projects are *Breaking and Entering, Derailed, The Matador* and *Mrs. Henderson Presents.*

BUENA VISTA INTERNATIONAL

Buena Vista International (BVI) once again crossed the $1 billion box office mark in 2005, extending its consecutive $1 billion performance streak to 11 years in a row.

Key to this success has been the ongoing results from two 2004 Walt Disney Pictures smash hits, *National Treasure* and *The Incredibles*. Supplementing these performances were the Disney productions of *Herbie: Fully Loaded* and *The Pacifier*.

In the balance of calendar year 2005, the BVI slate included *Cinderella Man*, *Flightplan*, *Chicken Little* and the highly anticipated production of *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe*.

BUENA VISTA THEATRICAL GROUP

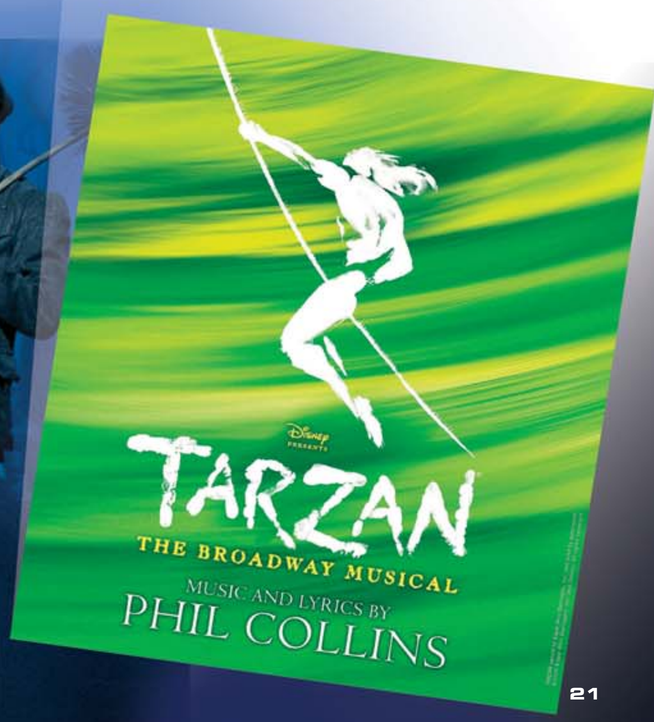
Buena Vista Theatrical Group has presented more than 40 international productions of *Beauty and the Beast, The Lion King, The Hunchback of Notre Dame* and *Aida*, making it one of the world's largest producers of stage musicals.

Disney's *Beauty and the Beast* celebrated its 11th anniversary on Broadway this year, making it the second-longest-running show currently on Broadway and the sixth-longest-running show in Broadway history. *The Lion King* – now in its ninth sold-out year – has been seen by more than 31 million people in 11 productions around the world.

The highly acclaimed world premiere of the stage adaptation of *Mary Poppins*, co-produced with legendary producer Cameron Mackintosh, celebrated its first anniversary in December in London's West End. A Broadway production is planned for fall 2006.

Tarzan will premiere on Broadway in spring 2006. The score by Phil Collins features the Oscar-winning "You'll Be in My Heart" from the 1999 animated feature film.

Disney Live Family Entertainment, through Feld Entertainment, presents *Disney On Ice* and *Disney Live!* to more than 10 million guests annually. Celebrating its 25th anniversary, *Disney on Ice* is currently touring eight different productions, including its newest show, *Disney Presents Pixar's The Incredibles in a Magic Kingdom Adventure. Disney Live! Winnie The Pooh* visited Asia, Europe and the United States during its first year of touring.



The Incredibles was the number one selling DVD of 2005.

BUENA VISTA HOME ENTERTAINMENT

The Incredibles swept industry awards and became the number one selling DVD of 2005, while *Mulan II* became the top-selling direct-to-video title of the year. With the subsequent DVD release of Disney Video Premieres' *Tarzan II* and *Lilo & Stitch II*, Buena Vista Home Entertainment (BVHE) held four of the top five direct-to-video titles of the year.

Buena Vista Home Entertainment successfully expanded its Platinum Edition strategy to two titles per year with time-honored classics *Bambi* and *Cinderella*.

Growth of key franchises such as Baby Einstein proved highly successful, including the Disney Video Premiere of *Disney's Little Einsteins,* which debuted as the number one preschool DVD franchise of the year.

Live-action hits *National Treasure, Ladder 49* and *The Pacifier* sold in large numbers, and the release of the *Toy Story 10th Anniversary Edition* proved the "toys are back in town" when it became a favorite among DVD collectors across North America.

First season box sets of ABC's hit shows *Desperate Housewives* and *Lost*, coupled with *Alias Season 4*, delivered strong sales for BVHE and ABC.

BVHE continued to lead new technologies by launching its first wave of titles for PlayStation® Portable, which included *Kill Bill Vol. 1*, *Pirates of the Caribbean* and *Hero*. Furthering its efforts, BVHE is actively participating in the development of the next generation high definition DVD.

Looking forward, BVHE's 2006 slate features the Platinum Edition releases of *Lady and the Tramp* and *The Little Mermaid, Chicken Little, The Chronicles of Narnia: The Lion, the Witch and the Wardrobe* and the Disney Video Premiere of *Bambi 2*.

BUENA VISTA HOME ENTERTAINMENT INTERNATIONAL

In 2005, Buena Vista Home Entertainment International (BVHEI) continued to hold the title of market share leader in numerous countries around the world. This was a result of success on both new release and library titles, including *National Treasure, Bambi, Aladdin* and *The Incredibles*, which was the number one international DVD title of the year.

Staying in the forefront of new technologies, BVHEI continued in 2005 to offer consumers new ways to enjoy Disney Home

Entertainment. Partnering with the Walt Disney Internet Group, the division launched an unprecedented movie downloading service in Japan – MOVIE EXPRESS – which promotes the legitimate downloading of movies from the Internet. Additionally, BVHEI leads the portable movie business by releasing movies on the new Universal Media Disk (UMD) format for Sony's PlayStation Portable.

BUENA VISTA MUSIC GROUP

Buena Vista Music Group's (BVMG) year was led by four platinum artists – country supergroup Rascal Flatts, teen superstars Hilary Duff and Jesse McCartney and rock band Breaking Benjamin. Duff's third album, *Most Wanted*, was released in August, entering the charts at number one.

Hollywood Records released the debut album from teen sisters Aly & AJ and the sophomore album from Josh Kelley, *Almost Honest*.

Walt Disney Records enjoyed its 10th consecutive year as the world's number one children's music label. *The Cheetah Girls* and *The Lizzie McGuire Movie* soundtracks were both certified double platinum. Key releases in 2005 included the *Disneymania 3* CD, *Disneyland's 50th Anniversary* box set, and the *Chicken Little* and *Narnia* soundtracks, plus the launch of the new Disney Sound imprint with They Might Be Giants.

At Lyric Street Records, Rascal Flatts' third album *Feels Like Today* was certified double platinum with four number one singles and the debut album from Josh Gracin (*American Idol* finalist) was certified gold.

Walt Disney Music Publishing experienced continued growth, with its highest grossing year in more than a decade, and opened a new office in Nashville to sign country music writers.

In 2006, BVMG plans to release new albums from Jesse McCartney, Calvin Richardson, the first new Queen album in more than 10 years (with Paul Rodgers of Bad Company on vocals), *Disneymania 4* and the soundtracks for *Cars*, *Pirates of the Caribbean: Dead Man's Chest* and *The Cheetah Girls 2*.

BUENA VISTA TELEVISION AND BUENA VISTA INTERNATIONAL TELEVISION

Buena Vista Television (BVT) and Buena Vista International Television (BVITV) serve as the domestic and international TV distribution arms for the Company's motion pictures on a number of platforms, including pay TV, pay-per-view, video-on-demand, broadband, cable and broadcast networks and local broadcast stations.

Disney movies are licensed in more than 240 territories worldwide. In 2005, BVITV extended its network of multi-year feature film agreements into emerging markets such as Russia, Greece, India, China and Poland, while renewing established relationships in countries such as Germany, Italy and France.

BVITV has also concluded key video-on-demand movie agreements in countries such as the U.K., Italy, Spain and Japan.

Clockwise: *Disneyland's 50th Anniversary* box set; Aly & AJ's debut album; *Disneymania 3* CD; and teen pop star Jesse McCartney.

PARKS and RESORTS

CREATING THE NEXT 50 YEARS OF DISNEY THEME PARK MAGIC

In 2005, Walt Disney Parks and Resorts celebrated 50 magical years, and established the building blocks for a bright future.

Among the many highlights were: international expansion led by the opening of Hong Kong Disneyland, creative uses of new technology to reinvent storytelling experiences, and new attractions and entertainment at every Disney destination. More importantly, Disney's deep and enduring relationships with families around the world continued to grow.

Hong Kong Disneyland, the first Disney theme park in China and 11th theme park worldwide, officially opened its gates on September 12, 2005.

On July 17, Disneyland celebrated its 50th year in grand style with special guest Art Linkletter (top left) and a spectacular anniversary ceremony attended by Walt Disney's daughter Diane Disney Miller, Bob Iger, Michael Eisner, Governor Schwarzenegger and Art Linkletter (bottom right).

50 years after the opening of Disneyland, which forever changed the way people think about family vacations, Walt Disney Parks and Resorts has become one of the world's leading providers of immersive entertainment experiences.

When families vacation with Disney today, they can choose from 11 theme parks at five world-class destination resorts, the award-winning Disney Cruise Line, the seven resorts of Disney Vacation Club, 31 resort hotels, restaurants, retail and nightlife – not to mention PGA golf courses, spas, sporting venues and water parks.

The greatest asset of all is the Cast of thousands who make magic happen every day for millions of Guests around the world. The Cast has built an enduring tradition of outstanding Guest service. Families have responded by incorporating Disney experiences into the celebratory milestones of their life, such as birthdays, graduations, weddings and family reunions.

And the best is yet to come!

BRINGING DISNEY VACATION EXPERIENCES TO NEW PLACES

Building on the strength of the overall brand, Disney theme parks have evolved into a universal experience that transcends borders and cultures. All across the world, families use words such as "magical," "dreams," "wonder" and "imagination" to describe Disney destinations – emotional associations that underscore tremendous opportunities for future international growth.

Disney Cruise Line continues its tradition of providing Guests with unparalleled vacation experiences on the high seas with its unique blend of entertainment, adventure, relaxation, service and memories that last a lifetime.

HONG KONG DISNEYLAND

Hong Kong Disneyland, Disney's first theme park in China, is the first family destination of its kind in the region. The resort is expected to create lifelong relationships with millions of families in China and across Asia, connecting them to Disney stories and characters, and building a bright future for the Disney brand in this dynamic region of the world.

Hong Kong Disneyland transports Guests to places they've never been, while also making them feel right at home.

Closely modeled on the original Disneyland in Anaheim, Hong Kong Disneyland features classic icons such as Sleeping Beauty Castle and Main Street U.S.A., attractions such as *Jungle River Cruise*, and classic lands such as Adventureland, Fantasyland and Tomorrowland.

The resort's two hotels, Hong Kong Disneyland Hotel and Disney's Hollywood Hotel, combine themed environments, classic Disney touches and cultural amenities to create an unforgettable family experience for Guests. And the resort offers a wide variety of dining options and local cuisine that captures the region's reputation for culinary excellence.

DISNEY CRUISE LINE AND DISNEY VACATION CLUB

Walt Disney Parks and Resorts continues to expand "beyond the berm" of its theme parks with new vacation experiences.

Disney Cruise Line garners some of the highest quality ratings in the industry, and the Guest experience keeps getting better and better. Guest feedback for Disney's private-island getaway, Castaway Cay, is so strong that a new seven-night itinerary starting in May will include two stops at the island. This itinerary will also include a stop at Cozumel and a new port of call – Costa Maya. Additionally, the *Disney Wonder* will embark on two extended itineraries – 10-night and 11-night cruises – to southern Caribbean ports including Barbados, St. Kitts, St. Thomas, St. Lucia, and Antigua as well as Castaway Cay.

Meanwhile, Disney Vacation Club (DVC) continues to benefit from the growing demand for new ways to vacation with Disney. More than 90,000 members have purchased long-term commitments to use one of seven designated vacation facilities. In order to keep up with the strong demand, Saratoga Springs, the most recent of seven dedicated DVC resorts, is planning to quadruple its capacity.

CREATING MAGICAL EXPERIENCES THAT LAST A LIFETIME

For Disney theme parks, the recipe for magic has always come down to one essential ingredient: creating memorable experiences that Guests won't find anywhere else.

Jungle River Cruise in Adventureland at Hong Kong Disneyland.

SPECIAL EVENTS AND CELEBRATIONS

The Happiest Celebration on Earth is a global celebration that honors the biggest milestone in Disney theme park history: the 50th anniversary of Disneyland.

The excitement of being part of the worldwide celebration is motivating millions of Guests to "come home" to a Disney theme park to relive favorite memories.

At Disneyland itself, Guests have experienced an amazing array of unique sights and special touches, from the bejeweled Sleeping Beauty Castle, to the golden lamp-posts on Main Street, to classic attraction vehicles that have now been "turned to gold."

In a salute to the 50 years of Cast excellence that transformed Walt's dream into a reality, special commemorative storefront windows were simultaneously unveiled at Disney "Main Streets" around the world. Since Walt Disney opened Disneyland 50 years ago, these "tribute" windows have served as the highest form of recognition for those individuals who have helped create the magic at Disney theme parks.

The celebration, continuing through September 2006, is expected to build upon relationships with millions of Guests who have visited Disney parks over the years, and reinvigorate a timeless tradition that families continue to pass on from generation to generation.

Holiday celebrations, festivals such as the *Epcot International Food and Wine Festival,* and brand-building events like *ESPN the Weekend* at Disney-MGM Studios also are making a strong contribution to the overall Guest experience.

Mickey Mouse celebrates *The Happiest Celebration on Earth* at Disneyland Resort Paris.

Steve Martin and Donald Duck host *Disneyland: The First 50 Years,* a new attraction created for Disneyland's golden anniversary (left); the new *Raging Spirits* attraction at Tokyo DisneySea (above).

Festival of the Lion King at Hong Kong Disneyland (above) and *Buzz Lightyear Astro Blasters!* at Disneyland in Anaheim (left).

NEW IMMERSIVE ENTERTAINMENT EXPERIENCES

The growing menu of attractions, live shows and entertainment at Disney's theme parks is giving Guests additional reasons to visit, while bringing Disney's stories to life.

At the Disneyland Resort in California, two great creative franchises inspired by Disney/Pixar films are coming to life: *Buzz Lightyear Astro Blasters!,* now open to Guests, and *Monsters, Inc., Mike & Sully to the Rescue!*, opening in 2006. In addition to experiencing a "re-imagineered" *Space Mountain*, Guests can also enjoy new enhancements to classic favorites such as *Jungle Cruise* and *Haunted Mansion*.

Walt Disney World has imported popular attractions from other Disney destinations around the world, including the astounding stunts of the *Lights, Motors, Action! Extreme Stunt Show*, the exhilarating aerial adventure *Soarin'* and the cavalcade of Disney princes, princesses and villains in *Cinderellabration*.

Meanwhile, at Disney's Animal Kingdom, a massive re-creation of the Himalayas is the setting for a thrilling adventure called *Expedition Everest*. Walt Disney Imagineers (WDI) have gone to unprecedented lengths in their quest to bring authenticity to this new attraction. WDI partnered with Conservation International to launch a scientific expedition to the Himalayas, conducting groundbreaking research into this remote region's wildlife and the legend of the yeti. Cameras from the Discovery Networks have captured the mission and the creation of the attraction for a series of programs that will bring the story of *Expedition Everest* to millions of viewers.

Raging Spirits – now open at Tokyo DisneySea – takes Guests on a high-speed ride through the ruins of an ancient ceremonial site, highlighted by a 360-degree vertical loop through billowing steam. In 2006, the spine-tingling Disney attraction *Tower of Terror* will open at Tokyo DisneySea.

Disneyland Resort Paris plans several major new attractions to open over the next three years. *Buzz Lightyear's Laser Blast*, based on the highly popular attractions at other Disney parks around the world, will open in 2006. In 2007, a new land called *Toon Studios* will immerse Guests in the magical world of Disney's animated movies. And in 2008, *Tower of Terror Twilight Zone*™ will plunge Guests into a thrilling experience based on the iconic attraction at other Disney parks.

LIVE SHOWS AND ENTERTAINMENT

Parades, live shows and nighttime spectaculars featuring favorite Disney stories and characters continue to generate the "wows" that Guests are looking for.

The Disneyland Resort in California has added a number of new entertainment features as part of the 50th anniversary celebration, including *Walt Disney's Parade of Dreams*, the dazzling nighttime spectacular *Remember…Dreams Come True*, and the high-energy *Block Party Bash*, featuring characters from popular Disney/Pixar films.

At Hong Kong Disneyland, Guests are experiencing *Festival of the Lion King* in a Broadway-caliber live show performed on a circular stage, while *The Golden Mickeys* (see photo on bottom of page 25) combines theatrical song and dance, animation, video and stunning special effects.

ALLOWING GUESTS TO CREATE AND CUSTOMIZE THEIR VACATIONS

New programs at Disney theme parks are putting Guests in the driver's seat with planning tools and personalized packages that empower them to "build" their own vacation magic.

Magic Your Way, the innovative new ticket program at Walt Disney World, gives Guests added flexibility to purchase vacation packages that are tailored to the length of their stay and the interests of their group. New pricing features that encourage longer stays, and incentives such as *Extra Magic Hours* that give on-property Guests exclusive access to the parks, are making overnight visits even more special for our Guests.

A new concept called *Disney's Magical Express* gives Walt Disney World Guests even more incentive to stay on property, allowing them to bypass baggage claim when they arrive in Orlando and ride state-of-the-art motor coaches to their hotel, where their bags "magically" appear upon check-in.

Meanwhile, the popular vacation program *Magical Gatherings*, which makes it easier for multi-family groups to vacation together by allowing them to collaborate in advance via Web-based planning tools, continues to boost multi-party travel to Walt Disney World.

Magical Gatherings at Walt Disney World bring large families together as never before with customized vacation packages that can include a memorable safari dining experience at Disney's Animal Kingdom or a magical fireworks voyage at the Magic Kingdom (pictured here).

USING TECHNOLOGY TO TELL STORIES AND BUILD LIFELONG RELATIONSHIPS

From the very beginning, Walt Disney Imagineering and its Research & Development (R&D) team have kept Disney theme parks on the cutting edge of immersive entertainment experiences. 50 years later, Imagineers continue to blend theatrical and cinematic storytelling, interactivity, and technology to pioneer new magic for future generations.

BRINGING FAVORITE CHARACTERS TO LIFE

Walt Disney prized technology for its ability to bring his stories and characters to life in three dimensions. For instance, in the 1960s, he created *Audio-Animatronics*®, and a new form of storytelling was born. The following years would witness the invention of the first computer-controlled thrill ride in *Space Mountain*, advanced 3-D motion picture photography systems in *Magic Journey*, and even a whole new genre of interactive 3-D movies with in-theater effects in *Mickey's PhilharMagic*.

Turtle Talk with Crush at both Epcot and Disney's California Adventure demonstrates the latest breakthrough marriage of technology and storytelling as Crush, the digitally-animated sea turtle from *Finding Nemo*, holds un-rehearsed conversations with live audiences. The attraction combines digital projection with sophisticated, voice-activated computer animation to create a never-before-seen character experience for Guests.

New digital projection technology will take Disney storytelling to the next level in 2007, as the "subs" return to Disneyland in *Finding Nemo Submarine Voyage*. In this all-new adventure, Guests will travel to the undersea world of *Finding Nemo*, where they'll see and interact with characters that appear exactly as they do in the film.

At Hong Kong Disneyland, visitors to the Crystal Lotus restaurant are wowed by such effects as virtual fire and an interactive koi pond that features digital fish that dart away from Guests' feet as they walk across the "surface."

Mickey's PhilharMagic was a breakthrough in digital 3-D animated viewing when it opened at the Magic Kingdom in 2003, demonstrating digital technology's ability to transform how characters are depicted on the screen. Now the attraction has come to Hong Kong Disneyland, where it is poised to replicate the original's dazzling success.

Before, during and after Disney theme park visits, Virtual Magic Kingdom adds to the Disney experience by engaging tweens and teens with online adventures and real in-park missions (above).

ENHANCING THE GUEST EXPERIENCE ONLINE

Virtual Magic Kingdom extends the Disney theme park experience to the online world, building an entirely new connection to Guests and driving visitation to Disney theme parks. Guests can create online characters, compete in action-packed games based on real Disney attractions, hang out with friends, build and decorate their own rooms, and even win cool prizes. Virtual Magic Kingdom-themed locations at Disneyland in California and the Magic Kingdom in Florida encourage Guests to bring their online experience to the real world, as they embark on exciting quests in the parks and win rewards that can then be used in the virtual world.

New technology is also allowing Walt Disney Parks and Resorts to personalize and enhance Guest experiences online. Disney theme park Web sites continue to become more user-friendly as they also become more sophisticated, giving consumers access to up-to-the-minute information about their favorite attractions and activities, while communicating to first-time Guests the magical experience that awaits them when they arrive.

Walt Disney World is using new interactive capabilities to help families preserve their favorite Disney memories. Now Guests can use *Disney PhotoPass* to link all of their vacation photos together into one online account where they can view, share and order their photos online.

CREATING TOMORROW'S MAGIC TODAY

Walt Disney Parks and Resorts has its sights set squarely on the cyber generation, with a whole team dedicated to allowing Guests to interact within immersive environments in new ways.

The R&D team at Walt Disney Imagineering continues to invent, assess and incorporate technologies into storytelling ideas that could emerge as the next great Guest experience. Bluetooth, Radio Frequency ID, Global Positioning Systems, real-time robotics, mobile wireless devices and other technologies will likely form the foundation of new immersive environments that seamlessly interact with Guests to tell a story on a more realistic and personalized level than ever before.

CONSUMER PRODUCTS

COMPELLING PRODUCTS FOR ALL AGES

In 2005, Disney Consumer Products (DCP) achieved new milestones as Disney Princess merchandise crossed the $3 billion mark in retail sales, a new office was opened in Shanghai and a promising new franchise, Disney Fairies, was unveiled worldwide.

INFANTS, TODDLERS AND PRESCHOOLERS

Trusted by parents and loved by children, Winnie the Pooh is the largest DCP franchise, with $5.3 billion in retail sales and more than 6,000 products available globally.

An exclusive retail program based on Red Shirt Pooh was launched at Sears in 2005. Apparel and a home furnishings line are planned for 2006. The *Tumble Time Tigger* specialty plush cartwheeled to sales of more than one million units in the U.S. Looking ahead, preparations are underway to celebrate what promises to be Winnie the Pooh's biggest adventure yet: a tribute to 80 years of storytelling, adventure and friendship.

The Baby Einstein Co. continued its focus on infants with the release of another award-winning title in 2005, *Baby Wordsworth*. Baby Einstein products posted $200 million in retail sales in 2005, up from $25 million at the time it was acquired in 2001. The growth in 2005 was driven by the expansion of the franchise into categories such as bedding, room décor and feeding as well as Baby Einstein's introduction into additional international markets. In October 2005 the TV show, *Disney's Little Einsteins,* launched as part of the expansion of the brand to include toddlers.

