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

CONSOLIDATED RESULTS

RESULTS OF OPERATIONS (in millions, except per share data)	2004	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Revenues	**$ 30,752**	$ 27,061	$ 25,329	14%	7%
Costs and expenses	**(26,704)**	(24,348)	(22,945)	10%	6%
Gain on sale of business	**—**	16	34	nm	(53)%
Net interest expense	**(617)**	(793)	(453)	(22)%	75%
Equity in the income of investees	**372**	334	225	11%	48%
Restructuring and impairment charges	**(64)**	(16)	—	nm	nm
Income before income taxes, minority interests and the cumulative effect of accounting change	**3,739**	2,254	2,190	66%	3%
Income taxes	**(1,197)**	(789)	(853)	52%	(8)%
Minority interests	**(197)**	(127)	(101)	55%	26%
Income before the cumulative effect of accounting change	**2,345**	1,338	1,236	75%	8%
Cumulative effect of accounting change	**—**	(71)	—	nm	nm
Net income	**$ 2,345**	$ 1,267	$ 1,236	85%	3%
Earnings per share before the cumulative effect of accounting change					
Diluted[1]	**$ 1.12**	$ 0.65	$ 0.60	72%	8%
Basic	**$ 1.14**	$ 0.65	$ 0.61	75%	7%
Cumulative effect of accounting change per share	**$ —**	$ (0.03)	$ —	nm	nm
Earnings per share:					
Diluted[1]	**$ 1.12**	$ 0.62	$ 0.60	81%	3%
Basic	**$ 1.14**	$ 0.62	$ 0.61	84%	2%
Average number of common and common equivalent shares outstanding:					
Diluted	**2,106**	2,067	2,044		
Basic	**2,049**	2,043	2,040		

[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 and $10 million for fiscal years 2004 and 2003, respectively.

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 – 2004 vs. 2003
- Corporate Items – 2004 vs. 2003
- Business Segment Results – 2003 vs. 2002
- Corporate Items – 2003 vs. 2002
- Stock Option Accounting
- Liquidity and Capital Resources
- Contractual Obligations, Commitments and Off Balance Sheet Arrangements
- Accounting Policies and Estimates
- Accounting Changes
- Forward-Looking Statements

CONSOLIDATED RESULTS

2004 VS. 2003

Net income for the year was $2.3 billion, which was $1.1 billion higher than the prior year. The increase in net income for the year was primarily the result of improvements in segment operating income in all of the operating segments (see Business Segment Results below for further discussion). Diluted earnings per share for the year were $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. Results for the year included a benefit in the fourth quarter from the settlement of certain income tax issues of $120 million ($0.06 per share) and restructuring and impairment charges totaling $64 million ($0.02 per share) in connection with the sale of the Disney Stores in North America, the majority of which were recorded in the third quarter.

Results for the prior year included a $114 million ($0.04 per share) write-off of an aircraft leveraged lease investment during the first quarter and the favorable settlement of certain income tax issues of $56 million ($0.03 per share) in the fourth quarter. 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 resulted in an after-tax charge of $71 million for the cumulative effect of the change. Diluted earnings per share including this cumulative effect were $0.62 for the prior year.

Cash flow from operations has allowed us to continue to make necessary capital investments in our properties and to reduce our borrowings, which in turn is reducing our interest expense. During the year, we generated cash flow from operations of $4.4 billion and had net repayment of borrowings of $2.2 billion. As a result of our adoption of Financial Accounting Standards Board (FASB) Interpretation No. 46R *Consolidation of Variable Interest Entities* (FIN 46R), we consolidated the balance sheets of Euro Disney and Hong Kong Disneyland as of March 31, 2004 and added their borrowings ($2.2 billion for Euro Disney and $545 million for Hong Kong Disneyland as of September 30, 2004) to our balance sheet, as well as their assets and other liabilities. Accordingly, our total borrowings at September 30, 2004 increased to $13.5 billion. We also used cash flow from operations to repurchase $335 million of our common stock in the fourth quarter.

2003 VS. 2002

Income before the cumulative effect of an accounting change was $1.3 billion in fiscal 2003, which was $102 million, or 8%, higher than in fiscal 2002. This represented diluted earnings per share before the cumulative effect of accounting change of $0.65, which was $0.05 higher than in fiscal 2002. 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 impacted the timing of revenue recognition related to NFL football programming at ESPN. This change resulted in a cumulative effect charge totaling $71 million. Diluted earnings per share including the effect of this accounting change were $0.62 for fiscal 2003.

Results for 2003 also included a write-off of an aircraft leveraged lease investment with United Airlines ($114 million pre-tax or $0.04 per share), a pre-tax gain of $16 million on the sale of the Anaheim Angels and restructuring and impairment charges of $16 million at The Disney Store. Additionally, fiscal 2003 included a benefit from the favorable settlement of certain state tax issues ($56 million or $0.03 per share). Results for fiscal 2002 included a pre-tax gain on the sale of shares of Knight-Ridder, Inc. ($216 million or $0.06 per share) and a pre-tax gain on the sale of the Disney Store business in Japan ($34 million or $0.01 per share).

BUSINESS SEGMENT RESULTS

(in millions)	**2004**	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Revenues:					
Media Networks	**$11,778**	$10,941	$ 9,733	8%	12%
Parks and Resorts	**7,750**	6,412	6,465	21%	(1)%
Studio Entertainment	**8,713**	7,364	6,691	18%	10%
Consumer Products	**2,511**	2,344	2,440	7%	(4)%
	$30,752	$27,061	$25,329	14%	7%
Segment operating income:					
Media Networks	**$ 2,169**	$ 1,213	$ 986	79%	23%
Parks and Resorts	**1,123**	957	1,169	17%	(18)%
Studio Entertainment	**662**	620	273	7%	nm
Consumer Products	**534**	384	394	39%	(3)%
	$ 4,488	$ 3,174	$ 2,822	41%	12%

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 aggregate segment operating income assists investors by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from factors other than business operations that affect net income. The following table reconciles segment operating income to income before income taxes, minority interests and the cumulative effect of accounting change.

(in millions)	2004	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Segment operating income	**$4,488**	$3,174	$2,822	41%	12%
Corporate and unallocated shared expenses	**(428)**	(443)	(417)	(3)%	6%
Amortization of intangible assets	**(12)**	(18)	(21)	(33)%	(14)%
Gain on sale of business	**—**	16	34	nm	(53)%
Net interest expense	**(617)**	(793)	(453)	(22)%	75%
Equity in the income of investees	**372**	334	225	11%	48%
Restructuring and impairment charges	**(64)**	(16)	—	nm	nm
Income before income taxes, minority interests and the cumulative effect of accounting change	**$3,739**	$2,254	$2,190	66%	3%

Depreciation expense is as follows:

(in millions)	2004	2003	2002
Media Networks	**$ 172**	$ 169	$ 180
Parks and Resorts			
Domestic	**710**	681	648
International[(1)]	**95**	—	—
Studio Entertainment	**22**	39	46
Consumer Products	**44**	63	58
Segment depreciation expense	**1,043**	952	932
Corporate	**155**	107	89
Total depreciation expense	**$1,198**	$1,059	$1,021

[(1)]Represents 100% of Euro Disney and Hong Kong Disneyland's depreciation expense 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)	2004	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Revenues:					
Cable Networks	**$ 6,410**	$ 5,523	$4,675	16%	18%
Broadcasting	**5,368**	5,418	5,058	(1)%	7%
	$11,778	$10,941	$9,733	8%	12%
Segment operating income (loss):					
Cable Networks	**$ 1,924**	$ 1,176	$1,023	64%	15%
Broadcasting	**245**	37	(37)	nm	nm
	$ 2,169	$ 1,213	$ 986	79%	23%

MEDIA NETWORKS 2004 VS. 2003

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 a result of the increases at ESPN due to higher advertising rates and at ABC Family due to higher ratings. Revenues from cable and satellite operators are largely derived from fees charged on a per subscriber basis, and the increases in the current year reflected both contractual rate adjustments and to a lesser extent subscriber growth. 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 significant number of these arrangements will be up for renewal in the next 12 months. 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 be stable or decline.

Decreased Broadcasting revenues were driven primarily by a decrease of $147 million at the ABC 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 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 consist primarily of programming rights amortization, production costs, distribution and selling expenses and labor costs. 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 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 due primarily to the airing of the Super Bowl in the prior-year, lower license fees for primetime series and fewer primetime movies. Additionally, the prior year included higher news production costs due to the coverage of the military conflict in Iraq.

Higher programming costs at the 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" below. 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 the current year.

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 cost 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.

Sports Programming Costs 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. These costs will be relatively level over the remaining two years of the contract extension.

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 by the ABC Television Network 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.

Due to the payment terms in the NFL contract, cash payments under the contract in fiscal 2004 totaled $1.2 billion as compared to $1.3 billion in fiscal 2003.

The Company has various contractual commitments for the purchase of television rights for sports and other programming, including the NFL, NBA, MLB, NHL and various college football conference and 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 sports 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.

MovieBeam The Company launched MovieBeam, an on-demand electronic movie rental service in three domestic cities in October 2003. As of September 30, 2004, the Company's recorded investment in MovieBeam and Dotcast, Inc., the third party licensor of the principal underlying technology, totaled $60 million. The Company has executed licensing arrangements under which it would pay an additional $55 million over the next three and one half years ($10 million of which was paid in October 2004) if the Company continues to pursue this business over that time frame. The Company is currently evaluating the go forward business model and is in discussion with potential strategic investors. The success of the venture in the initial markets as well as decisions with respect to strategic investors will determine the strategic direction of the business, its future rollout plans, and the ultimate recoverability of the investment.

PARKS AND RESORTS
2004 VS. 2003

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, effective April 1, 2004, 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 the prior year. 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	
	Twelve Months 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, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment, marketing and sales expense, 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
2004 VS. 2003

Revenues Revenues increased 18%, or $1.3 billion, to $8.7 billion, driven by 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.

Higher worldwide home entertainment revenues reflected higher DVD unit sales in the current year, which included Disney/Pixar's *Finding Nemo, Pirates of the Caribbean, The Lion King* and *Brother Bear* compared to the prior year, which included *Lilo & Stitch* and *Beauty and the Beast*. Increased revenues in television distribution reflected higher pay television sales due to better performances of live-action titles. Worldwide theatrical motion picture distribution revenue decreases reflected the performance of current year titles, which included *Home on the Range, The Alamo* and *King Arthur*, which faced difficult comparisons to the strong performances of prior year 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, which consist primarily of production cost amortization, distribution and selling expenses, product costs and participations costs, increased 19%, or $1.3 billion. Higher costs and expenses reflected increases in worldwide home entertainment and worldwide theatrical motion picture distribution. Higher costs in worldwide home entertainment reflected higher distribution costs and production cost amortization for current year titles, primarily due to the increased unit sales volume for *Finding Nemo* and *Pirates of the Caribbean*. In addition, participation expense was higher in the current year because of participation arrangements with *Finding Nemo* and *Pirates of the Caribbean*. Pixar receives an equal share of profits (after distribution fees) as co-producer of *Finding Nemo*. Higher costs in worldwide theatrical motion picture distribution reflected increased distribution costs for current year titles, which included *King Arthur, Brother Bear* and *The Village*, and increased production cost amortization, including higher film write-offs, for current year 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 the prior year 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.

Miramax The Company does not expect business at its subsidiary Miramax to continue at the same level beyond the September 30, 2005 date on which the current contractual relationship with the co-chairmen (Bob and Harvey Weinstein) will end. The Company is currently in negotiations with the Weinsteins regarding the future of our business relationship with them. At this time the Company is unable to determine whether projects currently in progress may be abandoned or otherwise impaired and whether there will be any material charges.

CONSUMER PRODUCTS
2004 VS. 2003

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 Stores.

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 in 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.

Disney Stores On November 21, 2004, the Company sold substantially all of The Disney Store chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place ("TCP"). Pursuant to the terms of the sale, The Disney Store North America will retain its lease obligations and will become a wholly-owned subsidiary of TCP. TCP will pay the Company a royalty on the physical retail store sales beginning on the second anniversary of the closing date of the sale.

During the year, the Company recorded $64 million of restructuring and impairment charges related to The Disney Store. The bulk of the charge ($50 million) was an impairment of the carrying value of the fixed assets related to the stores to be sold which was recorded in the third quarter based on the terms of sale. Additional charges recorded during the year related to the closure of stores that would not be sold and to transaction costs related to the sale.

The Company will record additional charges for working capital and other adjustments related to the close of this transaction during the first quarter of fiscal 2005. Additional restructuring costs will also be recognized later in fiscal 2005. We expect that the total costs that will be recorded in fiscal 2005 will range from $40 million to $50 million.

The Company is currently considering options with respect to the stores in Europe, including a potential sale. The carrying value of the fixed and other long-term assets of the chain in Europe totaled $36 million at September 30, 2004. Depending on the terms of a sale, an impairment of these assets is possible. The base rent lease obligations for the chain in Europe totaled $206 million at September 30, 2004.

The following table provides supplemental revenues and operating income detail for The Disney Stores:

(in millions)	2004	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Revenues:					
North America	**$628**	$ 644	$ 721	(2)%	(11)%
Europe	**326**	278	261	17%	7%
Other	**23**	27	123	(15)%	(78)%
	$977	$ 949	$1,105	3%	(14)%
Operating income:					
North America	**$ 6**	$(101)	$ (37)	nm	nm
Europe	**17**	14	22	21%	(36)%
Other	**11**	4	22	nm	(82)%
	$ 34	$ (83)	$ 7	nm	nm

CORPORATE ITEMS

2004 VS. 2003

Corporate and Unallocated Shared Expenses Corporate and unallocated shared expenses decreased 3% for the year to $428 million. The current year reflected the favorable resolution of certain legal matters, partially offset by higher legal and other administrative costs.

Net Interest Expense Net interest expense is detailed below:

(in millions)	2004	2003	2002	% change 2004 vs. 2003	% change 2003 vs. 2002
Interest expense	**$(629)**	$(666)	$(708)	(6)%	(6)%
Aircraft leveraged lease investment write-off	**(16)**	(114)	—	(86)%	nm
Interest and investment income (loss)	**28**	(13)	255	nm	nm
Net interest expense	**$(617)**	$(793)	$(453)	(22)%	75%

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

Interest and investment income (loss) was income of $28 million compared to a loss of $13 million in the prior year. The current year reflected higher interest income while the prior year period included a loss on the early repayment of certain borrowings.

