

The *WALT DISNEY* Company

**Annual Report
1999**



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FINANCIAL HIGHLIGHTS

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	1999	1998	1997	CAGR ⁽³⁾
Revenues	\$23,402	\$22,976	\$22,473	2%
Operating income ⁽¹⁾	3,231	4,079	4,312	(13%)
Net income ^{(1) (2)}	1,368	1,890	1,886	(15%)
Diluted earnings per share ^{(1) (2)}	0.66	0.91	0.92	(15%)
Cash flow from operations	5,588	5,115	5,099	5%
Stockholders' equity	20,975	19,388	17,285	10%
Book value per share	10.18	9.46	8.59	9%

⁽¹⁾ 1999 results exclude a gain from the sale of Starwave Corporation of \$345 million and restructuring charges of \$132 million.

1998 results exclude a \$64 million restructuring charge. 1997 results exclude the impact of a \$135 million gain on the sale of KCAL.

⁽²⁾ 1999 results also exclude equity in Infoseek loss of \$322 million.

⁽³⁾ Compound annual growth rate 1997 to 1999

LETTER TO SHAREHOLDERS

To Disney Owners and Fellow Cast Members:

Last year, I mused about the changing of the seasons. This year, I'd like to discuss the changing of the decades, and the accompanying changes that are taking place in our company. Of course, we're also changing centuries and millennia, but generally speaking I believe that a 10-year block of time is about as far out as any CEO ought to write about in his annual report ... although I am willing to bet that Disney will still be doing very well come January 1, 2100!

The last ten years comprised a spectacular decade for Disney. Unfortunately, in financial terms it ended on a down note, with revenues for 1999 increasing only 2 percent to \$23.4 billion and operating income declining 21 percent, to \$3.2 billion. On the other hand, in creative terms, the decade ended strongly, with our company's entertainment product continuing to attract wide audiences around the world.

Back in 1990, my optimism for the coming 10 years was reflected at a press conference during which we outlined (slightly tongue-in-cheek) what we were calling "The Disney Decade." At that event, I laid out our company's plans, which included the construction of new theme parks in Orlando, Anaheim, Tokyo and Paris; the addition of more than 20,000 new hotel rooms on our properties; and the revitalization of feature animation, with the release of at least one new animated film a year. All of these ambitious plans — plus the acquisition of Capital Cities/ABC — came to pass and helped propel the extraordinary growth of our company.

Because of the expansion that took place during the past decade, we enter the new decade as a substantially different company. We now have seven theme parks (with four more in the works), 27 hotels with 36,888 rooms, two cruise ships, 728 Disney Stores, one broadcast network, 10 TV stations, nine international Disney Channels, 42 radio stations, an Internet portal, five major Internet web sites, interests in nine U.S. cable networks

and, in the past decade, we have enhanced our library with 17 animated films, 265 live-action films, 1,252 animated television episodes and 6,505 live-action television episodes.

This enormous expansion reflected a two-fold corporate strategy: (1) to build the greatest entertainment asset base in the world and (2) to simultaneously create the greatest entertainment product in the world. The first aspect of this strategy is what our Disney Decade was all about, and it was achieved. The second aspect — the creation of great entertainment product — is ongoing and will always be fundamental to our company.

So, now we enter the first decade of the 21st century with a strategy that is four-pronged: (1) revitalizing underperforming areas (that's a euphemism for developing new strategies for Home Video and Consumer Products), (2) achieving greater profitability from existing assets (that's corporate speak for vigilant and continued efforts at controlling costs and improving efficiency which in itself is corporate speak for worrying about the bottom line more aggressively), (3) capital-efficient initiatives to drive long-term growth (which really means growing our existing companies in smart ways at the lowest possible cost) and, of course, (4) continued development of creative, innovative and engaging products (in other words, continuing to be Disney).

Your company is really in excellent health despite the short-term earnings hiccup. I feel the same way about Disney as I like to feel about my family — solid, on the right track, with strong fundamentals and an enthusiasm for the future. But this year I am going to restrain myself from writing about my family. Not that I don't want to! But wiser forces, namely my wife, feel I should take all these pages to talk about our corporate family, and how it is going to grow even stronger. I know my sons will now be happier entering the new millennium, saved from having to read what their father has written about them to three million Disney shareholders. So, back to the company.

**REVITALIZING
UNDERPERFORMING AREAS
(I.E., HOME VIDEO AND CONSUMER PRODUCTS)**

There were two primary reasons for our company's disappointing performance in 1999 – downturns in Home Video and in Consumer Products. We are now implementing plans designed to return these operations to growth. These are immense businesses, each of which would rank in the Fortune 500 and each of which is the undisputed leader in its field. Of course, given their size, they cannot be turned on a dime. But, when they do turn around, they should be fundamentally pointed in the right direction and headed for renewed long-term success.

Throughout the '90s, our approach to Home Video was to release all of our major library titles for relatively brief designated periods of availability. In fact, one of the reasons our home video revenues were down in 1999 was because of this strategy, since we released four fewer major library titles in the U.S. during the year, resulting in a sales decrease of roughly 40 million units compared to 1998. The strategy of limited release periods served us well during the rapid-growth phase of the video business. Now, VCRs are in virtually every home, and we believe that consumers are best served by making most titles available on a year-round basis, similar to the music and book businesses.

So, beginning in January, 2000, we will start sequencing into the video market all but ten of the titles that were previously held in limited availability. Separately, these ten classic animated films will comprise what we are calling The Disney Platinum Collection. One of these films will be released each fall on a ten-year cycle, starting with *Snow White* in the fall of 2001. This will allow us to build a company-wide marketing event around each release, thereby maximizing the value of these ten films and reinforcing their special appeal among consumers. We believe this strategy will also help to optimize the library as the home entertainment market transitions from the VHS format to DVD.



Michael D. Eisner
Chairman and Chief Executive Officer, The Walt Disney Company

We will now be issuing all of our video releases simultaneously on VHS and DVD. The availability of Disney films should give consumers greater reason to add a DVD player to their home entertainment centers. There are currently four million DVD players, plus 10 million DVD-capable computers in the U.S. As DVD penetration levels increase, the potential significance for our library is considerable, since the switch from VHS to DVD could parallel the earlier switch from audiotape to CD's in the music business. We have positive research regarding the rising demand for DVD, but my gut tells me DVD will come on even more strongly than the forecasters suggest. Why? Because I find that I've finally gotten the DVD "bug" and am now back in electronic stores cruising the DVD aisles the way I did just as Beta and VHS were taking off in the '80s and as the personal computer started to explode in the '90s.

The challenge in Consumer Products has two major facets – Licensing and The Disney Stores. One major step we have just taken to improve both of these areas is the appointment of Andrew Mooney as President of Disney Consumer Products. Andy brings outstanding experience, great insights and creative know-how to this position. He comes from Nike, where he wore several key hats, most recently serving as Chief Marketing Officer and head of its Global Apparel business. I believe Andy's leadership will help accelerate the improved performance we are expecting in this important area.

During recent years, our licensing business has been a victim of its own success. We built a successful strategy during the first half of the 1990s that was geared around the unprecedented success of such animated films as *Beauty & the Beast*, *Aladdin* and *The Lion King*. We built our market share by signing as many licensees as possible reaching a peak of more than 4,000. This became far too many relationships to productively manage as the market shifted. We are currently cutting the number of licensees in half. By having broader relationships with fewer licensees, we

will be able to more effectively build new merchandise campaigns to strengthen such established characters as Mickey Mouse and Winnie the Pooh. For example, next summer, we will launch our first-ever national TV ad campaign promoting a new apparel line themed around our favorite mouse. Meanwhile, merchandise featuring Pooh and his pals should directly benefit from this February's release of *The Tigger Movie*. This film also comes in the midst of major international growth for Pooh, whose merchandise sales in non-English-speaking countries nearly doubled during the past two years.

Our strengthened licensee relationships should also help Consumer Products take advantage of such new film properties as *Dinosaur* and *102 Dalmatians* later in 2000 ... as well as an anticipated surge of interest in all things *Toy Story* early in the year. And, throughout 2000, you should start seeing the results of new relationships with retailers. These include Toys 'R' Us, which is rolling out front-of-the-store Disney-themed spaces, and Target and Macy's, for which we are developing merchandise exclusives featuring our characters. The fact is that Disney Consumer Products has a collection of the best-loved and most valuable licensed characters in the world, which, over time, will underpin Licensing's return to growth.

The Disney Stores' fortunes have paralleled those of Licensing. They grew explosively through the decade, but lately their performance has dipped. A new management team is overseeing the implementation of new ways of doing business, including a redesign of the typical Store. It is amazing how quickly fashion changes. It is not unlike the movie or television business. I loved the carpets in the Disney Store just five years ago. Now I feel I'm walking into the past. Similarly, we had to get rid of the orange chairs and tables in Tomorrowland at Walt Disney World because it was looking like Yesterdayland. But the redesign of the Stores is about much more than just carpets. Among other new features, it will integrate computer kiosks that will enable consumers to purchase items through the Disney Store Online that are not available on the floor, helping to create a new business model for growth.

Accordingly, we are also reducing the number of separate items of merchandise in each store by more than half to focus on key, showcase products. New merchandise lines are being developed for the Stores that will be available by summer. And, throughout the year, we will be better defining shopping

"events" like Halloween, back-to-school, Christmas and Valentine's Day, making The Disney Store an event-based experience like our movies and theme parks. You wouldn't believe how many Halloween costumes we sold this year. Unfortunately, I can't tell you the precise number. We're saving it for a question on *Who Wants to Be a Millionaire*.