The largest licensing franchise companywide is Mickey Mouse and friends. In 2005, *Mickey Mouse* became the top-selling magazine for kids in China, a Mickey magazine launched in Serbia and kids in Mexico were able to see Mickey and Donald in comic books for the first time. Working with our licensees, Disney Home launched a new line of Mickey juvenile furniture in North America, while in Europe, the apparel line Disney Ink & Paint was highly successful.

Clockwise: The popular new Disney Fairies franchise; Disney Vintage apparel and the Swarovski Disney jewelry collection; *The Chronicles of Narnia* video game; Baby Einstein products; *Tumble Time Tigger;* the ever-popular Disney Princess line.

In spring 2006, Mickey and friends will star in *Mickey Mouse Clubhouse*, a new computer-animated preschool TV series on Disney Channel's Playhouse Disney, which will be supported by Disney Toys with a wide array of products.

INSPIRING THE IMAGINATION OF GIRLS

Disney Princess merchandise continues to show strong growth and will expand into new international markets such as India, Russia and China in 2006. Supported by the *Cinderella* Platinum Edition DVD in fall 2005 and *The Little Mermaid* Platinum Edition DVD in fall 2006, Disney Princess is on track to become the largest global girls franchise in 2006.

Clockwise: The Cinderella Pontiac Solstice from Disney Toys; *Power Rangers* is the number one boy franchise in Europe; tweens are crazy for the *That's So Raven* product line.

Disney Fairies, our newest franchise, builds upon the enormous popularity of Tinker Bell, introducing six-to-nine year-old girls to her secret, magical world. In September 2005, Disney Publishing Worldwide (DPW) released *Fairy Dust and the Quest for the Egg* by Newbery Honor-winning author Gail Carson Levine. *Fairy Dust* has already reached children and parents in 45 countries around the world with a one million copy launch. In 2006, a breadth of Disney Fairies products will inspire girls to believe.

NEW ADVENTURES FOR BOYS

In its 14th season, *Power Rangers* continued to be DCP's number one boys property in the U.S. and Europe, and broadened its reach in Latin America. In 2005, DCP expanded the franchise into the role-play category with the new *Power Rangers Delta Enforcer,* which was scripted into the show prior to hitting store shelves. Additionally, a *Power Rangers* magazine was launched in 2005 in Europe by DPW, supporting the franchise with new original stories. Such motion pictures as *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe, Pirates of the Caribbean: Dead Man's Chest* and Disney/Pixar's *Cars* will offer enormous opportunities for boy-oriented products in 2006.

CELEBRATING THE SPIRIT OF TWEENS

The popularity of Disney Channel's *That's So Raven* series has translated into a successful franchise for nine- to 14-year-old girls. In 2005, the merchandise line was extended into Sears Canada. Fragrance and cosmetics, a fashion doll, books and a second Game Boy Advance title were also offered. In 2006, the franchise will expand into new product categories such as home décor and stationery and into new tiers of retail distribution.

Launched at Hot Topic in 2004, Disney Cuties quickly resonated with tweens with an assortment of products from apparel to bedding and stationery that launched exclusively at Target North America. 2006 plans include expansion into consumer electronics.

FOR THE YOUNG AND THE YOUNG AT HEART

In 2005, DCP reached young adults with new collections of Disney Vintage apparel, personalized items through Disney Shopping, Inc., new video games based on *Tim Burton's Nightmare Before Christmas* and a Sotheby's auction of 75 Mickey statues celebrating the finale of his 75th anniversary.

In 2005, a Swarovski Disney collection was launched, featuring jewelry and collectibles. Disney Couture and Vintage apparel lines launched new collections globally with ultra-hip designer labels, such as Hysteric Glamour from Japan. In Paris, a new line of Muppets apparel graced the windows of chic boutique Colette. 2006 plans include the launch of a new product line inspired by *Alice in Wonderland*.

CREATIVITY LEADS TO PRODUCT INNOVATION

For the past three years, DCP's consumer electronics group, working closely with licensees and manufacturers, has pushed design and manufacturing boundaries by developing exceptional products that are at once stylish and functional. 2005 saw the launch of Disney Mix Sticks, an MP3 digital music player that allows kids to download music and gives them the option to also play music directly from memory cards. In 2006, a new line of consumer electronics inspired by the Disney/Pixar film *Cars* will prove that a TV *can* look like a car.

Disney Denim is a non-character Disney-branded line of apparel for kids that incorporates the magic and storytelling that only Disney can offer. In 2005, DCP secured placement for the brand at Carrefour, which will launch next spring as Disney Jeans in nearly 400 Carrefour stores across Europe.

The highly successful vintage apparel line, Disney Ink & Paint, inspired Disney Home to adapt the striking artwork originally used on T-shirts to create high-end art canvases. A line of six canvases featuring diamante Disney designs was launched in Europe in late 2005 and will expand to North America in 2006 with an array of home products at retailers such as Urban Outfitters.

DCP entered the MP3 market with the hot-selling Disney Mix Sticks player (left); BVG offers an extensive portfolio of handheld and console video games (above).

A GLOBAL PRESENCE

In 2005, DCP opened an office in Shanghai to leverage opportunities in the emerging Chinese market. In Europe, dedicated retail marketing teams service European retailers Carrefour, Wal-Mart subsidiary ASDA and Metro. In North America in 2005, a special team in Bentonville, Arkansas, added a retail showroom space for Wal-Mart products; and in Minneapolis, a new office opened to service Target.

DCP's licensing strategy includes making available to retailers differentiated product lines that best fit the needs of their core customers. At Target, the North American-exclusive Classic Pooh brand posted incremental growth in 2005. At Wal-Mart, the Wonderful World of Disney branding provides cross-category differentiation for a range of products from adult apparel to infant accessories.

EXPANDING OUR BUSINESS

In 2005, Buena Vista Games (BVG) expanded its ability to create and develop great games by acquiring two important game-development studios. Additionally, BVG continues to broaden its portfolio as evidenced by the acquisition of the rights to *TUROK,* a popular comic book and video game franchise currently in development for 2006.

BVG's handheld gaming business grew with the release of Game Boy Advance titles based on hit Disney Channel shows, BVG also published an extensive portfolio of handheld and console video games based on *Chicken Little* and *The Chronicles of Narnia: The Lion, the Witch and the Wardrobe*. The much anticipated sequel to the smash hit, *Kingdom Hearts*, will be available on shelves around the world in 2006.

In 2005, the Muppets appeared in everything from the Tribeca Film Festival to the windows of chic European boutique, Colette. After starring in *The Muppets' Wizard of Oz* and releasing *The Muppet Show: Season One* DVD, the Muppets' next big adventure is the celebration of Kermit's 50th anniversary. The festivities kicked off in September in the small town of Kermit, Texas, followed by a worldwide tour that will take the famous frog to destinations big and small throughout 2006.

MEDIA NETWORKS
BROADCASTING

Disney Media Networks, which includes the Company's cable networks and broadcasting assets, provides quality, content-driven programming to audiences around the world via broadcast, cable, satellite and the Internet.

ABC TELEVISION NETWORK

ABC ENTERTAINMENT

ABC Entertainment is responsible for all network primetime and late-night entertainment programming, including scripted dramas and comedies, alternative series, specials, movies, and mini-series.

Among ABC's hit primetime series this season are (clockwise) *Lost, Freddie, Invasion, Desperate Housewives, Grey's Anatomy,* and *Commander In Chief.*

As in the previous year, ABC once again found critical acclaim and strong audience support for its new programming in the 2005-06 season. *Commander In Chief*, starring Geena Davis as the first woman president of the United States, was the most watched new show of the fall season. This hit, along with new series *Invasion* and *Freddie*, joined the network's growing primetime portfolio of successful programming, including *Desperate Housewives, Lost, Grey's Anatomy, Boston Legal, Extreme Makeover: Home Edition, Alias, According to Jim, George Lopez* and *Hope & Faith*.

Fueled by this success, ABC celebrated its highest-rated start to a season in five years, building on the network's previous season performance in which ABC achieved the highest year-to-year increase of any major network in 25 years. During the most recent Sweep period, in November 2005, ABC ranked number one (tied with CBS) among Adults 18-49 and delivered the biggest increase among all broadcast networks in this key sales demographic. The network also claimed five of the top six programs among Adults 18-49, including the number one show among Adults 18-49 – *Desperate Housewives*.

Extreme Makeover: Home Edition (top); *Boston Legal*'s James Spader and William Shatner (bottom).

In addition to ratings gains, ABC also received acclaim with 16 wins at the 57th Annual Primetime Emmy® Awards, more than any other broadcast network. *Desperate Housewives* earned six awards, including "Lead Actress in a Comedy Series" for Felicity Huffman, and *Lost* took another six Emmys, including "Outstanding Drama Series." William Shatner and James Spader repeated their wins of the previous year with Emmy Awards for "Outstanding Supporting Actor" and "Outstanding Lead Actor in a Drama Series," respectively, and *Extreme Makeover: Home Edition* earned top honors for "Outstanding Reality Series."

In October 2005 ABC leveraged its *Lost* and *Desperate Housewives* properties to become the first television provider (along with Disney Channel) to supply content for sale on Apple's online iTunes Music Store. Approximately half of the more than one million videos iTunes sold during the first three weeks of availability were episodes of Disney-ABC series.

ABC NEWS

More people continue to get their news from ABC than from any other source. ABC News' commitment to excellence was recognized in 2005 with 29 Emmy Award nominations, more than any other news organization.

ABC News Now provides real-time news at any time on many digital devices; Left to right: *GMA's* Robin Roberts, Charles Gibson and Diane Sawyer.

In April 2005, ABC News expanded its reach and service with the launch of *ABC News Now*, an Internet-based multi-media news initiative that provides the audience with real-time news at any time on many digital devices. This first-of-its-kind innovation is now the most extensive live and video-on-demand news content service in the market, reaching more than 208 million people each month.

Good Morning America continues to be a competitive force among morning shows, making impressive gains against its competition. Robin Roberts joined *GMA*'s anchor team in May 2005, alongside Diane Sawyer and Charles Gibson. In fall 2005, *GMA* began broadcasting in high definition, becoming the first news program in the United States to take this step.

Nightline, long known and lauded for its award-winning journalism, continued its tradition of excellence with its evolution into a multi-topic format. The new approach preserves the depth, integrity and context that defined the program's first quarter century.

The 2004-05 season began a transformation of the two ABC News magazine programs, *20/20* and *Primetime*, that continues this year, including a change in format and in anchors. Headline-making exclusives, including actor Brad Pitt discussing his humanitarian work in Africa and former President Bill Clinton in his first interview following open-heart surgery, drove solid ratings, while Diane Sawyer and her *Primetime* producers won the prestigious Polk Award for their investigation into conditions and care inside some of America's largest veterans' hospitals.

ABC DAYTIME

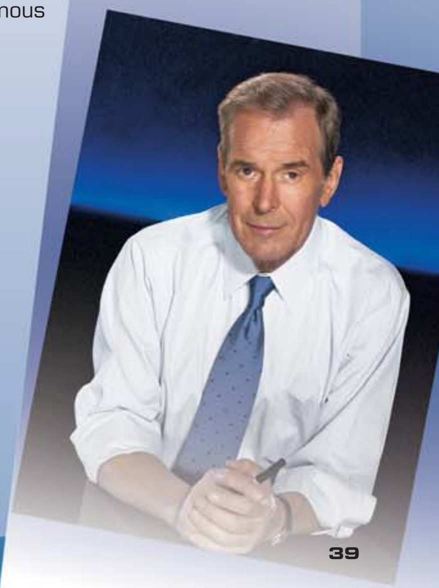
ABC Daytime was number one in the key drama line-up ratings for Women 18-49 for the 2004-05 season. *General Hospital* was the number one show among Women 18-49 for the season, and *All My Children* and *One Life to Live* consistently placed among the top five programs. In addition, *The View* experienced its best ratings since its inception.

As "*All My Children's* Enchantment" fragrance became a top seller, a second fragrance, "*All My Children's* Fusion," hit retail stores in October. *The Killing Club*, the Hyperion mystery novel written by *One Life to Live* character Marcie Walsh and real-life author Michael Malone, successfully bridged the show's fictional world to real world book stores everywhere.

REMEMBERING 40 YEARS OF EXCELLENCE...

The passing of Peter Jennings in August 2005 was an enormous loss. During his 40-year career at ABC News, he set the standard for broadcast journalism, a legacy that ABC News is committed to honoring and building upon in the future.

Peter Jennings' commitment to excellence was recognized in 2005, when he and *ABC World News Tonight* received, for the second consecutive year, the prestigious Edward R. Murrow Award for best newscast.



ABC KIDS

ABC Kids' extensive Saturday morning lineup serves as a showcase for key programs from The Walt Disney Company's various children's programming platforms. ABC Kids series include Disney Channel's hit comedies *That's So Raven, The Proud Family, Phil of the Future, Lizzie McGuire* and *The Suite Life of Zack & Cody;* Jetix's *Power Rangers: Space Patrol Delta;* as well as Walt Disney Television Animation's *The Buzz on Maggie* and *Lilo & Stitch: The Series.* ABC Kids is committed to providing enriching, educational and informational entertainment programming for young viewers.

Right to left: *Ghost Whisperer* and *Criminal Minds* on CBS; Disney Channel's upcoming Playhouse Disney Series *Mickey Mouse Clubhouse;* Hyperion's *Home Rules* and *The Tender Bar;* and *Live with Regis and Kelly.*

PRODUCTION & SYNDICATION

TOUCHSTONE TELEVISION

Winning Emmy Awards for "Outstanding Drama Series" for *Lost* and "Outstanding Reality-Competition Program" for *The Amazing Race*, Touchstone Television has established itself as one of the industry's leading providers of quality entertainment by developing and producing a diverse slate of hit television programming. The past season has been the most prolific in the studio's 20-year history.

Touchstone developed and produced 16 primetime series for the 2005-06 season across three broadcast networks: ABC, CBS and NBC. New series for 2005-06 include *Commander In Chief, Criminal Minds, Crumbs, Ghost Whisperer, In Justice, What About Brian* and a new comedy starring Jenna Elfman. The nine returning Touchstone programs include the three top-rated freshman series on network television for 2004-05: ABC dramas *Desperate Housewives, Lost* and *Grey's Anatomy;* the critically acclaimed Emmy-nominated series *Scrubs* on NBC; and ABC's *According to Jim, Alias, Hope & Faith, Less than Perfect* and *Rodney*. Additionally, the studio produces late-night talk show *Jimmy Kimmel Live* on ABC and is a distributor for *The Amazing Race* on CBS. Many Touchstone series, such as *Desperate Housewives, Lost, Scrubs* and *Alias*, are continuing their broadcast success stories by fueling consumers' appetite for these hits in syndication, on DVD and beyond.

WALT DISNEY TELEVISION ANIMATION

Walt Disney Television Animation (WDTVA) develops and delivers quality, compelling animated television content to the Disney Channel Worldwide family of channels and branded programming blocks. Current series airing on Disney Channel and Toon Disney platforms include *Disney's Kim Possible, Brandy & Mr. Whiskers, The Buzz on Maggie, Lilo & Stitch: The Series* and *American Dragon: Jake Long*.

The Jetix programming block, seen on Toon Disney and ABC Family, serves as host to action-adventure series *Super Robot Monkey Team Hyperforce Go!* and *Get Ed*.

WDTVA programming in production for 2006 includes *Emperor's New School, Mickey Mouse Clubhouse, The Replacements* and *Yin Yang Yo*.

BUENA VISTA TELEVISION

Buena Vista Television continues to be a leader in broadcast, cable and emerging media syndication, offering a powerful portfolio of first-run series and off-network hits.

Live with Regis and Kelly is now in its 18th season. This perennial franchise remains the most popular and successful talk show of its kind.

The Tony Danza Show entered the fall as the only returning new talk show from last season. Broadcast live from New York, the show has quickly caught on with daytime viewers who have connected with Tony's charm and sense of humor.

Who Wants To Be A Millionaire began the fall 2005 season fresh on the heels of Meredith Vieira's Daytime Emmy® win for "Outstanding Game Show Host." *Millionaire*'s consistently strong ratings have made it one of television's iconic game shows.

The popular and respected movie review program, *Ebert & Roeper*, returned with critics Roger Ebert and Richard Roeper as co-hosts.

Buena Vista Television boasted two highly anticipated off-network debuts in 2005, Touchstone Television's family comedy *My Wife and Kids* and spy thriller *Alias*, starring Jennifer Garner. In addition, the John Ritter sitcom *8 Simple Rules* will premiere on The WB in January 2006, and top Touchstone comedies *According to Jim* and *Scrubs* are set to follow with syndication premieres in fall 2006.

BUENA VISTA INTERNATIONAL TELEVISION

2005 was the most successful year in Buena Vista International Television's (BVITV) history. Responsible for The Walt Disney Company's branded and non-branded international program distribution, BVITV now distributes more than 30,000 hours of programming to more than 1,300 broadcasters across 240 territories.

Driving BVITV's success and securing future growth is the international performance of network series, as well as the conclusion of major agreements in countries including Germany, Italy, Greece, Russia, Israel and the Asia-Pacific region. *Lost* is now thrilling audiences in more than 190 territories. The show has been a number one hit in places such as the U.K., France, Russia, Latin America and Australia. *Desperate Housewives* has also performed well with international audiences, selling into more than 200 territories and becoming a top-rated series in Australia, the U.K., Singapore, South Africa and Germany. In 2006, local versions of *Desperate Housewives* will go into production in at least five Latin American countries.

Going into 2006, BVITV is expanding its video-on-demand business as new technology plays an increasing role in content distribution, and will add preschool series *Mickey Mouse Clubhouse* and *Disney's Little Einsteins* to its current roster of network series and movies.

The Company's international equity investment portfolio was expanded by establishing a new joint venture video-on-demand movie service, FilmFlex, currently rolling out on digital cable across the U.K. The wider investment portfolio includes stakes in Super RTL and RTL 2 in Germany, GMTV in the U.K. and HBO services in Central Europe and Latin America.

HYPERION

Hyperion has several high-profile authors publishing this year, including Mike Wallace, whose life story, *Between You And Me*, includes a DVD of his most memorable interviews; David Halberstam, whose *Education of a Coach* has the full cooperation of New England Patriots coach Bill Belichick; *Oprah Winfrey Show* regular Nate Berkus' interior design book, *Home Rules*; and J. R. Moehringer, the Pulitzer Prize-winning journalist for *The Los Angeles Times*, whose literary memoir *The Tender Bar* is already receiving critical acclaim.

Hyperion has announced plans to publish books by such television stars as Teri Hatcher of *Desperate Housewives* and John Stossel of ABC News' *20/20*.

MEDIA NETWORKS

CABLE NETWORKS

DISNEY CHANNEL WORLDWIDE

Reaching more than 120 million subscribers in the U.S., Europe, Asia Pacific and Latin America, Disney Channel Worldwide represents the most successful portfolio of kids' channels in the world.

Clockwise: Jetix's *Get Ed* on Toon Disney; *Disney's Kim Possible;* Disney Channel's *That's So Raven,* currently airing in more than 100 countries, is a hit around the world.

Consisting of 24 Disney Channels, eight Playhouse Disney Channels, nine Toon Disney Channels and 18 international Jetix channels, as well as branded blocks of programming distributed to television viewers in more than 70 countries, Disney Channel Worldwide properties continue to expand rapidly into new markets around the world, playing a key role in introducing the Disney brand to new consumers. Growth across this business unit continues to be fueled by the success of its cornerstone U.S. channel, now available in more than 87 million homes and the number one network with kids and tweens in primetime, and by international expansion.

Clockwise: The new hit Playhouse Disney series *Disney's Little Einsteins; American Dragon: Jake Long* on Toon Disney; Disney Channel's popular series *The Suite Life of Zack & Cody* can now be watched on Apple's new video iPod.

Disney Channel creates original programming such as the popular preschool series *JoJo's Circus* and the hit series *That's So Raven* and *The Suite Life of Zack & Cody*, which are leveraged by other divisions across the Company, including Consumer Products, Home Entertainment and Parks and Resorts.

An integral part of the Disney Channel Worldwide family, Toon Disney is a worldwide cable network that features a variety of family-friendly entertainment, showcasing The Walt Disney Company's vast animation library and a variety of acquired movies and animated programming. In the U.S., where it is ad supported and now available in more than 50 million homes, Toon Disney also provides a showcase for Jetix, the Company's high-energy action-adventure programming franchise featuring series such as *Power Rangers: Space Patrol Delta, W.I.T.C.H., Super Robot Monkey Team Hyperforce Go!* and the recently launched *Get Ed* from Walt Disney Television Animation.

ABC FAMILY

ABC Family is about today's families – with all of their diversity, drama, humor and passion. Targeting Adults 18-34, ABC Family is the perfect bridge between Disney Channel viewers and the broad audience of ABC. ABC Family had a successful 2005, posting increases in primetime and Total Day across key demographics.

Available in more than 89 million homes, ABC Family launched several original series, including the channel's first scripted drama, *Wildfire*, which delivered the highest series premiere in the history of the channel and was picked up for a second season with 13 additional episodes. The channel also premiered the drama *Beautiful People*, starring Daphne Zuniga, and *Venus & Serena: For Real*, which was the channel's highest-rated non-scripted series premiere ever.

ABC Family continued to share the spirit of the holidays with branded programming events, including *13 Nights of Halloween, 25 Days of Christmas* and the newly added *Home for the Holidays* during Thanksgiving.

Left to right: *Beautiful People* on ABC Family; ABC Family's first original scripted drama *Wildfire*; Jetix's *Power Rangers: Space Patrol Delta.*

Top to bottom: *Desperate Housewives* star Marcia Cross (left) visits *Soap Talk;* SOAPnet's reality series *I Wanna Be a Soap Star* winner Alec Musser (center) won a 13-week contract role on ABC's *All My Children;* Mira Sorvino stars in *Human Trafficking* on Lifetime.

SOAPNET

SOAPnet, the first and only cable channel dedicated to soap operas and their fans, celebrated its fifth anniversary in 2005. Ad supported and available in more than 47 million homes, SOAPnet continues to be a Top 10 performer in primetime ratings with Women 18-49.

SOAPnet's original programming includes the Daytime Emmy Award-nominated talk show *Soap Talk*, hosted by Lisa Rinna and Ty Treadway; the reality drama, *I Wanna Be A Soap Star*, which begins its third season in 2006; *1 Day With…*, providing fans a day-in-the-life glimpse of soap's hottest stars; and the biography series *Soapography*.

In addition to featuring same-day episodes of popular ABC Daytime series in primetime, SOAPnet is also the nighttime home of the popular NBC daytime drama *Days of our Lives*, as well as *Beverly Hills 90210* and *Melrose Place*.

LIFETIME ENTERTAINMENT SERVICES

Now in more than 90 million homes, Lifetime is a leader in women's television, featuring original dramas like *Strong Medicine, Wild Card* and *MISSING*, and Lifetime Original Movies such as *Human Trafficking*.