Equity in the Income of Investees The increase in equity in the income of our investees 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 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. As more fully disclosed in Note 7 to the Consolidated Financial Statements, the fiscal 2004 effective income tax rate reflects a $97 million benefit for certain income exclusions provided for under U.S. income tax laws. As discussed in Note 7 to the Consolidated Financial Statements, this exclusion has been repealed and will be phased out commencing fiscal 2005.

Pension and Benefit Costs Increasing pension and post-retirement medical benefit plan costs have affected results in all of our segments, with the majority of these costs being borne by the Parks and Resorts segment. The costs increased from $131 million in fiscal 2003 to $374 million in fiscal 2004. The increase in fiscal 2004 was due primarily to decreases in the discount rate to measure the present value of plan obligations, the expected return on plan assets and the actual performance of plan assets. The discount rate assumption decreased from 7.20% to 5.85% reflecting the decline in overall market interest rates and the expected return on plan assets was reduced from 8.5% to 7.5% reflecting trends in the overall financial markets.

We expect pension and post-retirement medical costs to decrease in fiscal 2005 to $315 million. The decrease is due primarily to an increase in the discount rate assumption from 5.85% to 6.30%, reflecting increases in prevailing market interest rates.

Cash contributions to the plans are expected to decrease in fiscal 2005 to approximately $165 million from $173 million in fiscal 2004.

Due to plan asset performance and an increase in the present value of pension obligations, pension obligations exceed plan assets for certain 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 September 30, 2004 and 2003 is as follows:

	Minimum Liability at September 30,		Decreased Liability
	2004	2003	in 2004
Pretax	$415	$969	$(554)
Aftertax	$261	$608	$(347)

The decrease in the additional minimum pension liability in fiscal 2004 was due to the increase in the discount rate from 5.85% to 6.30% and improved plan asset performance. The accounting rules do not require that changes in the additional minimum pension liability adjustment be recorded in current period earnings but rather are to be 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

MEDIA NETWORKS
2003 VS. 2002

Revenues Media Networks revenues increased 12%, or $1.2 billion, to $10.9 billion reflecting increases of 18%, or $848 million at the Cable Networks and 7%, or $360 million, at Broadcasting.

Increased Cable Networks revenues were driven by increases of $455 million in revenues from cable and satellite operators and $385 million in advertising revenues. Increased advertising revenue was primarily a result of the addition of NBA games. Revenues from cable and satellite operators increased due to contractual rate adjustments and subscriber growth.

Increased Broadcasting revenues were driven primarily by an increase of $196 million at the ABC Television Network, $60 million at the Company's owned and operated television stations and $33 million at the radio networks and stations. The increases at the television network and stations were primarily driven by higher advertising revenues reflecting higher rates due to an improved advertising marketplace. The airing of the Super Bowl in the second quarter of fiscal 2003 also contributed to increased advertising revenues. Revenues at the radio networks and stations also increased due to the stronger advertising market.

Costs and Expenses Costs and expenses increased 11%, or $981 million over fiscal 2002 due to higher programming and production costs, partially offset by lower bad debt expense at the Cable Networks. Additionally, fiscal 2002 benefited from the receipt of insurance proceeds related to the loss of a broadcast tower.

Higher programming and production costs at the ABC Television Network were primarily due to the airing of the Super Bowl and the costs of coverage of the war in Iraq. Higher programming costs at the Cable Networks were primarily due to NBA and MLB telecasts and higher programming costs at ABC Family. Programming cost increases were partially offset by lower cost amortization for the NFL contract due to commencing the three year option period as described under "Sports Programming Costs" above. The decrease in bad debt expense at Cable Networks reflected negative impacts in fiscal 2002 related to financial difficulties of Adelphia Communications Company in the United States and KirchMedia & Company in Germany.

Segment Operating Income Segment operating income increased 23%, or $227 million, to $1.2 billion. The increase reflected increases of $74 million at Broadcasting and $153 million at the Cable Networks. Increased segment operating income at Broadcasting reflected higher advertising revenues, partially offset by increased programming and production costs. Growth at the Cable Networks reflected higher revenues from cable and satellite operators and higher advertising revenue, partially offset by increased sports programming costs.

PARKS AND RESORTS
2003 VS. 2002

Revenues Revenues at Parks and Resorts decreased 1%, or $53 million, to $6.4 billion, driven by decreases of $57 million due to the sale of the Anaheim Angels baseball team during the third quarter of fiscal 2003, $51 million from decreased revenues from Euro Disney, and $14 million from the Walt Disney World Resort. These decreases were partially offset by an increase of $83 million at the Disneyland Resort. The decrease in revenues from Euro Disney reflected the cessation of billing and recognition of revenues from royalties and management fees commencing with the second quarter of fiscal 2003 due to Euro Disney's financial difficulties.

Revenues at the Walt Disney World Resort were down marginally, reflecting lower theme park attendance and hotel occupancy, partially offset by increased per capita guest spending at the theme parks and hotel properties. Decreased theme park attendance and hotel occupancy at the Walt Disney World Resort reflected continued softness in travel and tourism. Guest spending increases reflected ticket price increases during fiscal 2003.

At the Disneyland Resort, increased revenues were driven by higher theme park attendance and hotel occupancy. These increases were due primarily to the success of certain promotional programs offered during fiscal 2003, as well as the opening of new attractions and entertainment venues at Disneyland Park and Disney's California Adventure during fiscal 2003.

Costs and Expenses Costs and expenses increased 3%, or $159 million compared to fiscal 2002. The increase in costs and expenses was primarily due to higher costs at the Walt Disney World and Disneyland Resorts, partially offset by cost decreases due to the sale of the Anaheim Angels during the third quarter of fiscal 2003. Higher costs at Walt Disney World and Disneyland were primarily driven by increases in employee benefits, repairs and maintenance, marketing, information systems, insurance, and depreciation expenses.

Segment Operating Income Segment operating income decreased 18%, or $212 million, to $957 million, primarily due to higher costs and expenses at the Walt Disney World Resort and the decreased revenues from Euro Disney. Revenue increases at the Disneyland Resort were offset by higher costs and expenses.

STUDIO ENTERTAINMENT
2003 VS. 2002

Revenues Revenues increased 10%, or $673 million, to $7.4 billion. The increase primarily reflects an increase of $553 million in worldwide theatrical motion picture distribution and $185 million in worldwide home entertainment distribution.

The worldwide theatrical motion picture distribution revenue increase reflected the strong performance of *Pirates of the Caribbean*, *Finding Nemo, Chicago, Santa Clause 2, Bringing Down the House* and *Bruce Almighty*, which the Company distributed internationally, compared to fiscal 2002, which included Disney/Pixar's *Monsters, Inc.*, *Signs* and *Lilo & Stitch*. Worldwide home video increases reflected stronger DVD and VHS sales of *Lilo & Stitch, Beauty & the Beast, Signs, Sweet Home Alabama* and other DVD titles compared to fiscal 2002, which included *Monsters, Inc.*, *Pearl Harbor* and *Snow White and the Seven Dwarfs*.

Costs and Expenses Costs and expenses increased 5%, or $326 million, reflecting increases in worldwide theatrical and international home entertainment and higher development and production write-offs, partially offset by decreases in television distribution and domestic home entertainment costs. Higher costs in worldwide the-

atrical reflected higher distribution costs for fiscal 2003 titles due to the promotion of high-profile releases, including *Finding Nemo, Pirates of the Caribbean, Chicago* and *Gangs of New York*, partially offset by lower production cost amortization due to the write-down of *Treasure Planet* in fiscal 2002. Cost increases in international home entertainment reflected higher distribution costs and production cost amortization for fiscal 2003 titles, which included *Beauty & the Beast, Lilo & Stitch* and *Treasure Planet*, partially offset by lower participation costs. Lower costs in television distribution reflected lower production cost amortization and participation costs related to the sale of film products to television networks, the pay television market and in domestic syndication. Lower costs in domestic home entertainment reflected higher participation costs for fiscal 2002 titles, which included *Monsters, Inc.* and *Pearl Harbor*.

Segment Operating Income Segment operating income increased from $273 million to $620 million, due to growth in worldwide theatrical motion picture distribution, higher revenues in domestic home entertainment, lower television distribution costs, partially offset by higher development and production write-offs.

CONSUMER PRODUCTS

2003 VS. 2002

Revenues Revenues decreased 4%, or $96 million, to $2.3 billion, reflecting declines of $161 million at the Disney Store, partially offset by increases of $60 million in merchandise licensing and $30 million in publishing operations.

The decline at the Disney Store is due primarily to the sale of the Disney Store business in Japan in fiscal 2002, as well as lower comparative store sales and fewer stores in North America. The increase in merchandise licensing primarily reflected higher revenues from toy licensees, due in part to higher contractually guaranteed minimum royalties in North America, strong performance across Europe and increased royalties from direct-to-retail licenses. Higher publishing revenues were driven by increases in Europe, reflecting the strong performance of the *Topolino, W.I.T.C.H.* and *Art Attack* titles.

Costs and Expenses Costs and expenses, which consist primarily of labor, product costs (including product development costs, distribution and selling expenses) and leasehold and occupancy expenses, decreased 4% or $86 million. The decrease was primarily driven by lower costs at the Disney Store due to the sale of the Japan business and closures of Disney Store locations domestically. These decreases were partially offset by volume increases at publishing and higher divisional administrative costs.

Segment Operating Income Segment operating income decreased 3%, or $10 million, to $384 million, primarily driven by a decline at the Disney Store and increased administrative costs, partially offset by an increase in merchandise licensing.

CORPORATE ITEMS

2003 VS 2002

Corporate and Unallocated Shared Expenses Corporate and unallocated shared expenses increased in fiscal 2003 reflecting additional costs associated with new finance and human resource information technology systems, partially offset by lower brand promotion and litigation costs. Fiscal 2002 also included gains on the sale of properties in the U.K.

Net Interest Expense Lower interest expense in fiscal year 2003 was primarily due to lower interest rates and average debt balances.

Interest and investment income (loss) in fiscal year 2003 included the $114 million write-off of our leveraged lease investment with United Airlines referred to above. Fiscal 2002 included a $216 million gain on the sale of shares of Knight-Ridder, Inc.

Equity in the Income of Investees Higher equity in the income of our investees reflected increases at Lifetime Television, due to lower advertising expenses, as well as increases at A&E and E! Entertainment due to higher advertising revenues. In addition, in fiscal year 2002 a write-down of an investment in a Latin American cable operator negatively affected equity income.

Effective Income Tax Rate The effective income tax rate decreased from 38.9% in fiscal 2002 to 35.0% in fiscal 2003. The decrease in the fiscal 2003 effective income tax rate is primarily due to a $56 million reserve release as a result of the favorable resolution of certain state income tax exposures.

STOCK OPTION ACCOUNTING

The Company uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not recognize compensation expense for the fair value of its stock-based awards to employees in its Consolidated Statements of Income.

The following table reflects pro forma net income and earnings per share had the Company elected to record an expense for the fair value of employee stock options.

	Year Ended September 30,		
(in millions, except for per share data)	**2004**	2003	2002
Net income:			
As reported	**$2,345**	$1,267	$1,236
Pro forma after stock option expense	**2,090**	973	930
Diluted earnings per share:			
As reported	**1.12**	0.62	0.60
Pro forma after stock option expense	**1.00**	0.48	0.45

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

Fully diluted shares outstanding and diluted earnings per share include the effect of in-the-money stock options calculated based on the average share price for the period and assumes conversion of the convertible senior notes (see Note 6 to the Consolidated Financial Statements). The dilution from employee options increases as 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 2004 EPS Impact[3]
$23.72	106 million	—[2]	—	$ 0.00
25.00	134 million	3 million	0.14%	(0.00)
30.00	160 million	17 million	0.81%	(0.01)
40.00	221 million	43 million	2.04%	(0.02)
50.00	230 million	59 million	2.80%	(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 tax effected proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares.

[2] Fully diluted shares outstanding for the year ended September 30, 2004 total 2,106 million and include the dilutive impact of in-the-money options at the average share price for the period of $23.72 and the assumed conversion of the convertible senior notes. At the average share price of $23.72, the dilutive impact of in-the-money options was 12 million shares for the year.

[3] Based upon fiscal 2004 earnings of $2,345 million or $1.12 per share.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $459 million during the year ended September 30, 2004. The change in cash and cash equivalents is as follows:

	Year Ended September 30,		
(in millions)	**2004**	2003	2002
Cash provided by operating activities	**$ 4,370**	$ 2,901	$ 2,286
Cash used by investing activities	**(1,484)**	(1,034)	(3,176)
Cash (used) provided by financing activities	**(2,701)**	(1,523)	1,511
	185	344	621
Consolidation of Euro Disney and Hong Kong Disneyland cash and cash equivalents[1]	**274**	—	—
Increase in cash and cash equivalents	**$ 459**	$ 344	$ 621

[1] Amount represents the cash balances of Euro Disney and Hong Kong Disneyland on March 31, 2004 when they were initially consolidated pursuant to FIN 46R. As previously discussed the Company adopted FIN 46R, and as a result, 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.

Operating Activities Cash provided by operations increased 51%, or $1.5 billion, to $4.4 billion, reflecting higher pre-tax income adjusted for non-cash items and lower net investment in film and television costs, partially offset by higher income tax payments. We anticipate that we will have a significant increase in our net investment in film and television costs in fiscal 2005.

Investing Activities Investing activities consist principally of investments in parks, resorts and other property and mergers, acquisition and divestiture activity. The Company's investing activities generally consist of investments in parks, resorts and other property. During fiscal 2002, investing activities included approximately $2.8 billion for the acquisition of ABC Family Worldwide.

INVESTMENTS IN PARKS, RESORTS AND OTHER PROPERTIES

Investments in parks, resorts and other properties by segment are as follows:

	Year Ended September 30,		
(in millions)	**2004**	2003	2002
Media Networks	**$ 221**	$ 203	$ 151
Parks and Resorts:			
Domestic	**719**	577	636
International[1]	**289**	—	—
Studio Entertainment	**39**	49	37
Consumer Products	**14**	44	58
Corporate and unallocated shared expenditures	**145**	176	204
	$1,427	$1,049	$1,086

[1] Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures beginning April 1, 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 increase in domestic park spending in fiscal 2004 as compared to fiscal 2003 was primarily due to spending in anticipation of the 50th anniversary celebration which includes new attractions at Walt Disney World and Disneyland. The decrease in fiscal 2003 as compared to fiscal 2002 was primarily due to the completion in fiscal 2002 of a new resort facility at Walt Disney World. The international park spending in fiscal 2004, representing six months of Euro Disney and Hong Kong Disneyland capital expenditures following the implementation of FIN 46R, primarily relates to Hong Kong Disneyland construction. Our minority partner contributed $66 million which is included in financing activities.