By the way, market shifts can work both ways. Changes in market conditions may have hurt us recently in Home Video and Consumer Products. However, I believe shifting market conditions are about to help us in the all-important area of animation. Throughout its 76-year history, animation has been the fundamental driver of much of the success of our company. During the past few years, most other studios have tried to emulate our performance in this field, resulting in increased competition and increased costs. It now appears that all of these studios have learned that the animation business isn't so easy



The new design of The Disney Stores will include these computer kiosks so guests will be able to purchase merchandise directly from The Disney Store Online.

and almost all of them are pulling back. As a result, cost pressures should be easing, allowing us to more effectively manage this business, which truly is the heart and soul of our company.

**ACHIEVING GREATER
PROFITABILITY FROM
EXISTING ASSETS
(I.E., CONTROLLING COSTS)**

Which brings me to #2 on our overall strategic list. Now that we have what we believe is the world's greatest collection of entertainment assets, we need to manage it for maximum financial return. Many elements of our entertainment infrastructure, such as our parks and cable operations – both of which had record revenues and operating income in 1999 – are performing well and growing steadily. Other elements, such as The Disney Stores, are in need of retooling. But all of them can operate better, generating more cash and consuming less capital. This added cash flow, in turn, can be directed to new and existing businesses that have the greatest potential for growth, or to share repurchase. With the goal of increased cash flow, we are focusing on returns on our invested capital as a primary measure of performance for all of our businesses.

During the '90s, as we were focused on expansion, and as enormous profits continued to flow into the company, inefficiencies crept into our operations. The time has come to do as my maternal grandmother always strongly suggested I do: "Turn off the lights when you leave the room!" We are now working to "turn off the lights" by squeezing inefficiencies back out of our company. Costs are being reduced at the studio, marketing operations are being consolidated, the number of films produced is being cut back, all television production is being integrated into ABC, and we are cutting duplication in worldwide operations.

Furthermore, not every asset is worth holding onto or may not have adequate growth potential. Along these lines, we have sold off Fairchild publishing, a great magazine company but not one that is core to our businesses. And, we have closed Club Disney, a very well-accepted project creatively but one that did not meet our requirements for return on investment. As you can see, if an asset is non-core, or doesn't generate an adequate return on capital, we will discontinue it, sell it or finance it differently.

Then there are the mundane-sounding areas of our company that you're certainly not used to reading about in one of my letters. I tend to get more excited about new movies or television shows or cable services or theme parks or Internet experiments or interactive games. I love talking about expanding the revenue lines of our business. But the cost lines are also extremely important. If we want to continue to play in the creative sandbox and thereby generate long-term growth, then we'd better make sure that we stay responsibly in the financial box and thereby keep our operating margins healthy.

This is why we are focusing added attention on such areas as procurement. In 1999, we established a new group called Strategic Sourcing, which has already renegotiated contracts with more than 100 of the vendors that supply us goods and services, better leveraging our tremendous purchasing power. Let me give you one example. Each year, we send our guests home with 110 million packages of merchandise. That's enough to create a line of shopping bags and gift boxes that would more than circumnavigate the world. We have found that by standardizing the size of all those bags and boxes and by consolidating and leveraging our purchasing power with vendors, we will be able to save roughly \$1.5 million a year. Now take many, many more such initiatives, and the savings can be enormous.

The beauty of efforts like these is that they achieve significant savings without compromising the guest experience. And the savings do add up. By bringing this common sense approach to all of our purchases – from tacks to trucks to toilet paper – in five years, we should be saving more than \$300 million annually from the Strategic Sourcing program.

In the area of live-action film production, we have reduced costs through lower production budgets, a smaller slate of films, consolidation, reduction in talent deals and trimming of overhead. These efforts have combined to reduce investment by \$400 million in 1999, with an additional \$100 million reduction anticipated in 2000. Despite these cuts, we were once again number one in the domestic and international box office. This was no small feat. We have been number one in the domestic box office for five of the last six years. During the '90s, we were cumulatively more than \$1 billion ahead of our next competitor in total U.S. box office. And internationally, we are the only company to reach

\$1 billion in annual box office revenues more than twice ... and we have surpassed the \$1 billion mark five years in a row. The overall economics of the film industry continue to be challenging due to current high costs, but it is important for all of our businesses that we be involved in this area. With ongoing discipline, we can continue to succeed at the box office while improving the bottom line.

Another way we are working to achieve greater profitability from existing assets is through the more effective cultivation of our relationship with our guests. For example, research shows that there are about four million Walt Disney World guests who are particularly passionate about all things Disney. You may be one of them. Until now, these individuals have pretty much had to find us. Like many other leading branded companies, we have established a Customer Relationship Management program to identify and communicate with our best customers. We're going to reach out to them with special offers to promote a stronger personalized two-way relationship.

The final, and potentially the most significant, way that we intend to better manage our existing assets is through our international restructuring initiative. In 1999, we created Walt Disney International. Our growth overseas has been strong and exciting. But we have not duplicated the level of success we have achieved in North America. As a result, Disney is in the ironic position of being one of the best-known brands on the planet, but with too little of its income being generated outside of the United States. The U.S. contains only five percent of the world's population, but it accounts for 80 percent of our company's revenues. If we can drive the per capita spending levels for Disney merchandise to just 80 percent of U.S. levels in only five countries – England, Italy, Germany, France and Japan – then we would generate an additional \$2 billion in annual revenue. With Walt Disney International coordinating all our lines of business overseas, we are now organized to achieve these kinds of results.

CAPITAL-EFFICIENT INITIATIVES TO DRIVE LONG-TERM GROWTH (I.E., HOW BEST TO INVEST)

The management approaches I outlined above could result in enormous savings – savings that go straight to the bottom line. But the fact is that we cannot save our way to success. As we increase cash flow from our existing assets, we will continue to invest in new projects that offer high return on capital and can help propel growth.

In 1999, we introduced a number of upgrades at several of our theme parks that underscore our goal of investing moderate amounts of capital in order to generate maximum quantities of pixie dust, which in turn generate growth in incremental revenue.

At Disneyland, we unveiled Tarzan's Treehouse. This was really a repurposing of the venerable Swiss Family Robinson Treehouse, which was scheduled to be closed temporarily for general maintenance. For a relatively modest added investment, we incorporated Tarzan-themed design elements to the existing structure that resulted in an entirely new attraction. I went through it the other night at our cast holiday party at Disneyland and was once again impressed by how much we got for so little cost.

At Walt Disney World, we opened two completely new, cost-effective attractions: Buzz Lightyear's Space Ranger Spin at The Magic Kingdom and the Rock 'n' Roller Coaster Starring Aerosmith at Disney-MGM Studios. The Buzz Lightyear ride utilized the space and track layout of the former Delta Dreamflight, bringing an unprecedented level of interactivity to a Disney attraction. The Rock 'n' Roller Coaster utilized technology acquired from an outside vendor, which we combined with Disney storytelling to create a completely unique thrill ride for roughly half the amount that we have spent for other "E" ticket rides in the past. I also rode them in the last couple of weeks. Both are awesome, one brilliant and creative, the other aggressive and loud and scary ... and the teenager in me immediately wanted to do it again! Meanwhile, at Epcot, we inaugurated our 15-month Millennium Celebration — a special event that will help drive greater attendance at Walt Disney World without building an entirely new attraction.

Furthermore, at both Disneyland and Walt Disney World, we introduced FASTPASS, which utilizes a computerized pre-registration system to allow guests virtually to avoid lines at our most popular attractions. We've found over the years that lines are the single most mentioned criticism of our parks. Frankly, I hate standing in any line. I come from New York. New Yorkers aren't good with lines. Now, Walt Disney Imagineering and our park operators have come up with the FASTPASS system, which greatly reduces the standing-in-line experience, thereby greatly increasing the having-fun experience. It allows everyone coming to our parks to feel like the VIPs they are.

With all of these initiatives, we have been able to meaningfully improve the quality of the guest experience while investing a substantially reduced level of capital. This approach is also being brought to our development of new theme parks.

In 2001, we will be opening two completely new theme parks – Disney's California Adventure and Tokyo DisneySea.

Disney's California Adventure will offer guests a day-long immersion into many of the wonders of the Golden State. But, we are producing this all-new magic with a number of cost-effective tricks up our sleeve. As with the Rock 'n' Roller Coaster (which, by the way, has been extremely popular with our guests), a number of attractions are similarly being built by integrating third-party-provided technologies with Disney showmanship and innovations in order to create dazzling entertainment experiences at far less cost than if we had designed them completely from the ground up.

At Tokyo DisneySea, we are following the same model we did with the enormously successful Tokyo Disneyland, with the construction capital being provided by Oriental Land Company and our company receiving licensing fees beginning the day the park opens.

In 2002, we plan to open the Disney Studios theme park at Disneyland Paris. As with the original Paris park, we will be equity investors, with the majority of the capital being provided by Euro Disney investors and financing partners. Disney Studios will feature a number of the most popular attractions from the Disney-MGM Studios.