Cable networks Lifetime Movie Network and Lifetime Real Women, as well as Lifetime Radio for Women and Lifetime Home Entertainment, are growing extensions of the popular and respected Lifetime brand. The Walt Disney Company holds a 50% interest in Lifetime Entertainment Services.

A&E TELEVISION NETWORKS

A&E Network brings viewers *The Art of Entertainment* through a unique combination of three genres: *The Art of Biography, The Art of Documentary* and *The Art of Drama*. Now reaching 90 million homes, A&E offers a diverse mix of programming, ranging from critically-acclaimed original series and movies, to innovative documentaries to the Emmy Award-winning *Biography* series to dramatic specials, feature film presentations and contemporary performances.

A&E Television Networks, in which the Company holds a 37.5% interest, also offers The History Channel, now reaching 89 million subscribers. "Bringing the past to life" with a diverse array of historical topics from the worlds of politics, science, sports, religion and technology, The History Channel spans the ages from ancient to modern history.

The Biography Channel, available in 35 million homes, takes viewers into the world of exceptional people 24-hours a day.

E! NETWORKS

E! Networks, in which the Company holds a 39.6% interest, is the world's largest producer and distributor of entertainment news and lifestyle-related programming. The company's E! Entertainment Television, the 24-hour network with programming dedicated to the world of entertainment, is available in 87 million homes in the U.S. and reaches 300 million homes in 120 countries worldwide.

Now in more than 41 million U.S. homes, The Style Network features a full slate of original series and specials that cover the gamut of the lifestyle genre.

ESPN AND ABC SPORTS

ESPN, Inc., the leader in multimedia sports coverage, positioned itself in 2005 for the next technological wave – the "third screen" of mobile phones – while aggressively advancing technical innovations and creative content on television and computer screens.

ESPN also secured major rights agreements with the National Football League (NFL) and Major League Baseball (MLB) for the next eight years across multiple outlets; invested in original series across its networks; launched another network, ESPNU, and second high-definition service ESPN2 HD; expanded its Spanish-language services; and continued to grow its global media properties and consumer products.

These and other initiatives further supported ESPN's mission "to serve sports fans wherever sports are watched, listened to, discussed, debated, read about or played," which is the reason approximately 97 million Americans turn to ESPN media every week (Source: SRI/Knowledge).

ESPN's stellar programming, including the NFL and NBA, connects with fans.

EMERGING TECHNOLOGY

ESPN is bringing to life a "future is now" reality with integrated, interactive sports media experiences through every available medium. With the completion of its state-of-the-art 120,000 square-foot Digital Center, ESPN has created a physical space and technological interface in which producers of television, Internet, radio and wireless content work literally or virtually side by side to produce sports content that is delivered in ways that were unimaginable just a few years ago.

In early 2006, ESPN will enter a new playing field with the launch of Mobile ESPN – the ESPN-branded cell phone. It will be the first mobile phone service in the U.S. tailored to avid sports fans anytime, anywhere. It will feature one-click-away sports text and video highlights, personalized with favorite team information, plus messaging, Internet and game applications.

ESPN360, our broadband service, has seven million subscribers and features a dynamic, multidimensional interactive site that delivers high-quality video with live events, behind-the-scenes coverage, interviews and analysis.

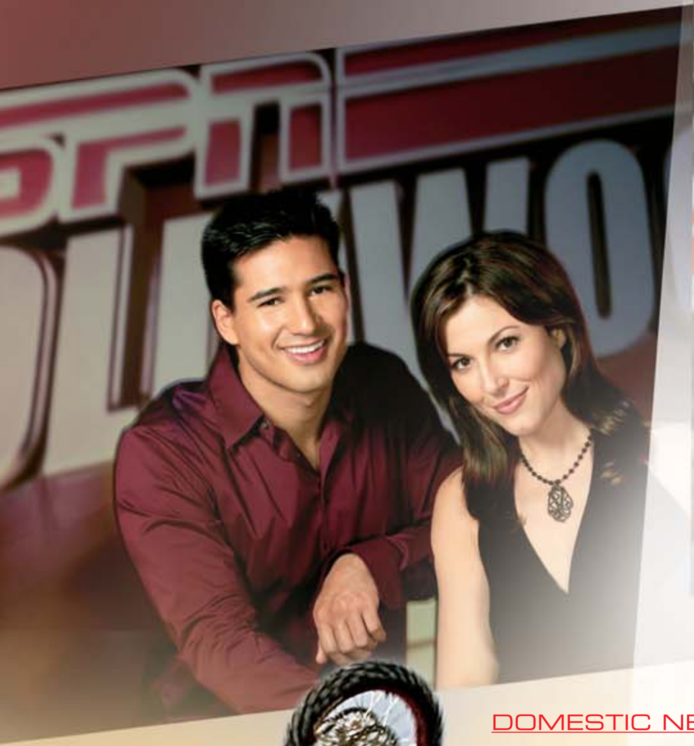
MULTIMEDIA RIGHTS AGREEMENTS

ESPN acquired television's most successful and longest-running primetime series, *Monday Night Football*, continuing the legacy of ABC Sports. The package, which includes emerging technology rights, begins in 2006. ESPN concluded its *Sunday Night Football* package as the highest-rated series on ad-supported cable since 1987.

ESPN also struck agreements with Major League Baseball featuring enhanced *Game of the Week* series on Sundays and Mondays and an array of multimedia rights. ESPN and ABC Sports also acquired NASCAR rights through 2014. These three major league agreements secure cornerstone programming well into the next decade.

In 2006, ESPN and ABC Sports will carry high definition telecasts of 52 and 12 games, respectively, of the FIFA World Cup from Germany. Rights to the Men's and Women's World Cup soccer events were added through 2014.

Clockwise: Major League Baseball; the dynamic ESPN360 broadband service; Mobile ESPN launches in early 2006; ESPN and ABC Sports acquired NASCAR rights through 2014.



Clockwise: *ESPN Hollywood* debuted on ESPN2; *SportsCenter* visited 50 states in 50 days last summer; ESPNU launched in March 2005; X Games.

DOMESTIC NETWORKS

ABC SPORTS

The further integration of ABC Sports and ESPN in 2005 underscores the leadership position of Disney's sports media assets and allows the Company to acquire and deliver programming across multiple platforms. In the fall, a record 450 college football games were produced across all ABC Sports and ESPN outlets, culminating with the national championship game at the Rose Bowl.

During the seven-game NBA Finals last year, ABC was the top-rated network each night. A multimedia agreement with the Belmont Stakes begins in 2006 joining the roster of World Cup soccer, The British Open, PGA Tour events and the TOUR Championship, the Indianapolis 500 and the Indy Racing League, the U.S. Figure Skating Championships, and the Little League World Series.

ESPN TV AND RADIO NETWORKS

The combined viewership for ESPN's four largest networks was up over 2004 on a 24-hour basis. In June, ESPN, the flagship network, became one of only two cable networks to surpass the 90 million household mark. A record audience watched the movie *3* about Dale Earnhardt; the hugely successful *World Series of Poker* returned with 32 new episodes; and ESPN announced that *The Breeders Cup* and the boxing series *The Contender* would move to the network. ESPN2, now reaching nearly 90 million homes, debuted two daily shows, *Quite Frankly with Stephen A. Smith* and *ESPN Hollywood;* premiered the movie *Four Minutes;* and is developing a new game show *Teammates*.

ESPN Classic, in 58 million homes, added three series: *Classic Now,* giving historic context to today's sports stories; *Top 5 Reasons You Can't Blame;* and *Who's #1,* all of which contributed to a streak of 11 consecutive months of year-to-year prime-time household ratings growth. ESPNEWS, now in 46 million homes, is one of the most frequently visited ad-supported cable networks by the coveted Men 18-34 demographic (Source: Npower '05). Through *The Pulse,* viewers on ESPN.com interact with anchors on the biggest stories.

The popular ESPN original movie *Four Minutes* and the new X Games BMX bikes from ESPN Consumer Products.

ESPNU, a 24-hour college sports network, was launched March 4 and already reaches eight million U.S. homes. ESPNU's freshman year featured 300 live college events. ESPN PPV features GamePlan's 150 college football games and Full Court's 450 college basketball games.

ESPN Deportes, now available nationwide through EchoStar's Dish Network, grew its brand beyond TV, debuting *ESPN Deportes La Revista* magazine and expanding ESPN Deportes Radio into the first 24-hour, U.S. Spanish sports radio network. ESPNDeportes.com is the pre-eminent Spanish-language sports site in the U.S.

ESPN Radio, the nation's premier 24/7 sports radio network with 720 affiliates and coverage over virtually 100% of the U.S., renewed its MLB agreement for exclusive, national radio rights including every game of the World Series through 2010.

And through ESPN's Event Management group, the ESPY Awards were the most-viewed ever; Winter X Games ratings were up 33%; X Games XI was ESPN's highest-rated among Men 12-17; and the Great Outdoor Games were up 38% in viewing. The 2005 *CITGO Bassmaster Classic* drew a record 80,000 spectators and moves to Orlando in 2006. *BassCenter* and *BASS Saturday* debuted on ESPN2, and a Women's Bassmaster Tour was announced.

INTERNET

ESPN.com, the U.S.'s leading sports Web site, launched its first-ever "free" fantasy football; enhanced ESPN Motion, which is now up to one million users per day, and grew its monthly fee-based ESPN Insider subscribers and advertiser lineup. ESPN.com provides exclusive distribution of *MLB.tv* and *All Access* packages, featuring online access to 2,300 out-of-market games. ESPN's Soccernet.com is the leading U.S. soccer site. Joining Disney, ABC and Apple Computers, ESPN.com began offering two daily podcasts of ESPN Radio and online content.

ESPN INTERNATIONAL

ESPN International fully or partially owns 29 television networks outside the U.S., and offers many other media services.

ESPN Classic Sport Europe now reaches 40 countries through two dedicated sport and language-specific networks in France and Italy, as well as a pan-European English network feed. ESPN Latin America experienced its highest ratings to date through two networks in key markets. And ESPN Asia, in addition to its television programming distribution with ESPN Star Sports, launched a Chinese edition of *ESPN The Magazine* in October 2004 in Mainland China and Hong Kong.

X Games events were held for the first time in Seoul and Dubai, and the inaugural Thailand X Games Cup raised tsunami relief funds. ESPN mobile content is distributed across wireless carriers in Australia, Canada, Latin America, New Zealand, Japan and the U.K.

ESPN PUBLISHING AND CONSUMER PRODUCTS

ESPN The Magazine raised its circulation rate base to 1.9 million. For the fifth consecutive year, it was named to *Adweek's* Top 10 Hot List – the only men's magazine to do so in the list's 25-year history. ESPN Books launched several new titles, including *3: The Dale Earnhardt Story; ESPN College Football Encyclopedia;* Kevin Carroll's *Rules of the Red Rubber Ball;* and ESPN.com's Bill Simmons' *Now I Can Die in Peace,* about the Boston Red Sox.

Consumer product offerings from ESPN increased ten-fold with toys, games and sporting goods. In 2006, through a long-term agreement, Electronic Arts will unveil its newest interactive game titles for baseball, football and boxing with ESPN branding.

MEDIA NETWORKS

WALT DISNEY INTERNET GROUP

THE WALT DISNEY COMPANY HAS BUILT A DEEP AND BROAD PORTFOLIO OF DIGITAL MEDIA BUSINESSES.

Fiscal year 2005 was a pivotal year for the Walt Disney Internet Group (WDIG). Its early leadership in developing content and services for new platforms is paying off with a portfolio of high-growth businesses that have multiple revenue streams, including advertising, premium content fees and ecommerce.

The Company's Web sites number more than 40 worldwide and comprise some of the world's top Internet properties, including category leaders ABCNews.com, Disney.com and ESPN.com. Together, these sites count more than 40 million* unique visitors each month in the U.S. alone, which places Disney among the Top 10 Internet providers, based on audience reach.

*source: ComScore Media Metrics October 2005

WDIG also has been aggressive in keeping pace with new technological capabilities by developing broadband and mobile content services. With a strong core business and with consumer adoption of Internet technologies and content now beyond critical mass, in fiscal year 2005 WDIG began to increase investment in these key high-growth areas.

BROADBAND

Disney Connection, a Disney broadband content portal for families, is available in Europe, Japan, Latin America and the U.S. through select high-speed access providers. This service now reaches more than 20 million homes and continues to expand its content lineup and distribution network.

Disney's Toontown Online, the first massively multiplayer online game (MMO) created specifically for kids and families, expanded its subscriber bases in Japan, the U.S. and the U.K., launched in France and Germany and introduced a retail version of the game in the U.S. A second MMO game is now in development based on the popular theme park attraction and film franchise, *Pirates of the Caribbean*.

Left to right:
Disney Game Downloads' *The Lion King Grubalicious;* broadband English language learning service *Disney's Magic English; Disney's Toontown Online* launched in Germany; Disney Online has more than 20 international sites; Disney Connection is available through select broadband service providers; Disney mobile content is available in more than 30 global markets; characters from *JoJo's Circus* on Playhouse Disney Preschool Time Online.

To serve the growing online game market for casual game players, WDIG introduced Disney Game Downloads, downloadable PC games for both children and adults.

In Japan, WDIG partnered with Disney Publishing to launch *Disney's Magic English*, an online subscription English language learning program for children.

Playhouse Disney Preschool Time Online, the newest addition to WDIG's broadband premium product line-up, launched in late 2005. It features popular characters from Disney Channel's Playhouse Disney programming block in a regularly updated series of fun lessons that encourage learning through play.

MOBILE

WDIG's mobile content publishing business greatly expanded its distribution network over the past year. Disney-branded mobile content is now available in more than 30 countries through more than 60 carriers and distributors. The Starwave Mobile business, launched in fall 2004 to publish third-party content, has grown a substantial product portfolio, including such premier brands as Trivial Pursuit® and Rubik's® Cube.

In July, WDIG announced plans to extend into mobile services through the development and launch of Disney Mobile, a significant business venture formed to develop a comprehensive mobile service in the U.S. specifically designed for families. Disney Mobile is slated to launch in 2006.

MEDIA NETWORKS

ABC OWNED TELEVISION STATIONS

In 2005, the ABC Owned Television Stations Group continued its long-time leadership position as one of America's most successful broadcast portfolios. All 10 ABC-owned stations enjoy high levels of popularity and competitive strength in their local markets – built upon their individual commitments to news and public affairs, community outreach, top syndicated programming and technological advancement. Together, these stations reach approximately 24% of the nation's TV households.

Six of the ABC-owned stations are located in the nation's Top 10 largest markets: New York, Los Angeles, Chicago, Philadelphia, San Francisco and Houston. Each of these major stations ranks number one in household ratings from sign-on to sign-off.

The ABC-owned stations produce a combined total of more than 300 hours of regularly scheduled local news every week, in addition to award-winning public affairs programming and community outreach initiatives. Public service campaigns range from *Love, Sex and PSA* (Houston), where 5,000 men were tested for prostate cancer during that outreach period, to *Kid Healthy – Steps for Healthy Living, Diabetes and Obesity Prevention* (Los Angeles) involving 36,000 students in and out of the classroom. An 18-year partnership with AIDS Walk (San Francisco) has helped raise more than $53 million locally, including $3.6 million in 2005.

Viewers turn to ABC-owned stations for top-rated syndicated programs. *Oprah* is under contract to most ABC-owned stations until 2011, while *Wheel of Fortune* and *Jeopardy* are licensed until 2010. Also airing on ABC-owned stations are *Live with Regis and Kelly*, produced by WABC-TV in New York, and *The Tony Danza Show*, produced by Disney's Buena Vista Television unit.

In addition to its traditional broadcast service, each station now offers three other channels. One channel simulcasts the station's main programming schedule and presents primetime series, special events and live sports in true high definition. Another is a digital service featuring local and network news programming. A third channel, introduced in 2005, provides regional and local weather content powered by AccuWeather. This locally branded digital service also offers news and sports headlines.

The owned TV stations expanded their content delivery in other directions as well. Together, the station group's 10 Internet platforms grew to reach nearly four million unique users per month in 2005.

RADIO

ABC Radio offers the number one news brand, ABC News; the number one kid and family music brand, Radio Disney; the number one sports brand, ESPN; and is the leading provider of 24-hour formats in the industry. In fact, nearly 50% of Americans 12 and over are reached by ABC Radio Networks during an average week.

ABC Radio operates 69 radio stations. 27 are general market stations, five of which carry ESPN programming. The other 22 stations are popular News/Talk and music formats targeted to their specific listening areas. These general market stations are the division's primary revenue and income drivers and regularly outperform their competitors in market share growth.

Another 42 stations offer Radio Disney, the only 24-hour kid and family radio network. Radio Disney is now available to 97% of the U.S. via broadcast, satellite and cable platforms and continues to expand internationally. A Radio Disney-branded homepage is now on Apple iTunes.

ABC Radio Networks personalities include Paul Harvey, the most-listened-to person in radio history. Sean Hannity has radio's fastest-growing syndicated talk show. Tom Joyner, Doug Banks and new syndicated talent Michael Baisden combine with ABC's Urban Advantage Network, which reaches 93% of the African American population.

ESPN Deportes Radio expanded around-the-clock in 2005, the first full-time national Spanish-language sports radio network in the U.S. In addition, ABC Radio launched *Viva Disney,* a one-hour syndicated countdown show for Hispanic families.

The ABC-owned networks and stations continue to break ground on new platforms such as satellite and digital radio. ABC News Radio received the 2005 Edward R. Murrow Award for "Overall Excellence" from the Radio-Television News Directors Association. Los Angeles-based classic rocker KLOS-FM received the Service to America Radio Partnership and Crystal awards – the first time any radio station has received both major community service awards from the National Association of Broadcasters in the same year.

Hurricane Katrina coverage on ABC Owned Television Station WLS in Chicago (left); Radio Disney is the number one kid and family music brand on the radio (above).

Walt Disney INTERNATIONAL

Walt Disney International (WDI) helps individual business units grow and succeed by focusing on business development and growth activities in new and established markets around the world.

In the past year significant headway was made in expanding Disney's presence and reach in developed markets, such as Europe and Japan, while at the same time laying the foundation for future growth in emerging markets such as China, India and Russia.

Disney magic and fantasy have been present in China since the 1930s, when Mickey Mouse first appeared and delighted audiences. Some 70 years later, the 2005 opening of Hong Kong Disneyland represented a new chapter in the evolution of the Disney brand. For the first time, every business unit has a presence in this rapidly growing country.

In China, Disney animation is seen by more than 91 million children; 23 Disney-branded programming blocks and Disney Clubs reach out to more than 380 million households; Disney Consumer Products has established more than 1,800 "Disney Corners" in Chinese department stores, and Disney Publishing has grown ten-fold since *Mickey Mouse Magazine* was launched in China 11 years ago.

In India, Disney Channel and Toon Disney launched in December 2004. Television is expected to be a key brand driver to promote other Disney businesses, especially in consumer products, the Internet and mobile communications.

In Russia, where the Disney brand is held in high regard, the Company is in the process of appointing its first country manager to further develop Disney's potential in this market. Russia is already among the Top 10 markets worldwide for Disney's theatrical releases.

While these foundations are being laid for long-term growth in emerging markets, the Company has outstanding near-term opportunities in the more developed economies of Western Europe, Japan and Latin America. These regions are already significant contributors to the Company and plans are in place to take advantage of ongoing technological and economic growth.

Clockwise: *Chicken Little* debuts in Taiwan; localized Playhouse Disney segments on Disney Channel India; the popular *Dragon Club TV* show in China; Disney Fairies launch in China.

CORPORATE RESPONSIBILITY

THE WALT DISNEY COMPANY HAS A LONGSTANDING COMMITMENT TO SERVE THE INTERESTS OF ITS MANY STAKEHOLDERS, INCLUDING ITS SHAREHOLDERS, GUESTS, CUSTOMERS, VIEWERS, CAST MEMBERS, EMPLOYEES, AND THE COMMUNITIES IN WHICH THE COMPANY OPERATES. WITH THAT IN MIND, WE STRIVE TO RESPECT THE WELL-BEING OF THE PUBLIC AND OUR COMMUNITIES IN ALL THE COMPANY UNDERTAKES.

CORPORATE GOVERNANCE – The Company works to ensure that shareholder interests are fully and independently represented and is committed to monitoring evolving best practices in corporate governance and adopting practices that are appropriate to serve the long term interests of shareholders. The Company's Corporate Governance Guidelines can be viewed at www.disney.com/investors/corporate_governance.

BUSINESS STANDARDS AND ETHICS – Disney holds itself to high standards of business conduct, and has instituted extensive training programs to promote compliance with these standards. Business Standards and Ethics training is provided by the Company to all employees around the globe.

COMMUNITY – The Company's worldwide charitable outreach programs make a meaningful difference for families and children in need. See the following page and www.disneyhand.com for more details.

ENVIRONMENTALITY™ – Disney's Environmentality programs promote financially sound corporate environmental practices and educational programs to safeguard the world in which we live. For further information, go to www.environmentality.com.

INTERNATIONAL LABOR STANDARDS – Disney is committed to the promotion and maintenance of responsible labor practices in our licensing and direct sourcing operations. This commitment is outlined in the *Disney Code of Conduct for Manufacturers* and supported through programs designed to monitor working conditions in factories making Disney products worldwide. Follow our efforts at www.disneylaborstandards.com.

SAFETY AND SECURITY – Our focus on promoting the safety of Disney's Guests and Cast Members is evident in programs, practices and training efforts throughout the Company.

Learn more at www.disneycorporateresponsibility.com.

Bob Iger and Michael Eisner presented Make-A-Wish Foundation of America President and CEO, David Williams, with more than $2 million during Disney's "An Evening of Magic" fundraiser.

Disney Worldwide Outreach

Disney brightens the lives of children and families in need through global outreach programs, community initiatives and the Disney VoluntEARS program. Last year, Disney donated more than $190 million in cash and in-kind support to worthy charities, and Disney VoluntEARS contributed 442,641 hours of service.

In conjunction with Disneyland's 50th anniversary, the Company hosted a celebrity-studded fundraiser for the Make-A-Wish Foundation® aboard the *Disney Magic* that generated more than $1 million for the Foundation, which was matched by an additional $1 million from Disney. Guests were also able to share the excitement of 12-year-old Ashley Gullap from Mississippi, whose wish to meet Raven-Symoné of *That's So Raven* and experience "star treatment" was fulfilled that evening. The Foundation's most requested wish for children with life-threatening medical conditions is a Disney theme park visit, and more than 5,000 wish trips are granted to children each year. Other wishes include visits to Disney film or television sets and spending time with animators.

Disney also works with Starlight Starbright Children's Foundation, First Book, Toys for Tots and the Boys and Girls Clubs of America. Through these efforts, Disney enhances children's hospital stays, provides books to disadvantaged children and helps to make sure that children receive toys during the holidays.

Natural disasters, including the tsunami in Southeast Asia and the hurricanes that impacted the U.S., meant resources were greatly needed. In response to the devastation, Disney and its businesses donated more than $3.5 million to relief efforts and helped raise an additional $37.8 million.