Capital spending will increase in fiscal 2005 due to including a full year of spending for Euro Disney and Hong Kong Disneyland as a result of FIN 46R, and to a lesser extent, due to higher domestic theme park spending.

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 capital expenditures were primarily for information technology software and hardware.

OTHER INVESTING ACTIVITIES

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, 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 from the sale of the Angels and certain utility infrastructure at Walt Disney World.

During fiscal 2002, the Company acquired ABC Family for $5.2 billion, which was funded with $2.9 billion of new long-term borrowings, plus the assumption of $2.3 billion of borrowings.

During fiscal 2002, the Company received proceeds totaling $601 million from the sale of investments, primarily the remaining shares of Knight-Ridder, Inc., which the Company had received in connection with the disposition of certain publishing assets in fiscal 1997. Additionally, the Company received aggregate proceeds of $200 million from the sale of the Disney Store business in Japan and the sale of certain real estate properties in the U.K. and Florida.

Financing Activities Cash used in financing activities during fiscal 2004 of $2.7 billion reflected net repayments of borrowings, the payment of dividends to shareholders, and share repurchases partially offset by proceeds from stock option exercises.

During the year, the Company's borrowing activity, including activity for Euro Disney and Hong Kong Disneyland commencing on April 1, 2004, was as follows:

(in millions)	Additions	Payments	Total
Commercial paper borrowings (net change)	$100	$ —	$ 100
US medium term notes and other US dollar denominated debt	—	(1,886)	(1,886)
European medium term notes	—	(420)	(420)
Privately placed debt	—	(89)	(89)
Other	13	(50)	(37)
	$113	$(2,445)	$(2,332)
Euro Disney borrowings	2	(34)	(32)
Hong Kong Disneyland borrowings	161	—	161
	$276	$(2,479)	$(2,203)

See Note 6 to the Consolidated Financial Statements for more detailed information regarding the Company's borrowings.

At September 30, 2004, total committed borrowing capacity, capacity used and unused borrowing capacity were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring 2005[1]	$2,250	$ —	$2,250
Bank facilities expiring 2009[1][2]	2,250	205	2,045
Total	$4,500	$205	$4,295

[1] 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 September 30, 2004, the Company had not borrowed under these bank facilities. Our bank facilities were renewed on February 25, 2004 on substantially the same terms as our previous facilities.

[2] The Company also has the ability to issue up to $500 million of letters of credit under this facility, which if utilized, reduces available borrowing. As of September 30, 2004, $205 million of letters of credit had been issued under this facility.

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

The Company has filed a U.S. shelf registration statement which allows the Company to borrow up to $7.5 billion of which $1.8 billion was available at September 30, 2004. The Company also has a European medium-term note program, which permits issuance of approximately $4 billion of debt instruments, which has $2.9 billion of capacity at September 30, 2004.

The Company declared an annual dividend of $0.24 per share on December 1, 2004 related to fiscal 2004. The dividend is payable on January 6, 2005 to shareholders of record on December 10, 2004. The Company paid a $430 million dividend ($0.21 per share) related to fiscal 2003 on January 6, 2004 to shareholders of record on December 12, 2003. The Company paid a $429 million dividend ($0.21 per share) during the first quarter of fiscal 2003 applicable to fiscal 2002 and paid a $428 million dividend ($0.21 per share) during the first quarter of fiscal 2002 applicable to fiscal 2001.

During the fourth quarter of fiscal 2004, the Company repurchased 14.9 million shares of Disney common stock for approximately $335 million. No shares of Disney common stock were repurchased during fiscal 2003 and fiscal 2002. As of September 30, 2004, the Company was authorized to repurchase up to approximately 315 million shares of Company common stock.

Euro Disney is currently in the process of a financial restructuring, that if completed, will result in a refinancing of its debt. See Note 4 to the Consolidated Financial Statements for further details on the terms of the restructuring.

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 measures such as interest coverage and leverage ratios. As of September 30, 2004, Moody's Investors Service's long and short-term debt ratings for the Company were Baal and P-2, respectively, with stable outlook; and Standard & Poor's long and short-term debt ratings for the Company were BBB+ and A-2, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 30, 2004, 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.

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 at September 30, 2004 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal 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]	$19,729	$2,411	$4,386	$ 1,477	$11,455
Operating lease commitments (Note 13)	2,172	306	524	410	932
Capital lease obligations (Note 13)	885	40	120	77	648
Sports programming commitments (Note 13)	6,513	2,612	2,918	810	173
Broadcast programming commitments (Note 13)	3,087	1,510	770	574	233
Total sports and other broadcast programming commitments	9,600	4,122	3,688	1,384	406
Other[2]	2,100	1,069	735	226	70
Total contractual obligations[3]	$34,486	$7,948	$9,453	$3,574	$13,511

[1] Amounts exclude market value adjustments totaling $369 million. Maturities of Euro Disney's borrowings are included based on the contractual terms. Amounts include interest payments based on contractual terms.

[2] Other commitments primarily comprise creative talent and employment agreements including obligations to actors, producers, sports personnel, executives and television and radio personalities. Amounts also include capital expenditure commitments at Hong Kong Disneyland and other commitments, such as computer hardware maintenance commitments, vendor commitments and minimum print and advertising commitments.

[3] Comprised of the following:

Liabilities recorded on the balance sheet	$14,329
Commitments not recorded on the balance sheet	20,157
	$34,486

The Company also has obligations with respect to its pension and postretirement 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 the remaining 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.

Euro Disney As described in Note 4 to the Consolidated Financial Statements, the Company has signed a Memorandum of Agreement (MOA) with respect to the financial restructuring of Euro Disney that remains subject to certain approvals by Euro Disney's Shareholders (which the Company has agreed to vote in favor of), completion of final documentation, and successful implementation of an equity rights offering by no later than March 31, 2005. If approved, the MOA would commit the Company to make certain investments in and advances to Euro Disney. In addition, the timing of Euro Disney's future payments to its lenders will change as discussed in Note 4.

Aircraft Leveraged Lease Investment As disclosed in more detail in Note 4 to the Consolidated Financial Statements, as of September 30, 2004, the Company's remaining net aircraft leveraged lease investment totaled approximately $156 million, consisting of $101 million and $55 million with Delta Air Lines, Inc. (Delta) and FedEx, respectively. Given the current status of the airline industry, we continue to monitor the recoverability of these investments, particularly the Delta leases. Delta has disclosed that if it is unsuccessful in reducing its operating expenses and continues to experience significant losses, it will need to seek to restructure its costs under Chapter 11 of the U.S. Bankruptcy code. Although Delta remains current on their lease payments to us, the inability of Delta to make their lease payments, or the termination of our lease in a bankruptcy proceeding, could result in a material charge for the write-down of our investment and could accelerate certain income tax payments.

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 all of our 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 and the level of market acceptance of the production.

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 10 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. For acquired film libraries, remaining revenues include amounts to be earned for up to 20 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. The Company's dayparts are: early morning, daytime, late night, primetime, news, children and sports (includes network and cable). A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The net realizable values of other cable programming 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 and television programming asset 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.

Pension and Postretirement Benefit Plan Actuarial Assumptions The Company's pension benefit 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* (SFAS 87) and Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other than Pensions* (SFAS 106), 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 involve employee demographic factors such as retirement patterns, mortality, turnover and the rate of compensation increase.

The discount rate enables us to state expected future benefit payments as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. We increased our discount rate to 6.30% in 2004 from 5.85% in 2003 to reflect market interest rate conditions. A one percentage point decrease in the assumed discount rate would increase annual expense and the projected benefit obliga-

tion by $31 million and $620 million, respectively. A one percentage point increase in the assumed discount rate would decrease annual expense and projected benefit obligations by $29 million and $515 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 2004 and 2003, respectively. A one percentage point change in the long-term return on pension plan asset assumption would impact annual pension expense by approximately $29 million. See Note 8 to the Consolidated Financial Statements.

Goodwill, Intangible Assets, Long-lived Assets and Investments Effective October 1, 2001, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Goodwill and other intangible assets must be tested for impairment on an annual basis. We completed our impairment testing as of September 30, 2004 and determined that there were no impairment losses related to goodwill and other intangible assets. 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.

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 its carrying value.

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, for all of the reporting units except for the Television Network which is included in the Television Broadcasting Group. 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.

Long-lived assets include certain long-term investments. The fair value of the long-term 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 costs 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 2004, the Company reached a settlement with the Internal Revenue Service regarding all assessments proposed with respect to the Company's federal income tax returns for 1993 through 1995. This settlement resulted in the Company releasing $120 million in tax reserves which are no longer required with respect to these matters. This release of reserves is reflected in the current year income tax provision. During the fourth quarter of fiscal 2003, the Company resolved certain state income tax audit issues and the corresponding release of $56 million of related tax reserves is reflected in the 2003 income tax provision.

ACCOUNTING CHANGES

FIN 46R In December 2003, the FASB issued FIN 46R which was generally effective as of March 31, 2004. Variable interest entities (VIEs) are primarily 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.

The Company has minority equity interests in certain entities, including Euro Disney S.C.A. (Euro Disney) and Hongkong International Theme Parks Limited (Hong Kong Disneyland). 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. Pursuant to the transition provisions of FIN 46R, 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 year 2004 and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal year 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 month period ended March 31, 2004.

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 will not be consolidated because the Company is not the primary beneficiary. These VIEs do not involve any material exposure to the Company.

The following table presents the condensed consolidating balance sheet of the Company, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland as of September 30, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 1,730	$ 312	$ 2,042
Other current assets	7,103	224	7,327
Total current assets	8,833	536	9,369
Investments	1,991	(699)	1,292
Fixed assets	12,529	3,953	16,482
Intangible assets	2,815	—	2,815
Goodwill	16,966	—	16,966
Other assets	6,843	135	6,978
Total assets	$49,977	$3,925	$53,902
Current portion of borrowings[1]	$ 1,872	$2,221	$ 4,093
Other current liabilities	6,349	617	6,966
Total current liabilities	8,221	2,838	11,059
Borrowings	8,850	545	9,395
Deferred income taxes	2,950	—	2,950
Other long term liabilities	3,394	225	3,619
Minority interests	487	311	798
Shareholders' equity	26,075	6	26,081
Total liabilities and shareholders' equity	$49,977	$3,925	$53,902

[1] All of Euro Disney's borrowings of $2.2 billion are classified as current as they are subject to acceleration if certain requirements of the Memorandum of Agreement (MOA) are not achieved as part of the current restructuring process (see Note 4 to the Consolidated Financial Statements).

The following table presents the condensed consolidating income statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004[1].

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 30,037	$ 715	$ 30,752
Cost and expenses	(26,053)	(651)	(26,704)
Restructuring and impairment charges	(64)	—	(64)
Net interest expense	(575)	(42)	(617)
Equity in the income of investees	398	(26)	372
Income before income taxes and minority interests	3,743	(4)	3,739
Income taxes	(1,199)	2	(1,197)
Minority interests	(199)	2	(197)
Net income	$ 2,345	$ —	$ 2,345

[1] As discussed above, 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 month period ended March 31, 2004.

The following table presents the condensed consolidating cash flow statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments[1]	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
Other investing activities	(107)	50	(57)
Cash provided (used) by financing activities	(2,891)	190	(2,701)
Increase in cash and cash equivalents	147	38	185
Cash and cash equivalents, beginning of period	1,583	274	1,857
Cash and cash equivalents, end of period	$ 1,730	$ 312	$ 2,042

[1] Includes cash flows of Euro Disney and Hong Kong Disneyland for the six months ended September 30, 2004.

FSP 106-2 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. We expect that the impact of this act will not be material.

EITF 00-21 The Company adopted Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), effective October 1, 2002, in the fiscal fourth quarter of 2003. EITF 00-21 addresses revenue recognition for revenues derived from a single contract that contains multiple products or services. The rule provides additional requirements to determine when such revenues may be recorded separately for accounting purposes. Historically, 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, 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. In the fiscal fourth quarter of 2003, the Company 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 would have been recorded ratably over fiscal 2003 under the new accounting method.

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.

Factors that may affect forward-looking statements. For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. Significant factors affecting specific business operations are identified in connection with the description of these operations and the financial results of these operations elsewhere in this report. General factors affecting our operations include:

Changes in Company-wide or business-unit strategies, which may result in changes in the types or mix of businesses in which the Company is involved or will invest;

Changes in U.S., global or regional economic conditions, which may affect attendance and spending at the Company's parks and resorts, purchases of Company-licensed consumer products, the advertising market for broadcast and cable television programming and the performance of the Company's theatrical and home entertainment releases;

Changes in U.S. and global financial and equity markets, including market disruptions and significant interest rate fluctuations, which may impede the Company's access to, or increase the cost of, external financing for its operations and investments;

Changes in cost of providing pension and other postretirement medical benefits, including changes in health care costs, investment returns on plan assets, and discount rates used to calculate pension and related liabilities;

Increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the Company's parks and resorts operations, divert consumers from our creative or other products, or to other products or other forms of entertainment, or lead to increased expenses in such areas as television programming acquisition and motion picture production and marketing;

Legal and regulatory developments that may affect particular business units, such as regulatory actions affecting environmental activities, consumer products, theme park safety, broadcasting or Internet activities or the protection of intellectual property; the imposition by foreign countries of trade restrictions or motion picture or television content requirements or quotas, and changes in domestic or international tax laws or currency controls;

Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, affect performance at the Company's parks and resorts;

Technological developments that may affect the distribution of the Company's creative products or create new risks to the Company's ability to protect its intellectual property;

Labor disputes, which may lead to increased costs or disruption of operations in any of the Company's business units;

Changing public and consumer tastes and preferences, which may, among other things, affect the Company's entertainment, broadcasting and consumer products businesses generally or the Company's parks and resorts operations specifically, or result in lower broadcasting ratings or loss of advertising revenue;

Changes in or termination of long-term contracts for the acquisition or distribution of media programming or products, which may impact the availability of programming or product, the cost of acquired content, the ability to distribute content, or the revenue recognized from the distribution of content; and

International, political, health concerns and military developments that may affect among other things, travel and leisure businesses generally or the Company's parks and resorts operations specifically, or result in increases in broadcasting costs or loss of advertising revenue.