I assure you that we will always tailor new parks so that they achieve a fresh and separate identity for our guests. However, it would make no more sense to build a completely different theme park in each new locale than it would to completely change the *Lion King* stage play every time it opened in a new city. Consequently, as we create new parks in the future, we should increasingly benefit from the economies of scale. Disney's California Adventure, Tokyo DisneySea and Disney Studios have one key feature in common: These theme parks are like structural magic wands that will touch the adjacent existing park and instantly create something completely new – a destination resort. With the addition of these second parks, we hope to achieve what Epcot did for Walt Disney World in 1982. We will be giving guests a reason to make multiple-day visits and build vacations around these resorts, staying on our property for one, two or three nights.

We have one other theme park in the works – Hong Kong Disneyland. In December, we concluded an agreement with the government of Hong Kong to build the park on Lantau Island as part of a broader government initiative to make Hong Kong a major tourist destination. The majority of the funds for the park's construction will be provided by our local partner, and it will feature many favorite attractions from our existing parks. To give you some idea of the potential ancillary benefit of Hong Kong Disneyland, consider the fact that, from two years before the opening of Disneyland in 1955 until five years after, Disney merchandise sales in the U.S. more than doubled. Similarly, in 1983 Tokyo Disneyland opened and, by the end of 1988, Disney Consumer Products revenues had more than tripled in Japan compared to 1981. As for Disneyland Paris, from two years before the launch of the park until five years after, our Consumer Products business in Europe went up by ten times. Of course, there were many reasons why our businesses went up so much after the parks opened, but I felt this statistic would give you a sense of how Hong Kong Disneyland could help redefine our entire company for consumers in the most populous region on the planet.

Another example of building for the future is our Internet initiative. In November, shareholders approved two changes in the Disney charter to allow for our acquisition of Infoseek and the establishment of the GO.com tracking stock. There can be little question that the Internet is the next major development in the realm of information and entertainment. During the coming



On October 8, Disney's Millennium Symphonies premiered at Avery Fisher Hall, performed by the New York Philharmonic. These two orchestral works – Michael Tork's *Four Seasons* and Aaron Jay Kerns's *Garden of Light* – musically commemorated the world's passage to the new millennium.

years, broadband transmission will make it possible for the Internet to become a true entertainment medium. This is where our library, news and sports assets will be put to good use. So will our expertise in creating filmed entertainment. In GO.com, I believe we have brought together a collection of assets and skills that will allow us to seize the opportunities that emerge as the Internet evolves and grows in the years ahead.

It would have been very difficult to mount our Internet strategy had we not purchased Capital Cities/ABC in 1996. Of course, we would still have Disney.com and Family.com, but we would not have the enormous assets of ABC.com, ABCNEWS.com and ESPN.com. Similarly, we would not have our tremendous cable assets, which have also allowed us to generate cost-effective growth initiatives. For example, ESPN gave us the opportunity to spin off ESPNEWS. And, we are about to create a 24-hour soap opera channel, called SoapNet, which debuts on January 24, which is only possible because ABC, unlike the other broadcast networks, owns its daytime dramas. Indeed, our cable businesses represent one of the brightest areas of our company. In total, our cable operations, including our equity investments in A&E, Lifetime, The History Channel and E!, generated more than \$1 billion in profits and achieved a growth rate of 32 percent compared to 1998.

Outside estimates have valued our cable assets alone – not including the Disney Channel – at more than we paid for the entire Capital Cities/ABC acquisition. In addition, the ABC TV stations and radio group have been valued at more than half the cost of the overall acquisition. On top of that, we have generated roughly \$4 billion from the sale of ABC's publishing assets.

When you add it all up, it comes to a value that is impressive, even without including the ABC Television Network. This makes me feel pretty good about the \$19 billion we paid for ABC.

And, given the strong synergies between our ABC properties and Disney holdings, I feel even better. The full value of a single show like *Who Wants to Be a Millionaire* is almost impossible to calculate, since it is profitable in itself, helps position the entire ABC Network (it played a key role in ABC's remarkable November sweeps win) and provides a promotional platform for all of Disney. Our ABC properties have become so integrated into our company that I simply can't imagine Disney anymore without them.

CONTINUED PRODUCT DEVELOPMENT (I.E., BEING DISNEY)

The final – and eternal – element of our overall strategy is product development. Great entertainment product is, has always been and will always be the fundamental driver of our company's success. Many people now take our excellence in product for granted. They expect the Animal Kingdom to be great, the cruise ships to be great, new rides at our parks to be great, our animated movies to be great, our Internet initiatives to be great. But the magic doesn't happen by accident. Our creative cast is maniacal in the pursuit of perfection, about coaxing perfection, about always hoping for it. And we will not let up! To be sure, we also need to be smart about how we manage and optimize our product ... which is what the first three elements of our strategy are all about. But, ultimately, it is creative, innovative and engaging product that will fuel our future growth. This, in turn, will strengthen, reinforce and add value to our outstanding array of entertainment brands, such as ESPN, ABC and, of course, Disney.

As much as there were clearly problems in 1999, the good news is that product wasn't one of them. This is ultimately why I remain a firm optimist about our company. Underperforming businesses can be fixed. Shifting market patterns can be adjusted to. But, bad product can't be made good. We may not hit a homerun every time at bat, but the quality of our entertainment achieves a consistency that remains unmatched.

Certainly, in 1999, our entertainment product was second to none. *The Sixth Sense* bewitched audiences around the world. *Tarzan* is on its way to becoming the second most successful animated film we've ever released. The Disney Cruise Line added a second ship, *Disney Wonder*, and posted some of the highest guest satisfaction rates in our history. The new attractions we added to our parks were not only cost-effective, but, even more important, they were instant guest favorites. DisneyQuest and ESPN Zone have been well received in the cities in which they have been rolled out. *Der Glöckner von Notre Dame* has creatively expanded our stage play business into Germany. Our new production of *Annie* was a huge ratings success on ABC's *Wonderful World of Disney*. ESPN continues to offer a blend of wit and comprehensive coverage that is embraced by sports fans everywhere. Zoog Disney is a landmark program on the Disney Channel that merges the worlds of television and the Internet. *World News Tonight* is once again the number one prime-time news program. *One Saturday Morning* continues to be a safe and exciting place for children to spend time with the Disney brand on ABC. Radio Disney is a fresh choice on the dial for kids and their parents. The History Channel and A&E are qualitatively two of the finest networks in the history of television. *Who Wants to Be a Millionaire* has transcended being a mere television show and has entered into the culture.

In other words, I could look Regis Philbin straight in the eye and say: Yes, that is my final answer. At The Walt Disney Company, we are poised for strong long-term growth even as we address near-term challenges.

And, as always, our success "to infinity and beyond" will be led by great product like *Toy Story 2*, which made our Thanksgiving more thankful and our Christmas more merry! In January, there's *Fantasia / 2000*, which is a remarkable continuation of a completely distinct Disney legacy. For Memorial Day weekend, there's *Dinosaur*, which is truly like nothing you've ever seen before. Further down the road, *Kingdom in the Sun* and *Atlantis* are looking to be wonderful additions to the Disney animation legacy. Then there are our new theme park projects, each of which is dazzling. On the Internet, GO.com is an exciting venture into an entirely new world of information and entertainment. I'd like to tell you which of our upcoming films and TV shows will be the next *Sixth Sense* or the next *Who Wants to Be a Millionaire*, but that's impossible to predict. However, I believe that these kinds of mega-hits are in the pipeline, and when they break through their impact will reverberate throughout our company.

And so it is that, in the year ahead, we have our work cut out for us to return our company to the growth track. It will require a relentless focus on operations and on the implementation of new strategies to meet new market conditions. But, our fundamentals — our collection of brands and our relationship with our guests and customers — remain strong. We are committed to a core vision: to continue to pursue excellence in everything we do, to be the leader in quality entertainment and information in the surely complicated century ahead, and to serve our cast members and shareholders productively and ethically. Speaking personally, I feel very much as I did back in 1984, when I came to Disney and our management team was eager to show what we could do. This is the attitude that infuses our team today. And, it comes at a time of unusual excitement in the entertainment industry in particular and the business community at large. The emergence of the Internet, the expansion of cable, the growing international markets, the arrival of digital exhibition of films, the advent of DVD and the growth of interactive entertainment are all important trends that go to the heart of what we do best.

Ten years ago, when I promised a strong Disney Decade, I was really just stating the obvious. This is because, since the birth of our company in 1923, you could say that every decade has been a Disney decade, as our company's creative product has been embraced year after year, decade after decade, by people everywhere. This consistent popularity of our product has driven Disney's average 16 percent annual earnings growth since 1945. Of course, I cannot predict the company's growth rate over the next 55 years, but I am confident that in the years ahead, we will add to our company's legacy, and our customers and investors will be able to continue to celebrate Disney decade after decade.

Sincerely,



Michael D. Eisner
Chairman and CEO
December 10, 1999

FINANCIAL REVIEW

OVERVIEW

The Walt Disney Company's primary financial goals are to maximize earnings and cash flow from existing businesses and to allocate capital profitably toward growth initiatives that will drive long-term shareholder value. In pursuing these goals, the company continues to focus on the key factors that have driven strong results since The Walt Disney Company's inception: the ongoing development of the company's powerful brand and character franchises and an emphasis on creative excellence and high quality in all Disney products.

Despite a significant number of important creative accomplishments and higher revenues exceeding \$23 billion, fiscal 1999 earnings compared unfavorably with those of the prior year. While the company is taking steps to address the issues that have had a negative impact on financial results, the near-term dynamics at work in several of Disney's businesses are expected to continue in fiscal 2000. A more detailed description of 1999 results can be found in the section of this Annual Report entitled Management's Discussion and Analysis of Financial Condition and Results of Operations.