Please visit www.disneyhand.com for more information on our outreach projects and programs around the world.

Clockwise: Mickey and the Disney VoluntEARS lend a hand during an episode of ABC's *Extreme Makeover: Home Edition;* Disney and the Make-A-Wish Foundation® made Ashley Gullap's wish to meet Disney Channel star Raven come true; a child receives a warm welcome from Pluto during a local hospital visit that was made possible through Disney's partnership with Starlight Starbright.

Disney's Environmentality™

In January 2005, stars of *Disney Live!* helped local British school children create their own miniature Hundred Acre Wood as part of Disney's effort to support the Woodland Trust's Tree For All campaign.

BUSINESS OF ENVIRONMENTALITY™ — ECONOMIC & ECOLOGIC BALANCE

Environmental initiatives in place throughout The Walt Disney Company are designed to protect employees, Guests, Company assets and, of course, Mother Nature. Corporate Environmental Policy encourages and supports these efforts as our Company develops strategic environmental business solutions. At Disney, corporate environmental governance is referred to as Environmentality. The Environmentality brand has come to represent a successful balance between our corporate financial goals and our consistent adherence to meaningful environmental ethics.

Disney continues to demonstrate that the use of creativity and technology within the global Environmentality arena can go hand-in-hand with financial success. Over the past several years, resource conservation programs have yielded impressive gains and value to the Disney organization, totaling savings of more than $38 million and earning 15 local and national awards.

At Disney's Animal Kingdom, Guests participate in Basketbottle, an environmentally themed competition during which participants are quizzed on recycling issues and then encouraged to toss recyclables into a collection bin.

GREENHOUSE GAS EMISSION REDUCTIONS

Additional benefits can be expressed in non-financial terms, such as better air quality and less waste. One such example includes greenhouse gas (GHG) emission reductions as a result of alternative waste management; that is, the diversion of waste from landfills. According to the U.S. Environmental Protection Agency, and based on recycling and waste prevention data supplied by Disney, the Company has reduced more than 47,500 metric tons of carbon dioxide equivalents in the 2003 calendar year (the most recent year in which such data has been calculated). As a point of reference, this is equivalent to removing 10,282 passenger cars from the road for one year, saving more than 5.4 million gallons of gasoline, planting more than 1.2 million trees or eliminating nearly two million home barbeque propane cylinders.

Fifth grade students from El Verano Elementary School in Sonoma County, California share a special moment during a ceremony at the Disneyland Resort where they were honored as grand prize winners of the 2005 California Jiminy Cricket's Environmentality Challenge.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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

CONSOLIDATED RESULTS

(in millions, except per share data)	2005	2004	2003	change 2005 vs. 2004	change 2004 vs. 2003
Revenues	$ 31,944	$ 30,752	$ 27,061	4%	14%
Costs and expenses	(27,837)	(26,704)	(24,348)	4%	10%
Gain on sale of businesses and restructuring and impairment charges	(6)	(64)	—	(91)%	nm
Net interest expense	(597)	(617)	(793)	(3)%	(22)%
Equity in the income of investees	483	372	334	30%	11%
Income before income taxes, minority interests and the cumulative effect of accounting changes	3,987	3,739	2,254	7%	66%
Income taxes	(1,241)	(1,197)	(789)	4%	52%
Minority interests	(177)	(197)	(127)	(10)%	55%
Income before the cumulative effect of accounting changes	2,569	2,345	1,338	10%	75%
Cumulative effect of accounting changes	(36)	—	(71)	nm	nm
Net income	$ 2,533	$ 2,345	$ 1,267	8%	85%
Earnings per share before the cumulative effect of accounting changes:					
Diluted[(1)]	$ 1.24	$ 1.12	$ 0.65	11%	72%
Basic	$ 1.27	$ 1.14	$ 0.65	11%	75%
Cumulative effect of accounting changes per share	$ (0.02)	$ —	$ (0.03)	nm	nm
Earnings per share:					
Diluted[(1)]	$ 1.22	$ 1.12	$ 0.62	9%	81%
Basic	$ 1.25	$ 1.14	$ 0.62	10%	84%
Average number of common and common equivalent shares outstanding:					
Diluted	2,089	2,106	2,067		
Basic	2,028	2,049	2,043		

[(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 2005 and 2004, and $10 million for fiscal year 2003.

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 – 2005 vs. 2004
- Corporate and Other Non-Segment Items – 2005 vs. 2004
- Pension and Benefit Costs
- Business Segment Results – 2004 vs. 2003
- Corporate and Other Non-Segment Items – 2004 vs. 2003
- Liquidity and Capital Resources
- Contractual Obligations, Commitments and Off Balance Sheet Arrangements
- Accounting Policies and Estimates
- Accounting Changes
- Forward-Looking Statements

CONSOLIDATED RESULTS

2005 VS. 2004

Revenues for the year 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, 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 (see Business Segment Results below for further discussion). Additionally, we adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (SFAS 123R), which increased 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.

In addition to the items discussed above, results for fiscal 2005, 2004 and 2003 included items in the following table which affect the comparability of the results from year to year and had aggregate favorable/(unfavorable) impacts of $0.03 per share, $0.04 per share and ($0.01) per share, respectively, as follows (in millions, except for per share data):

	2005		2004		2003	
Favorable/(Unfavorable) Impact To	**Net Income**	**EPS**	Net Income	EPS	Net Income	EPS
Benefit from the resolution of certain income tax matters (Note 7)	**$126**	**$ 0.06**	$120	$ 0.06	$ 56	$ 0.03
Benefit from the restructuring of Euro Disney's borrowings (Note 4)	**38**	**0.02**	—	—	—	—
Income tax benefit from the repatriation of foreign earnings under the American Jobs Creation Act (Note 7)	**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)**	—	—	(83)	(0.04)
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]	**$ 69**	**$ 0.03**	$ 80	$ 0.04	$(27)	$(0.01)

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

Cash flow from operations in fiscal 2005 allowed us to continue making capital investments in our properties and reduce our borrowings, which in turn reduced our interest expense. During fiscal 2005, we generated cash flow from operations of $4.3 billion which funded capital expenditures totaling $1.8 billion. In addition, we repurchased $2.4 billion of our common stock and had a net repayment of borrowings of $699 million.

2004 VS. 2003

Revenues for the year increased 14%, or $3.7 billion, to $30.8 billion. The increase in revenues for the year was due to growth in segment revenues in all of the operating segments (see Business Segment Results below for further discussion).

Net income for fiscal 2004 was $2.3 billion, which was $1.1 billion higher than fiscal 2003. The increase in net income for fiscal 2004 was driven by growth at all of the operating segments. Diluted earnings per share for fiscal 2004 was $1.12, an increase of $0.47 compared to the prior-year earnings per share of $0.65 before the cumulative effect of an accounting change. As shown in the preceding table, results for fiscal 2004 and 2003 included certain items which affected comparability. These items had an aggregate favorable impact of $0.04 per share on fiscal 2004 results and an aggregate unfavorable impact of $0.01 per share on fiscal 2003 results.

Additionally, we made an accounting change effective as of the beginning of fiscal 2003 to adopt a new accounting rule for multiple element revenue accounting (EITF 00-21, see Note 2 to the Consolidated Financial Statements) which changed the timing of revenue recognition of NFL programming at ESPN resulting in an after-tax charge of $71 million for the cumulative effect of the change. Diluted earnings per share after this cumulative effect was $0.62 for fiscal 2003.

BUSINESS SEGMENT RESULTS – 2005 VS. 2004

(in millions)	2005	2004	2003	change 2005 vs. 2004	change 2004 vs. 2003
Revenues:					
Media Networks	**$13,207**	$11,778	$10,941	**12%**	8%
Parks and Resorts	**9,023**	7,750	6,412	**16%**	21%
Studio Entertainment	**7,587**	8,713	7,364	**(13)%**	18%
Consumer Products	**2,127**	2,511	2,344	**(15)%**	7%
	$31,944	$30,752	$27,061	**4%**	14%
Segment operating income:					
Media Networks	**$ 2,749**	$ 2,169	$ 1,213	**27%**	79%
Parks and Resorts	**1,178**	1,123	957	**5%**	17%
Studio Entertainment	**207**	662	620	**(69)%**	7%
Consumer Products	**520**	534	384	**(3)%**	39%
	$ 4,654	$ 4,488	$ 3,174	**4%**	41%

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 changes.

(in millions)	2005	2004	2003	change 2005 vs. 2004	change 2004 vs. 2003
Segment operating income	**$4,654**	$4,488	$3,174	**4%**	41%
Corporate and unallocated shared expenses	**(536)**	(428)	(443)	**25%**	(3)%
Amortization of intangible assets	**(11)**	(12)	(18)	**(8)%**	(33)%
Gain on sale of businesses and restructuring and impairment charges	**(6)**	(64)	—	**(91)%**	nm
Net interest expense	**(597)**	(617)	(793)	**(3)%**	(22)%
Equity in the income of investees	**483**	372	334	**30%**	11%
Income before income taxes, minority interests and the cumulative effect of accounting changes	**$3,987**	$3,739	$2,254	**7%**	66%

Depreciation expense is as follows:

(in millions)	2005	2004	2003
Media Networks	**$ 182**	$ 172	$ 169
Parks and Resorts			
Domestic	**756**	710	681
International[1]	**207**	95	—
Studio Entertainment	**26**	22	39
Consumer Products	**25**	44	63
Segment depreciation expense	**1,196**	1,043	952
Corporate	**132**	155	107
Total depreciation expense	**$1,328**	$1,198	$1,059

[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.

Segment depreciation expense is included in segment operating income and corporate depreciation expense is included in corporate and unallocated shared expenses.

MEDIA NETWORKS

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

(in millions)	**2005**	2004	2003	change **2005 vs. 2004**	change 2004 vs. 2003
Revenues:					
Cable Networks	**$ 7,262**	$ 6,410	$ 5,523	**13%**	16%
Broadcasting	**5,945**	5,368	5,418	**11%**	(1)%
	13,207	11,778	10,941	**12%**	8%
Segment operating income:					
Cable Networks	**2,285**	1,924	1,176	**19%**	64%
Broadcasting	**464**	245	37	**89%**	nm
	$ 2,749	$ 2,169	$ 1,213	**27%**	79%

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.

The Company's contractual arrangements with cable and satellite operators are renewed or renegotiated from time to time in the ordinary course of business. A number 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 commitment, which are 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.

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 prime-time 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, which consist 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 service. 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.

Sports Programming Costs The Company has various contractual commitments for the purchase of television rights for sports and other programming, including the NBA, NFL, MLB, and various college football and basketball conferences and football bowl games. The costs of these contracts have increased significantly in recent years. We enter into these contractual commitments with the expectation that, over the life of the contracts, revenue from advertising during the programming and affiliate fees will exceed the costs of the programming. While contract costs may initially exceed incremental revenues and negatively impact operating income, it is our expectation that the combined value to our networks from all of these contracts will result in long-term benefits. The actual impact of these contracts on the Company's results over the term of the contracts is dependent upon a number of factors, including the strength of advertising markets, effectiveness of marketing efforts and the size of viewer audiences.

The initial five-year period of the Company's contract to televise NFL games was non-cancelable and ended with the telecast of the 2003 Pro Bowl. In February 2003, the NFL did not exercise its renegotiation option and as a result, 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 is $3.7 billion. ESPN recognized its portion of the costs of the initial five-year term of the contract at levels that increased each year commensurate with expected increases in NFL revenues. As a result, ESPN experienced its highest level of NFL programming costs during fiscal 2003. 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 will remain relatively level in fiscal 2006. Cash payments under the contract were $1.2 billion for fiscal 2005 and fiscal 2004.

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 $8.87 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. We expect that our expense recognition of the costs of the new contract will reflect this payment schedule. The Company has rights to 21 games in the 2006-2007 season, which begins in the fourth quarter of the Company's fiscal year 2006. Additionally, subsequent to the end of the fiscal year, the Company entered into an eight-year agreement with NASCAR pursuant to which ABC and ESPN will have the right to televise certain NASCAR races and related programming beginning in 2007. The agreement is subject to termination by the ESPN and NASCAR boards of directors through December 10, 2005.

Segment Operating Income Segment operating income increased 27%, or $580 million, to $2.7 billion for the year due to an increase of $361 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. 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. If successful, a refinancing transaction may result in the Company making a further investment in the business while retaining only a minority interest in MovieBeam. Based on continuing negotiations with investors, the Company has concluded that any such refinancing will not be sufficient to recover all of its investment related to the MovieBeam venture and has recognized $56 million ($35 million after-tax or $0.02 per share) of impairment charges during the year ended October 1, 2005.

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, which 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's 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 are 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.

Across our domestic theme parks, both attendance and per capita theme park guest spending increased by 5%. Attendance at the Walt Disney World Resort increased 5% while per capita theme park guest spending increased 2%. Attendance at the Disneyland Resort increased 4% while per capita theme park guest spending increased 14%. Operating statistics for our domestic hotel properties are as follows:

	East Coast Resorts		West Coast Resorts		Total Domestic Resorts	
	Year Ended		Year Ended		Year Ended	
	Oct. 1, 2005	Sept. 30, 2004	**Oct.1, 2005**	Sept. 30, 2004	**Oct. 1, 2005**	Sept. 30, 2004
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 and marketing and sales costs associated with the 50th anniversary celebration and higher fixed costs.

Segment Operating Income Segment operating income increased 5%, or $55 million, to $1.2 billion primarily due to growth at Walt Disney World and Disneyland. These increases were partially offset by a decrease of $50 million due to the impact of fiscal 2005 including an additional six months of Euro Disney and Hong Kong Disneyland operations as compared to fiscal 2004 (which represents the results of Euro Disney and Hong Kong Disneyland for the first half of fiscal 2005), 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 Disney/Pixar's *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* and *The Lion King* Platinum Release.

Costs and Expenses Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs and participation costs, 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 down as the prior year included *Finding Nemo* and *Pirates of the Caribbean*, which had higher participation costs due to better performance than current year titles. Pixar receives 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' existing employment agreements and entered into new 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 have taken the Dimension name to their new company. No material charges were recorded as a result of the execution of the agreements and the Company does not currently anticipate that it will incur material charges in connection with the remaining Miramax projects.

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* 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.

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 all lines of business and recognition of contractual minimum guarantee revenues which 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 3%, or $14 million, to $520 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 the years ended September 30, 2004 and 2003, the Company recorded $64 million and $16 million, respectively, 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 to be sold.

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

(in millions)	**2005**	2004	2003
Revenues	**$ 85**	$628	$ 644
Operating (loss) income	**$ (9)**	$ 6	$(101)

CORPORATE AND OTHER NON-SEGMENT ITEMS – 2005 VS. 2004

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	**2005**	2004	**change 2005 vs. 2004**
Corporate and unallocated shared expenses	**$(536)**	$(428)	**25%**

Corporate and unallocated shared expenses increased 25%, or $108 million, for the year primarily due to the favorable resolution of certain legal matters that reduced expenses in the prior year 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

Net interest expense is detailed below:

(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 Delta aircraft leases or foreclosure of the Delta aircraft by the debt holders, certain tax payments of up to $100 million 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. As of October 1, 2005, our remaining aircraft leverage lease investment totaled approximately $52 million with FedEx Corp.

The current year interest and investment income included $19 million in gains from the sale 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 4 to the Consolidated Financial Statements.

EQUITY IN THE INCOME OF INVESTEES

(in millions)	**2005**	2004	**change 2005 vs. 2004**
Equity in the Income of Investees	**$483**	$372	**30%**

Equity in the income of investees increased 30%, or $111 million, for fiscal 2005 due to the absence of equity losses from Euro Disney which was accounted for under the equity method through the second quarter of fiscal year 2004, and higher affiliate revenue at Lifetime Television.

EFFECTIVE INCOME TAX RATE

	2005	2004	**change 2005 vs. 2004**
Effective income tax rate	**31.1%**	32.0%	**(0.9) ppt**

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. Excluding these benefits, the effective income tax rates were 35.1% and 35.2% for fiscal years 2005 and 2004, respectively. As more fully discussed in Note 7 to the Consolidated Financial Statements, the 2005 effective income tax rate reflects the first year of a three-year phase-out of an exclusion for certain extraterritorial income attributable to foreign trading gross receipts.

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. These costs decreased from $374 million in fiscal 2004 to $314 million in fiscal 2005. The decrease in fiscal 2005 was due primarily to an increase in the discount rate used to measure the present value of plan obligations. The discount rate assumption increased from 5.85% to 6.30% reflecting trends in prevailing market interest rates at our June 30, 2004 valuation date.

We expect pension and postretirement medical costs to increase to $462 million in fiscal 2006. The increase is primarily due to a decrease in the discount rate assumption from 6.30% to 5.25%, reflecting decreases in prevailing market interest rates on our June 30, 2005 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 2005, the Company contributed $303 million to its pension and postretirement medical plans, which included voluntary contributions above the minimum requirements for the pension plans. The Company currently expects to contribute, at a minimum, $61 million to its pension and postretirement medical plans during fiscal 2006. The Company may make additional contributions into its pension plans in fiscal 2006 depending on how the funded status of those plans change and also depending on the outcome of proposed changes to the funding regulations currently being considered by the United States Congress.

Due to an increase in the present value of pension obligations, 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 additional minimum pension liability adjustment at year end fiscal 2005 and fiscal 2004 is as follows:

	Minimum Liability at Fiscal Year End		
	2005	2004	Increase in 2005
Pretax	**$1,124**	$415	$709
Aftertax	**$ 709**	$261	$448

The increase in the additional minimum pension liability in fiscal 2005 was primarily due to the decrease in the discount rate from 6.30% to 5.25%. 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 8 to the Consolidated Financial Statements for further discussion.

BUSINESS SEGMENT RESULTS – 2004 VS. 2003

MEDIA NETWORKS

Revenues Media Networks revenues increased 8%, or $837 million, to $11.8 billion reflecting a 16% increase, or $887 million at the Cable Networks, and a decrease of 1%, or $50 million, at Broadcasting.

Increased Cable Networks revenues were driven by increases of $696 million in revenues from cable and satellite operators and $236 million in advertising revenues. Increased advertising revenue was primarily at ESPN due to higher advertising rates and at ABC Family due to higher ratings. The increase in revenues from cable and satellite operators in fiscal 2004 reflected both contractual rate adjustments and to a lesser extent subscriber growth.

Decreased Broadcasting revenues were driven by a decrease of $147 million at the Television Production and Distribution businesses partially offset by an increase of $63 million at the ABC Television Network. The decrease in Television Production and Distribution revenues was primarily due to lower syndication revenue and license fees. The increase at the ABC Television Network was driven by higher advertising revenues reflecting higher rates due to an improved advertising marketplace, partially offset by lower ratings and a decrease due to airing the Super Bowl in fiscal 2003.

Costs and Expenses Costs and expenses decreased 1%, or $119 million, to $9.6 billion. The decrease reflected lower costs at Broadcasting, partially offset by higher costs at Cable. The decrease at Broadcasting was due to lower programming costs partially offset by higher pension and other administrative costs as well as higher MovieBeam operating costs. Higher costs at Cable reflected increased programming, pension and administrative costs, partially offset by lower bad debt expense.

Lower programming costs at Broadcasting were driven by lower sports programming costs primarily due to the airing of the Super Bowl in fiscal 2003, lower license fees for primetime series and fewer primetime movies. Additionally, fiscal 2003 included higher news production costs due to the coverage of the military conflict in Iraq.

Higher programming costs at Cable Networks were primarily due to higher rights and production costs at ESPN, partially offset by lower NFL amortization due to commencing the three year option period as described under "Sports Programming Costs" above. The decrease in bad debt expense at the Cable Networks reflected the favorable impact of a bankruptcy settlement with a cable operator in Latin America in the second quarter of fiscal 2004.

Cost recognition for NFL programming at the ABC Television Network in fiscal 2004 decreased by $300 million as compared to fiscal 2003. The decrease at the ABC Television Network is primarily due to the absence of the Super Bowl, which was aired in fiscal 2003, as well as fewer games in fiscal 2004. The absence of the Super Bowl and the lower number of games at the ABC Television Network also resulted in lower revenue from NFL broadcasts in fiscal 2004. Cash payments under the contract in fiscal 2004 totaled $1.2 billion as compared to $1.3 billion in fiscal 2003.

Segment Operating Income Segment operating income increased 79%, or $956 million, to $2.2 billion reflecting increases of $748 million at the Cable Networks and $208 million at Broadcasting. Growth at the Cable Networks reflected higher affiliate revenues, higher advertising revenue and lower NFL programming costs, partially offset by higher rights and production costs and higher administrative expenses. Increased segment operating income at Broadcasting reflected higher advertising revenues at the ABC Television Network and lower programming and production costs, partially offset by higher administrative expenses.

PARKS AND RESORTS

Revenues Revenues at Parks and Resorts increased 21%, or $1.3 billion, to $7.8 billion. The increase was driven by increases of $715 million due to the consolidation of Euro Disney and Hong Kong Disneyland (primarily Euro Disney), $609 million from the Walt Disney World Resort, and $95 million from the Disneyland Resort. These increases were partially offset by a decrease of $61 million resulting from the sale of the Anaheim Angels baseball team during the third quarter of fiscal 2003.

At the Walt Disney World Resort, increased revenues were primarily driven by higher theme park attendance, occupied room nights, and per capita spending at the theme parks, partially offset by lower per room guest spending at the hotels. Higher theme park attendance was driven by increased resident, domestic, and international guest visitation, reflecting the continued success of "Mission: SPACE", Mickey's PhilharMagic and Disney's Pop Century Resort, and improvements in travel and tourism. Guest spending decreases at the hotels reflected a higher mix of hotel guest visitation at the lower priced value resorts.

At the Disneyland Resort, increased revenues were primarily due to higher guest spending at the theme parks and hotel properties.

Across our domestic theme parks, attendance increased 7% and per capita guest spending increased 6% compared to fiscal 2003. Attendance and per capita guest spending at the Walt Disney World Resort increased 10% and 4%, respectively. Attendance at the Disneyland Resort remained flat while per capita guest spending increased 7%. Operating statistics for our hotel properties are as follows (unaudited):

	East Coast Resorts		West Coast Resorts		Total Domestic Resorts	
	Year Ended September 30,		Year Ended September 30,		Year Ended September 30,	
	2004	2003	2004	2003	2004	2003
Occupancy	77%	76%	87%	83%	78%	77%
Available Room Nights (in thousands)	8,540	7,550	816	816	9,356	8,366
Per Room Guest Spending	$198	$202	$253	$245	$204	$206

The increase in available room nights reflected the opening of the value priced Disney's Pop Century Resort in the first 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. The decline in per room guest spending reflects a higher mix of hotel guest visitation at the lower priced value resorts.