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

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 a minimum and maximum percentage.

Our objective in managing exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues. The Company utilizes option strategies and forward contracts that provide for the sale of foreign currencies to hedge probable, but not firmly committed, 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 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 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 September 30, 2004. 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. The values of foreign exchange options do not change on a one-to-one basis with the underlying currencies, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. Forecasted transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors.

VAR on a combined basis decreased from $51 million at September 30, 2003 to $31 million at September 30, 2004. The majority of the decrease is due to increased correlation benefits and 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):

(in millions)	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Combined Portfolio
VAR as of September 30, 2004	$33	$17	$0	$31
Average VAR during the year ended September 30, 2004	$38	$19	$1	$39
Highest VAR during the year ended September 30, 2004	$45	$27	$1	$48
Lowest VAR during the year ended September 30, 2004	$33	$12	$0	$31
VAR as of September 30, 2003	$57	$18	$1	$51

The VAR for Euro Disney and Hong Kong Disneyland is immaterial as of September 30, 2004. 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)	Year Ended September 30, 2004	2003	2002
Revenues	**$ 30,752**	$ 27,061	$ 25,329
Costs and expenses	**(26,704)**	(24,348)	(22,945)
Gain on sale of business	**—**	16	34
Net interest expense	**(617)**	(793)	(453)
Equity in the income of investees	**372**	334	225
Restructuring and impairment charges	**(64)**	(16)	—
Income before income taxes, minority interests and the cumulative effect of accounting change	**3,739**	2,254	2,190
Income taxes	**(1,197)**	(789)	(853)
Minority interests	**(197)**	(127)	(101)
Income before the cumulative effect of accounting change	**2,345**	1,338	1,236
Cumulative effect of accounting change	**—**	(71)	—
Net income	**$ 2,345**	$ 1,267	$ 1,236
Earnings per share before the cumulative effect of accounting change:			
Diluted	**$ 1.12**	$ 0.65	$ 0.60
Basic	**$ 1.14**	$ 0.65	$ 0.61
Cumulative effect of accounting change per share	**$ —**	$ (0.03)	$ —
Earnings per share:			
Diluted	**$ 1.12**	$ 0.62	$ 0.60
Basic	**$ 1.14**	$ 0.62	$ 0.61
Average number of common and common equivalent shares outstanding:			
Diluted	**2,106**	2,067	2,044
Basic	**2,049**	2,043	2,040

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	September 30, 2004	2003
Assets		
Current assets		
Cash and cash equivalents	**$ 2,042**	$ 1,583
Receivables	**4,558**	4,238
Inventories	**775**	703
Television costs	**484**	568
Deferred income taxes	**772**	674
Other current assets	**738**	548
Total current assets	**9,369**	8,314
Film and television costs	**5,938**	6,205
Investments	**1,292**	1,849
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**25,168**	19,499
Accumulated depreciation	**(11,665)**	(8,794)
	13,503	10,705
Projects in progress	**1,852**	1,076
Land	**1,127**	897
	16,482	12,678
Intangible assets, net	**2,815**	2,786
Goodwill	**16,966**	16,966
Other assets	**1,040**	1,190
	$ 53,902	$49,988
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 5,623**	$ 5,044
Current portion of borrowings	**4,093**	2,457
Unearned royalties and other advances	**1,343**	1,168
Total current liabilities	**11,059**	8,669
Borrowings	**9,395**	10,643
Deferred income taxes	**2,950**	2,712
Other long-term liabilities	**3,619**	3,745
Minority interests	**798**	428
Commitments and contingencies (Note 13)	**—**	—
Shareholders' equity		
Preferred stock, $.01 par value		
Authorized – 100 million shares, Issued – none	**—**	—
Common stock		
Common stock – Disney, $.01 par value		
Authorized – 3.6 billion shares,		
Issued – 2.1 billion shares	**12,447**	12,154
Common stock – Internet Group, $.01 par value		
Authorized – 1.0 billion shares, Issued – none	**—**	—
Retained earnings	**15,732**	13,817
Accumulated other comprehensive loss	**(236)**	(653)
	27,943	25,318
Treasury stock, at cost, 101.6 million shares at September 30, 2004 and 86.7 million shares at September 30, 2003	**(1,862)**	(1,527)
	26,081	23,791
	$ 53,902	$49,988

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended September 30, 2004	2003	2002
Operating Activities			
Net income	**$ 2,345**	$ 1,267	$ 1,236
Depreciation	**1,198**	1,059	1,021
Amortization of intangible assets	**12**	18	21
Deferred income taxes	**(98)**	441	327
Equity in the income of investees	**(372)**	(334)	(225)
Cash distributions received from equity investees	**408**	340	234
Minority interests	**197**	127	101
Change in film and television costs	**460**	(369)	(97)
Gain on sale of business	**—**	(16)	(34)
Gain on sale of Knight-Ridder, Inc. shares	**—**	—	(216)
Restructuring and impairment charges	**52**	13	—
Write-off of aircraft leveraged lease	**16**	114	—
Other	**203**	(23)	(55)
	2,076	1,370	1,077
Changes in working capital			
Receivables	**(115)**	(194)	(535)
Inventories	**(40)**	(6)	(35)
Other current assets	**(89)**	(28)	(86)
Accounts payable and other accrued liabilities	**237**	275	225
Television costs	**(44)**	217	404
	(51)	264	(27)
Cash provided by operations	**4,370**	2,901	2,286
Investing Activities			
Investments in parks, resorts and other property	**(1,427)**	(1,049)	(1,086)
Acquisitions (net of cash acquired)	**(48)**	(130)	(2,845)
Dispositions	**—**	166	200
Proceeds from sale of investments	**14**	40	601
Purchases of investments	**(67)**	(14)	(9)
Other	**44**	(47)	(37)
Cash used by investing activities	**(1,484)**	(1,034)	(3,176)
Financing Activities			
Borrowings	**176**	1,635	4,038
Reduction of borrowings	**(2,479)**	(2,059)	(2,113)
Commercial paper borrowings, net	**100**	(721)	(33)
Dividends	**(430)**	(429)	(428)
Exercise of stock options and other	**201**	51	47
Repurchases of common stock	**(335)**	—	—
Hong Kong Disneyland minority interest capital contributions	**66**	—	—
Cash (used) provided by financing activities	**(2,701)**	(1,523)	1,511
Increase in cash and cash equivalents	**185**	344	621
Cash and cash equivalents due to the initial consolidation of Euro Disney and Hong Kong Disneyland	**274**	—	—
Cash and cash equivalents, beginning of year	**1,583**	1,239	618
Cash and cash equivalents, end of year	**$ 2,042**	$ 1,583	$ 1,239
Supplemental disclosure of cash flow information:			
Interest paid	**$ 624**	$ 705	$ 674
Income taxes paid	**$ 1,349**	$ 371	$ 447

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)[1]	Treasury Stock	TWDC Stock Compensation Fund	Total Shareholders' Equity
Balance at September 30, 2001	2,038	$12,096	$12,171	$ 10	$(1,395)	$(210)	$22,672
Exercise of stock options	3	11	—	—	—	49	60
Dividends ($0.21 per share)	—	—	(428)	—	—	—	(428)
Other comprehensive loss (net of tax of $56 million)	—	—	—	(95)	—	—	(95)
Net income	—	—	1,236	—	—	—	1,236
Balance at September 30, 2002	2,041	12,107	12,979	(85)	(1,395)	(161)	23,445
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**

[1] Accumulated other comprehensive loss at September 30, 2004 and 2003 is as follows:

	2004	2003
Market value adjustments for investments and hedges, net of tax	**$ (61)**	$(108)
Foreign currency translation and other, net of tax	**86**	63
Additional minimum pension liability adjustment, net of tax	**(261)**	(608)
	$(236)	$(653)

Comprehensive income is as follows:

	2004	2003	2002
Net income	**$2,345**	$1,267	$1,236
Market value adjustments for investments and hedges, net of tax	**47**	(77)	(101)
Foreign currency translation, net of tax	**23**	73	50
Additional minimum pension liability adjustment, net of tax, decrease/(increase) (See Note 8)	**347**	(564)	(44)
Comprehensive income	**$2,762**	$ 699	$1,141

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's cable/satellite and international broadcast operations are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in foreign television broadcasting, production and distribution entities. Primary cable/satellite programming services, which operate through consolidated subsidiary companies, are 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 41% equity investment in Euro Disney S.C.A. (Euro Disney), a publicly held French entity that operates Disneyland Resort Paris, which includes the Disneyland Park, the Walt Disney 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 is under construction and is scheduled to open in fiscal 2005. During fiscal 2004, the Company began consolidating Euro Disney and Hong Kong Disneyland (see Note 2). 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 Company's NHL franchise, the Mighty Ducks of Anaheim and 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 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 direct retail distribution principally through the Disney Stores. The Company produces books and magazines for the general public, 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 business, net interest expense, equity in the income of investees, restructuring and impairment charges, income taxes, minority interests and the cumulative effect of accounting change. 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 costs, pension, legal and other shared services, 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 a portion of Consumer Products revenues attributable to certain film properties created by the studio. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in an arm's-length transaction.

	2004	2003	2002
Revenues			
Media Networks	$11,778	$10,941	$ 9,733
Parks and Resorts	7,750	6,412	6,465
Studio Entertainment			
Third parties	8,637	7,312	6,622
Intersegment	76	52	69
	8,713	7,364	6,691
Consumer Products			
Third parties	2,587	2,396	2,509
Intersegment	(76)	(52)	(69)
	2,511	2,344	2,440
Total consolidated revenues	$30,752	$27,061	$25,329
Segment operating income			
Media Networks	$ 2,169	$ 1,213	$ 986
Parks and Resorts	1,123	957	1,169
Studio Entertainment	662	620	273
Consumer Products	534	384	394
Total segment operating income	$ 4,488	$ 3,174	$ 2,822
Reconciliation of segment operating income to income before income taxes, minority interests and the cumulative effect of accounting change			
Segment operating income	$ 4,488	$ 3,174	$ 2,822
Corporate and unallocated shared expenses	(428)	(443)	(417)
Amortization of intangible assets	(12)	(18)	(21)
Gain on sale of business	—	16	34
Net interest expense	(617)	(793)	(453)
Equity in the income of investees	372	334	225
Restructuring and impairment charges	(64)	(16)	—
Income before income taxes, minority interests and the cumulative effect of accounting change	$ 3,739	$ 2,254	$ 2,190
Capital expenditures			
Media Networks	$ 221	$ 203	$ 151
Parks and Resorts			
Domestic	719	577	636
International[1]	289	—	—
Studio Entertainment	39	49	37
Consumer Products	14	44	58
Corporate	145	176	204
Total consolidated capital expenditures	$ 1,427	$ 1,049	$ 1,086
Depreciation expense			
Media Networks	$ 172	$ 169	$ 180
Parks and Resorts			
Domestic	710	681	648
International[1]	95	—	—
Studio Entertainment	22	39	46
Consumer Products	44	63	58
Corporate	155	107	89
Total consolidated depreciation expense	$ 1,198	$ 1,059	$ 1,021

	2004	2003	2002
Identifiable assets			
Media Networks[2][3]	$26,193	$25,883	
Parks and Resorts[2]	15,221	11,067	
Studio Entertainment	6,954	7,832	
Consumer Products	1,037	966	
Corporate[4]	4,497	4,240	
Total consolidated assets	$53,902	$49,988	
Supplemental revenue data			
Media Networks			
Advertising	$ 6,611	$ 6,319	$ 5,566
Affiliate Fees	4,408	3,682	3,294
Parks and Resorts			
Merchandise, food and beverage	2,429	1,987	1,987
Admissions	2,547	1,887	1,819
Revenues			
United States and Canada	$24,012	$22,124	$20,770
Europe	4,721	3,171	2,724
Asia Pacific	1,547	1,331	1,325
Latin America and Other	472	435	510
	$30,752	$27,061	$25,329
Segment operating income			
United States and Canada	$ 2,934	$ 2,113	$ 1,739
Europe	892	591	499
Asia Pacific	566	518	545
Latin America and Other	96	(48)	39
	$ 4,488	$ 3,174	$ 2,822
Identifiable assets			
United States and Canada	$46,788	$47,177	
Europe	5,370	2,200	
Asia Pacific	1,622	484	
Latin America and Other	122	127	
	$53,902	$49,988	

[1] Represents 100% of Euro Disney and Hong Kong Disneyland's capital expenditures and depreciation expense beginning April 1, 2004. Hong Kong Disneyland's capital expenditures totaled $251 million and were partially funded by minority interest partner contributions totaling $66 million.

[2] Identifiable assets include amounts associated with equity method investments, including notes and other receivables, as follows:

Media Networks	$951	$898
Parks and Resorts	—	623

[3] Includes goodwill and other intangible assets totaling $19,341 in 2004 and $19,344 in 2003.

[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. In connection with this sale, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these financial statements.

Accounting Changes

FIN 46R In December 2003, FASB issued FIN 46R which was generally effective as of March 31, 2004. Variable interest entities (VIEs) are primarily 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.

The Company has minority equity interests in certain entities, including Euro Disney S.C.A. (Euro Disney) and Hongkong International Theme Parks Limited (Hong Kong Disneyland). 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. Pursuant to the transition provisions of FIN 46R, 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 year 2004 and the income and cash flow statements beginning April 1, 2004, the beginning of the third quarter of fiscal year 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 month period ended March 31, 2004. See Note 4 for the impact of consolidating the balance sheets, income statement and cash flow statements of Euro Disney and Hong Kong Disneyland.

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 will not be consolidated because the Company is not the primary beneficiary. These VIEs do not involve any material exposure to the Company.

FSP 106-2 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. We expect that the impact of this act will not be material.

EITF 00-21 The Company adopted Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), effective October 1, 2002, in the fiscal fourth quarter of 2003. EITF 00-21 addresses revenue recognition for revenues derived from a single contract that contains multiple products or services. The rule provides additional requirements to determine when such revenues may be recorded separately for accounting purposes. Historically, 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, the Company no longer allocates ESPN's affiliate revenue between NFL and non-NFL programming for accounting purposes. As a consequence, the Company will no longer match 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.

The Company elected to adopt this new accounting rule using the cumulative effect approach. In the fiscal fourth quarter of 2003, the Company 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 would have been recorded ratably over fiscal 2003 under the new accounting method. Results for fiscal 2003 were restated to reflect the impact of EITF 00-21 as of October 1, 2002.