Sanford M. Litvack
Vice Chairman of the Board,
The Walt Disney Company

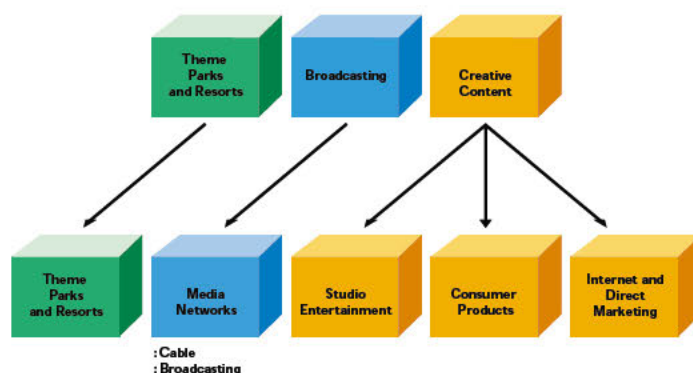


Thomas O. Staggs
Senior Executive Vice President and Chief Financial Officer,
The Walt Disney Company

FINANCIAL REPORTING

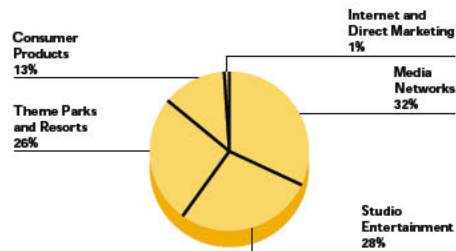
In 1999, the company introduced a new financial reporting structure designed to provide investors with a better understanding of the dynamics of Disney's businesses and the value of its assets.

DISNEY OPERATING SEGMENTS



Instead of the three operating segments it previously reported, Disney now reports along five lines of business. Theme Parks and Resorts is reported as before. Broadcasting is now referred to as Media Networks, with a further breakdown separating cable networks from broadcast-related businesses, in order to reflect the breadth of the assets in this segment. Creative Content is now reported in three parts: Studio Entertainment, Consumer Products and Internet and Direct Marketing. After the fiscal year end, the Internet and Direct Marketing businesses were combined with Infoseek to form Disney's Internet business, GO.com.

FY99 SEGMENT RESULTS REVENUE BREAKDOWN



The financials now also include a supplemental aggregation of all of Disney's cable television assets, including those assets reported as equity investments below the operating income line, such as A&E, Lifetime, The History Channel and E! Entertainment. The company believes that this aggregation will help shareholders more fully appreciate the extent of the company's strong cable presence, which features Disney Channel plus a collection of cable holdings such as ESPN and ESPN2 that were, for the most part, either acquired or made possible as a result of Disney's purchase of Capital Cities/ABC, Inc. in 1996.

COST CONTAINMENT

In April of 1999, the company announced an across-the-board assessment of its cost structure aimed at improving the efficiency of its businesses without impeding future growth. During the year, the company undertook several cost containment initiatives, including:

- Consolidation of the company's home video and theatrical distribution businesses.
- Combination of the company's two television production groups into one.
- Consolidation of all of the company's international operations.
- Company-wide rationalization of the finance organization, including implementation of shared-services opportunities in such areas as payroll, accounts payable, process reengineering and back-office consolidation.
- Establishment of a Strategic Sourcing group designed to manage the purchasing process more efficiently and reduce costs on the more than \$9 billion in goods and services the company requires each year.

These five initiatives are expected to account for as much as \$200 - \$225 million in annual cost savings by 2001. While the majority of the company's cost-saving initiatives are still under development, including further cost reductions in live-action film and animation production, labor and productivity savings at Disney theme parks, and production cost savings in network and cable television programming, the company believes annual cost savings could total more than \$500 million per year beginning in 2001 and thereafter.

EARNINGS GROWTH AND RETURNS ON CAPITAL

Earnings growth has been, and will continue to be, one of Disney's primary objectives. However, the company is mindful of the fact that growth in earnings coupled with a low return on investment does not create sufficient value for shareholders.

Therefore, the company is heightening its focus on prudent capital allocation and higher returns on invested capital. As the company continues to invest in its core businesses, pursue international opportunities and leverage technologies such as digital video discs (DVD) and the Internet, the ability to generate attractive returns on invested capital will be a primary factor in assessing opportunities.



Peter E. Murphy
Senior Executive Vice President and Chief Strategic Officer,
The Walt Disney Company

An increased focus on the prudent allocation of capital is also becoming a bigger factor in the day-to-day management of Disney's existing businesses. For each major line of business, the company is initiating a process to put greater emphasis on value creation as well as growth. That process can be summarized as follows:

- Identify the key drivers of profitability, capital return and value creation for each of Disney's businesses.
- Arm management throughout the organization with the tools to affect those drivers.
- Incorporate key drivers into operating budgets and monthly performance assessments.
- Evaluate and compensate managers on their performance versus these drivers.

The company expects to have taken each of its businesses through this process prior to the fiscal 2001 budgeting process. Over time, with these systems in place, Disney expects to enhance earnings and cash flow growth, return on invested capital (ROIC), return on assets (ROA) and return on equity (ROE).

In keeping with its increased focus on capital returns, the company is exploring financing alternatives that can help improve returns on the assets on Disney's balance sheet. For instance, the company recently sold a portfolio of Disney Vacation Club receivables. These receivables were providing a low after-tax return and dragging down ROA. By monetizing these receivables, the company generated approximately \$160 million that can be put to more productive use elsewhere. While not a large transaction for a company the size of Disney, it is indicative of the type of transactions the company will consider going forward.

GO.COM

Since Disney first set out to build its Internet presence five years ago, the company has focused on building this business with prudent levels of investment and an eye toward developing a sustainable business model with long-term value-creating potential.

As one of its first major steps on the Internet, Disney purchased Starwave, a cutting-edge web developer based in Seattle that produced the company's ESPN.com and ABCNEWS.com sites. Later, in order to expand Disney's Internet presence and to be better positioned for the emergence of broadband services, the company traded Starwave for a 43 percent stake in Infoseek.

In November 1999, Disney and Infoseek combined their Internet assets into one operation under the name GO.com. To form GO.com, Infoseek's public shareholders traded their Infoseek stock for a new class of common stock issued by Disney. Disney shareholders retain a 72 percent ownership interest in GO.com by virtue of Disney's existing stake in Infoseek and the allocation of Disney's Internet assets into GO.com.

There are several advantages to this transaction structure for Disney shareholders:

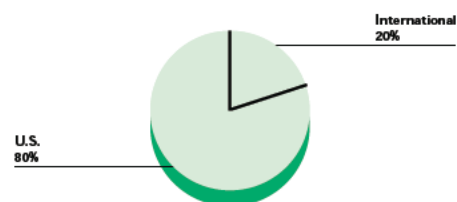
- Although Disney shareholders did not receive shares of GO.com directly in the transaction, they participate in any appreciation of GO.com through Disney's retained interest in GO.com.
- GO.com creates a focal point for all of Disney's Internet activities. While GO.com is aligned with Disney through Disney's retained interest, GO.com preserves the operating flexibility required to compete effectively with its Internet peers.
- At the same time, GO.com can take advantage of Disney's corporate resources, strong balance sheet and low cost of capital.
- The issuance of GO.com common stock enables the market to consider GO.com's financial results separately and value them in line with other Internet companies.
- Finally, GO.com creates a currency that can be used in possible strategic acquisitions and in hiring and retaining employees.

As new technologies and broader bandwidth improve the capabilities of interactive networks and therefore expand and enrich content possibilities, GO.com should be positioned well to further differentiate its product offerings and provide a compelling economic proposition.

INTERNATIONAL

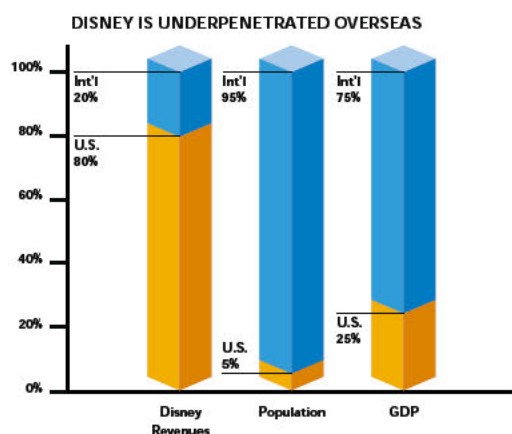
In 1999, revenues from international sources, including U.S. exports, totaled almost \$5 billion, or 20 percent of total company revenues.

INTERNATIONAL REVENUES



Disney's consumer-oriented businesses in the four leading European markets – France, Germany, Italy and the United Kingdom – generate only 40 percent of the spending per capita in those countries compared to that from the United States. Even Disney's best-performing international market, Japan, generates just 70 percent of the per capita spending of the United States.

Given the relative levels of population and economic activity outside the United States, the company believes there are opportunities for significant growth in international revenues over the long term.