Costs and Expenses Costs and expenses increased 21%, or $1.2 billion, compared to fiscal 2003. The increase in costs and expenses was primarily due to the consolidation of Euro Disney and Hong Kong Disneyland, which increased costs and expenses by $651 million, as well as higher operating costs at both domestic resorts. Higher operating costs were driven by volume increases as well as higher employee benefits, marketing and sales costs, depreciation expense, and information technology costs. Higher employee benefits costs reflected increased pension and post-retirement medical costs, which grew $137 million at the domestic resorts. Higher marketing costs were driven by the opening of "Mission: SPACE" at Epcot and Disney's Pop Century Resort at Walt Disney World, and by the

Twilight Zone™ Tower of Terror and the 50th anniversary celebration at Disneyland. Higher depreciation reflects new resort properties and theme park attractions as well as new information technology systems. These increases were partially offset by cost decreases due to the sale of the Anaheim Angels during the third quarter of fiscal 2003.

Segment Operating Income Segment operating income increased 17%, or $166 million, to $1.1 billion, primarily due to growth at the Walt Disney World Resort and the consolidation of Euro Disney which contributed $75 million of the increase in operating income.

STUDIO ENTERTAINMENT

Revenues Revenues increased 18%, or $1.3 billion, to $8.7 billion, due to increases of $1.4 billion in worldwide home entertainment and $151 million in television distribution, partially offset by a decrease of $215 million in worldwide theatrical motion picture distribution.

Worldwide home entertainment revenues increased due to higher DVD unit sales in fiscal 2004, which included Disney/Pixar's *Finding Nemo, Pirates of the Caribbean, The Lion King* Platinum Release and *Brother Bear* compared to fiscal 2003, which included *Lilo & Stitch* and *Beauty and the Beast*. Revenues in television distribution increased due to higher pay television sales due to better performances of live-action titles. Worldwide theatrical motion picture distribution revenue decreased due to the performance of fiscal 2004 titles, which included *Home on the Range, The Alamo* and *King Arthur*, which faced difficult comparisons to the strong performances of fiscal 2003 titles, which included *Finding Nemo* (domestically) and *Pirates of the Caribbean*. Partially offsetting the decrease was the successful performance of *Finding Nemo* internationally in fiscal 2004.

Costs and Expenses Costs and expenses increased 19%, or $1.3 billion, compared to fiscal 2003. Higher costs and expenses were due to increases in worldwide home entertainment and worldwide theatrical motion picture distribution. Higher costs and expenses in worldwide home entertainment reflected higher distribution costs and production cost amortization for fiscal 2004 titles, primarily due to the increased unit sales volume for *Finding Nemo* and *Pirates of the Caribbean*. In addition, participation expense was higher in fiscal 2004 because of participation arrangements with *Finding Nemo* and *Pirates of the Caribbean*. Higher costs in worldwide theatrical motion picture distribution were due to increased distribution costs for fiscal 2004 titles, which included *King Arthur*, *Brother Bear* and *The Village*, and increased production cost amortization, including higher film cost write-downs, for fiscal 2004 titles which included *Home on the Range* and *The Alamo*. These increases were partially offset by lower production and development write-offs and lower participation expense as fiscal 2003 included participation payments for the domestic theatrical release of *Finding Nemo* and the worldwide theatrical release of *Pirates of the Caribbean*. Cost and expenses for television distribution were comparable year over year.

Segment Operating Income Segment operating income increased 7%, or $42 million, to $662 million, due to improvements in worldwide home entertainment and television distribution, partially offset by declines in worldwide theatrical motion picture distribution.

CONSUMER PRODUCTS

Revenues Revenues increased 7%, or $167 million, to $2.5 billion, reflecting increases of $73 million in Merchandise Licensing, $72 million in Publishing and $28 million at The Disney Store.

Higher Merchandise Licensing revenues were due to higher sales of hardlines, softlines and toys which were driven by the strong performance of *Disney Princess* and certain film properties. The increase at Publishing primarily reflected the strong performance of *Finding Nemo* and other childrens books and *W.I.T.C.H.* magazine and book titles across all regions.

Costs and Expenses Overall costs and expenses were essentially flat at $2.0 billion. Costs and expenses reflected decreases at The Disney Store due primarily to overhead savings and the closure of underperforming stores, offset by volume related increases at Publishing and higher operating expenses related to Merchandise Licensing.

Segment Operating Income Segment operating income increased 39%, or $150 million, to $534 million, primarily driven by an increase of $117 million at The Disney Store due primarily to overhead savings and the closure of underperforming stores as well as margin improvements. Improvements in Merchandise Licensing and Publishing also contributed to operating income growth.

CORPORATE AND OTHER NON-SEGMENT ITEMS – 2004 VS. 2003

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	2004	2003	change 2004 vs. 2003
Corporate and unallocated shared expenses	$(428)	$(443)	(3)%

Corporate and unallocated shared expenses decreased 3% in fiscal 2004 to $428 million. Fiscal 2004 corporate and unallocated shared expenses reflected the favorable resolution of certain legal matters, partially offset by higher legal and other administrative costs.

NET INTEREST EXPENSE

(in millions)	2004	2003	change 2004 vs. 2003
Interest expense	$(629)	$(666)	(6)%
Aircraft leveraged lease investment write-down	(16)	(114)	(86)%
Interest and investment income (loss)	28	(13)	nm
Net interest expense	$(617)	$(793)	(22)%

Excluding an increase of $51 million due to the consolidation of Euro Disney and Hong Kong Disneyland in fiscal 2004, interest expense decreased 13%, or $88 million, in fiscal 2004. Lower interest expense for fiscal 2004 was primarily due to lower average debt balances.

Interest and investment income (loss) was income of $28 million in fiscal 2004 compared to a loss of $13 million in fiscal 2003. Fiscal 2004 reflected higher interest income while fiscal 2003 included a loss on the early repayment of certain borrowings.

In fiscal 2004, we took a partial write-down of our investment with Delta due to our agreement with Delta to reduce lease payments. In fiscal 2003, we wrote off our investment in aircraft leveraged lease with United Airlines as a result of their bankruptcy filing.

EQUITY IN THE INCOME OF INVESTEES

(in millions)	2004	2003	change 2004 vs. 2003
Equity in the Income of Investees	$372	$334	11%

The increase in equity in the income of our investees in fiscal 2004 reflected increases at Lifetime Television, due to lower programming and marketing expenses, as well as increases at A&E and E! Entertainment due to higher advertising revenues.

EFFECTIVE INCOME TAX RATE

	2004	2003	change 2004 vs. 2003
Effective income tax rate	32.0%	35.0%	(3.0) ppt

The effective income tax rate decreased from 35.0% in fiscal 2003 to 32.0% in fiscal 2004. The decrease in the fiscal 2004 effective income tax rate is primarily due to tax reserve adjustments including a $120 million reserve release as a result of the favorable resolution of certain federal income tax issues.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $319 million during the year ended October 1, 2005. The change in cash and cash equivalents is as follows:

(in millions)	**2005**	2004	2003
Cash provided by operating activities	**$ 4,269**	$ 4,370	$ 2,901
Cash used by investing activities	**(1,691)**	(1,484)	(1,034)
Cash used by financing activities	**(2,897)**	(2,701)	(1,523)
(Decrease)/increase in cash and cash equivalents	**$ (319)**	$ 185	$ 344

OPERATING ACTIVITIES

Cash provided by operations decreased 2% or $101 million, to $4.3 billion, driven by the timing of payments for accounts payable and accrued expenses as well as higher income tax payments and pension contributions. These decreases were partially offset by higher pre-tax income adjusted for non-cash items.

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 ended 2005, 2004 and 2003 are as follows:

(in millions)	**2005**	2004	2003
Beginning balances:			
Production and programming assets	**$ 6,422**	$ 6,773	$ 6,620
Programming liabilities	**(939)**	(1,029)	(1,179)
	5,483	5,744	5,441
Spending:			
Film and television production	**2,631**	2,610	3,099
Broadcast programming	**3,712**	3,693	4,071
	6,343	6,303	7,170
Amortization:			
Film and television production	**(3,243)**	(3,018)	(2,753)
Broadcast programming	**(3,668)**	(3,610)	(4,077)
	(6,911)	(6,628)	(6,830)
Change in film and television production and programming costs	**(568)**	(325)	340
Other non-cash activity	**(61)**	64	(37)
Ending balances:			
Production and programming assets	**5,937**	6,422	6,773
Programming liabilities	**(1,083)**	(939)	(1,029)
	$ 4,854	$ 5,483	$ 5,744

INVESTING ACTIVITIES

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

(in millions)	**2005**	2004	2003
Media Networks	**$ 228**	$ 221	$ 203
Parks and Resorts:			
Domestic	**726**	719	577
International[1]	**711**	289	—
Studio Entertainment	**37**	39	49
Consumer Products	**10**	14	44
Corporate and unallocated	**111**	145	176
	$1,823	$1,427	$1,049

[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 international park spending in 2005 primarily reflects Hong Kong Disneyland construction costs where capital expenditures totaled

$591 million compared to the prior year amount of $251 million which includes only six months of activity. Our equity partner contributed $147 million in fiscal 2005 and $66 million in the second half of fiscal 2004, which are included as sources of cash in financing activities. Capital spending at Hong Kong Disneyland is expected to decrease in fiscal 2006 as the theme park opened in September 2005.

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 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 certain financial investments totaling $67 million, made equity contributions to Hong Kong Disneyland totaling $46 million 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).

During fiscal 2003, the Company invested $130 million primarily for the acquisition of a radio station. The Company also made equity contributions to Hong Kong Disneyland totaling $47 million and received proceeds of $166 million collectively from the sale of the Anaheim Angels and certain utility infrastructure at Walt Disney World.

FINANCING ACTIVITIES

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

During the year ended October 1, 2005, the Company's borrowing activity was as follows:

(in millions)	September 30, 2004	Additions	Payments	Other Activity	**October 1, 2005**
Commercial paper	$ 100	$ 654	$ —	$ —	**$ 754**
U.S. medium-term notes and other U.S. dollar denominated debt[1]	7,573	—	(778)	(167)	**6,628**
Convertible senior notes	1,323	—	—	—	**1,323**
Privately placed debt	254	—	(96)	—	**158**
European medium-term notes	1,099	—	(886)	—	**213**
Preferred stock	373	—	—	(10)	**363**
Film financing arrangement	—	75	—	—	**75**
Euro Disney borrowings[2]	2,221	—	(15)	(170)	**2,036**
Hong Kong Disneyland borrowings	545	347	—	25	**917**
Total	$13,488	$1,076	$(1,775)	$(322)	**$12,467**

[1] Other activity primarily includes adjustments related to interest rate hedging activity.

[2] Other activity included a $130 million reduction of Euro Disney senior debt using cash security deposits and a $33 million decrease due to foreign currency translation as a result of the appreciation 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 2009	$2,250	$210	$2,040
Bank facilities expiring 2010	2,250	—	2,250
Total	$4,500	$210	$4,290

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 0.575%. As of October 1, 2005, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to $500 million of letters of credit under the facility expiring in 2009, which if utilized, reduces available borrowing. As of October 1, 2005, letters of credit in an aggregate amount of $210 million had been issued under this facility.

The Company expects to use commercial paper borrowings up to the amount of its 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.

On January 18, 2005, the Company filed 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. The Company subsequently established a domestic medium-term note program under this shelf registration, which permits issuance of $5 billion of debt instruments, of which none have been issued at October 1, 2005. In addition to the shelf, the Company also has a European medium-term note program, which permits issuance of approximately $4 billion of additional debt instruments, of which $0.2 billion has been utilized at October 1, 2005.

The Company declared an annual dividend of $0.27 per share on December 1, 2005 related to fiscal 2005. The dividend is payable on January 6, 2006 to shareholders of record on December 12, 2005. The Company paid a $490 million dividend ($0.24 per share) during the second quarter of fiscal 2005 applicable to fiscal 2004; paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 applicable to fiscal 2003; and paid a $429 million dividend ($0.21 per share) during the first quarter of fiscal 2003 applicable to fiscal 2002.

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. No shares of Disney common stock were repurchased during fiscal 2003. As of October 1, 2005, the Company had authorization to repurchase approximately 225 million additional shares, of which the Company has repurchased 47 million shares for $1.1 billion subsequent to year-end through December 2, 2005.

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 October 1, 2005, Moody's Investors Service's long and short-term debt ratings for the Company were Baal and P-2, respectively, with positive outlook for the long-term rating; 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 October 1, 2005, 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.

Hong Kong Disneyland is subject to financial covenants under its loan agreements beginning in fiscal year 2006. Euro Disney has covenants under its debt agreements that limit its investing and financing activities. Beginning with fiscal year 2006, Euro Disney must meet financial performance covenants that will necessitate earnings growth. Management currently expects operating results to be sufficient to meet these covenants. There can be no assurance that the foregoing financial covenants will be met at any given time in the future.

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. 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 commercial commitments on an undiscounted basis at October 1, 2005 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 6)[1]	$18,916	$2,855	$3,110	$1,214	$11,737
Operating lease commitments (Note 13)	1,636	279	457	320	580
Capital lease obligations (Note 13)	934	44	129	88	673
Sports programming commitments (Note 13)	15,837	2,524	4,275	3,418	5,620
Broadcast programming commitments (Note 13)	3,720	1,650	1,006	619	445
Total sports and other broadcast programming commitments	19,557	4,174	5,281	4,037	6,065
Other[2]	2,079	887	808	288	96
Total contractual obligations[3]	$43,122	$8,239	$9,785	$5,947	$19,151

[1] Amounts exclude market value adjustments totaling $213 million, which are recorded on 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] Comprised of the following:

Liabilities recorded on the balance sheet	$13,635
Commitments not recorded on the balance sheet	29,487
	$43,122

The Company also has obligations with respect to its pension and post retirement medical benefit plans. See Note 8 to the Consolidated Financial Statements.

Contingent Commitments and Contingencies 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.

Contractual Guarantees See Note 13 to the Consolidated Financial Statements for information regarding the Company's contractual guarantees.

Information Technology Outsourcing During the year, 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 will retain 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 anticipates spending approximately $1.3 billion for these services over the next seven years, which is less than what we estimate we would have spent had we not outsourced these functions.

DVD Manufacturing Arrangement The Company has a sole-source arrangement in the United States and a number of international markets with a third-party manufacturer to meet the Company's DVD manufacturing and warehousing requirements which 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 2005 were approximately $0.7 billion.

Legal and Tax Matters As disclosed in Notes 7 and 13 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, requires 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 production and participations as well as certain multi-year sports rights over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues or on a straight-line basis, as appropriate. These estimates are calculated on an individual production basis for film and television and on an individual contract basis for sports rights. Estimates of total gross revenues can change significantly due to a variety of factors, including advertising rates, the level of market acceptance of the production and trends in consumer behavior.

For film productions, estimated remaining gross revenue from all sources includes revenue 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.

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

Costs of film and television productions and programming costs for our television 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, which are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements for a summary of these revenue recognition policies.

We record reductions to revenues for estimated future returns of merchandise, primarily home video, DVD and software products, and for customer programs and sales incentives. These estimates are based upon historical return experience, current economic trends and projections of customer demand for and acceptance of our products. If we underestimate the level of returns in a particular period, we may record less revenue in later periods when returns exceed the predicted amount. Conversely, if we overestimate the level of returns for a period, we may have additional revenue in later periods when returns are less than predicted.

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets and tickets sold through bulk distribution channels, we recognize revenue 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 decreased our discount rate to 5.25% in 2005 from 6.30% in 2004 to reflect market interest rate conditions at our June 30, 2005 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 percent decrease in the assumed discount rate would increase total net periodic pension and postretirement medical expense for fiscal 2006 by $167 million and would increase the projected benefit obligation at October 1, 2005 by $1.1 billion, respectively. A one percent increase in the assumed discount rate would decrease these amounts by $139 million and $919 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 2005 and 2004, respectively. A one percent change in the long-term return on pension plan asset assumption would impact fiscal 2006 annual pension and postretirement medical expense by approximately $36 million. See Note 8 to the Consolidated Financial Statements.

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 intangible assets be tested for impairment on an annual basis. We completed our impairment testing as of October 1, 2005 and determined that there were no impairment losses related to goodwill and other intangible assets prior to the implementation of Emerging Issues Task Force Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill* (EITF D-108), as described under "Accounting Changes" below. In assessing the recoverability of goodwill and other 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.

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. For purposes of performing the impairment test for goodwill as required by SFAS 142 we established the following reporting units: Cable Networks, Television Broadcasting, Radio, Studio Entertainment, Consumer Products and Parks and Resorts.

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 Television Network, a business within the Television Broadcasting reporting unit. The Television Broadcasting reporting unit includes the Television Network and the owned and operated television stations. These businesses have been grouped together because their respective cash flows are dependent on one another. For purposes of our impairment test, we used a revenue multiple to value the Television Network. We did not use a present value technique or a market multiple approach to value the Television Network 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. 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.

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 13 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. 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 are no longer required with respect to these matters. 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 are no longer required with respect to these matters. During the fourth quarter of fiscal 2003, the Company favorably resolved certain state income tax audit issues and released $56 million of related tax reserves.

Stock Option Compensation Expense Compensation expense for stock options is estimated on the grant date using a Black-Scholes option-pricing model. The weighted average assumptions used in the Black-Scholes model were 4.75, 6.0 and 6.0 years for the expected term and 27%, 40% and 40% for the expected volatility for fiscal years 2005, 2004 and 2003, respectively. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

In connection with the adoption of SFAS 123R (see Note 2 to the Consolidated Financial Statements), the Company reviewed and updated, among other things, its forfeiture, expected term and volatility assumptions. The weighted average expected option term for 2005 reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107), which was issued in March 2005. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

Estimated volatility for fiscal 2005 also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical and implied share-price volatility, with implied volatility derived from exchange traded options on the Company's common stock and other traded financial instruments, such as the Company's convertible debt. Volatility for 2004 and 2003 was estimated based upon historical share-price volatility. See Note 10 to the Consolidated Financial Statements for more detailed information.

ACCOUNTING CHANGES

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 allows 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 year prior to 2005 have not been restated. The adoption of SFAS 123R in fiscal 2005 resulted in the recognition of stock option expense of $253 million and $53 million of net capitalized compensation costs, a reduction in net income of $160 million (net of tax benefits of $93 million), a reduction in basic and diluted earnings per share of $0.08, a reduction of $24 million in cash flows from operating activities and an increase of $24 million in cash flows from financing activities.

The following table shows the fiscal 2005 quarterly after-tax effect of the adoption of the new accounting standard.

(in millions, except per share data)	Three Months Ended Jan. 1, 2005		Three Months Ended April 2, 2005		Three Months Ended July 2, 2005		Three Months Ended Oct. 1, 2005		Year Ended Oct. 1, 2005	
	Income	EPS	Income	EPS	Income	EPS	Income	EPS[2]	Income	EPS
Results prior to SFAS 123R adoption[1]	$723	$ 0.35	$698	$ 0.33	$851	$ 0.41	$457	$ 0.23	$2,729	$ 1.32
Impact of accounting change	(37)	(0.02)	(41)	(0.02)	(40)	(0.02)	(42)	(0.02)	(160)	(0.08)
Results subsequent to SFAS 123R adoption[1]	$686	$ 0.33	$657	$ 0.31	$811	$ 0.39	$415	$ 0.20	$2,569	$ 1.24

[1] Amounts represent income before the cumulative effect of accounting change related to EITF D-108 discussed below.
[2] EPS does not equal the sum of the column due to rounding.
[3] EPS for the year does not equal the sum of the quarters due to rounding.

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 years ended September 30, 2004 and 2003, 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 those years. 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	2003
Net income		
As reported	$2,345	$1,267
Less stock option expense, net of tax[1]	(255)	(294)
Pro forma after option expense	$2,090	$ 973
Diluted earnings per share		
As reported	$ 1.12	$ 0.62
Pro forma after option expense	1.00	0.48
Basic earnings per share		
As reported	$ 1.14	$ 0.62
Pro forma after option expense	1.02	0.48

[1] Does not include restricted stock unit (RSU) expense which is reported in net income. See Note 10 to the Consolidated Financial Statements.

The impact of stock options and RSUs for fiscal 2005, and on a pro forma basis for fiscal 2004 and 2003 as if the Company had been expensing stock options as disclosed in our footnotes pursuant to SFAS 123, on income and earnings per share was as follows (in millions, except per share amounts):

	As Reported	Pro Forma	
	2005	2004	2003
Stock option compensation expense	**$ 253**	$ 405	$ 466
RSU compensation expense	**127**	66	20
Total equity based compensation expense	**$ 380**	$ 471	$ 486
Reduction in net income, net of tax	**$ 240**	$ 297	$ 307
Reduction in diluted earnings per share	**$0.11**	$0.14	$0.15

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.

SFAS 152 and SOP 04-2 In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 152, *Accounting for Real Estate Time-Sharing Transactions* (SFAS 152). The FASB issued this statement as a result of guidance provided in American Institute of Certified Public Accountants Statement of Position 04-2, *Accounting for Real Estate Time-Sharing Transactions* (SOP 04-2), which applies to all real estate time-sharing transactions. SFAS 152 is effective for fiscal years beginning after June 15, 2005. We expect that the impact of adoption will not be material to our financial statements.

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 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 4 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.

EITF 00-21 The Company adopted EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), effective at the beginning of fiscal 2003. EITF 00-21 addresses revenue recognition for revenues derived from a single contractual arrangement that contains multiple products or services. The rule provides additional requirements to determine when such revenues may be recorded separately for accounting purposes. Previously, the Company had recognized the NFL broadcast portion of ESPN's affiliate revenue when the NFL games were aired, as ESPN's affiliate contracts provided a basis for allocating such revenue between NFL and non-NFL programming. Since the cost of the NFL rights had also been recognized as the games were aired, the Company recognized both the NFL revenues and NFL costs in the quarters the games were aired.

Under EITF 00-21's requirements for separating the revenue elements of a single contract, beginning in fiscal 2003 the Company no longer allocates ESPN's affiliate revenue between NFL and non-NFL programming for accounting purposes. As a consequence, the Company no longer matches all NFL revenue with NFL costs, as ESPN affiliate revenue (including the NFL portion) is generally recognized ratably throughout the year, while NFL contract costs continues to be recognized in the quarters the games are aired. This accounting change impacts only the timing of revenue recognition and has no impact on cash flow. As a result of this change, the Media Networks segment reports significantly reduced revenue and profitability in the first fiscal quarter when the majority of the NFL games are aired, with commensurately increased revenues and profits in the second and third fiscal quarters.

The Company elected to adopt this new accounting rule using the cumulative effect approach and recorded an after-tax charge of $71 million for the cumulative effect of a change in accounting as of the beginning of fiscal year 2003. This amount represented the revenue recorded for NFL games in the fourth quarter of fiscal year 2002, which has been recorded ratably over fiscal 2003 under the new accounting method.

POTENTIAL DILUTION FROM EMPLOYEE STOCK OPTIONS

Fully diluted shares outstanding and diluted earnings per share include the effect of in-the-money stock options calculated based on the average share price for the period and assumes conversion of the convertible senior notes (see Note 6 to the Consolidated Financial Statements). The dilution from outstanding employee options would increase if the Company's share price increases, as shown below:

Average Disney Share Price	Total In-the-Money Options	Incremental Diluted Shares[1]	Percentage of Average Shares Outstanding	Hypothetical FY 2005 EPS Impact[3]
$26.76	132 million	—[2]	—	$0.00
30.00	161 million	7 million	0.34%	(0.00)
40.00	219 million	34 million	1.63%	(0.02)
50.00	226 million	53 million	2.54%	(0.03)

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

[2] Fully diluted shares outstanding for the year ended October 1, 2005 total 2,089 million and include the dilutive impact of in-the-money options at the average share price for the period of $26.76 and the assumed conversion of the convertible senior notes. At the average share price of $26.76, the dilutive impact of in-the-money options was 16 million shares for the year.