The following table provides a reconciliation of reported net earnings to adjusted earnings had EITF 00-21 been followed in fiscal year 2002:

	Amount	Diluted Earnings per share
Reported earnings before the cumulative effect of accounting change	$1,236	$ 0.60
EITF 00-21 adjustment, net of tax	(46)	(0.02)
Adjusted net income	$1,190	$ 0.58

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 is deferred until the annual commitments are satisfied which generally results in revenue shifting from the first half of the year to the second.

Revenues from advance theme park ticket sales are recognized when the tickets are used. 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 are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

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

Advertising Expense Advertising costs are expensed as incurred. Advertising expense incurred for the years ended September 30, 2004, 2003, and 2002 totaled $3.0 billion, $2.5 billion and $2.3 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 continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Income.

Translation Policy The U.S. dollar is the predominant 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 property, plant and equipment, other assets and deferred revenue, 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 10 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. For acquired film libraries, remaining revenues include amounts to be earned for up to 20 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 (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 September 30, 2004 and 2003, capitalized software costs totaled $433 million and $240 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, which ranges from 2-10 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	25 – 40 years
Furniture, fixtures and equipment	2 – 10 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. 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 its carrying value.

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, for all of the reporting units except for the Television Network which is included in the Television Broadcasting Group. 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 are amortized on a straight-line basis over estimated useful lives as follows:

Copyrights	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.

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 have an anti-dilutive effect on EPS 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:

	Year Ended September 30,		
	2004	2003	2002
Income before the cumulative effect of accounting change	**$2,345**	$1,338	$1,236
Interest expense on convertible senior notes (net of tax)	**21**	10	—
	$2,366	$1,348	$1,236
Weighted average number of common shares outstanding (basic)	**2,049**	2,043	2,040
Weighted average dilutive stock options and restricted stock	**12**	3	4
Weighted average assumed conversion of convertible senior notes	**45**	21	—
Weighted average number of common and common equivalent shares outstanding (diluted)	**2,106**	2,067	2,044

For the years ended September 30, 2004, 2003 and 2002, options for 124 million, 184 million, and 156 million shares, respectively, were excluded from the diluted EPS calculation for common stock because they were anti-dilutive.

Stock Options The Company uses the intrinsic value method of accounting for stock-based awards granted to employees and, accordingly, does not recognize compensation expense for its stock-based awards in the Consolidated Statements of Income.

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

	Year Ended September 30,		
	2004	2003	2002
Net income			
As reported	**$2,345**	$1,267	$1,236
Less stock option expense, net of tax[1]	**(255)**	(294)	(306)
Pro forma after option expense	**$2,090**	$ 973	$ 930
Diluted earnings per share			
As reported	**$ 1.12**	$ 0.62	$ 0.60
Pro forma after option expense	**1.00**	0.48	0.45
Basic earnings per share			
As reported	**$ 1.14**	$ 0.62	$ 0.61
Pro forma after option expense	**1.02**	0.48	0.46

[1] Does not include restricted stock expense that is reported in net income. See Note 10.

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

Reclassifications Certain reclassifications have been made in the 2003 and 2002 financial statements to conform to the 2004 presentation.

NOTE 3. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

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. In fiscal 2002, the Company sold the Disney Store operations in Japan generating a pre-tax gain of $34 million. These gains are reported in the line "Gain on sale of business" in the Consolidated Statements of Income.

On October 24, 2001, the Company acquired Fox Family Worldwide, Inc. (now called "ABC Family") for $5.2 billion, which was funded with $2.9 billion of new long-term borrowings plus the assumption of $2.3 billion of long-term debt. Among the businesses acquired were the Fox Family Channel, which has been renamed ABC Family Channel, a programming service that currently reaches approximately 88 million cable and satellite television subscribers throughout the U.S.; a 75% interest in Fox Kids Europe, which has been renamed JETIX Europe and reaches more than 37 million subscribers across Europe; JETIX channels in Latin America, and the Saban library and entertainment production businesses.

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

The Company's consolidated results of operations have incorporated ABC Family's activity on a consolidated basis from October 24, 2001, the date of acquisition. On an unaudited pro forma basis assuming the acquisition occurred on October 1, 2001, revenues for the year ended September 30, 2002 were $25,360 million. As-reported and unaudited pro forma net income and earnings per share for fiscal 2002 were approximately the same. The unaudited pro forma information is not necessarily indicative of future results.

NOTE 4. INVESTMENTS

Investments consist of the following:

	2004	2003
Investments, at equity[1]	**$ 971**	$1,051
Investments, at cost[2]	**165**	106
Investment in leveraged leases	**156**	175
Notes receivable and other investments	**—**	517
	$1,292	$1,849

[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 and ownership of less than 20%.

Euro Disney and Hong Kong Disneyland The Company has a 41% interest in Euro Disney S.C.A., which operates the Disneyland Resort Paris and a 43% interest in Hongkong International Theme Park Limited, which is responsible for constructing and operating Hong Kong Disneyland. As of March 31, 2004, the Company began accounting for Euro Disney and Hong Kong Disneyland as consolidated subsidiaries 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 the condensed consolidating balance sheet of the Company, reflecting the impact of consolidating the balance sheets of Euro Disney and Hong Kong Disneyland as of September 30, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Cash and cash equivalents	$ 1,730	$ 312	$ 2,042
Other current assets	7,103	224	7,327
Total current assets	8,833	536	9,369
Investments	1,991	(699)	1,292
Fixed assets	12,529	3,953	16,482
Intangible assets	2,815	—	2,815
Goodwill	16,966	—	16,966
Other assets	6,843	135	6,978
Total assets	$49,977	$3,925	$53,902
Current portion of borrowings[1]	$ 1,872	$2,221	$ 4,093
Other current liabilities	6,349	617	6,966
Total current liabilities	8,221	2,838	11,059
Borrowings	8,850	545	9,395
Deferred income taxes	2,950	—	2,950
Other long term liabilities	3,394	225	3,619
Minority interests	487	311	798
Shareholders' equity	26,075	6	26,081
Total liabilities and shareholders' equity	$49,977	$3,925	$53,902

[1] All of Euro Disney's borrowings of $2.2 billion are classified as current as they are subject to acceleration if certain requirements of the MOA are not achieved as part of the current restructuring process as discussed below.

The following table presents the condensed consolidating income statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the income statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004[1].

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments	Total
Revenues	$ 30,037	$ 715	$ 30,752
Cost and expenses	(26,053)	(651)	(26,704)
Restructuring and impairment charges	(64)	-	(64)
Net interest expense	(575)	(42)	(617)
Equity in the income of investees	398	(26)	372
Income before income taxes and minority interests	3,743	(4)	3,739
Income taxes	(1,199)	2	(1,197)
Minority interests	(199)	2	(197)
Net income	$ 2,345	$ —	$ 2,345

[1] Under FIN 46R transition rules, the operating results of Euro Disney and Hong Kong Disneyland are accounted for on the equity method for the six month period ended March 31, 2004.

The following table presents the condensed consolidating cash flow statement of the Company for the year ended September 30, 2004, reflecting the impact of consolidating the cash flow statements of Euro Disney and Hong Kong Disneyland beginning April 1, 2004.

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney, Hong Kong Disneyland and Adjustments[1]	Total
Cash provided by operations	$ 4,283	$ 87	$ 4,370
Investments in parks, resorts and other property	(1,138)	(289)	(1,427)
Other investing activities	(107)	50	(57)
Cash provided (used) by financing activities	(2,891)	190	(2,701)
Increase in cash and cash equivalents	147	38	185
Cash and cash equivalents, beginning of period	1,583	274	1,857
Cash and cash equivalents, end of period	$ 1,730	$ 312	$ 2,042

[1] Includes cash flow of Euro Disney and Hong Kong Disneyland for the six months ended September 30, 2004.

Euro Disney Financial Restructuring On September 28, 2004, Euro Disney announced that Euro Disney, the Company and Euro Disney's lenders finalized a Memorandum of Agreement ("MOA"), effective October 1, 2004, relating to the financial restructuring of Euro Disney and subsequently finalized the legal documentation called for by the MOA. The MOA provides for new financing as well as restructuring Euro Disney's existing financing. The key provisions of the MOA are as follows:

Royalties and Management Fees

- Royalties and management fees totaling €58 million for fiscal 2004 will be 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 will 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 will be waived
- Euro Disney will receive authorization for up to €240 million of capital expenditures for fiscal 2005 through fiscal 2009 for new attractions

Existing Borrowings

- Approximately €110 million of amounts outstanding on the existing line of credit from the Company and €58 million of deferred interest payable to Caisse des Dépôts et Consignations ("CDC"), a French state financial institution, will be converted into long-term subordinated borrowings
- The interest rate on approximately €450 million of Euro Disney's senior borrowings will be increased by approximately 2%
- Approximately €300 million of principal payments on senior borrowings will be deferred for three and one half years
- Principal payments on certain CDC borrowings will be deferred for three and one half years
- Euro Disney's security deposit requirement will be eliminated and the existing deposit balance totaling €100 million will be 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
- 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

- €250 million equity rights offering, to which the Company has committed to subscribe for at least €100 million with the remainder to be underwritten by a group of financial institutions
- New ten-year €150 million line of credit from the Company for liquidity needs, which reduces to €100 million after five years

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

The MOA additionally provides 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 Euro Disney Associés S.C.A. ("Disney SCA") which will become an 82% owned subsidiary of Euro Disney. Other wholly-owned subsidiaries of the Company will retain the remaining 18% ownership interest. This will enable Euro Disney to avoid having to make €292 million of payments to Disney SCA that would be due if Euro Disney exercised the options under certain leases from Disney SCA. As a result of this contribution, the Company will increase its overall effective ownership interest in Euro Disney's operations from 41% to 52%. Pursuant to the MOA, the Company must maintain at least a direct 39% ownership investment in Euro Disney through December 31, 2016.

The implementation of the MOA remains subject to certain conditions including: approval of the reorganization by the Shareholders (which the Company has agreed to vote in favor of) and the completion of the equity rights offering (referred to above) by March 31, 2005. Once implemented, the Restructuring will provide Euro Disney with significant liquidity, including protective measures intended to mitigate the adverse impact of business volatility as well as capital to invest in new rides and attractions. If the equity rights offering does not occur by March 31, 2005, the parties will have 30 days to negotiate a new arrangement. If the negotiations do not succeed, most of the provisions of the MOA will become null and void, and Euro Disney's debt will become due or subject to acceleration, and absent a further debt covenant waiver or new agreement, Euro Disney would be unable to pay certain of its debt obligations.

As discussed above, the MOA will result in the elimination of certain sublease arrangements between the Company's 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. Remaining lease rentals at September 30, 2004 of approximately $385 million receivable from Euro Disney under the sublease approximate the amounts payable by Disney SCA under the lease. These lease transactions are currently eliminated upon consolidation of Euro Disney by the Company as a result of the implementation of FIN 46R. If the restructuring does not occur as planned above, at the conclusion of the sublease term in 2006, Euro Disney would have the option of assuming Disney SCA's rights and obligations under the lease for a payment of $97 million over the ensuing 15 months. If Euro Disney did not exercise its option, Disney SCA would be able to purchase the assets, continue to lease the assets or elect to terminate the lease. In the event that the lease was terminated, Disney SCA would be obligated to make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the Disneyland Park

assets, which payment would be approximately $1.4 billion. Disney SCA would then have the right to sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SCA.

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. For the year ended September 30, 2002, Euro Disney had revenues and net loss of $909 million and $57 million, respectively. Total assets and total liabilities of Euro Disney were $3,373 million and $3,304 million at 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% owned) and E! Entertainment Television (39.6% owned).

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

	2004	2003	2002
Results of Operations:			
Revenues	**$3,893**	$3,453	$3,111
Net Income	**$1,017**	$ 826	$ 635
Balance Sheet:			
Current assets	**$2,025**	$1,839	
Non-current assets	**1,167**	1,163	
	$3,192	$3,002	
Current liabilities	**$ 902**	$ 846	
Non-current liabilities	**727**	603	
Shareholders' equity	**1,563**	1,553	
	$3,192	$3,002	

Cost Investments As of September 30, 2004 and 2003, the Company held $60 million and $17 million, respectively, of securities classified as available-for-sale. As of September 30, 2004 and 2003, the Company also held $105 million and $89 million, respectively, of non-publicly traded cost method investments. Realized gains and losses are determined principally on an average cost basis. In 2004, 2003 and 2002, the Company recognized $2 million, $8 million and $239 million, respectively, in net gains on sales of securities. Included in fiscal 2002 is a $216 million gain on the sale of the remaining shares of Knight Ridder stock that the Company had received in connection with the disposition of certain publishing operations that had been acquired in connection with the acquisition of ABC.

In 2004, 2003 and 2002, the Company recorded non-cash charges of $23 million, $23 million and $2 million, respectively, to reflect other-than-temporary losses in value of certain investments.

Investment in Leveraged Leases During the fourth quarter of 2004, the Company recorded a $16 million pre-tax charge to write down its leveraged lease investment in Delta. During the first quarter of fiscal 2003, the Company wrote off its aircraft leveraged lease investment with United Airlines, which filed for bankruptcy protection, resulting in a pre-tax charge of $114 million, or $0.04 per share. Based on the bankruptcy filing, we believe it is unlikely that the Company will recover this investment. The pre-tax charge of $114 million for the write-off is reported in "Net interest expense" in the Consolidated Statements of Income. As of September 30, 2004, our remaining aircraft leveraged lease investment totaled approximately $156 million, consisting of $101 million and $55 million, with Delta and FedEx, respectively. Given the current status of the airline industry, we continue to monitor the recoverability of these investments, particularly the Delta leases. Delta has disclosed that if it is unsuccessful in reducing its operating expenses and continues to experience significant losses, it will need to seek to restructure its costs under Chapter 11 of the U.S. Bankruptcy code. Although Delta remains current on their lease payments to us, the inability of Delta to make their lease payments, or the termination of our lease through a bankruptcy proceeding, could result in a material charge for the write-down of our investment and could accelerate certain income tax payments.