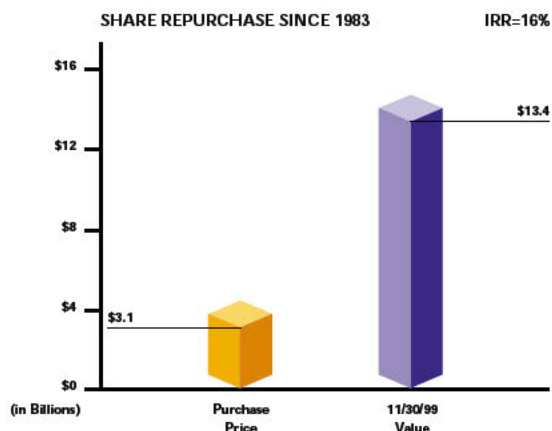


While dramatic economic growth in other parts of the world may take some time to develop, Disney is positioning itself to capitalize on long-term international growth opportunities.

SHARE REPURCHASE AND DIVIDENDS

As Disney generates greater returns on capital, and therefore greater free cash flow, its first priority will be to deploy that cash in internal investment or acquisition opportunities that can create value for Disney's shareholders. To the extent that the company generates more cash than it anticipates investing in such opportunities, it may utilize excess cash to buy back its own shares. At the end of fiscal 1999, Disney had authorization to purchase up to approximately 400 million of its outstanding shares.

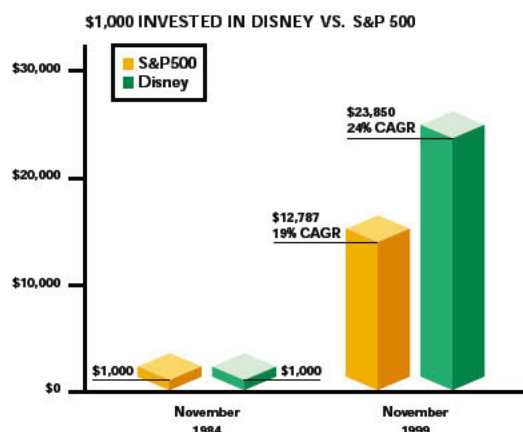
Since 1983, Disney has invested \$3.1 billion to buy back 480 million shares at an average price of approximately \$6.50 per share. Measured as of November 30, these shares were worth \$13.4 billion for an annualized return of 16 percent exceeding the stock market return of 14 percent as measured by the Standard & Poor's 500 index over the same period.



Disney also returns capital to shareholders through annual cash dividends. In December 1999, the company paid dividends of more than \$430 million to holders of Disney common stock.

TOTAL RETURN TO INVESTORS

As a result of Disney's financial performance over time, driven by expansion and extension of existing brands and businesses, investment in new businesses and share repurchase, the return to long-term investors in Disney stock has surpassed the return delivered by the market overall. An investment of \$1,000 in Disney stock on November 30, 1984, including reinvestment of dividends, was worth \$23,850 on November 30, 1999, providing a 24 percent compound annual return over the 15-year period. A similar investment in the Standard & Poor's 500 would have grown to \$12,787 over the same time.



From an even longer-term perspective, 100 shares of Disney stock purchased for \$2,500 in the company's initial public offering would have grown to 250,233 shares worth approximately \$7 million as of November 30, a compound annual growth rate of nearly 15 percent over the last 59 years.

While recent results have been disappointing, management is focused on capitalizing upon the long-term growth potential of the company's assets. Since 1945, Disney's earnings growth has averaged more than 16 percent per year. By pursuing its growth initiatives, never losing its fundamental focus on the quality of Disney offerings and pursuing the ongoing development of its brands, the company is determined to return to the strong growth it has delivered for decades and to continue providing superior returns for its shareholders.

THEME PARKS AND RESORTS



ATTRACTIONS

With four major strategic initiatives underway or planned, Disney's theme parks are poised to maintain their industry leadership well into the next century. In the next three years, second parks will open at the Disneyland Resort (2001), Tokyo Disneyland (2001) and Disneyland Paris (2002), all of which have the potential to transform these sites into multi-day resort destinations. Also, in November, the company announced an agreement to design and build a new park in Hong Kong with a target opening of 2005.

During the year, an innovative reservation system called FAST-PASS was tested at Walt Disney World, Disneyland and Disneyland Paris. A free service available to all guests, FAST-PASS provides an alternative to waiting in line for the most popular attractions. Guests choosing FASTPASS receive a ticket designating a specific window of time during which they may return and enter directly into the pre-show or boarding area.

Response to FASTPASS was so overwhelmingly positive that the system was implemented at several attractions at Walt Disney World and Disneyland last year and will be expanded to Disneyland Paris this year.

DISNEYLAND RESORT

Disneyland celebrates its 45th Anniversary this year. To mark the occasion, a *45 Years of Magic* parade will begin in February, featuring the largest gathering of Disney characters ever to grace the streets of the Happiest Place on Earth.

Also coming this year is the redesigned Autopia ride in Tomorrowland. A perennial favorite, the new Autopia, now presented by Chevron, will have updated cars, landscaping and marquees along the motorway. For successfully navigating the Autopia circuit, guests will be rewarded with a commemorative driver's license just as they were at the original ride back in the '50s.



Guests explore the new Tarzan's Treehouse at Disneyland.

Opposite Page: Guests at Disney's Animal Kingdom brave the white water on Kali River Rapids.

Last summer, the Adventureland site of the Swiss Family Robinson Treehouse was transformed into Tarzan's Treehouse, a climb-through attraction featuring characters and stories from the hit animated movie.

Disney's California Adventure will open in 2001 on a site adjacent to Disneyland. From the natural wonders of California's national parks to the backlots of Hollywood's dream factories, this second theme park will celebrate the diverse wonders of the Golden State. An elegant new 750-room hotel, The Grand Californian, will be located within the park. Outside the park, as part of the transformation of the Anaheim Resort District, will be Downtown Disney, a 300,000-square-foot retail, dining and entertainment complex with venues including House of Blues, Rainforest Cafe and ESPN Zone.

WALT DISNEY WORLD RESORT

1999 was a banner year for Walt Disney World, with the resort experiencing record attendance levels.

Disney's Animal Kingdom added a whole new continent to explore in 1999. Inspired by Asia's exotic flora and fauna, this new land includes a white-water rafting journey down the Kali River Rapids and the Maharaja Jungle Trek, which traverses dense rainforest and ancient ruins where magnificent tigers appear to roam free.



Epcot's Test Track, presented by General Motors, reaches speeds of 65 miles per hour.



Tigers roam the ruins at Disney's Animal Kingdom Asia.



Judson C. Green
Chairman, Walt Disney Attractions

But Asia wasn't the only new addition to the Animal Kingdom. Over fifty mammals were born at the park during the year, including four hippos and one western lowland gorilla.

At Disney-MGM Studios, The Twilight Zone Tower of Terror became even more terrifying as Imagineers reprogrammed the elevators after testing 27 different drop sequences to find the most heart-stopping plunge down the deserted elevator shaft. And the new Rock 'n' Roller Coaster Starring Aerosmith took guests from 0 - 60 miles per hour in 2.8 seconds, speeding through three inverted loops to a synchronized soundtrack by the legendary rock group.

Fantasmic! also debuted at Disney-MGM Studios. Modeled after the popular night-time spectacular at Disneyland, *Fantasmic!* is presented nightly in a specially designed 6,500-seat outdoor amphitheater.

Another high-octane attraction debuted last spring at Epcot. Test Track, presented by General Motors, is the longest, fastest ride

ever created by Walt Disney Imagineers, sending drivers through hairpin turns, steep hills, arctic cold and desert heat on a high-intensity journey that reaches 65 miles per hour.

The original Disneyland *Main Street Electrical Parade* opened at The Magic Kingdom last spring, treating a whole new generation to the most popular nighttime spectacle in Disney theme park history. Also opening at The Magic Kingdom last year were The Many Adventures of Winnie the Pooh and Buzz Lightyear's Space Ranger Spin.

The "buzz" at Downtown Disney has been about the Cirque du Soleil show, *La Nouba*, which features gymnasts, acrobats, dancers and clowns in a new 1,600-seat theater.

At Walt Disney World, the new millennium will be greeted with much more than a one-night party. Centered at Epcot, the Millennium Celebration festival kicked off on October 1st, with nightly spectacles, parades and exhibits celebrating cultures from around the world.

The Millennium Celebration will run for 15 months. It includes:

— *The Tapestry of Nations*, a musical cavalcade highlighted by 120 giant figures accompanied by percussionists, puppeteers and performers along the torch-lit World Showcase Promenade.

— *IllumiNations 2000: Reflections of Earth*, the most technically complex production in Walt Disney World history. It centers on the huge steel-ribbed Earth Globe, which spins with images of human diversity and ultimately becomes the centerpiece of a spectacular fireworks show.

Aerosmith celebrates the opening of the Rock 'n' Roller Coaster Starring Aerosmith at Disney-MGM Studios.



The Many Adventures of Winnie the Pooh ride opened in June at The Magic Kingdom.



— Millennium Village, which offers a fascinating cross-cultural interaction among over 50 nations, a place to share music and dance, favorite foods and crafts, as well as accomplishments and dreams.

— Leave a Legacy, where visitors can become part of a gigantic collage that will memorialize the millennium. Individual portraits engraved on stainless steel and attached to granite slabs will freeze a snapshot of our times on this massive artwork.

Also, in association with UNESCO, Disney and McDonald's have launched a search for 2,000 Millennium Dreamers, young people from around the globe who have made a positive impact on their communities. Those selected will be invited to Walt Disney World in May to be recognized for their achievements during a three-day symposium.