[3] Based upon fiscal 2005 income before the cumulative effect of accounting change of $2.6 billion or $1.24 diluted earnings per share before the cumulative effect of accounting change.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives, or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management's views and assumptions as of the time the statements are made and we undertake no obligation to update these statements. There can be no assurance, however, that our expectations will necessarily come to pass. Significant factors affecting these expectations are set forth under Item 1A – Risk Factors of this Report on Form 10-K.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

POLICIES AND PROCEDURES

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

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

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

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

VALUE AT RISK (VAR)

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange and market sensitive equity financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company's computations are based on the interrelationships between movements in various interest rates, currencies and equity prices (a variance/co-variance technique). These interrelationships were determined by observing interest rate, foreign currency and equity market changes over the preceding quarter for the calculation of VAR amounts at year end fiscal 2005. 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 decreased from $31 million at September 30, 2004 to $21 million at October 1, 2005. The majority of the decrease is due to lower volatility and a lower market value of interest rate sensitive instruments.

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

Fiscal Year 2005	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
Year end VAR	$24	$12	$1	$21
Average VAR	$29	$14	$1	$28
Highest VAR	$32	$16	$1	$36
Lowest VAR	$24	$12	$0	$21
Beginning of year VAR (year end fiscal 2004)	$33	$17	$0	$31

The VAR for Euro Disney and Hong Kong Disneyland is immaterial as of October 1, 2005. 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 VAR calculation.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	**2005**	2004	2003
Revenues	**$ 31,944**	$ 30,752	$ 27,061
Costs and expenses	**(27,837)**	(26,704)	(24,348)
Gain on sale of businesses and restructuring and impairment charges	**(6)**	(64)	—
Net interest expense	**(597)**	(617)	(793)
Equity in the income of investees	**483**	372	334
Income before income taxes, minority interests and the cumulative effect of accounting changes	**3,987**	3,739	2,254
Income taxes	**(1,241)**	(1,197)	(789)
Minority interests	**(177)**	(197)	(127)
Income before the cumulative effect of accounting changes	**2,569**	2,345	1,338
Cumulative effect of accounting changes	**(36)**	—	(71)
Net income	**$ 2,533**	$ 2,345	$ 1,267
Earnings per share before the cumulative effect of accounting changes:			
Diluted	**$ 1.24**	$ 1.12	$ 0.65
Basic	**$ 1.27**	$ 1.14	$ 0.65
Cumulative effect of accounting changes per share	**$ (0.02)**	$ —	$ (0.03)
Earnings per share:			
Diluted	**$ 1.22**	$ 1.12	$ 0.62
Basic	**$ 1.25**	$ 1.14	$ 0.62
Average number of common and common equivalent shares outstanding:			
Diluted	**2,089**	2,106	2,067
Basic	**2,028**	2,049	2,043

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)	October 1, 2005	September 30, 2004
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,723**	$ 2,042
Receivables	**4,585**	4,558
Inventories	**626**	775
Television costs	**510**	484
Deferred income taxes	**749**	772
Other current assets	**652**	738
Total current assets	**8,845**	9,369
Film and television costs	**5,427**	5,938
Investments	**1,226**	1,292
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**27,570**	25,168
Accumulated depreciation	**(12,605)**	(11,665)
	14,965	13,503
Projects in progress	**874**	1,852
Land	**1,129**	1,127
	16,968	16,482
Intangible assets, net	**2,731**	2,815
Goodwill	**16,974**	16,966
Other assets	**987**	1,040
	$ 53,158	$ 53,902
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 5,339**	$ 5,623
Current portion of borrowings	**2,310**	4,093
Unearned royalties and other advances	**1,519**	1,343
Total current liabilities	**9,168**	11,059
Borrowings	**10,157**	9,395
Deferred income taxes	**2,430**	2,950
Other long-term liabilities	**3,945**	3,619
Minority interests	**1,248**	798
Commitments and contingencies (Note 13)	**—**	—
Shareholders' equity		
Preferred stock, $.01 par value		
Authorized — 100 million shares, Issued — none	**—**	—
Common stock, $.01 par value		
Authorized — 3.6 billion shares,		
Issued — 2.2 billion shares at October 1, 2005 and 2.1 billion at September 30, 2004	**13,288**	12,447
Retained earnings	**17,775**	15,732
Accumulated other comprehensive loss	**(572)**	(236)
	30,491	27,943
Treasury stock, at cost, 192.8 million shares at October 1, 2005 and 101.6 million shares at September 30, 2004	**(4,281)**	(1,862)
	26,210	26,081
	$ 53,158	$ 53,902

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	**2005**	2004	2003
OPERATING ACTIVITIES			
Net income	**$ 2,533**	$ 2,345	$ 1,267
Depreciation and amortization	**1,339**	1,210	1,077
Deferred income taxes	**(262)**	(98)	441
Equity in the income of investees	**(483)**	(372)	(334)
Cash distributions received from equity investees	**402**	408	340
Restructuring and impairment charges	**—**	52	13
Write-off of aircraft leveraged lease	**101**	16	114
Cumulative effect of accounting changes	**36**	—	—
Minority interests	**177**	197	127
Net change in film and television costs	**568**	325	(340)
Equity based compensation	**380**	66	20
Other	**(167)**	(43)	(56)
Changes in operating assets and liabilities			
Receivables	**(157)**	(16)	(194)
Inventories	**22**	(40)	(6)
Other assets	**(85)**	(147)	216
Accounts payable and other accrued liabilities	**(257)**	560	159
Income taxes	**122**	(93)	57
Cash provided by operations	**4,269**	4,370	2,901
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	**(1,823)**	(1,427)	(1,049)
Working capital proceeds from The Disney Store North America sale	**100**	—	—
Acquisitions	**(9)**	(48)	(130)
Dispositions	**29**	—	166
Other	**12**	(9)	(21)
Cash used by investing activities	**(1,691)**	(1,484)	(1,034)
FINANCING ACTIVITIES			
Commercial paper borrowings, net	**654**	100	(721)
Borrowings	**422**	176	1,635
Reduction of borrowings	**(1,775)**	(2,479)	(2,059)
Repurchases of common stock	**(2,420)**	(335)	—
Dividends	**(490)**	(430)	(429)
Equity partner contribution	**147**	66	—
Euro Disney equity offering	**171**	—	—
Exercise of stock options	**394**	201	51
Cash used by financing activities	**(2,897)**	(2,701)	(1,523)
(Decrease)/increase in cash and cash equivalents	**(319)**	185	344
Cash and cash equivalents due to the initial consolidation of Euro Disney and Hong Kong Disneyland	**—**	274	—
Cash and cash equivalents, beginning of year	**2,042**	1,583	1,239
Cash and cash equivalents, end of year	**$ 1,723**	$ 2,042	$ 1,583
Supplemental disclosure of cash flow information:			
Interest paid	**$ 641**	$ 624	$ 705
Income taxes paid	**$ 1,572**	$ 1,349	$ 371

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	TWDC Stock Compensation Fund	Total Shareholders' Equity
BALANCE AT SEPTEMBER 30, 2002	2,041	$12,107	$12,979	$ (85)	$(1,395)	$(161)	$23,445
Exercise of stock options and issuance of restricted stock	3	47	—	—	29	—	76
Dividends ($0.21 per share)	—	—	(429)	—	—	—	(429)
Expiration of the TWDC stock compensation fund	—	—	—	—	(161)	161	—
Other comprehensive loss (net of tax of $334 million)	—	—	—	(568)	—	—	(568)
Net income	—	—	1,267	—	—	—	1,267
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**

Accumulated other comprehensive loss is as follows:

	October 1, 2005	September 30, 2004
Market value adjustments for investments and hedges	**$ 31**	$ (61)
Foreign currency translation and other	**106**	86
Additional minimum pension liability adjustment	**(709)**	(261)
	$(572)	$(236)

Comprehensive income is as follows:

	2005	2004	2003
Net income	**$2,533**	$2,345	$1,267
Market value adjustments for investments and hedges	**92**	47	(77)
Foreign currency translation and other	**20**	23	73
Additional minimum pension liability adjustment, (increase) decrease (See Note 8)	**(448)**	347	(564)
Comprehensive income	**$2,197**	$2,762	$ 699

See Notes to Consolidated Financial Statements

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 and the ABC 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 ABC Radio Networks. The Company has cable/satellite and international broadcast operations which are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in foreign television broadcasting, production and distribution entities. Primary cable/satellite programming services, which operate through consolidated subsidiary companies, are 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 Web site businesses.

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 September 2005. During fiscal 2004, the Company began consolidating the results of Euro Disney and Hong Kong Disneyland (see Notes 2 and 4). 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. 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, Miramax and Dimension (for titles released prior to September 30, 2005) banners. 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 distribution, principally through The Disney Store. The Company publishes books and magazines for children and families, computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace. The Company's Direct Marketing business operates The Disney Catalog, which markets Disney-themed merchandise through the direct mail channel. Catalog offerings include merchandise developed exclusively for The Disney Catalog and DisneyDirect.com, which is an internet shopping site, as well as other internal Disney businesses and Disney licensees.

SEGMENT INFORMATION

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

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

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 an arm's-length transaction.

	2005	2004	2003
Revenues			
Media Networks	**$13,207**	$11,778	$10,941
Parks and Resorts	**9,023**	7,750	6,412
Studio Entertainment			
Third parties	**7,499**	8,637	7,312
Intersegment	**88**	76	52
	7,587	8,713	7,364
Consumer Products			
Third parties	**2,215**	2,587	2,396
Intersegment	**(88)**	(76)	(52)
	2,127	2,511	2,344
Total consolidated revenues	**$31,944**	$30,752	$27,061
Segment operating income			
Media Networks	**$ 2,749**	$ 2,169	$ 1,213
Parks and Resorts	**1,178**	1,123	957
Studio Entertainment	**207**	662	620
Consumer Products	**520**	534	384
Total segment operating income	**$ 4,654**	$ 4,488	$ 3,174
Reconciliation of segment operating income to income before income taxes, minority interests and the cumulative effect of accounting changes			
Segment operating income	**$ 4,654**	$ 4,488	$ 3,174
Corporate and unallocated shared expenses	**(536)**	(428)	(443)
Amortization of intangible assets	**(11)**	(12)	(18)
Gain on sale of businesses and restructuring and impairment charges	**(6)**	(64)	—
Net interest expense	**(597)**	(617)	(793)
Equity in the income of investees	**483**	372	334
Income before income taxes, minority interests and the cumulative effect of accounting changes	**$ 3,987**	$ 3,739	$ 2,254
Capital expenditures			
Media Networks	**$ 228**	$ 221	$ 203
Parks and Resorts			
Domestic	**726**	719	577
International[1]	**711**	289	—
Studio Entertainment	**37**	39	49
Consumer Products	**10**	14	44
Corporate	**111**	145	176
Total consolidated capital expenditures	**$ 1,823**	$ 1,427	$ 1,049
Depreciation expense			
Media Networks	**$ 182**	$ 172	$ 169
Parks and Resorts			
Domestic	**756**	710	681
International[1]	**207**	95	—
Studio Entertainment	**26**	22	39
Consumer Products	**25**	44	63
Corporate	**132**	155	107
Total consolidated depreciation expense	**$ 1,328**	$ 1,198	$ 1,059

	2005	2004	2003
Identifiable assets			
Media Networks[2][3]	**$26,926**	$26,193	
Parks and Resorts	**15,807**	15,221	
Studio Entertainment	**5,965**	6,954	
Consumer Products	**877**	1,037	
Corporate[4]	**3,583**	4,497	
Total consolidated assets	**$53,158**	$53,902	
Supplemental revenue data			
Media Networks			
Advertising	**$ 7,721**	$ 6,611	$ 6,319
Affiliate Fees	**5,098**	4,408	3,682
Parks and Resorts			
Merchandise, food and beverage	**2,879**	2,429	1,987
Admissions	**2,771**	2,547	1,887
Revenues			
United States and Canada	**$24,806**	$24,012	$22,124
Europe	**5,207**	4,721	3,171
Asia Pacific	**1,451**	1,547	1,331
Latin America and Other	**480**	472	435
	$31,944	$30,752	$27,061
Segment operating income			
United States and Canada	**$ 3,512**	$ 2,934	$ 2,113
Europe	**688**	892	591
Asia Pacific	**377**	566	518
Latin America and Other	**77**	96	(48)
	$ 4,654	$ 4,488	$ 3,174
Identifiable assets			
United States and Canada	**$45,809**	$46,788	
Europe	**5,120**	5,370	
Asia Pacific	**2,110**	1,622	
Latin America and Other	**119**	122	
	$53,158	$53,902	

[1] Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures and depreciation expense for all periods beginning April 1, 2004. For fiscal 2005, Hong Kong Disneyland's capital expenditures totaled $591 million compared to the prior year amount of $251 million, which included only six months of activity. Our equity partner contributed $147 million in fiscal 2005 and $66 million in the second half of fiscal 2004, which are included as sources of cash in financing activities.

[2] Identifiable assets include amounts associated with equity method investments, including notes and other receivables of $1,039 and $951 in 2005 and 2004, respectively.

[3] Includes goodwill and other intangible assets totaling $19,284 and $19,341 in 2005 and 2004, respectively.

[4] Primarily deferred tax assets, investments, fixed and other assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions. In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development, Inc. and an indirect subsidiary of the Company, completed a receivable sale transaction which established a facility that permits DFI to sell receivables arising from the sale of vacation club memberships on a periodic basis. In connection with this facility, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

Accounting Changes

SFAS 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 allows 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 adoption of SFAS 123R in fiscal 2005 resulted in the recognition of stock option expense of $253 million and $53 million of net capitalized compensation costs, a reduction in net income of $160 million (net of tax benefits of $93 million), a reduction in basic and diluted earnings per share of $0.08, a reduction of $24 million in cash flows from operating activities and an increase of $24 million in cash flows from financing activities.

The following table shows the fiscal 2005 quarterly after-tax effect of the adoption of the new accounting standard.

	Unaudited									
	Three Months Ended Jan. 1, 2005		Three Months Ended April 2, 2005		Three Months Ended July 2, 2005		Three Months Ended Oct. 1, 2005		Year Ended Oct. 1, 2005	
	Income	EPS	Income	EPS	Income	EPS	Income	EPS[2]	Income	EPS[3]
Results prior to SFAS 123R adoption[1]	$723	$ 0.35	$698	$ 0.33	$851	$ 0.41	$457	$ 0.23	$2,729	$ 1.32
Impact of accounting change	(37)	(0.02)	(41)	(0.02)	(40)	(0.02)	(42)	(0.02)	(160)	(0.08)
Results subsequent to SFAS 123R adoption[1]	$686	$ 0.33	$657	$ 0.31	$811	$ 0.39	$415	$ 0.20	$2,569	$ 1.24

[1] Amounts represent income before the cumulative effect of accounting change related to EITF D-108 discussed below.
[2] EPS does not equal the sum of the column due to rounding.
[3] EPS for the year does not equal the sum of the quarters due to rounding.

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 years ended September 30, 2004 and 2003, 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 those years. 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	2003
Net income		
As reported	$2,345	$1,267
Less stock option expense, net of tax[1]	(255)	(294)
Pro forma after option expense	$2,090	$ 973
Diluted earnings per share		
As reported	$ 1.12	$ 0.62
Pro forma after option expense	1.00	0.48
Basic earnings per share		
As reported	$ 1.14	$ 0.62
Pro forma after option expense	1.02	0.48

[1] Does not include restricted stock unit (RSU) expense which is reported in net income. See Note 10.

The impact of stock options and RSUs for fiscal 2005, and on a pro forma basis for fiscal 2004 and 2003, as if the Company had been expensing stock options as disclosed in our footnotes pursuant to SFAS 123, on income and earnings per share was as follows:

	As Reported	Pro forma	
	2005	2004	2003
Stock option compensation expense	**$ 253**	$ 405	$ 466
RSU compensation expense	**127**	66	20
Total equity based compensation expense	**$ 380**	$ 471	$ 486
Reduction in net income, net of tax	**$ 240**	$ 297	$ 307
Reduction in diluted earnings per share	**$0.11**	$0.14	$0.15

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.

SFAS 152 and SOP 04-2 In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 152, *Accounting for Real Estate Time-Sharing Transactions* (SFAS 152). The FASB issued this statement as a result of guidance provided in American Institute of Certified Public Accountants Statement of Position 04-2, *Accounting for Real Estate Time-Sharing Transactions* (SOP 04-2), which applies to all real estate time-sharing transactions. SFAS 152 is effective for fiscal years beginning after June 15, 2005. We expect that the impact of adoption will not be material to our financial statements.

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 4).

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.

EITF 00-21 The Company adopted EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), effective at the beginning of fiscal 2003. EITF 00-21 addresses revenue recognition for revenues derived from a single contractual arrangement that contains multiple products or services. The rule provides additional requirements to determine when such revenues may be recorded separately for accounting purposes. Previously, the Company had recognized the NFL broadcast portion of ESPN's affiliate revenue when the NFL games were aired, as ESPN's affiliate contracts provided a basis for allocating such revenue between NFL and non-NFL programming. Since the cost of the NFL rights had also been recognized as the games were aired, the Company recognized both the NFL revenues and NFL costs in the quarters the games were aired.

Under EITF 00-21's requirements for separating the revenue elements of a single contract, beginning in fiscal 2003 the Company no longer allocates ESPN's affiliate revenue between NFL and non-NFL programming for accounting purposes. As a consequence, the Company no longer matches all NFL revenue with NFL costs, as ESPN affiliate revenue (including the NFL portion) is generally recognized ratably throughout the year, while NFL contract costs continue to be recognized in the quarters the games are aired. This accounting change impacts only the timing of revenue recognition and has no impact on cash flow. As a result of this change, the Media Networks segment reports significantly reduced revenue and profitability in the first fiscal quarter when the majority of the NFL games are aired, with commensurately increased revenues and profits in the second and third fiscal quarters.

The Company elected to adopt this new accounting rule using the cumulative effect approach and recorded an after-tax charge of $71 million for the cumulative effect of a change in accounting as of the beginning of fiscal year 2003. This amount represented the revenue recorded for NFL games in the fourth quarter of fiscal year 2002, which has been recorded ratably over fiscal 2003 under the new accounting method.

Reporting Period Effective with the beginning of fiscal 2005 and in connection with the completion of the Company's implementation of new company-wide accounting systems in late fiscal 2004, the Company changed its reporting period from a calendar period end to a period end that coincides with the cut-off of the Company's accounting systems. The accounting systems cut off on the Saturday closest to the calendar quarter end. Accordingly, fiscal 2005 began on October 1, 2004 and ended on October 1, 2005. This resulted in the same number of reporting days in each year, since fiscal 2004 included the additional day associated with the leap year. The change did not have a material impact on year-over-year earnings comparisons. Fiscal 2009 will be the first fifty-three week fiscal year following this change.

Reclassifications Certain reclassifications have been made in the fiscal 2004 and fiscal 2003 financial statements to conform to the fiscal 2005 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, which 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 and tickets sold through bulk distribution channels, we recognize revenue based on estimated usage patterns which 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 sales, net of anticipated returns, 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 advance and guarantee royalty payments are recognized when the underlying royalties are earned.

Advertising Expense Advertising costs are expensed as incurred. Advertising expense incurred for fiscal 2005, 2004 and 2003 totaled $2.9 billion, $3.0 billion and $2.5 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 the 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 from all sources on an individual production basis. Television network series costs and multi-year sports rights are charged to expense based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from such programs or on a straight-line basis, as appropriate. 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 television network series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition. 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. Development costs for projects that have been determined will not go into production or have not been set for production within three years are written off.

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.

Capitalized 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 October 1, 2005 and September 30, 2004, capitalized software costs totaled $483 million and $433 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, which ranges from 3-10 years.

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, which include 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 either the operating segment or one reporting level below the operating segment. For purposes of performing the impairment test for goodwill as required by SFAS 142, we established the following reporting units: Cable Networks, Television Broadcasting, Radio, Studio Entertainment, Consumer Products and Parks and Resorts.

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

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.

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 Television Network, a business within the Television Broadcasting reporting unit. The Television Broadcasting reporting unit includes the Television Network and the owned and operated television stations. These businesses have been grouped together because their respective cash flows are dependent on one another. For purposes of our impairment test, we used a revenue multiple to value the Television Network. We did not use a present value technique or a market multiple approach to value the Television Network 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. 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.

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 losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded on the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in 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 hedges are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 6 and 12).

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 6). 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:

	2005	2004	2003
Income before the cumulative effect of accounting changes	**$2,569**	$2,345	$1,338
Interest expense on convertible senior notes (net of tax)	**21**	21	10
	$2,590	$2,366	$1,348
Weighted average number of common shares outstanding (basic)	**2,028**	2,049	2,043
Weighted average dilutive stock options and restricted stock	**16**	12	3
Weighted average assumed conversion of convertible senior notes	**45**	45	21
Weighted average number of common and common equivalent shares outstanding (diluted)	**2,089**	2,106	2,067

For fiscal 2005, 2004 and 2003, options for 96 million, 124 million and 184 million shares, respectively, were excluded from the diluted EPS calculation for common stock because they were anti-dilutive.

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

On June 20, 2005, the Company sold the Mighty Ducks of Anaheim, which resulted in a pre-tax gain of $26 million that was reported in Gain on sale of businesses and restructuring and impairment charges 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 years ended September 30, 2004 and 2003, the Company recorded $64 million and $16 million, respectively, 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.

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 definite-lived identifiable intangible assets.

In fiscal 2003, the Company sold the Anaheim Angels baseball team, which resulted in a pre-tax gain of $16 million. This gain is reported in Gain on sale of businesses and restructuring and impairment charges in the Consolidated Statements of Income.

NOTE 4. INVESTMENTS

Investments consist of the following:

	October 1, 2005	September 30, 2004
Investments, at equity[1]	**$1,062**	$ 971
Investments, at cost[2]	**112**	165
Investment in aircraft leveraged leases	**52**	156
	$1,226	$1,292

[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.

[2] Cost investments consist of marketable securities classified as available-for-sale and investments in companies over which the Company does not have significant influence nor ownership of more than 20%.

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.