NOTE 5. FILM AND TELEVISION COSTS

Film and Television costs are as follows:

	2004	2003
Theatrical film costs		
Released, less amortization	**$2,319**	$2,359
Completed, not released	**633**	856
In-process	**1,000**	1,236
In development or pre-production	**130**	113
	4,082	4,564
Television costs		
Released, less amortization	**893**	961
Completed, not released	**175**	126
In-process	**292**	283
In development or pre-production	**24**	11
	1,384	1,381
Television broadcast rights	**956**	828
	6,422	6,773
Less current portion	**484**	568
Non-current portion	**$5,938**	$6,205

Based on management's total gross revenue estimates as of September 30, 2004, approximately 42% of completed and unamortized film and television costs (excluding amounts allocated to acquired film and television libraries) are expected to be amortized during fiscal 2005. Approximately 73% of unamortized film and television costs for released productions (excluding acquired film libraries) are expected to be amortized during the next three years. By September 30, 2008, approximately 80% of the total released and unamortized film and television costs are expected to be amortized. As of September 30, 2004, the Company estimated that approximately $530 million of accrued participation and residual liabilities will be payable in fiscal year 2005.

At September 30, 2004, acquired film and television libraries have remaining unamortized film costs of $447 million which are generally amortized straight-line over a remaining period of approximately 5-15 years.

The following table provides detail of film and television spending and amortization:

	2004	2003	2002
Gross film and television spending	**$(2,364)**	$(2,915)	$(2,315)
Film and television cost amortization	**2,824**	2,546	2,218
Net investment in film and television costs	**$ 460**	$ (369)	$ (97)

NOTE 6. BORROWINGS

The Company's borrowings at September 30, 2004 and 2003, including the impact of interest rate swaps designated as hedges as of September 30, 2004, are summarized below:

			2004				
				Interest rate and Cross-Currency Swaps[2]			
	2004	2003	Stated Interest Rate[1]	Pay Variable	Pay Fixed	Effective Interest Rate[3]	Swap Maturities
Commercial paper	**$ 100**	$ —	1.78%	$ —	$100	4.37%	2005
U.S. medium-term notes	**6,624**	8,114	6.32%	710	—	5.09%	2006-2022
Convertible senior notes	**1,323**	1,323	2.13%	—	—	2.13%	—
Other U.S. dollar denominated debt	**305**	597	7.00%	—	—	7.00%	—
Privately placed debt	**254**	343	7.02%	254	—	3.49%	2007
European medium-term notes	**1,099**	1,519	1.81%	1,099	—	2.31%	2004-2007
Preferred stock	**373**	485	9.00%	—	—	9.00%	2004
Capital Cities/ABC debt	**189**	191	9.07%	—	—	8.84%	—
Other[4]	**455**	528		—	—	—	—
	10,722	13,100	5.21%	2,063	100	4.43%	—
Euro Disney (ED) and Hong Kong Disneyland (HKDL):							
ED – CDC loans	**1,119**	—	5.15%	—	—	5.15%	—
ED – Credit facilities & other	**608**	—	3.08%	—	74	3.24%	2004
ED – Other advances	**494**	—	3.01%	—	—	3.01%	—
HKDL – Senior and subordinated loans	**545**	—	2.91%	—	135	3.03%	2005
	2,766	—	3.87%	—	209	3.93%	
Total borrowings	**13,488**	13,100	4.93%	2,063	309	4.39%	
Less current portion[5]	**4,093**	2,457		832	174		
Total long-term borrowings	**$ 9,395**	$10,643		$1,231	$135		

[1] The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 2004; these rates are not necessarily an indication of future interest and cross currency 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 $369 million and $471 million at September 30, 2004 and 2003, respectively.

[5] All of Euro Disney's borrowings of $2.2 billion are classified as current as they are subject to acceleration if certain requirements of the MOA are not achieved as part of the current restructuring process (see Note 4).

Commercial Paper The Company currently maintains U.S. and European commercial paper programs with a combined program size of $4.5 billion. As of September 30, 2004, the Company had established bank facilities totaling $4.5 billion to support commercial paper borrowings, with half of the facilities scheduled to expire in February 2005 and the other half in February 2009. Under the bank facilities, the Company has the option to borrow at LIBOR-based rates plus a spread depending on the Company's senior unsecured debt rating. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 30, 2004 by a significant margin. The Company's bank facilities also specifically exclude certain entities, including Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default. As of September 30, 2004, 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 September 30, 2004, $205 million of letters of credit had been issued under this facility and $2.045 billion was available for borrowing. At September 30, 2004, $100 million of commercial paper debt was outstanding.

$7.5 Billion Shelf Registration Statement In August 2001, the Company filed a U.S. shelf registration statement with the Securities and Exchange Commission (SEC) that allows the Company to issue from time to time up to $7.5 billion of securities, including debt securities, preferred stock, common stock, depository shares, warrants and purchase contracts. At September 30, 2004, $3.1 billion of debt had been issued under the Company's U.S. medium-term note program (described below) and $2.6 billion of debt had been issued under other U.S. dollar denominated debt programs of which $1.0 billion has been repaid to date (also described below). The remaining unused capacity under the shelf registration is $1.8 billion. Our ability to issue debt is subject to market conditions and other factors impacting our borrowing capacity.

U.S. Medium-Term Note Program In September 2001, the Company established a $6.5 billion U.S. medium-term note program under the U.S. shelf registration statement described above for the issuance of various types of debt instruments, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes and dual currency or other indexed notes. In total, the Company has issued $3.1 billion under the current program. The remaining capacity under the program may be further reduced from time to time to the extent that the Company issues securities outside of the existing U.S. medium-term note program but under the current shelf registration statement. At September 30, 2004, the total debt outstanding under the current and prior U.S. medium-term note programs was $6.624 billion. The maturities of current outstanding borrowings range from 1 to 89 years and stated interest rates range from 0.86% to 7.55%.

Other U.S. Dollar Denominated Debt From time to time, the Company may issue bonds or notes, under the existing shelf registration statement but separately from the U.S. medium-term note program. Through September 30, 2004, $2.6 billion of other U.S. denominated debt has been issued under the $7.5 billion shelf registration. At September 30, 2004, $1.6 billion of total debt is outstanding from these offerings. The offerings are comprised of $305 million of quarterly interest bonds (QUIBS), and $1.3 billion of convertible senior notes (described below). The maturities of these outstanding borrowings range from 19 to 27 years and the stated interest rates range from 2.15% to 7.0%.

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 2.125% 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 an initial conversion rate of 33.9443 shares of common stock per $1,000 principal amount of notes. This is equivalent to an initial 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. The outstanding principal as of September 30, 2004 was $254 million.

European Medium-Term Note Program In July 2002, the Company renewed its European medium-term note program for the issuance of various types of debt instruments such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, index linked and dual currency notes. At such time, the program size was increased from $3.0 billion to $4.0 billion. In 2004, no new debt was issued under the program. The remaining capacity under the program is $2.9 billion, subject to market conditions and other factors impacting our borrowing capacity. The remaining capacity under the program replenishes as outstanding debt under the program matures. At September 30, 2004, the total debt outstanding under the program was $1.1 billion. The maturities of current outstanding borrowings range from 1 to 3 years and stated interest rates range from 0.72% to 6.26%. The Company has outstanding borrowings under the program denominated in U.S. dollars, Hong Kong dollars, Singapore dollars and Japanese yen.

Preferred Stock As a result of 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 starting August 1, 2007 and matures August 1, 2027. The Series A Preferred Stock is classified as borrowings given its substantive similarity to debt instruments. At September 30, 2004, the total balance outstanding was $373 million.

In July 1999, a subsidiary of the Company issued $102 million of Auction Market Preferred Stock (AMPS). These are perpetual, non-cumulative, non-redeemable instruments. Quarterly distributions, if declared, are at the rate of 5.427% per annum, for the first five years. In July 2004, the AMPS were repurchased by the Company.

Capital Cities/ABC Debt As a result of the Capital Cities/ABC, Inc. acquisition in 1996, the Company assumed various debt previously issued by Capital Cities/ABC, Inc. At September 30, 2004, the outstanding balance was $189 million with maturities ranging from 5 to 17 years and stated interest rates ranging from 8.75% to 9.65%.

Euro Disney and Hong Kong Disneyland Borrowings The following is a summary of the key terms of Euro Disney and Hong Kong Disneyland borrowings which have been included in our consolidated balance sheet as a result of the implementation of FIN 46R.

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 *Caisse des Dépôts et Consignations* ("CDC"), a French state bank. As of September 30, 2004, these borrowings consisted of approximately €128 million ($156 million at September 30, 2004 exchange rates) of senior debt and €403 million ($495 million at September 30, 2004 exchange rates) of subordinated debt. The senior debt is secured by certain fixed assets of Disneyland Resort Paris and the underlying land, whereas the subordinated debt is unsecured. The loans originally bore interest at a fixed rate of 7.85%; however, effective September 30, 1999, the terms of these loans were modified so as to reduce the fixed interest rate to 5.15%, defer principal repayments and extend the final maturity date from fiscal year 2015 to fiscal year 2024.

Euro Disney also executed a credit agreement with CDC to finance a portion of the construction costs of Walt Disney Studios Park. As of September 30, 2004, approximately €381 million ($468 million at September 30, 2004 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 will mature between fiscal years 2015 and 2028.

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 thereof. The loans bear interest at EURIBOR plus margins with rates ranging from 2.55% to 8.25% at September 30, 2004. The loans mature between fiscal years 2008 and 2012.

Euro Disney – Other advances. Advances of €383 million ($471 million at September 30, 2004 exchange rates) bear interest at a fixed rate of 3.0%. The remaining advances of €19 million ($23 million at September 30, 2004 exchange rates) bear interest at EURIBOR plus 1.125% (3.28% at September 30, 2004). The advances are scheduled to mature between fiscal years 2014 and 2017. $23 million of the advances are secured by certain theme park assets.

Certain of Euro Disney's borrowing agreements include covenants, which primarily consist of restrictions on additional indebtedness and capital expenditures, the provision of certain financial information and compliance with certain financial ratio thresholds.

Certain of Euro Disney's borrowings arose in connection with a lease arrangement that was entered into in connection with a financial restructuring of Euro Disney in 1994. See Note 4 for further discussion of this lease arrangement.

As previously stated, all of Euro Disney's borrowings totaling $2.2 billion are classified as current as they are subject to acceleration if certain requirements of the MOA are not achieved as part of the current restructuring process.

Hong Kong Disneyland – Senior loans. Hong Kong Disneyland's senior loans are borrowings pursuant to a term loan facility of HK$2.3 billion ($295 million at September 30, 2004 exchange rates) and a revolving credit facility of HK$1.0 billion ($128 million at September 30, 2004 exchange rates). The balance of the senior loans as of September 30, 2004 was HK$1.1 billion ($143 million at September 30, 2004 exchange rates). The term loan facility can be drawn down until 6 months after the theme park opening day (scheduled for late fiscal year 2005) with re-payments to begin approximately three years after the theme park opening day. As of September 30, 2004, up to 25% of the revolving credit facility is available to be drawn down.

The remaining 75% is unavailable until the earlier of i) the theme park opening or ii) all other senior and subordinated debt facilities and equity funding have been fully utilized and there is sufficient liquidity available to accommodate 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 September 30, 2004, the rate on the Senior loans was 1.82%.

Hong Kong Disneyland – Subordinated loans. Hong Kong Disneyland has a subordinated unsecured loan facility of HK$5.6 billion ($720 million at September 30, 2004 exchange rates) that is scheduled to mature 25 years after the theme park opening day. The balance drawn on the subordinated unsecured loan facility as of September 30, 2004 was HK $3.1 billion ($402 million at September 30, 2004 exchange rates). Interest rates under this loan are subject to biannual revisions (up or down) under certain conditions, but capped at an annual rate of 6.75% (until eight and one half years after opening day), 7.625% (for the next eight years) and 8.50% (over the last eight and one half years).

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

	Before Euro Disney and Hong Kong Disneyland Consolidation	Euro Disney and Hong Kong Disneyland[1]	Total
2005	$ 1,732	$ 102	$ 1,834
2006	1,514	95	1,609
2007	1,762	116	1,878
2008	61	133	194
2009	486	117	603
Thereafter	4,798	2,203	7,001
	$10,353	$2,766	$13,119

[1] Maturities of Euro Disney's borrowings are included based on the contractual terms.

The Company capitalizes interest on assets constructed for its parks, resorts and other property and on theatrical and television productions. In 2004, 2003 and 2002, total interest capitalized was $35 million, $33 million and $36 million, respectively.

NOTE 7. INCOME TAXES

	2004	2003	2002
Income Before Income Taxes, Minority Interests and the Cumulative Effect of Accounting Change			
Domestic (including U.S. exports)	**$ 3,279**	$ 1,802	$1,832
Foreign subsidiaries	**460**	452	358
	$ 3,739	$ 2,254	$2,190
Income Tax (Benefit) Provision			
Current			
Federal	**$ 835**	$ (55)	$ 137
State	**90**	39	55
Foreign (including withholding)	**350**	317	257
	1,275	301	449
Deferred			
Federal	**(103)**	448	372
State	**25**	40	32
	(78)	488	404
	$1,197	$ 789	$ 853

	2004	2003	2002
Components of Deferred Tax Assets and Liabilities			
Deferred tax assets			
Accrued liabilities	**$(1,412)**	$(1,255)	
Foreign subsidiaries	**(842)**	(269)	
Retirement benefits	**(22)**	(193)	
Loss and credit carryforwards	**(30)**	(80)	
Other, net	**—**	(17)	
Total deferred tax assets	**(2,306)**	(1,814)	
Deferred tax liabilities			
Depreciable, amortizable and other property	**3,818**	3,036	
Licensing revenues	**214**	132	
Leveraged leases	**261**	312	
Investment in Euro Disney	**—**	298	
Other, net	**117**	—	
Total deferred tax liabilities	**4,410**	3,778	
Net deferred tax liability before valuation allowance	**2,104**	1,964	
Valuation allowance	**74**	74	
Net deferred tax liability	**$ 2,178**	$ 2,038	
Reconciliation of Effective Income Tax Rate			
Federal income tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**2.0**	2.3	2.6
Dispositions	**—**	0.4	—
Impact of audit settlements	**(3.2)**	(2.5)	—
Foreign sales corporation and extraterritorial income	**(2.6)**	(3.1)	(3.1)
Other, including tax reserves and related interest	**0.8**	2.9	4.4
	32.0%	35.0%	38.9%

Deferred tax assets at September 30, 2004 and 2003 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain net operating losses (NOLs) reflected on state tax returns of Infoseek and its subsidiaries for periods prior to the Infoseek acquisition on November 18, 1999 where applicable state laws limit the utilization of such NOLs. In addition, deferred tax assets at September 30, 2004 and 2003 were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain NOLs reflected on tax returns of ABC Family Worldwide, Inc. and its subsidiaries for periods prior to the ABC Family acquisition on October 24, 2001 (see Note 3). Since the valuation allowances associated with both 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. In addition, at September 30, 2004, approximately $42 million of other acquired NOL carryforwards from the acquisition of ABC Family are available to offset future taxable income through the year 2022.