Paul S. Pressler
President, Walt Disney Attractions



IllumiNations 2000: Reflections of Earth lights up the night during Epcot's Millennium Celebration.

At the new Journey Into Your Imagination, Epcot guests experience how sound, color and illusion stir up their creative juices.



The world comes together at the Millennium Village, which features crafts, food, music and attractions from over 50 nations.



The *Crescend'O* show at Disneyland Paris celebrates the timeless magic of the circus.

Starlight Magic at Tokyo Disneyland is a light and sound spectacular, featuring lasers, kaleidoscopic lighting and fireworks.



DISNEY CRUISE LINE

The Disney fleet added a second cruise ship last year, *Disney Wonder*. From stem to stern, *Disney Wonder* evokes the elegance of a classic oceanliner with attractions and entertainment for guests of all ages. Along with *Disney Magic*, *Disney Wonder* sails from Port Canaveral, Florida. Both offer one-week packages with three- or four-day cruises that include stops at Nassau and Castaway Cay, Disney's private island hideaway, with the balance of the week spent at Walt Disney World.

Donald Duck takes center stage at Tokyo Disneyland's *Donald's Super Duck Parade*.



TOKYO DISNEYLAND

Toyko Disneyland set attendance records last year. A new nighttime spectacular, *Starlight Magic*, was unveiled last spring. This innovative light show used Cinderella's Castle as a canvas for a kaleidoscope of sound and images. A six-month-long park-wide salute to the world's most famous duck was highlighted by *Donald's Super Duck Parade*.

A second theme park, Tokyo DisneySea, is scheduled to open in 2001 and will include 23 attractions, live entertainment, restaurants and shops centered around seven "ports of call."

Two Disney-branded hotels are also under construction, the Disney Ambassador, to open in 2000, and Disney's Mira Costa, which will open in 2001 as part of Tokyo DisneySea.

DISNEYLAND PARIS

The leading tourist destination in all of Europe, Disneyland Paris added the *Honey, I Shrunk the Audience* 3-D show last

March, offered in six languages. Last year, Disney Village underwent a major redevelopment with the opening of a McDonald's and a Rainforest Cafe; the addition of *Crescent'O*, a show celebrating the magic of the circus; and the extension of the Gaumont Multiplex to 15 screens.

On New Year's Eve, the *Disney's ImagiNations* parade debuted, a spectacular cavalcade with 36-foot-high floats.

Disneyland Paris will also be expanding with a new park, scheduled to open in 2002, which will feature much of the ambiance and many of the popular attractions of the Disney-MGM Studios.

HONG KONG DISNEYLAND

A joint venture between The Walt Disney Company and the government of Hong Kong will bring a Disney theme park to a country with a population of more than 1 billion people. The theme park and resort will be located on Hong Kong's Lantau Island.

The happiest places on the seven seas, *Disney Magic* and *Disney Wonder* offer week-long cruise packages that include stays at Walt Disney World.



DISNEY REGIONAL ENTERTAINMENT

ESPN ZONE

Last year, ESPN Zones opened in New York and Chicago. ESPN Zone's distinct mix of sports, dining and entertainment, featuring interactive games and live sports broadcasts, has been enormously popular with sports lovers of all ages in the three cities in which Zones have opened.

Each ESPN Zone has three distinct components. The Studio Grill recreates the electric atmosphere of the ESPN studios and features replicas of sets of ESPN programs such as SportsCenter, NHL 2Night and NBA 2Night. The Screening Room offers the ultimate place to watch televised sporting events from around the world, with state-of-the-art technology, direct audio and video control for all televised games and statistical updates by the minute. Finally, the Sports Arena challenges fans with a variety of interactive and competitive attractions.

All of the ESPN Zones play host to many television and radio broadcasts, such as ESPN's Sports Reporters and the Monday Night Football half-time show at the New York Zone.

On deck are new ESPN Zones for Atlanta, which will open in time for this year's Super Bowl; Washington, D.C., coming in March; and Anaheim, which will be part of the new Downtown Disney in early 2001.



Inside the ESPN Zone, guests can watch sporting events, eat at the Studio Grill and try out the latest interactive sports games in the Sports Arena.

The ESPN Zone opened on Broadway last year in the heart of Times Square.



DISNEYQUEST

DisneyQuest is a combination of cutting-edge technology, Disney storytelling and interactive entertainment for guests of all ages. Inside a 90,000-square-foot facility, guests can ride exciting virtual attractions like Cyberspace Mountain, which allows them to design the rollercoaster of their dreams, then ride it in a 360-degree pitch and roll flight simulator; Hercules in the Underworld, which offers guests the chance to battle Hades in a 3D, real-time video underworld; and Animation Academy, which gives creative-minded guests an opportunity to draw their favorite Disney characters on computers.

The first DisneyQuest opened at Walt Disney World in 1998, the second opened in downtown Chicago in June and the next will open in Philadelphia in the spring of 2001.

DisneyQuest Chicago features 90,000 square feet of interactive Disney entertainment for kids of all ages.



The Mighty Ducks Pinball Slam at DisneyQuest.





The Animal Kingdom Lodge will be a unique 1,300-room hotel, offering views of grasslands which are home to herds of giraffe, zebra and gazelle.

WALT DISNEY IMAGINEERING

Not only does Walt Disney Imagineering continue to act as Disney's research and development department, imagining and engineering the next generation of rides and attractions, but it is also a global design and development firm.

Witness the four new theme parks now in various stages of progress:

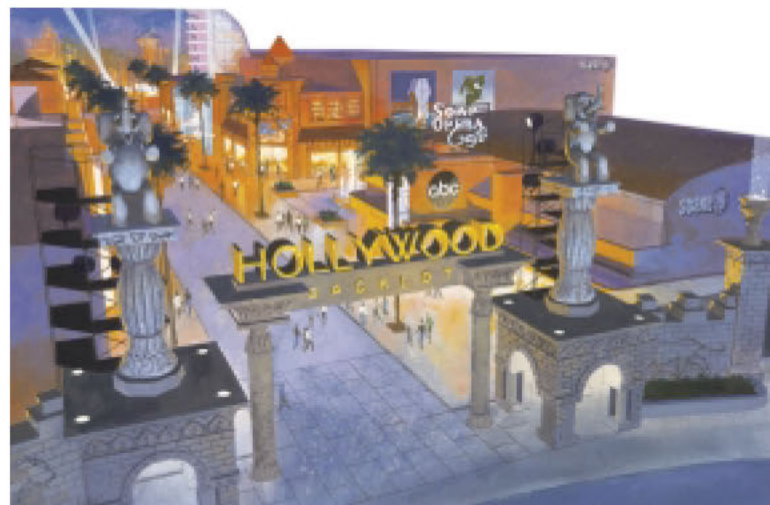
DISNEY'S CALIFORNIA ADVENTURE

Disney's California Adventure will celebrate the special magic of California with attractions that include a white-water rafting ride through Grizzly Peak Recreation Area; The Hollywood Backlot, a behind-the-scenes look at movie-making; Condor Flats, an historic airfield with a one-of-a-kind hang-glider ride; and Paradise Pier, where guests can soak up California's beach culture at a vintage seaside amusement park.

The expansion of the Disneyland Resort will also feature a 750-room hotel, The Grand Californian, located within the park itself, and Downtown Disney, a new shopping and entertainment district. Because the site of the new resort is being built on

Disneyland's old parking lot, the company is building the largest parking garage in the world to accommodate guests, with direct access from the nearby Santa Ana Freeway. Disney's California Adventure is scheduled to open in the spring of 2001.

The Hollywood Backlot, a behind-the-scenes look at the making of movies and television shows, will be part of Disney's California Adventure at the Disneyland Resort, opening in 2001.



TOKYO DISNEYSEA

Imagineers in Japan and California are well into construction of a second park, adjacent to Tokyo Disneyland. Tokyo DisneySea will immerse guests in an imaginative world based on the enduring mystery and romance of the sea. Among the park's distinct "ports of call," visitors can experience the old-world charm of the Mediterranean Harbor, discover adventure deep within a volcano on Mysterious Island, explore the undersea world of Ariel and her friends from *The Little Mermaid*, travel back to turn-of-the-century New York at American Waterfront, and journey across time to Port Discovery.

Two new world-class Disney-branded hotels and a monorail linking the two parks with the Ikspiari shopping and dining complex are also being built. Under a licensing agreement with Disney, Oriental Land Co. Ltd. owns and operates the entire Tokyo Disney Resort.

DISNEY STUDIOS

The new theme park at Disneyland Paris, Disney Studios, will be a working production studio as well as a theme park, where guests can go behind the scenes to explore how movies, TV shows and animation are created. Portions of the park will celebrate the nostalgia of Hollywood's Golden Age, as well as European movies, while such attractions as the Rock 'n' Roller Coaster Starring Aerosmith, Canyon Catastrophe and a spectacular stunt show will offer thrills. A number of new attractions, live entertainment stages, dining and shopping areas will also be featured.

HONG KONG DISNEYLAND

WDI will design the new Disney theme park in Hong Kong. Most of the attractions will be based on popular rides and shows that debuted at the company's other Disneyland-style parks.

In addition to these four major undertakings, WDI has managed to squeeze in a few "smaller" projects, including: the *Disney Wonder* cruise ship; the new *Good Morning America* studio in Times Square, which opened last summer; a 143,000-square-foot broadcast facility in Glendale for KABC-TV (September 2000); and the Animal Kingdom Lodge, a 1,300-room hotel at Walt Disney World (2001).