The following table presents a condensed consolidating balance sheet for the Company as of October 1, 2005, 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	$ 1,188	$ 535	$ 1,723
Other current assets	6,820	302	7,122
Total current assets	8,008	837	8,845
Investments	2,080	(854)	1,226
Fixed assets	12,533	4,435	16,968
Intangible assets	2,731	—	2,731
Goodwill	16,974	—	16,974
Other assets	6,407	7	6,414
Total assets	$48,733	$4,425	$53,158
Current portion of borrowings	$ 2,309	$ 1	$ 2,310
Other current liabilities	6,184	674	6,858
Total current liabilities	8,493	675	9,168
Borrowings	7,205	2,952	10,157
Deferred income taxes	2,438	(8)	2,430
Other long term liabilities	3,832	113	3,945
Minority interests	555	693	1,248
Shareholders' equity	26,210	—	26,210
Total liabilities and shareholders' equity	$48,733	$4,425	$53,158

The following table presents a condensed consolidating income statement of the Company for the year ended October 1, 2005, 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	$ 30,557	$ 1,387	$ 31,944
Cost and expenses	(26,349)	(1,488)	(27,837)
Gain on sale of businesses and restructuring and impairment charges	(6)	—	(6)
Net interest expense	(587)	(10)	(597)
Equity in the income of investees	441	42	483
Income before income taxes and minority interests	4,056	(69)	3,987
Income taxes	(1,249)	8	(1,241)
Minority interests	(238)	61	(177)
Income before the cumulative effect of accounting change	2,569	—	2,569
Cumulative effect of accounting change	(36)	—	(36)
Net income	$ 2,533	$ —	$ 2,533

[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 October 1, 2005, 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	$ 4,152	$ 117	$ 4,269
Investments in parks, resorts and other property	(1,112)	(711)	(1,823)
Other investing activities	(38)	170	132
Cash provided (used) by financing activities	(3,544)	647	(2,897)
(Decrease)/increase in cash and cash equivalents	(542)	223	(319)
Cash and cash equivalents, beginning of year	1,730	312	2,042
Cash and cash equivalents, end of year	$ 1,188	$ 535	$ 1,723

Euro Disney Financial Restructuring Effective October 1, 2004, Euro Disney, the Company and Euro Disney's lenders finalized a Memorandum of Agreement (MOA) relating to the financial restructuring of Euro Disney. The MOA provides for new financing as well as the restructuring of Euro Disney's existing financing. 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 discussed below
- 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 €39 million has been incurred through the end of fiscal 2005

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, 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. There were no interest payments converted to long-term subordinated borrowings in fiscal 2005
- Interest payments for fiscal 2013 through fiscal 2014, 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 October 1, 2005

Any subordinated long-term borrowings due to the Company and CDC cannot be paid until all senior borrowings have been paid.

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 SCA, 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 SCA that would have been due if Euro Disney exercised the options under certain leases from Disney SCA. In connection with the 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.

The MOA resulted in the elimination of certain sublease arrangements between the Company's then wholly-owned subsidiary, Disney SCA and Euro Disney. These subleases arose in connection with a financial restructuring of Euro Disney in 1994 whereby Disney SCA (which was then in the form of a SNC) 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.

As discussed above, the MOA provided for a 2% interest rate increase for certain tranches of Euro Disney's debt, which resulted 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 expenses" 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 the operating subsidiary of Euro Disney to which substantially all of Euro Disney's assets and liabilities were transferred in the restructuring. In addition to their interest in this operating subsidiary of Euro Disney, certain of these subsidiaries of the Company have been capitalized with interest-bearing demand notes with an aggregate face value of €200 million.

See Note 6 for the terms of Euro Disney's borrowings.

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. Euro Disney had revenues and net loss of $1,077 million and $56 million, respectively, for the year ended September 30, 2003.

Other Equity Investments In addition to the Company's investments in Euro Disney and Hong Kong Disneyland, the Company has other equity investments, primarily comprised of cable investments such as A&E Television Networks (37.5% owned), Lifetime Entertainment Services (50.0% owned) and E! Entertainment Television (39.6% owned).

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

	2005	2004	2003
Results of Operations:			
Revenues	**$4,317**	$3,893	$3,453
Net Income	**$1,275**	$1,017	$ 826

	October 1, 2005	September 30, 2004
Balance Sheet:		
Current assets	**$2,323**	$2,025
Non-current assets	**1,399**	1,167
	$3,722	$3,192
Current liabilities	**$ 929**	$ 902
Non-current liabilities	**915**	727
Shareholders' equity	**1,878**	1,563
	$3,722	$3,192

Cost Investments As of October 1, 2005 and September 30, 2004, the Company held $62 million and $60 million, respectively, of securities classified as available-for-sale. As of October 1, 2005 and September 30, 2004, the Company also held $50 million and $105 million, respectively, of non-publicly traded cost method investments. Realized gains and losses are determined principally on an average cost basis. In 2005, 2004 and 2003, the Company recognized $14 million, $2 million and $8 million, respectively, in net gains on sales of securities.

In 2005, 2004 and 2003, the Company recorded non-cash charges of $42 million, $23 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 investment in the 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. During the first quarter of fiscal 2003, the Company wrote off its investment in aircraft leveraged leases with United Airlines, Inc., which filed for bankruptcy protection, resulting in a pre-tax charge of $114 million, or $0.04 per share. Based on the bankruptcy filings, we believe it is unlikely that the Company will recover these investments. The pre-tax charges for these write-offs were reported in "Net interest expense" in the Consolidated Statements of Income. In the event of a material modification to the Delta aircraft leases or foreclosure of the Delta aircraft by the debt holders, certain tax payments of up to $100 million 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. As of October 1, 2005, our remaining aircraft leveraged lease investment totaled approximately $52 million with FedEx Corp.

NOTE 5. FILM AND TELEVISION COSTS

Film and Television costs are as follows:

	October 1, 2005	September 30, 2004
Theatrical film costs		
Released, less amortization	**$2,048**	$2,319
Completed, not released	**407**	633
In-process	**838**	1,000
In development or pre-production	**112**	130
	3,405	4,082
Television costs		
Released, less amortization	**851**	893
Completed, not released	**259**	175
In-process	**245**	292
In development or pre-production	**33**	24
	1,388	1,384
Television broadcast rights	**1,144**	956
	5,937	6,422
Less current portion	**510**	484
Non-current portion	**$5,427**	$5,938

Based on management's total gross revenue estimates as of October 1, 2005, approximately 39% of completed and unamortized film and television costs (excluding amounts allocated to acquired film and television libraries) are expected to be amortized during fiscal 2006. Approximately 74% of unamortized film and television costs for released productions (excluding acquired film libraries) are expected to be amortized during the next three years. By October 3, 2009, approximately 84% of the total released and unamortized film and television costs are expected to be amortized. As of October 1, 2005, the Company estimated that approximately $554 million of accrued participation and residual liabilities will be payable in fiscal year 2006.

At October 1, 2005, acquired film and television libraries have remaining unamortized film costs of $427 million which are generally amortized straight-line over a remaining period of approximately 5-15 years.

NOTE 6. BORROWINGS

The Company's borrowings at October 1, 2005 and September 30, 2004, including the impact of interest rate swaps designated as hedges at October 1, 2005 are summarized below:

			2005				
				Interest rate and Cross-Currency Swaps[2]			
	2005	2004	Stated Interest Rate[1]	Pay Variable	Pay Fixed	Effective Interest Rate[3]	Swap Maturities
Commercial paper	$ 754	$ 100	3.84%	$ —	$ —	3.84%	—
U.S. medium-term notes	5,849	6,624	6.25%	685	—	5.41%	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	158	254	7.02%	158	—	5.45%	2007
European medium-term notes	213	1,099	5.74%	213	—	3.79%	2006-2007
Preferred stock	363	373	9.00%	—	—	9.00%	—
Capital Cities/ABC debt	186	189	9.07%	—	—	8.83%	—
Film financing arrangement	75	—	—	—	—	—	—
Other[4]	288	455	—	—	—	—	—
	9,514	10,722	5.43%	1,056	—	4.84%	—
Euro Disney (ED) and Hong Kong Disneyland (HKDL):							
ED – CDC loans	1,160	1,119	5.30%	—	—	5.30%	—
ED – Credit facilities & other	458	608	5.19%	—	—	5.19%	—
ED – Other advances	418	494	3.09%	—	—	3.09%	—
HKDL – Senior and subordinated loans	917	545	3.68%	—	242	3.12%	2005
	2,953	2,766	4.47%	—	242	4.29%	—
Total borrowings	12,467	13,488	5.20%	1,056	242	4.71%	—
Less current portion[5]	2,310	4,093		410	—		
Total long-term borrowings	$10,157	$ 9,395		$ 646	$242		

[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 October 1, 2005; 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 current and non-current debt with qualifying hedges totaling $213 million and $369 million at October 1, 2005 and September 30, 2004, respectively.
[5] In the second quarter of 2005, approximately $2.2 billion of Euro Disney's borrowings were reclassified to long-term as the debt is no longer subject to acceleration by the lenders due to the Euro Disney financial restructuring.

Commercial Paper The Company currently maintains U.S. and European commercial paper programs with a combined program size of $4.5 billion. As of October 1, 2005, the Company had established bank facilities totaling $4.5 billion to support commercial paper borrowings, with half of the facilities scheduled to expire in 2009 and the other half in 2010. 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 October 1, 2005 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 October 1, 2005, the Company had not borrowed against the facilities. The Company also has the ability to issue up to $500 million of letters of credit under the facility expiring in 2009, which if utilized, reduces available borrowing under this facility. As of October 1, 2005, $210 million of letters of credit had been issued under this facility and $2.04 billion was available for borrowing. At October 1, 2005, $754 million of commercial paper debt was outstanding.

$5 Billion Shelf Registration Statement On January 18, 2005, the Company filed 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. The Company subsequently established a domestic medium-term note program under this shelf registration, which permits the issuance of $5 billion of debt instruments, of which none have been issued at October 1, 2005. Our ability to issue debt is subject to market conditions and other factors impacting our borrowing capacity. As of October 1, 2005, the entire amount of the $5 billion shelf registration was available for utilization.

U.S. Medium-Term Note Program At October 1, 2005, the total debt outstanding under prior U.S. medium-term note programs was $5.8 billion. The maturities of current outstanding borrowings range from 1 to 88 years and stated interest rates range from 2.31% to 7.76%. Previously existing medium-term note programs were replaced by the $5 billion U.S. medium-term note program described above.

Other U.S. Dollar Denominated Debt At October 1, 2005, other U.S. dollar denominated debt consisted of $305 million of quarterly interest bonds (QUIBS) that bear interest of 7% and mature in 2031.

Convertible Senior Notes In April 2003, the Company issued $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.

Privately Placed Debt In 1996, the Company raised $850 million of privately placed financing. The notes pay 7.02% interest per annum and amortize semi-annually to maturity in 2007. The outstanding principal as of October 1, 2005 was $158 million.

European Medium-Term Note Program In July 2002, the Company renewed its European medium-term note program for the issuance of various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, index linked or dual currency notes. At such time, the program size was increased from $3.0 billion to $4.0 billion. In 2005, no new debt was issued under the program. 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. At October 1, 2005, the total debt outstanding under the program was $213 million. The maturities of current outstanding borrowings range from 1 to 2 years and stated interest rates range from 5.25% 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 ABC Family acquisition in October 2001, the Company assumed Series A Preferred Stock with a 9% coupon and quarterly dividend payments valued at approximately $400 million with an effective cost of capital of 5.25%. The Series A Preferred Stock is callable 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 October 1, 2005, the total balance outstanding was $363 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 October 1, 2005, the outstanding balance was $186 million with maturities ranging from 4 to 16 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* and, in general, sequels to previous films, in return for approximately 40% of the future net cash flows generated by those films. As part of the transaction, the Company will earn fees from production and distribution services that the Company will provide for the slate. The cumulative investment in the slate by the investors, net of the cash flows generated by the slate that are returned to the investors, will be classified as borrowings. Interest expense recognized from these borrowings is variable and will be determined by the profitability of the 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 October 1, 2005, three films in the slate had been completed and the related borrowings totaled $75 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 October 1, 2005, these borrowings consisted of approximately €243 million ($293 million at October 1, 2005 exchange rates) of senior debt and €278 million ($335 million at October 1, 2005 exchange rates) of subordinated debt. The senior debt is secured by certain fixed assets of Disneyland Resort Paris and/or the underlying land, whereas the subordinated debt is unsecured. Interest on the senior debt is payable semi annually, and interest on the subordinated debt is payable annually. The loans bore 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 Euro Disney restructuring (see Note 4), principal payments falling between 2004 and 2016 will be deferred by 3.5 years. In return, the interest rate on principal of €48 million ($58 million at October 1, 2005 exchange rates) was increased to 7.15%, the interest rate on principal of €43 million ($52 million at October 1, 2005 exchange rates) was increased to 6.15%, and €10 million ($12 million at October 1, 2005 exchange rates) of principal was prepaid effective February 23, 2005. Also, pursuant to the terms of the restructuring, €125 million ($151 million at October 1, 2005 exchange rates) of subordinated loans were converted into senior loans during fiscal year 2005.

Euro Disney also executed a credit agreement with CDC to finance a portion of the construction costs of Walt Disney Studios Park. As of October 1, 2005, approximately €441 million ($532 million at October 1, 2005 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 restructuring, the CDC agreed to forgive €2.5 million ($3 million at October 1, 2005 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 ($24 million at October 1, 2005 exchange rates) per year for each of the fiscal years 2005 through 2012 and €23 million ($27 million at October 1, 2005 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 secured by certain fixed assets of Disneyland Resort Paris and the underlying land. The majority of the loans bear interest at EURIBOR plus 3% (5.18% at October 1, 2005). The loans mature between fiscal years 2008 and 2013. The impact of the restructuring effective February 23, 2005 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% (from EURIBOR plus amounts ranging from 0.84% to 1.00%) and €96 million ($116 million at October 1, 2005 exchange rates) of principal was prepaid effective February 23, 2005 using debt security deposits (see Note 4).

Euro Disney – Other advances. Advances of €331 million ($400 million at October 1, 2005 exchange rates) bear interest at a fixed rate of 3.0%. The remaining advances of €15 million ($18 million at October 1, 2005 exchange rates) bear interest at EURIBOR plus 3% (5.18% at October 1, 2005). The advances are scheduled to mature between fiscal years 2013 and 2017. $18 million of the advances are secured by certain theme parks assets. The impact of the restructuring effective February 23, 2005 on the other advances includes the deferral either directly or indirectly of principal payments for 3.5 years.

In the second quarter of 2005, Euro Disney's borrowings were reclassified to long-term consistent with the terms of the Euro Disney financial restructuring as the debt is no longer subject to acceleration by the lenders.

Hong Kong Disneyland – Senior loans. Hong Kong Disneyland's senior loans are borrowings pursuant to a term loan facility of HK$2.3 billion ($296 million at October 1, 2005 exchange rates) and a revolving credit facility of HK$1.0 billion ($129 million at October 1, 2005 exchange rates). The balance of the senior loans as of October 1, 2005 was HK$1.9 billion ($241 million at October 1, 2005 exchange rates). The term loan facility can be drawn down until March 12, 2006 with repayments to begin in April 2009. As of October 1, 2005, 100% of the revolving credit facility is available to be drawn down for project financing and working capital requirements. Both facilities are secured by the assets of the Hong Kong Disneyland theme park, currently carry a rate of 3 month HIBOR + 1.0% and are scheduled to mature in fiscal 2016. The spread above HIBOR is 1.0% through November 15, 2005, 1.25% for the next five years and 1.375% for the last five years of the facilities. As of October 1, 2005, the rate on the Senior loans was 4.78%.

Hong Kong Disneyland – Subordinated loans. Hong Kong Disneyland has a subordinated unsecured loan facility of HK$5.6 billion ($724 million at October 1, 2005 exchange rates) that is scheduled to mature on September 12, 2030. The balance drawn on the subordinated unsecured loan facility as of October 1, 2005 was HK$5.2 billion ($676 million at October 1, 2005 exchange rates). Interest rates under this loan are subject to biannual revisions (up or down) under certain conditions, but are 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 October 1, 2005 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 Kong Kong Disneyland	Total
2006	$2,273	$ 1	$ 2,274
2007	2,148	1	2,149
2008	61	69	130
2009	185	113	298
2010	50	141	191
Thereafter	4,584	2,628	7,212
	$9,301	$2,953	$12,254

The Company capitalizes interest on assets constructed for its parks, resorts and other property and on theatrical and television productions. In 2005, 2004 and 2003, total interest capitalized was $77 million, $47 million and $33 million, respectively.

Hong Kong Disneyland is subject to financial covenants under its loan agreements beginning in fiscal year 2006. Euro Disney has covenants under its debt agreements that limit its investing and financing activities. Beginning with fiscal year 2006, Euro Disney must meet financial performance covenants that will necessitate earnings growth.

NOTE 7. INCOME TAXES

	2005	2004	2003
Income Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Changes			
Domestic			
(including U.S. exports)	**$3,676**	$3,279	$1,802
Foreign subsidiaries	**311**	460	452
	$3,987	$3,739	$2,254
Income Tax (Benefit) Provision			
Current			
Federal	**$1,141**	$ 835	$ (55)
State	**166**	90	39
Foreign			
(including withholding)	**221**	350	317
	1,528	1,275	301
Deferred			
Federal	**(252)**	(103)	448
State	**(35)**	25	40
	(287)	(78)	488
	$1,241	$1,197	$ 789

	October 1, 2005	September 30, 2004
Components of Deferred Tax Assets and Liabilities		
Deferred tax assets		
Accrued liabilities	**$(1,398)**	$(1,412)
Foreign subsidiaries	**(721)**	(842)
Retirement benefits	**(380)**	(22)
Equity based compensation	**(165)**	(31)
Loss and credit carryforwards	**—**	(30)
Total deferred tax assets	**(2,664)**	(2,337)
Deferred tax liabilities		
Depreciable, amortizable and other property	**3,520**	3,818
Licensing revenues	**354**	214
Leveraged leases	**182**	261
Other, net	**215**	148
Total deferred tax liabilities	**4,271**	4,441
Net deferred tax liability before valuation allowance	**1,607**	2,104
Valuation allowance	**74**	74
Net deferred tax liability	**$ 1,681**	$2,178

	2005	2004	2003
Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**2.1**	2.0	2.3
Impact of audit settlements	**(3.2)**	(3.2)	(2.5)
Foreign sales corporation and extraterritorial income	**(2.2)**	(2.6)	(3.1)
Repatriation of earnings of foreign subsidiaries	**(0.8)**	—	—
Other, including tax reserves and related interest	**0.2**	0.8	3.3
	31.1%	32.0%	35.0%

In 2005 the Company derived tax benefits of $88 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%, respectively. No exclusion will be available in fiscal years 2008 and thereafter.

The Act also provides for a one-time tax deduction of 85% of certain foreign earnings that are 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 makes a number of other changes to the income tax laws which will affect the Company in future years, the most significant of which is a new deduction relating to qualifying domestic production activities. The deduction equals three percent of qualifying income for fiscal 2006 and 2007, six percent for fiscal 2008 through 2010 and, by fiscal 2011, nine percent of such income. The U.S. Department of the Treasury and the Internal Revenue Service (IRS) issued proposed regulations on October 19, 2005 which provide comprehensive rules, definitions, and examples to assist in the implementation of this new deduction. The proposed regulations are subject to further changes prior to finalization. The Company is analyzing the proposed regulations and cannot estimate the anticipated benefit with reasonable accuracy, but expects to derive benefits in fiscal 2006 that are substantially lower than those derived under the extraterritorial income exclusion discussed above.

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. During the fourth quarter of fiscal 2005, the Company reached a settlement with the IRS 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 are no longer required with respect to these 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 are no longer required with respect to these matters. During the fourth quarter of fiscal 2003, the Company favorably resolved certain state income tax audit issues and released $56 million of related tax reserves.

In fiscal year 2005, 2004 and 2003, income tax benefits attributable to equity based compensation transactions that were allocated to shareholders' equity amounted to $64 million, $25 million and $5 million, respectively.

Deferred tax assets at October 1, 2005 and September 30, 2004 were reduced by a valuation allowance, of which $24 million is attributable to certain acquired net operating losses. Since the valuation allowances associated with these acquisitions relate to acquired deferred tax assets, the subsequent realization of these tax benefits would result in adjustments to the allowance amount being applied as reductions to goodwill.

NOTE 8. 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, 2005 and 2004 (the Plan Measurement Date).

	Pension Plans		Postretirement Medical Plans	
(in millions)	**October 1, 2005**	September 30, 2004	**October 1, 2005**	September 30, 2004
Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$(3,769)**	$(3,747)	**$ (954)**	$(1,035)
Service cost	**(138)**	(150)	**(34)**	(35)
Interest cost	**(233)**	(216)	**(59)**	(60)
Actuarial gain/(loss)	**(937)**	224	**(150)**	152
Benefits paid	**126**	120	**25**	24
Ending obligations	**$(4,951)**	$(3,769)	**$(1,172)**	$ (954)
Fair value of plans' assets				
Beginning fair value	**$ 3,139**	$ 2,655	**$ 215**	$ 197
Actual return on plan assets	**308**	465	**61**	24
Contributions	**112**	155	**9**	18
Benefits paid	**(126)**	(120)	**(25)**	(24)
Expenses	**(23)**	(16)	**—**	—
Ending fair value	**$ 3,410**	$ 3,139	**$ 260**	$ 215
Funded status of the plans	**$(1,541)**	$ (630)	**$ (912)**	$ (739)
Unrecognized net loss	**1,516**	697	**381**	307
Unrecognized prior service cost (benefit)	**18**	21	**(17)**	(18)
Contributions after Plan Measurement Date	**181**	2	**3**	—
Net balance sheet impact	**$ 174**	$ 90	**$ (545)**	$ (450)
Amounts recognized in the balance sheet consist of				
Prepaid benefit cost	**$ 35**	$ 69	**$ —**	$ —
Accrued benefit liability	**(985)**	(394)	**(545)**	(450)
Additional minimum pension liability adjustment	**1,124**	415	**—**	—
	$ 174	$ 90	**$ (545)**	$ (450)

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
(in millions)	**2005**	2004	2003	**2005**	2004	2003
Service costs	**$ 137**	$ 149	$ 114	**$ 31**	$ 35	$ 23
Interest costs	**233**	216	204	**59**	60	48
Expected return on plan assets	**(223)**	(215)	(262)	**(14)**	(15)	(19)
Amortization of prior year service costs	**1**	2	2	**(1)**	(1)	(1)
Recognized net actuarial loss	**59**	77	(1)	**32**	66	23
Net periodic benefit cost	**$ 207**	$ 229	$ 57	**$107**	$145	$ 74
Assumptions:						
Discount rate	**5.25%**	6.30%	5.85%	**5.25%**	6.30%	5.85%
Rate of return on plan assets	**7.50%**	7.50%	7.50%	**7.50%**	7.50%	7.50%
Salary increases	**3.75%**	4.00%	3.75%	**n/a**	n/a	n/a
Year 1 increase in cost of benefits	**n/a**	n/a	n/a	**10.00%**	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**	2011	2010

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

Due to an increase in the present value of pension obligations, a number of the Company's pension plans were underfunded at October 1, 2005, having accumulated benefit obligations exceeding the fair value of plan assets. For these plans, the fair value of plan assets aggregated $3.4 billion, the accumulated benefit obligations aggregated $4.5 billion and the projected benefit obligations aggregated $4.9 billion. As a result, the Company has recorded an additional minimum pension liability adjustment of $1.1 billion as of October 1, 2005. The additional minimum pension liability adjustment at September 30, 2004 was $415 million. The increase in the additional minimum pension liability adjustment of $709 million in the current year was primarily due to a decrease in the discount rate from 6.30% at September 30, 2004 to 5.25% at October 1, 2005. This increase resulted in an after-tax adjustment of $448 million that was recorded as a decrease of shareholders' equity through accumulated other comprehensive income in fiscal 2005.