In 2004, 2003, and 2002, income tax benefits attributable to employee stock option transactions of $25 million, $5 million and $8 million, respectively, were allocated to shareholders' equity.

In 2004 the Company derived tax benefits of $97 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 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 for qualifying domestic production activities. The impact of this and other changes made by the Act cannot be quantified at this time.

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 2004, the Company reached a settlement with the Internal Revenue Service regarding all assessments proposed with respect to the Company's federal income tax returns for 1993 through 1995. This settlement resulted in the Company releasing $120 million in tax reserves which are no longer required with respect to these matters. This release of reserves is reflected in the current year income tax provision. During the fourth quarter of fiscal 2003, the Company resolved certain state income tax audit issues and the corresponding release of $56 million of related tax reserves is reflected in the 2003 income tax provision.

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.

	Pension Plans		Postretirement Medical Plans	
	2004	2003	**2004**	2003
Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$(3,747)**	$(2,889)	**$(1,035)**	$ (680)
Service cost	**(150)**	(115)	**(35)**	(23)
Interest cost	**(216)**	(204)	**(60)**	(48)
Plan amendments	**—**	—	**—**	—
Actuarial gain/ (loss)	**224**	(651)	**152**	(302)
Benefits paid	**120**	112	**24**	18
Ending obligations	**$(3,769)**	$(3,747)	**$ (954)**	$(1,035)
Fair value of plans' assets				
Beginning fair value	**$ 2,655**	$ 2,660	**$ 197**	$ 199
Actual return on plan assets	**465**	96	**24**	5
Employer contributions	**155**	26	**18**	11
Benefits paid	**(120)**	(112)	**(24)**	(18)
Expenses	**(16)**	(15)	**—**	—
Ending fair value	**$ 3,139**	$ 2,655	**$ 215**	$ 197
Funded status of the plans	**$ (630)**	$(1,092)	**$ (739)**	$ (838)
Unrecognized net loss	**697**	1,231	**307**	535
Unrecognized prior service cost (benefit)	**21**	23	**(18)**	(20)
Contributions after measurement date	**2**	6	**—**	—
Net balance sheet impact	**$ 90**	$ 168	**$ (450)**	$ (323)
Amounts recognized in the balance sheet consist of				
Prepaid benefit cost	**$ 69**	$ 42	**$ —**	$ 17
Accrued benefit liability	**(394)**	(843)	**(450)**	(340)
Additional minimum pension liability adjustment	**415**	969	**—**	—
	$ 90	$ 168	**$ (450)**	$ (323)

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2004	2003	2002	**2004**	2003	2002
Service costs	**$ 149**	$ 114	$ 97	**$ 35**	$ 23	$ 22
Interest costs	**216**	204	157	**60**	48	43
Expected return on plan assets	**(215)**	(262)	(241)	**(15)**	(19)	(21)
Amortization of prior year service costs	**2**	2	1	**(1)**	(1)	1
Recognized net actuarial loss	**77**	(1)	—	**66**	23	12
Net periodic benefit cost	**$ 229**	$ 57	$ 14	**$145**	$ 74	$57
Assumptions:						
Discount rate	**6.30%**	5.85%	7.20%	**6.30%**	5.85%	7.20%
Rate of return on plan assets	**7.50%**	7.50%	8.50%	**7.50%**	7.50%	8.50%
Salary increases	**4.00%**	3.75%	4.65%	**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%

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

PLAN FUNDED STATUS

As a result of pension plan asset performance below expected returns in fiscal 2002 and 2003 and a reduction in the discount rate over the last two years, a number of the Company's pension plans were underfunded at September 30, 2004, having accumulated benefit obligations exceeding the fair value of plan assets. For these plans, the fair value of plan assets aggregated $2.4 billion, the accumulated benefit obligations aggregated $2.8 billion and the projected benefit obligations aggregated $3.0 billion. As a result, the Company has recorded additional minimum pension liability adjustments of $415 million and $969 million as of September 30, 2004 and September 30, 2003, respectively. The decrease in the additional minimum pension liability adjustment of $554 million in the current year was primarily due to an increase in the discount rate from 5.85% at September 30, 2003 to 6.30% at September 30, 2004 and improved plan asset performance. This decrease resulted in an after-tax adjustment of $347 million that was recorded as an increase of shareholders' equity through accumulated other comprehensive income in fiscal 2004.

The Company's total accumulated pension benefit obligations at September 30, 2004 and September 30, 2003 were $3.5 billion and $3.5 billion, respectively, of which 95.2% and 98.6%, 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 $954 million and $215 million, respectively, for 2004 and $1,035 million and $197 million, respectively, for 2003.

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 each major asset class are as follows:

	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 things.

The Company's pension plan asset mix at June 30, 2004 and 2003 (the Plan measurement date), by asset class, is as follows:

Asset Category	**2004**	2003
Equity Securities	**57%**	53%
Debt Securities	**27**	25
Alternative Investments	**15**	21
Cash	**1**	1
Total	**100%**	100%

Equity securities include $63 million (2% of total plan assets) and $56 million (2% of total plan assets) of Company common stock at September 30, 2004 and September 30, 2003, respectively.

PLAN CONTRIBUTIONS

During fiscal 2004, the Company contributed $155 million and $18 million to its pension and postretirement plans, respectively. The Company expects to contribute $148 million to its pension plans and $17 million to its postretirement medical plans during fiscal 2005.

ESTIMATED FUTURE BENEFIT PAYMENTS

The following table presents estimated future benefit payments:

	Pension Plans	Postretirement Medical Plans
2005	$ 129	$ 25
2006	139	27
2007	149	27
2008	161	29
2009	173	31
2010-2014	1,119	188
Total	$1,870	$327

MULTI-EMPLOYER PLANS

The Company participates in various multi-employer pension plans under union and industry-wide agreements. In 2004, 2003, and 2002, the contributions to these plans which are generally expensed as incurred were $38 million, $37 million, and $41 million, respectively.

ASSUMPTIONS

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

Discount Rate – The assumed discount rate for pension plans represents the market rate for high-quality fixed income investments or a long-term high quality corporate bond rate. For 2004, we increased our rate to 6.30% to reflect market interest rate conditions.

Long-term return on assets – The assumed 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 expected 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	9% – 10%
Debt Securities	5% – 7%
Alternative Investments	8% – 10%

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 2004, 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%.

The effects of a one percentage point change in the key assumptions would have had the following effects increase/(decrease) in cost and/or obligation on the results for fiscal year 2004:

	Assumed Healthcare Cost Trend Rate		Pension Plans: Discount Rate		Pension Plans: Expected Long-Term Rate of Return on Assets
	Total Service and Interest Costs	Post-retirement Medical Obligations	Total Service and Interest Costs	Projected Benefit Obligations	Net Periodic Cost
1% point decrease	$(20)	$(188)	$ 31	$ 620	$ 29
1% point increase	27	245	(29)	(515)	(29)

DEFINED CONTRIBUTION PLANS

The Company has savings and investment plans that allow eligible employees to allocate up to 20% of salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's pre-tax contributions, up to plan limits. In 2004, 2003 and 2002, the costs of these plans were $33 million, $32 million and $29 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. We expect that the impact of this act will not be material.

NOTE 9. SHAREHOLDERS' EQUITY

The Company declared an annual dividend of $0.24 per share on December 1, 2004 related to fiscal 2004. The dividend is payable on January 6, 2005 to shareholders of record on December 10, 2004. The Company paid a $430 million dividend ($0.21 per share) during the first 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 the fourth quarter of fiscal 2004, the Company repurchased 14.9 million shares of Disney common stock for approximately $335 million. As of September 30, 2004, the Company had authorization in place to repurchase approximately 315 million additional shares.

The par value of the Company's outstanding common stock totaled approximately $21 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. STOCK INCENTIVE PLANS

Under various plans, the Company may grant stock options and other equity based awards to executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. Effective in January 2003, options granted for common stock become exercisable ratably over a four-year period from the grant date while options granted prior to January 2003 generally vest ratably over a five-year period from the grant date. All options expire 10 years after the date of grant. At the discretion of the Compensation Committee, options can occasionally extend up to 15 years after date of grant. Shares available for future option grants at September 30, 2004 totaled 57 million.

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

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**219**	**$26.44**	216	$27.48	188	$29.54
Awards forfeited	**(8)**	**24.40**	(14)	44.41	(14)	33.64
Awards granted	**27**	**24.61**	30	17.34	50	21.99
Awards exercised	**(11)**	**18.77**	(3)	14.57	(2)	18.02
Awards expired	**(6)**	**33.56**	(10)	47.73	(6)	34.72
Outstanding at September 30	**221**	**$26.50**	219	$26.44	216	$27.48
Exercisable at September 30	**132**	**$28.39**	109	$27.86	88	$26.89

The following table summarizes information about stock options outstanding at September 30, 2004 (shares in millions):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$10 – $ 14	**1**	**5.6**	**$ 14.59**	**1**	**$ 14.34**
$15 – $ 19	**30**	**7.0**	**17.37**	**11**	**17.64**
$20 – $ 24	**94**	**6.4**	**22.55**	**44**	**21.65**
$25 – $ 29	**26**	**4.7**	**27.04**	**22**	**27.06**
$30 – $ 34	**53**	**5.7**	**31.50**	**39**	**31.72**
$35 – $ 39	**8**	**4.1**	**37.32**	**7**	**37.45**
$40 – $ 44	**7**	**6.1**	**41.25**	**6**	**41.36**
$45 – $395	**2**	**5.3**	**112.68**	**2**	**111.91**
	221			**132**	

The weighted average fair values of options at their grant date during 2004, 2003 and 2002 were $9.94, $6.71 and $8.02, respectively. The weighted average assumptions used in the Black-Scholes option-pricing model used to determine fair value were as follows:

	2004	2003	2002
Risk-free interest rate	**3.5%**	3.4%	4.8%
Expected years until exercise	**6.0**	6.0	6.0
Expected stock volatility	**40%**	40%	30%
Dividend yield	**0.85%**	1.21%	0.96%

During the years ended September 30, 2004, 2003 and 2002, the Company granted restricted stock units of 5.4 million, 2.9 million and 1.9 million, respectively, and recorded compensation expense of $66 million, $20 million and $3 million, respectively. Units totaling 750,000 shares and 250,000 shares were awarded to four executives in 2002 and 2004, respectively, that vest upon the achievement of certain performance conditions. Otherwise, the units are not performance related and generally vest 50% two years from grant date and 50% four years from the grant date. Units are forfeited if the employee terminates prior to vesting.

NOTE 11. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	2004	2003
Current receivables		
Accounts receivable	**$ 4,403**	$ 4,018
Income tax receivable	**98**	—
Other	**205**	389
Allowance for doubtful accounts	**(148)**	(169)
	$ 4,558	$ 4,238
Other current assets		
Prepaid expenses	**$ 512**	$ 484
Other	**226**	64
	$ 738	$ 548
Parks, resorts and other property, at cost		
Attractions, buildings and improvements	**$ 12,348**	$ 9,251
Leasehold improvements	**493**	599
Furniture, fixtures and equipment	**9,403**	7,507
Land improvements	**2,924**	2,142
	25,168	19,499
Accumulated depreciation	**(11,665)**	(8,794)
Projects in progress	**1,852**	1,076
Land	**1,127**	897
	$ 16,482	$12,678
Intangible assets		
Copyrights	**$ 324**	$ 287
Other amortizable intangible assets	**84**	84
Accumulated amortization	**(59)**	(47)
Amortizable intangible assets	**349**	324
FCC licenses	**1,489**	1,486
Trademarks	**944**	944
Other indefinite-lived intangible assets	**33**	32
	$ 2,815	$ 2,786
Other non-current assets		
Receivables	**$ 341**	$ 382
Other prepaid expenses	**29**	86
Prepaid benefit costs	**69**	59
Other	**601**	663
	$ 1,040	$ 1,190
Accounts payable and other accrued liabilities		
Accounts payable	**$ 4,531**	$ 4,095
Payroll and employee benefits	**1,009**	850
Income tax payable	**—**	21
Other	**83**	78
	$ 5,623	$ 5,044
Other long-term liabilities		
Deferred revenues	**$ 608**	$ 540
Capital lease obligations	**339**	344
Program licenses and rights	**230**	236
Participation liabilities	**256**	230
Accrued benefit liability	**844**	1,183
Other	**1,342**	1,212
	$ 3,619	$ 3,745

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. Swap agreements in place at year-end expire in three to 19 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 eight years. As of September 30, 2004 and 2003 respectively, the Company held $148 million and $711 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 ineffective interest rate risk management activities was not significant for fiscal 2004, 2003 and 2002. The net amount of deferred gains and losses in AOCI from interest rate risk management transactions at September 30, 2004 was a gain of $10 million while the balance at September 30, 2003 was immaterial.

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 a minimum percentage (not to exceed a maximum percentage) of its forecasted foreign currency transactions for periods generally not to exceed five years. 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.

Gains and losses on contracts hedging forecasted foreign currency transactions are initially recorded to AOCI, and reclassified to current earnings when such transactions are recognized, offsetting changes in the value of the foreign currency transactions. At September 30, 2004 and 2003, the Company had pre-tax deferred gains of $45 million and $23 million, respectively, and pre-tax deferred losses of $147 million and $203 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. The Company expects to reclassify a pre-tax loss of $88 million from AOCI to earnings over the next twelve months. The Company reclassified an after-tax loss of $144 million and a $62 million after-tax gain from AOCI to earnings during fiscal 2004 and 2003, respectively. These losses were offset by changes in the U.S. dollar equivalent value of the items being hedged.

At September 30, 2004 and 2003, changes in value related to cash flow hedges included in AOCI were a pre-tax loss of $102 million and $175 million, respectively. In addition, the Company reclassified deferred losses related to certain cash flow hedges from AOCI to earnings, due to the uncertainty of the timing of the original forecasted transaction. During fiscal 2004 and 2003, 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 2004 and fiscal 2003. The impact of foreign exchange risk management activities on operating income in

2004 and in 2003 was a net loss of $277 million and $273 million, respectively. The impact of foreign exchanges risk management activities on operating income in 2002 was a gain of $44 million.