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



Hong Kong Disneyland is scheduled to open in 2005.



Disney Studios, opening in 2002 at Disneyland Paris, will feature many of the popular attractions from the Disney-MGM Studios.

Tokyo DisneySea's seven "ports of call" will allow visitors to travel the world and even travel through time to discover the enduring romance of the sea.



THE WALTDISNEYSTUDIOS



In 1999, the studios released 15 live-action films. This was the culmination of a long-term strategy to cut total production costs from the level of three years earlier, when close to 30 live-action films were released. In addition, the studios conducted a top-to-bottom reorganization of all businesses that reduced the number of talent deals, consolidated departments, shifted priorities in film budgeting and eliminated redundancies within marketing and distribution. This initiative resulted in an overall live-action film investment reduction of \$400 million compared to 1998.

1999 was a strong year at the box office for the film group, with live-action and animated hits from all labels and an award-winning year for Miramax. Buena Vista, the studios' domestic distribution arm, was number one at the box office for the year, as it has been for three of the past four years.

TOUCHSTONE / HOLLYWOOD PICTURES

Powered by such hits as *The Sixth Sense*, *Enemy of the State* and *The Waterboy*, 1999 was the decade's best year at the box office for Touchstone and Hollywood Pictures. *The Sixth Sense*, starring Bruce Willis, held the number one position at the box office for most of August with five consecutive \$20 million-dollar weekends, a feat matched only by *Titanic*. *The Sixth Sense* went on to gross more than \$275 million dollars in the U.S., becoming the 12th highest-grossing movie ever released.

A holdover from 1998, *Enemy of the State*, played well into early 1999, taking in a total of \$112 million.

Last holiday season saw the release of Touchstone's *Deuce Bigalow*, with Rob Schneider, and Hollywood Pictures' *Bicentennial Man*, starring Robin Williams.

This March, *Mission to Mars* will take audiences to the red planet as a heroic group of astronauts mounts a rescue mission to save their colleagues from a disabled installation on the Martian surface. *Mission to Mars* is directed by Brian DePalma (*Mission Impossible*) and stars Tim Robbins, Gary Sinise and Jerry O'Connell.

In June, Nicolas Cage plays a reformed car thief who agrees to steal 50 cars in 24 hours in order to save his brother in *Gone in 60 Seconds*. Cage gets more than he bargained for when he finds that a rival gang, Colombian drug lords and the police are all working to stop him. Jerry Bruckheimer (*The Rock*, *Armageddon*) produces.

Shanghai Noon, set in the old West, stars Jackie Chan as a Chinese Imperial guard who journeys to America in search of a kidnapped Chinese princess. This action-adventure film hits theaters in July.

In August, producer Jerry Bruckheimer's *Coyote Ugly* will premiere. In *Coyote Ugly*, a young woman leaves her predictable suburban life behind and moves to New York City, where she lands a job at a bar in Manhattan — the Coyote Ugly Saloon.

In *Mission to Mars*, American astronauts embark on a daring rescue mission to save their colleagues trapped on the Martian surface.



Nicolas Cage plays a reformed car thief this summer in Touchstone Pictures' *Gone in 60 Seconds*.

Shanghai Noon stars Jackie Chan as a Chinese Imperial guard searching the old West for a kidnapped princess.



Remember the Titans is producer Jerry Bruckheimer's first Disney family movie, starring Denzel Washington as a high school football coach confronting racial tensions in 1970s Virginia.



In time, she becomes a sensation as a singer at the bar and ultimately finds her own niche in this new world.

MIRAMAX

The Miramax label reigned supreme at last year's Academy Awards, winning 10 Oscars overall. *Shakespeare in Love* was honored as the Best Picture. The film, which won a total of seven Oscars, including Best Actress (Gwyneth Paltrow) and Best Supporting Actress (Dame Judi Dench), went on to gross \$100 million.

Life is Beautiful won the Best Foreign Film award and Roberto Benigni took home an Oscar for Best Actor. The poignant comedy grossed more than \$57 million, becoming the top-grossing foreign film ever released in the U.S.

The teen comedy, *She's All That*, was also a hit in 1999, grossing \$63 million.

The winter of 1999 saw the release of *The Talented Mr. Ripley*, starring Matt Damon and Gwyneth Paltrow, and *The Cider House Rules*, which was adapted from the best-selling novel by John Irving.

This year, Miramax will offer *All the Pretty Horses*, with Matt Damon, and Kenneth Branagh's adaptation of Shakespeare's *Love's Labour's Lost*.



Joseph E. Roth
Chairman, The Walt Disney Studios

Shakespeare in Love won seven Oscars, including Best Picture, Best Actress and Best Supporting Actress for Dame Judi Dench for her role as Queen Elizabeth.



Kenneth Branagh reinvents Shakespeare's *Love's Labour's Lost* as a musical.

**102
DALMATIANS**

The new musical version of *Annie* on *The Wonderful World of Disney* scored strong ratings in the fall.

Miramax expanded into publishing last year with *Talk* magazine, edited by Tina Brown, which was launched as a joint venture with the Hearst Corporation in September to strong sales.

In 1999, a strategic decision was made to bring all of the studios' Disney-branded businesses (Feature and TV Animation, Walt Disney Pictures, Walt Disney Network TV production and Theatrical Productions) under the management of one executive reporting to the studios' chairman.

Joe Roth named Peter Schneider as president of The Walt Disney Studios to fill this role. This new structure should bring greater focus and coordination to the creation of Disney-branded movies, TV shows and stage plays.

WALT DISNEY PICTURES

Walt Disney Pictures' biggest live-action success in 1999 was *Inspector Gadget*, starring Matthew Broderick, which grossed \$97 million. Other Disney-labeled titles during the year included *Mighty Joe Young* and *My Favorite Martian*.

Coming next year is *The Kid*, a heartwarming tale about a man who meets a boy who turns out to be his ten-year-old self. This film stars Bruce Willis and is directed by Jon Turteltaub (*Phenomenon*, *While You Were Sleeping*).

Producer Jerry Bruckheimer's *Remember the Titans* stars Denzel Washington as a football coach battling racial tensions at a Virginia high school.

102 Dalmatians is scheduled to be released this Thanksgiving with Glenn Close reprising her role as the villainous Cruella De Vil.

WALT DISNEY NETWORK TELEVISION

Disney Television's *Boy Meets World* started its seventh season as a part of ABC's TGIF line-up last fall. *Boy Meets World* ranked number one in its time-slot among all youth demographics last season.

The Wonderful World of Disney ended the 1998-99 season number one among teens and kids in its time period. New Disney television movies on *The Wonderful World of Disney* in the 1999-2000 season included a new version of the musical classic *Annie* and *Geppetto*, an original musical about Geppetto's search for the wandering Pinocchio, starring Drew Carey and Julia Louis-Dreyfus. This season will also see the network TV premieres of *Jungle 2 Jungle*, *A Bug's Life* and *Mulan*.

Talk, the first publishing venture from Miramax, became one of the most successful new magazine launches of the 1990s.



WALT DISNEY FEATURE ANIMATION

Under the leadership of chairman Roy Disney and president Thomas Schumacher, Disney released three animated films in the space of 12 months from November, 1998 to Thanksgiving, 1999. *A Bug's Life*, produced in partnership with Pixar Animation Studios, played well into 1999, ending its run with \$358 million in worldwide grosses. Last summer, *Tarzan* swung into theaters with a \$34 million dollar opening weekend, ultimately grossing more than \$170 million in the U.S. By the end of its international run, the film is expected to gross more than \$450 million worldwide to become the highest-grossing animated film since *The Lion King*. Then, in November, *Toy Story 2*, also produced with Pixar, brought Tom Hanks and Tim Allen together again as Woody and Buzz in the sequel to the 1995 smash hit.

Toy Story 2 had the biggest Thanksgiving opening in Hollywood history, grossing \$80.1 million over the five-day holiday period. With \$57.4 million at the box office for the three-day weekend, *Toy Story 2* also recorded the biggest opening ever for an animated film.

Greeting the new millennium is *Fantasia / 2000*, which offers seven all-new animated sequences set to such classical music as Beethoven's *5th Symphony*, Gershwin's *Rhapsody in Blue* and Stravinsky's *The Firebird*. The world premiere took place at Carnegie Hall with the Philharmonia Orchestra of London performing the music live. A concert tour with the Philharmonia Orchestra then took *Fantasia / 2000* around the world with performances in London, Paris, Tokyo and Los Angeles before the film opened on New Year's day exclusively in IMAX theaters. *Fantasia / 2000* will go into local theaters in July.