The Company's total accumulated pension benefit obligations at October 1, 2005 and September 30, 2004 were $4.6 billion and $3.5 billion, respectively, of which 97.3% and 95.2%, respectively, were vested.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were $1.2 billion and $260 million, respectively, at year end 2005 and $954 million and $215 million, respectively at year end 2004.

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, by asset class, is as follows:

Asset Class	**June 30, 2005**	June 30, 2004
Equity Securities	**55%**	57%
Debt Securities	**29**	27
Alternative Investments	**15**	15
Cash	**1**	1
Total	**100%**	100%

Equity securities include $71 million (2% of total plan assets) and $63 million (2% of total plan assets) of Company common stock at October 1, 2005 and September 30, 2004, respectively.

PLAN CONTRIBUTIONS

During fiscal 2005, the Company contributed $291 million and $12 million to its pension and postretirement medical plans, respectively, which included voluntary contributions above the minimum requirements for the pension plans. The Company currently expects to contribute, at a minimum, $61 million to its pension and postretirement medical plans during fiscal 2006. The Company may make additional contributions into its pension plans in fiscal 2006 depending on how the funded status of those plans change and also depending on the outcome of proposed changes to the funding regulations currently being considered by the United States Congress.

ESTIMATED FUTURE BENEFIT PAYMENTS

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

	Pension Plans	Postretirement Medical Plans
2006	$ 145	$ 27
2007	158	28
2008	169	29
2009	182	32
2010	195	34
2011 – 2015	1,221	195

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 return on 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 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 rates of return by asset class were considered in setting the long-term return on 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 2005, we assumed a 10.0% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over seven years until reaching 5.0%.

A one percent change in the key assumptions would have the following effects on the projected benefit obligations as of October 1, 2005 and on cost for fiscal 2006:

	Pension and 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 Medical Cost	Net Periodic Postretirement Medical Cost	Projected Benefit Obligations
1% decrease	$ 167	$1,106	$ 36	$(36)	$(170)
1% increase	(139)	(919)	(36)	54	253

MULTI-EMPLOYER PLANS

The Company participates in various multi-employer pension plans under union and industry-wide agreements. In 2005, 2004, and 2003, the contributions to these plans which are generally expensed as incurred were $37 million, $38 million, and $37 million, respectively.

DEFINED CONTRIBUTION PLANS

The Company has savings and investment plans that allow eligible employees to allocate up to 20% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's pre-tax contributions, up to plan limits. In 2005, 2004 and 2003, the costs of these plans were $35 million, $33 million and $32 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 the net periodic postretirement medical benefit cost for fiscal 2005 was reduced by approximately $28 million.

NOTE 9. SHAREHOLDERS' EQUITY

The Company declared an annual dividend of $0.27 per share on December 1, 2005 related to fiscal 2005. The dividend is payable on January 6, 2006 to shareholders of record on December 12, 2005. The Company paid a $490 million dividend ($0.24 per share) during the second quarter of fiscal 2005 applicable to fiscal 2004; paid a $430 million dividend ($0.21 per share) during the second quarter of fiscal 2004 applicable to fiscal 2003; and paid a $429 million dividend ($0.21 per share) during the second quarter of fiscal 2003 applicable to fiscal 2002.

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. No shares of Disney common stock were repurchased during fiscal 2003. As of October 1, 2005, the Company had authorization to repurchase approximately 225 million additional shares, of which the Company has repurchased 47 million shares for $1.1 billion subsequent to year-end through December 2, 2005.

The par value of the Company's outstanding common stock totaled approximately $22 million.

In December 1999, pursuant to the Company's repurchase program, the Company established the TWDC Stock Compensation Fund II to acquire shares of Company common stock for the purpose of funding certain future stock-based compensation. The fund expired on December 12, 2002. On that date, the 5.4 million shares of the Company's common stock still owned by the fund were transferred back to the Company and classified as treasury stock.

NOTE 10. 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 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 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 October 1, 2005 totaled 67 million. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares.

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. Under the provisions of SFAS 123R, compensation expense for stock options has been estimated on the grant date using a Black-Scholes option-pricing model. The weighted average assumptions used in the Black-Scholes model were as follows:

	2005	2004	2003
Risk-free interest rate	**3.7%**	3.5%	3.4%
Expected term (years)	**4.75**	6.0	6.0
Expected volatility	**27%**	40%	40%
Dividend yield	**0.79%**	0.85%	1.21%

In connection with the adoption of SFAS 123R (see Note 2), the Company reviewed and updated, among other things, its forfeiture, expected term and volatility assumptions. The weighted average expected option term for 2005 reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107 (SAB 107), which was issued in March 2005. The simplified method defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

Estimated volatility for fiscal 2005 also reflects the application of SAB 107 interpretive guidance and, accordingly, incorporates historical and implied share-price volatility, with implied volatility derived from exchange traded options on the Company's common stock and other traded financial instruments, such as the Company's convertible debt. Volatility for 2004 and 2003 was estimated based upon historical share-price volatility.

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

	2005		2004		2003	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**221**	**$26.50**	219	$26.44	216	$27.48
Awards forfeited	**(7)**	**25.99**	(8)	24.40	(14)	44.41
Awards granted	**19**	**27.91**	27	24.61	30	17.34
Awards exercised	**(18)**	**20.22**	(11)	18.77	(3)	14.57
Awards expired/cancelled	**(3)**	**34.83**	(6)	33.56	(10)	47.73
Outstanding at end of year	**212**	**27.06**	221	26.50	219	26.44
Exercisable at end of year	**142**	**28.47**	132	28.39	109	27.86

The following tables summarize information about stock options outstanding at October 1, 2005 (shares in millions):

	Outstanding		
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
$15 – $ 19	**21**	**$ 17.23**	**7.3**
$20 – $ 24	**82**	**22.59**	**5.3**
$25 – $ 29	**42**	**27.42**	**4.5**
$30 – $ 34	**50**	**31.52**	**4.5**
$35 – $ 39	**8**	**37.28**	**3.2**
$40 – $ 44	**7**	**41.28**	**5.2**
$45 – $395	**2**	**113.56**	**4.4**
	212		

	Exercisable		
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
$15 – $ 19	**9**	**$ 17.24**	**7.2**
$20 – $ 24	**49**	**22.03**	**3.9**
$25 – $ 29	**23**	**27.07**	**3.0**
$30 – $ 34	**45**	**31.65**	**4.4**
$35 – $ 39	**7**	**37.36**	**3.2**
$40 – $ 44	**7**	**41.31**	**5.2**
$45 – $395	**2**	**113.56**	**4.4**
	142		

The aggregate intrinsic values of stock options outstanding and exercisable at October 1, 2005 were $292 million and $176 million, respectively.

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

	2005		2004		2003	
	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	**9**	**$22.58**	4	$19.84	2	$24.54
Granted	**9**	**27.98**	5	24.65	3	17.15
Vested	**(2)**	**25.30**	—	—	—	—
Forfeited	**(1)**	**20.34**	—	—	(1)	22.42
Unvested at end of year	**15**	**26.04**	9	22.58	4	19.84

RSUs representing 1.3 million shares and 0.3 million shares, which vest based upon the achievement of certain performance conditions, were granted in 2005 and 2004, respectively. Approximately 2 million of the unvested RSUs as of October 1, 2005 vest upon the achievement of performance conditions.

The weighted average grant-date fair values of options granted during 2005, 2004 and 2003 were $7.71, $9.94 and $6.71, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during 2005, 2004 and 2003 totaled $198 million, $68 million and $14 million, respectively.

The weighted average grant-date fair values of RSUs granted during 2005, 2004 and 2003 were $27.98, $24.65 and $17.15, respectively, and compensation expense amounted to $127 million, $66 million and $20 million, respectively, before tax benefits of $47 million, $24 million and $7 million in 2005, 2004 and 2003, respectively.

As of October 1, 2005, there was $334 million of unrecognized compensation cost related to unvested stock options and $223 million related to unvested RSUs. That cost is expected to be recognized over a weighted-average period of 1.6 years for stock options and 1.7 years for RSUs. The total fair value at grant date of RSUs vested during 2005 was $60 million.

Cash received from option exercises for 2005, 2004 and 2003, was $370 million, $201 million, and $51 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU activity for 2005, 2004 and 2003 totaled $69 million, $25 million, and $5 million, respectively.

NOTE 11. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	October 1, 2005	September 30, 2004
Current receivables		
Accounts receivable	**$ 4,351**	$ 4,403
Income tax receivable	**—**	98
Other	**364**	205
Allowance for doubtful accounts	**(130)**	(148)
	$ 4,585	$ 4,558
Other current assets		
Prepaid expenses	**$ 464**	$ 512
Other	**188**	226
	$ 652	$ 738
Parks, resorts and other property, at cost		
Attractions, buildings and improvements	**$ 13,633**	$ 12,348
Leasehold improvements	**500**	493
Furniture, fixtures and equipment	**10,159**	9,403
Land improvements	**3,278**	2,924
	27,570	25,168
Accumulated depreciation	**(12,605)**	(11,665)
Projects in progress	**874**	1,852
Land	**1,129**	1,127
	$ 16,968	$ 16,482
Intangible assets		
Copyrights	**$ 316**	$ 324
Other amortizable intangible assets	**88**	84
Accumulated amortization	**(70)**	(59)
Amortizable intangible assets	**334**	349
FCC licenses	**1,432**	1,489
Trademarks	**944**	944
Other indefinite lived intangible assets	**21**	33
	$ 2,731	$ 2,815
Other non-current assets		
Receivables	**$ 426**	$ 341
Prepaid benefit costs	**35**	69
Other prepaid expenses	**21**	29
Other	**505**	601
	$ 987	$ 1,040
Accounts payable and other accrued liabilities		
Accounts payable	**$ 4,294**	$ 4,531
Payroll and employee benefits	**967**	1,009
Other	**78**	83
	$ 5,339	$ 5,623
Other long-term liabilities		
Deferred revenues	**$ 449**	$ 608
Capital lease obligations	**374**	339
Program licenses and rights	**330**	230
Participation and residual liabilities	**207**	256
Accrued benefit liabilities	**1,530**	844
Other	**1,055**	1,342
	$ 3,945	$ 3,619

NOTE 12. 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 one to 17 years. Pay-fixed swaps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps in place at year-end expire in one to ten years. As of October 1, 2005 and September 30, 2004 respectively, the Company held $151 million and $148 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 2005, 2004 and 2003. The net amount of deferred gains in AOCI from interest rate risk management transactions was $8 million and $10 million at October 1, 2005 and September 30, 2004 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 October 1, 2005 and September 30, 2004, the Company had pre-tax deferred gains of $114 million and $45 million, respectively, and pre-tax deferred losses of $69 million and $147 million, respectively, related to foreign currency hedges on forecasted foreign currency transactions.

Deferred amounts to be recognized 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 $21 million. The Company reclassified after-tax losses of $108 million and $144 million from AOCI to earnings during fiscal 2005 and 2004, respectively. These losses were offset by changes in the U.S. dollar equivalent value of the items being hedged.

At October 1, 2005 and September 30, 2004, changes in value related to cash flow hedges included in AOCI were a pre-tax gain of $45 million and a pre-tax loss of $102 million, respectively. During fiscal 2005 and 2004, 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 fair value and cash flow hedges were not material for fiscal 2005, fiscal 2004 and fiscal 2003. The impact of foreign exchange risk management activities on operating income in 2005, 2004 and 2003 was a loss of $168 million, $277 million and $273 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 October 1, 2005 and September 30, 2004, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate and foreign exchange risk management contracts.

At October 1, 2005 and September 30, 2004, the fair values of cash and cash equivalents, receivables and accounts payable approximated the carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or interest rates for the same or similar instruments and the related carrying amounts are as follows:

	2005		2004	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Investments	**$ 62**	**$ 62**	$ 60	$ 60
Borrowings	**(12,467)**	**(12,733)**	(13,488)	(13,811)
Risk management contracts:				
Foreign exchange forwards	**$ 76**	**$ 76**	$ (54)	$ (54)
Foreign exchange options	**6**	**6**	(26)	(26)
Interest rate swaps	**22**	**22**	66	66
Cross-currency swaps	**3**	**3**	86	86

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 October 1, 2005 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 October 1, 2005 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 13. 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 $19.6 billion, including approximately $957 million for available programming as of October 1, 2005, and approximately $15.8 billion related to sports programming rights, primarily NFL, NBA, College Football and MLB.

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 $8.87 billion over the eight-year period, commencing with the 2006-2007 season. The Company has rights to 21 games in the 2006-2007 season, which begins in the fourth quarter of the Company's fiscal year 2006.

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 2005, 2004 and 2003, including common-area maintenance and contingent rentals, was $482 million, $518 million and $528 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 $23.3 billion at October 1, 2005, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2006	$ 4,174	$ 279	$ 887	$ 5,340
2007	2,836	253	484	3,573
2008	2,445	204	324	2,973
2009	1,944	171	196	2,311
2010	2,093	149	92	2,334
Thereafter	6,065	580	96	6,741
	$19,557	$1,636	$2,079	$23,272

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment. Future payments under these leases as of October 1, 2005 are as follows:

2006	$ 44
2007	85
2008	44
2009	44
2010	44
Thereafter	673
Total minimum obligations	934
Less amount representing interest	(542)
Present value of net minimum obligations	392
Less current portion	(18)
Long-term portion	$ 374

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 October 1, 2005, the remaining debt service obligation guaranteed by the Company was $84 million, of which $56 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 October 1, 2005, the remaining debt service obligation guaranteed by the Company was $397 million, of which $108 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 seek a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States 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. SSI also filed a motion to dismiss the complaint or, in the alternative, for summary judgment. Subsequently, the Court ruled that Milne's termination notices are invalid and dismissed SSI's counterclaims as moot. Following further motions 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. By order dated August 3, 2004, the Court granted SSI leave to amend its answer to assert 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. In November 2004, the District Court granted a motion by Milne to dismiss her complaint for the purpose of obtaining a final appealable order of dismissal, so as to permit her appeal to the Court of Appeals to proceed. Oral argument of that appeal was heard on September 13, 2005.

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.

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

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions.

QUARTERLY FINANCIAL SUMMARY

(unaudited, in millions, except per share data)	Q1	Q2	Q3	Q4
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**
2004				
Revenues	$8,549	$7,189	$7,471	$7,543
Net income	688	537	604	516
Earnings per share:				
Diluted	$ 0.33	$ 0.26	$ 0.29	$ 0.25
Basic	0.34	0.26	0.29	0.25
Market price per share:				
High	$23.76	$28.41	$26.65	$25.50
Low	20.36	22.90	21.39	20.88

[1] Income and earnings per share before the cumulative effect of accounting change for fiscal 2005 does not reflect the after-tax charge for the adoption of EITF D-108 of $36 million ($0.02) 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)	**2005**[1]	2004[2]	2003[3]	2002[4]	2001[5]
Statements of income					
Revenues	**$31,944**	$30,752	$27,061	$25,329	$25,172
Income before the cumulative effect of accounting change	**2,569**	2,345	1,338	1,236	120
Per common share					
Earnings before the cumulative effect of accounting change:					
Diluted	**$ 1.24**	$ 1.12	$ 0.65	$ 0.60	$ 0.11
Basic	**1.27**	1.14	0.65	0.61	0.11
Dividends	**0.24**	0.21	0.21	0.21	0.21
Balance sheets					
Total assets	**$53,158**	$53,902	$49,988	$50,045	$43,810
Borrowings	**12,467**	13,488	13,100	14,130	9,769
Shareholders' equity	**26,210**	26,081	23,791	23,445	22,672
Statements of cash flows					
Cash provided (used) by:					
Operating activities	**$ 4,269**	$ 4,370	$ 2,901	$ 2,286	$ 3,048
Investing activities	**(1,691)**	(1,484)	(1,034)	(3,176)	(2,015)
Financing activities	**(2,897)**	(2,701)	(1,523)	1,511	(1,257)

[1] During fiscal 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* (SFAS 123R), which resulted in $253 million of pre-tax expense, or ($0.08) per diluted share. See Note 2 to the Consolidated Financial Statements. In addition, as shown in the table on page 58, the 2005 results include certain items which affected comparability. The impact on diluted earnings per share of these items was an aggregate favorable impact of $0.03 per share. The amounts do not reflect the cumulative effect of adopting Emerging Issues Task Force (EITF) Topic D-108, *Use of the Residual Method to Value Acquired Assets Other Than Goodwill*, which was a non-cash charge of $57 million ($36 million after-tax or $0.02 per diluted share). See Note 2 to the Consolidated Financial Statements.

[2] 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. The impact on diluted earnings per share of these items was an aggregate favorable impact of $0.04 per share.

[3] As shown in the table on page 58, the 2003 results include certain items which affected comparability. The impact on diluted earnings per share of these items was an aggregate unfavorable impact of $0.01 per share. The amounts do not reflect the cumulative effect of adopting EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, which was an after-tax charge of $71 million or ($0.03) per diluted share. See Note 2 to the Consolidated Financial Statements.

[4] 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 a $0.06 and $0.01 impact on diluted earnings per share, respectively. During fiscal 2002, the Company acquired Fox Family Worldwide, Inc. for $5.2 billion. Effective at the beginning of fiscal 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* and, accordingly, ceased amortization of goodwill and substantially all other intangible assets.

[5] The 2001 results include restructuring and impairment charges totaling $1.5 billion pre-tax. The charges were primarily related to the closure of GO.com, investment write downs and a work force reduction. The diluted earnings per share impact of these charges was ($0.52). The amounts do not reflect the cumulative effect of required accounting changes related to film and derivative accounting which were after-tax charges of $228 million and $50 million, respectively or ($0.11) and ($0.02) per diluted share, respectively.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The independent registered public accounting firm audits the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board 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

Our 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). Under the supervision and with the participation of our 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*, our management concluded that our internal control over financial reporting was effective as of October 1, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of October 1, 2005 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 and Pacific stock exchanges under the ticker symbol DIS. Certain debt securities of the Company are listed on the Luxemborg 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.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP, Los Angeles

OTHER INFORMATION

The Company has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2005 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 sub mitted to the New York Stock Exchange and the Pacific 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 or Pacific 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 e-mail 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 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of October 1, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on The Walt Disney Company's 2005, 2004 and 2003 consolidated financial statements and on its internal control over financial reporting as of October 1, 2005, 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 October 1, 2005 and September 30, 2004, and the results of their operations and their cash flows for each of the three years in the period ended October 1, 2005 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.

During the year ended October 1, 2005, the Company adopted SFAS No. 123R *Share-Based Payment* and began expensing share-based awards as of October 1, 2004. The Company also adopted EITF Topic D-108 *Use of the Residual Method to Value Acquired Assets Other Than Goodwill*, changing to the "direct method" of valuing all FCC licenses. During the year ended September 30, 2004, the Company adopted FASB Interpretation 46R, *Consolidation of Variable Interest Entities* and, accordingly, began consolidating Euro Disney and Hong Kong Disneyland as of March 31, 2004. During the year ended September 30, 2003, the Company adopted EITF No. 00-21, *Revenue Arrangements with Multiple Elements*, changing the timing of revenue from certain contracts. These accounting changes are discussed in Note 2 to the consolidated financial statements.

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 October 1, 2005 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 October 1, 2005, 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.

PricewaterhouseCoopers LLP

Los Angeles, California
December 5, 2005

BOARD OF DIRECTORS

John E. Bryson
Chairman, President and Chief Executive Officer
Edison International

John S. Chen
Chairman, President and Chief Executive Officer
Sybase, Inc.

Judith L. Estrin
President and Chief Executive Officer
Packet Design, LLC

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

Fred H. Langhammer
Chairman of Global Affairs
The Estee Lauder Companies Inc.

Aylwin B. Lewis
President and Chief Executive Officer
Sears Holdings Corporation

Monica C. Lozano
Publisher and Chief Executive Officer
La Opinión

Robert W. Matschullat
Former Chairman and Chief Financial Officer
The Seagram Company Ltd.

George J. Mitchell
Chairman of the Board, The Walt Disney Company
Chairman, DLA Piper Rudnick Gray Cary LLP

Leo J. O'Donovan, S.J.
President Emeritus
Georgetown University

John E. Pepper, Jr.[1]
Former Chairman and
Chief Executive Officer
Procter & Gamble

Orin C. Smith[1]
Former President and
Chief Executive Officer
Starbucks Corporation

Gary L. Wilson
Chairman
Northwest Airlines Corporation

[1] Effective January 2006

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

Christine McCarthy
Executive Vice President
Corporate Finance and Real Estate and
Treasurer

Kevin A. Mayer
Executive Vice President
Corporate Strategy, Business Development
and Technology

Zenia B. Mucha
Executive Vice President
Corporate Communications

Preston R. Padden
Executive Vice President
Worldwide Government Relations

Ronald L. Iden
Senior Vice President
Security

John M. Renfro
Senior Vice President
Chief Human Resources Officer

Brent A. Woodford
Senior Vice President
Planning and Control

PRINCIPAL BUSINESSES

The Walt Disney Studios

Richard W. Cook
Chairman, The Walt Disney Studios

Nina R. Jacobson
President, Buena Vista Motion Pictures Group

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

David J. Stainton
President, Walt Disney Feature Animation

Walt Disney Parks and Resorts

James A. Rasulo
Chairman, Walt Disney Parks and Resorts

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

Allen R. Weiss
President, Walt Disney World Resort

Matthew A. Ouimet
President, Disneyland Resort

Media Networks

Anne M. Sweeney
Co-chairman, Disney Media Networks and
President, Disney • ABC Television Group

George Bodenheimer
Co-chairman, Disney Media Networks and
President, ESPN, Inc. and ABC Sports

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

BOARD of DIRECTORS

John E. Bryson
Chairman, President and
Chief Executive Officer
Edison International

John S. Chen
Chairman, President and
Chief Executive Officer
Sybase, Inc.

Judith L. Estrin
President and
Chief Executive Officer
Packet Design, LLC

Robert A. Iger
President and
Chief Executive Officer

Fred H. Langhammer
Chairman of Global Affairs
The Estee Lauder
Companies Inc.

Aylwin B. Lewis
President and Chief
Executive Officer
Sears Holdings Corporation

Monica C. Lozano
Publisher and Chief
Executive Officer
La Opinión

Robert W. Matschullat
Former Chairman and
Chief Financial Officer
The Seagram Company Ltd.

George J. Mitchell
Chairman of the Board,
The Walt Disney Company
Chairman, DLA Piper
Rudnick Gray Cary LLP

Leo J. O'Donovan, S.J.
President Emeritus
Georgetown University

John E. Pepper, Jr.[1]
Former Chairman and
Chief Executive Officer
Procter & Gamble

Orin C. Smith[1]
Former President and
Chief Executive Officer
Starbucks Corporation

Gary L. Wilson
Chairman
Northwest Airlines
Corporation

[1] Effective January 2006

Disney Media Networks