Fair Value of Financial Instruments At September 30, 2004 and 2003, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate and foreign exchange risk management contracts.

At September 30, 2004 and 2003, the fair values of cash and cash equivalents, receivables and accounts payable approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or interest rates for the same or similar instruments and the related carrying amounts are as follows:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	**$ 60**	**$ 60**	$ 17	$ 17
Borrowings	**(13,488)**	**(13,811)**	(13,100)	(13,692)
Risk management contracts:				
Foreign exchange forwards	**$ (54)**	**$ (54)**	$ (131)	$ (131)
Foreign exchange options	**(26)**	**(26)**	(22)	(22)
Interest rate swaps	**66**	**66**	173	173
Forward sale contracts	**—**	**—**	—	—
Cross-currency swaps	**86**	**86**	77	77

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

The Company would not realize a material loss as of September 30, 2004 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. As of September 30, 2004, counterparties had pledged a total of $37 million of cash collateral.

The Company's trade receivables and investments do not represent a significant concentration of credit risk at September 30, 2004 due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among issuers.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company has various contractual commitments for the purchase of broadcast rights for sports, feature films and other programming, aggregating approximately $9.6 billion, including approximately $840 million for available programming as of September 30, 2004, and approximately $6.5 billion related to sports programming rights, primarily NFL, NBA, College Football and MLB.

The Company has various real estate and equipment operating leases, 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 2004, 2003 and 2002, including common-area maintenance and contingent rentals, was $518 million, $528 million and $511 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 the non-cancelable operating leases, creative talent and other commitments totaled $14.0 billion at September 30, 2004, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2005	$4,122	$ 306	$1,069	$ 5,497
2006	2,455	275	483	3,213
2007	1,233	249	252	1,734
2008	991	207	141	1,339
2009	393	203	85	681
Thereafter	406	932	70	1,408
	$9,600	$2,172	$2,100	$13,872

The Company has certain non-cancelable capital leases primarily for land and broadcast equipment. Future payments under these leases as of September 30, 2004 are as follows:

2005	$ 40
2006	41
2007	79
2008	38
2009	39
Thereafter	648
Total minimum obligations	885
Less amount representing interest	(530)
Present value of net minimum obligations	355
Current portion	16
Long-term portion	$ 339

The Company has guaranteed certain special assessment and water/sewer revenue bond series issued by the Celebration Community Development District and the Enterprise Community Development District (collectively, the Districts). The bond proceeds were used by the Districts to finance the construction of infrastructure improvements and the water and sewer system in the mixed-use, residential community of Celebration, Florida. As of September 30, 2004, the remaining debt service obligation guaranteed by the Company was $96 million, of which $59 million was principal. The Company is responsible to satisfy any shortfalls in debt service payments, debt service and maintenance reserve funds, and to ensure compliance with specified rate covenants. To the extent that the Company has to fund payments under its guarantees, the districts have an obligation to reimburse the Company from District revenues.

The Company has also guaranteed certain bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of September 30, 2004, the remaining debt service obligation guaranteed by the Company was $402 million, of which $109 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.

The Company has guaranteed payment of certain facility and equipment leases on behalf of a third-party service provider that supplies the Company with broadcasting transmission, post production, studio and administrative services in the U.K. If the third-party service provider defaults on the leases, the Company would be responsible for the remaining obligation unless the Company finds another service provider to take over the leases. As of September 30, 2004, the remaining facility and equipment lease obligation was $85 million. These leases expire in March 2014.

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. The Company disputes that the plaintiff is entitled to any damages or other relief of any kind, including termination of the licensing agreement. On April 24, 2003, the matter was removed to the United States District Court for the Central District of California, which, on May 19, 2003, dismissed certain claims and remanded the matter to the Los Angeles Superior Court. The Company appealed from the District Court's order to the Court of Appeals for the Ninth Circuit, but served notice that it was withdrawing its appeal in September 2004. On March 29, 2004, the Superior Court granted the Company's motion for terminating sanctions against the plaintiff for a host of discovery abuses, including the withholding, alteration, and theft of documents and other information, and, on April 5, 2004, dismissed plaintiff's case with prejudice. On May 6, 2004, the plaintiff moved to disqualify the judge who issued the March 29, 2004 decision, and on May 13, 2004, the plaintiff moved for a "new trial" on the issue of the terminating sanctions. On July 19, 2004, the plaintiff's motion to disqualify the judge who issued the March 29, 2004 decision was denied, and on August 2, 2004, the plaintiff filed with the state Court of Appeal a petition for a writ of mandate to challenge the denial, which was also denied. In September 2004, plaintiffs moved a second time to disqualify the trial judge. That motion is pending.

Milne and Disney Enterprises, Inc. v. Stephen Slesinger, Inc. On November 5, 2002, Clare Milne, the granddaughter of A. A. Milne, author of the Winnie the Pooh books, and the Company's subsidiary Disney Enterprises, Inc. filed a complaint against Stephen Slesinger, Inc. ("SSI") in the United States District Court for the Central District of California. On November 4, 2002, Ms. Milne served notices to SSI and the Company's subsidiary terminating A. A. Milne's prior grant of rights to Winnie the Pooh, effective November 5, 2004, and granted all of those rights to the Company's subsidiary. In their lawsuit, Ms. Milne and the Company's subsidiary seek a declaratory judgment, under United States copyright law, that Ms. Milne's termination notices were valid; that SSI's rights to Winnie the Pooh in the United States 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. In January 2003, 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 Disney Enterprises, Inc. is void and unenforceable and (ii) Disney Enterprises, Inc. 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. On May 8, 2003, the Court ruled that Milne's termination notices are invalid and dismissed SSI's counterclaims as moot. Following further motions, on August 1, 2003, SSI filed an amended answer and counterclaims and a third-party complaint against Harriet Hunt (heir to E. H. Shepard, illustrator of the original Winnie the Pooh stories), who had served a notice of termination and a grant of rights similar to Ms. Milne's. By order dated October 27, 2003, the Court certified an interlocutory appeal from its May 8 order to the Court of Appeals for the Ninth Circuit, but on January 15, 2004, the Court of Appeals denied the Company's and Milne's petition for an interlocutory appeal. 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 the Company's subsidiary for (a) unlawful and unfair business practices; and (b) breach of the 1983 licensing agreement. In October 2004, Milne, joined by the Company, moved to amend its complaint to dismiss its claim against SSI for the purpose of obtaining a final order of dismissal against it, so as to permit its appeal to the Court of Appeals to proceed, and the District Court granted that motion by order dated November 12, 2004.

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

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

NOTE 14. RESTRUCTURING AND IMPAIRMENT CHARGES

On November 21, 2004, the Company sold substantially all of The Disney Store chain in North America under a long-term licensing arrangement to a wholly-owned subsidiary of The Children's Place ("TCP"). Pursuant to the terms of the sale, The Disney Store North America will retain its lease obligation and will become a wholly owned subsidiary of TCP. TCP will pay the Company a royalty on the physical retail store sales beginning on the second anniversary of the closing date of the sale.

During the year, the Company recorded $64 million of restructuring and impairment charges related to The Disney Store. The bulk of the charge ($50 million) was an impairment of the carrying value of the fixed assets related to the stores to be sold which was recorded in the third quarter based on the terms of the sale. Additional charges recorded during the year related to the closure of stores that would not be sold and to transaction costs related to the sale.

Additional charges for working capital and other adjustments will be expensed at the date of closing. Additional restructuring costs will also be recognized later in fiscal 2005. We expect that the total costs that will be recorded in fiscal 2005 will range from $40 million to $50 million.

The Company is currently considering options with respect to the stores in Europe, including a potential sale. The carrying value of the fixed and other long-term assets of the chain in Europe totaled $36 million at September 30, 2004. Depending on the terms of a sale, an impairment of these assets is possible. The base rent lease obligations for the chain in Europe totaled $206 million at September 30, 2004.

QUARTERLY FINANCIAL SUMMARY

(unaudited, in millions, except per share data)	December 31	March 31	June 30	September 30
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**
2003[1]				
Revenues	$7,170	$6,500	$6,377	$7,014
Income before the cumulative effect of accounting change	107	314	502	415
Earnings per share before the cumulative effect of accounting change:				
Diluted	$ 0.05	$ 0.15	$ 0.24	$ 0.20
Basic	0.05	0.15	0.25	0.20
Market price per share:				
High	$20.24	$18.74	$21.55	$23.80
Low	13.90	14.84	16.92	19.40

[1] Income and earnings per share before the cumulative effect of accounting change for fiscal 2003 does not reflect the after-tax charge for the adoption of EITF 00-21 of $71 million ($0.03 per share) in the first quarter of 2003. See Note 2 to the Consolidated Financial Statements.

SELECTED FINANCIAL DATA

(in millions, except per share data)	**2004**[1]	2003[2]	2002[3]	2001[4]	2000[5]
Statements of income					
Revenues	**$30,752**	$27,061	$25,329	$25,172	$25,325
Segment operating income[6]	**4,488**	3,174	2,822	4,005	4,112
Income before the cumulative effect of accounting change	**2,345**	1,338	1,236	120	920
Per common share					
Earnings before the cumulative effect of accounting change					
Diluted	**$ 1.12**	$ 0.65	$ 0.60	$ 0.11	$ 0.57
Basic	**1.14**	0.65	0.61	0.11	0.58
Dividends	**0.21**	0.21	0.21	0.21	0.21
Balance sheets					
Total assets	**$53,902**	$49,988	$50,045	$43,810	$45,027
Borrowings	**13,488**	13,100	14,130	9,769	9,461
Shareholders' equity	**26,081**	23,791	23,445	22,672	24,100
Statements of cash flows					
Cash provided (used) by:					
Operating activities	**$ 4,370**	$ 2,901	$ 2,286	$ 3,048	$ 3,755
Investing activities	**(1,484)**	(1,034)	(3,176)	(2,015)	(1,091)
Financing activities	**(2,701)**	(1,523)	1,511	(1,257)	(2,236)
Other					
Shareholders at year end	**1,001,000**	1,026,000	995,000	909,000	882,000

[1] During fiscal 2004, the Company adopted FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R) 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 46R transition rules, Euro Disney and Hong Kong Disneyland's operating results continued to be accounted for on the equity method for the six month period ended March 31, 2004. In addition, the 2004 results include a benefit from the settlement of certain tax issues of $120 million or $0.06 per diluted share, and restructuring and impairment charges totaling $64 million pre-tax or ($0.02) per diluted share.

[2] The 2003 results include the write-off of an aircraft leveraged lease investment with United Airlines of $114 million pre-tax and a benefit from the favorable settlement of certain state tax issues of $56 million. See Notes 4 and 7 to the Consolidated Financial Statements. These items had a ($0.04) and $0.03 impact on diluted earnings per share, respectively. The amounts do not reflect the cumulative effect of adopting EITF 00-21 which was a charge of $71 million or ($0.03) per diluted share. See Note 2 to the Consolidated Financial Statements.

[3] 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. See Notes 3 and 4 to the Consolidated Financial Statements. During fiscal 2002, the Company acquired Fox Family Worldwide, Inc. for $5.2 billion. See Note 3 to the Consolidated Financial Statements. 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.

[4] 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 charges of $228 million and $50 million, respectively or ($0.11) and ($0.02) per diluted share, respectively.

[5] The 2000 results include pre-tax gains of $243 million, $93 million and $153 million from the sale of Fairchild Publications, Eurosport and Ultraseek, respectively. The impact of income taxes substantially offset certain of the gains. The diluted earnings per share impacts of these items were $0.00, $0.02 and $0.01, respectively. The results also include a $92 million pre-tax restructuring and impairment charge. The diluted earnings per share impact of the charge was ($0.01).

[6] Reconciliation of segment operating income to income before the cumulative effect of accounting change:

(in millions)	**2004**	2003	2002	2001	2000
Segment operating income	**$ 4,488**	$ 3,174	$ 2,822	$ 4,005	$ 4,112
Corporate and unallocated shared expenses	**(428)**	(443)	(417)	(406)	(354)
Amortization of intangible assets	**(12)**	(18)	(21)	(767)	(1,233)
Gain on sale of business	**—**	16	34	22	489
Restructuring and impairment charges	**(64)**	(16)	—	(1,454)	(92)
Net interest expense	**(617)**	(793)	(453)	(417)	(497)
Equity in the income of investees	**372**	334	225	300	208
Income before income taxes, minority interests and the cumulative effect of accounting change	**3,739**	2,254	2,190	1,283	2,633
Income taxes	**(1,197)**	(789)	(853)	(1,059)	(1,606)
Minority interests	**(197)**	(127)	(101)	(104)	(107)
Income before the cumulative effect of accounting change	**$ 2,345**	$ 1,338	$ 1,236	$ 120	$ 920

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 judgments 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 September 30, 2004. Our management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2004 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

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 2004 filed with the Securities and Exchange Commission certificates of the Chief Executive Officer and Chief Financial Officer of the Company certifying the quality of the Company's public disclosure, and the Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

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

Please visit The Walt Disney Company Investor Relations site at **www.disney.com/investors**. On this site you can order financial documents online, send 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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the Company) at September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of September 30, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on (i) these financial statements; (ii) management's assessment; and (iii) the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

As discussed in Note 2 to the Consolidated Financial Statements, 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. Additionally, the Company adopted EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* as of October 1, 2002, changing the timing of revenue from certain contracts.

Los Angeles, California
December 9, 2004

BOARD OF DIRECTORS

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Edison International

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

Michael D. Eisner
Chief Executive Officer
The Walt Disney Company

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

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

Fred H. Langhammer[1]
Chairman of Global Affairs
The Estee Lauder Companies Inc.

Aylwin B. Lewis
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Chairman, DLA Piper Rudnick Gray Cary LLP

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

Gary L. Wilson
Chairman
Northwest Airlines Corporation

[1]Effective January 2005

CORPORATE EXECUTIVE OFFICERS

Michael D. Eisner
Chief Executive Officer

Robert A. Iger
President and Chief Operating Officer

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

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

Alan N. Braverman
Senior Executive Vice President and General Counsel

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
President, 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, Media Networks and
President, Disney • ABC Television Group

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

Alex Wallau
President, ABC Network Operations
and Administration

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

John Hare
President, ABC Radio

Disney Consumer Products

Andrew P. Mooney
Chairman, Disney Consumer Products
Worldwide

Walt Disney International

Andy Bird
President, Walt Disney International

Walt Disney Internet Group

Stephen H. Wadsworth
President, Walt Disney Internet Group

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