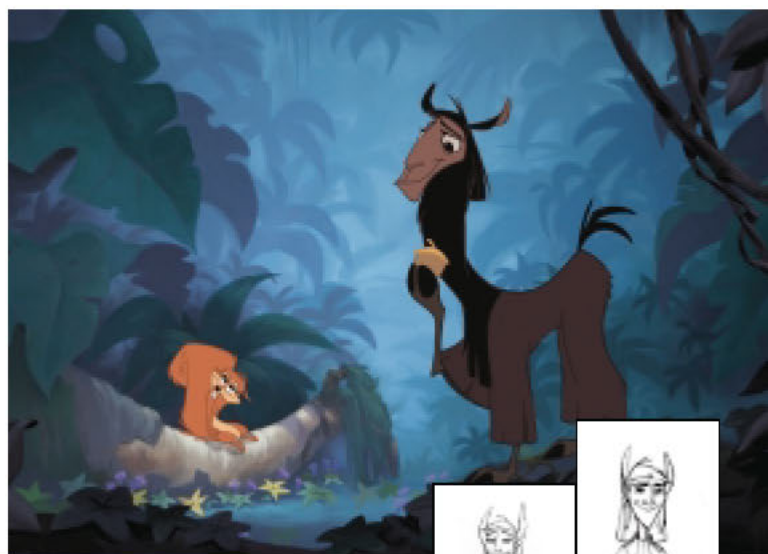
This summer, Disney Feature Animation will push the envelope of entertainment with *Dinosaur*. This film combines live action backgrounds with computer animated dinosaurs and special effects to offer audiences a breathtakingly realistic glimpse at a land that lives only in their imaginations. In *Dinosaur*, a family of lemurs rescues an orphaned iguanodon and name the hatchling Aladar. Years later, when a meteor collides with earth, destroying Lemur Island, Aladar and his adopted family must begin a journey of courage, survival and hope with a herd of dinosaurs on a quest to find a new beginning.



Peter Schneider
President, The Walt Disney Studios, and
President, Walt Disney Theatrical Productions

In December comes a madcap adventure, *Kingdom in the Sun*. This film tells the story of the hotshot young emperor Kuzco (David Spade) and his unexpected alliance with a peasant named Pacha (John Goodman). It's only when he's turned into a llama that Kuzco learns what it truly means to be human. This heart-warming and outrageous comedy also features the vocal talents of Eartha Kitt and music by Sting.

WALT DISNEY
FEATURE
ANIMATION



In *Kingdom in the Sun*, the Emperor Kuzco is turned into a llama and must work with a peasant to regain his kingdom. The film features the voices of David Spade, John Goodman and Eartha Kitt.

Dinosaur takes digital animation to new heights this summer in an epic story about a herd of dinosaurs fighting for survival.



Roy E. Disney
Vice Chairman of the Board, The Walt Disney Company, and
Chairman, Walt Disney Feature Animation

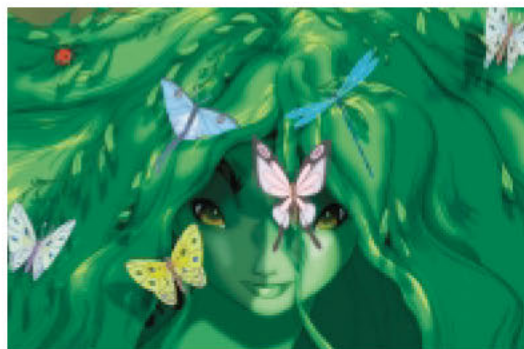
WALT DISNEY TELEVISION ANIMATION

The Disney-produced Saturday morning block on ABC, *One Saturday Morning*, drew critical acclaim and strong ratings for the 1998-99 season. Disney's *Doug*, *Pepper Ann* and *Recess* were all placed on the Academy of Television Arts & Sciences and FCC Honor Roll of Children's Programming. The entire block finished the season number one in the ratings.

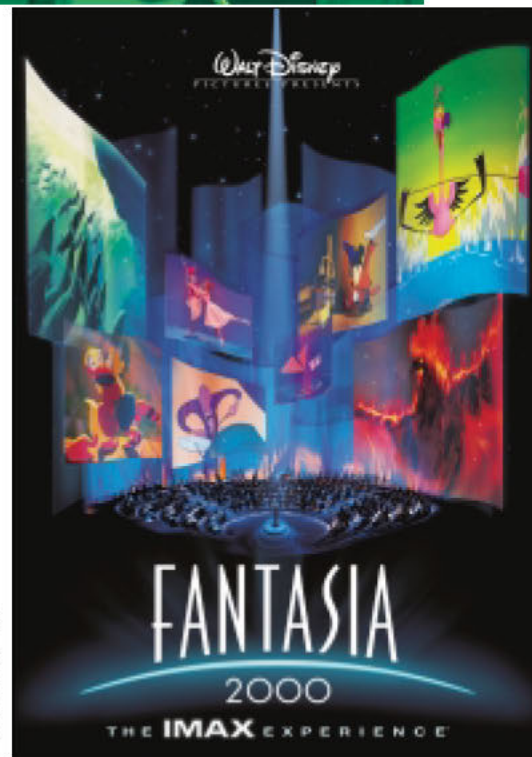
Last season, Disney's *Mouseworks* was successfully launched. The first original series to feature Mickey, Minnie, Donald, Goofy and Pluto, *Mouseworks* was number one in its time slot for the 1998-99 season.

The new animated series, *Buzz Lightyear of Star Command*, which follows the intergalactic adventures of *Toy Story*'s Buzz Lightyear and his team of Space Rangers, will be released in a unique way. Buzz will debut this fall on video; then the series will join the 2000-01 season *One Saturday Morning* line-up and play on Disney's *One Too* animation block, which airs on UPN and in syndication throughout the week.

Thomas Schumacher
President, Walt Disney Feature Animation and
President, Walt Disney Theatrical Productions



Stravinsky's
The Firebird is
brought to life
in the climactic
sequence of
Fantasia / 2000.



Fantasia / 2000, the
continuation of
the 1940 classic,
features seven
all-new animated
sequences. The film
opens exclusively in
IMAX theaters on
New Year's day.

Also joining *One Saturday Morning* in early 2000 is *Weekenders*, a new series about four adolescent friends in search of the perfect weekend.

In 1999, *The Lion King II: Simba's Pride* from Disney Video Premieres became the best-selling made-for-video title ever released. This spring, *An Extremely Goofy Movie*, the video follow-up to *A Goofy Movie* will be released, and debuting this fall will be *The Little Mermaid II: Return to the Sea*, a sequel to the 1989 Disney classic.

Coming to theaters this February will be *The Tigger Movie*. Produced by Walt Disney's TV Animation division, this is the first original full-length film featuring Winnie the Pooh and the rest of the beloved Hundred Acre Wood characters. In August, a feature film based on the popular *Recess* Saturday morning series will open in theaters.

WALT DISNEY THEATRICAL PRODUCTIONS

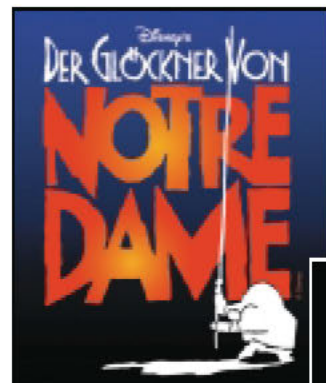
Last November, under the leadership of Walt Disney Theatrical presidents Peter Schneider and Thomas Schumacher, *The Lion King* marked its second anniversary at Broadway's historic New Amsterdam Theatre. Since winning six 1998 Tony Awards, including Best New Musical, and a 1999 Grammy for Best Musical Show Album, productions have opened in Tokyo, Osaka and London. Additional productions will open in Toronto in April and Los Angeles in October.

Beauty and the Beast celebrated its fifth anniversary on Broadway in April, followed by the launch of a new U.S. touring production in September. The musical continues to delight audiences around the world — currently on stage in London, Stuttgart and Madrid. *Beauty* was also performed in Beijing last year as part of the 50th anniversary celebrations of the People's Republic of China.

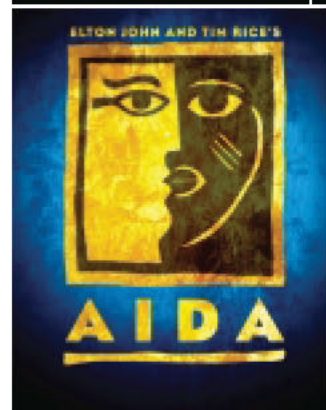
The Hunchback of Notre Dame premiered on stage in Berlin in June 1999. The production features music from the animated film as well as new songs by Alan Menken and Stephen Schwartz. The show is directed by Tony Award-winner James Lapine. Elton John and Tim Rice's *Aida* began performances in Chicago last December, on its way to Broadway this February. Robert Falls, 1999 Tony Award-winning best director, helms the production.

BUENA VISTA INTERNATIONAL

As 1999 drew to a close, Buena Vista International, the company's international film distribution arm, was on target to exceed 1997's company record of \$1.25 billion at the international box office. With four films going over the \$100 million mark last year, BVI became the only film distribution company ever to hit the \$1 billion box office mark five years in a row.



The Hunchback of Notre Dame debuted on stage in Berlin last June.

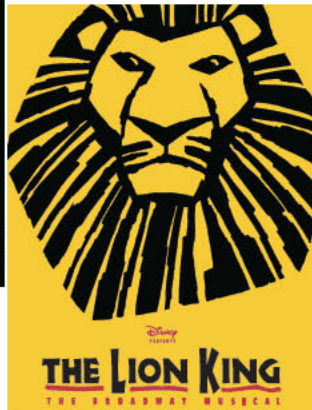


The new musical *Aida*, with music and lyrics by Elton John and Tim Rice, comes to Broadway in February.

Beauty and the Beast celebrated its fifth year on Broadway last April.



Tony-Award winner *The Lion King* continues to play to sell-out audiences in New York and is also running in London, Tokyo and Osaka. New productions open this year in Toronto and Los Angeles.



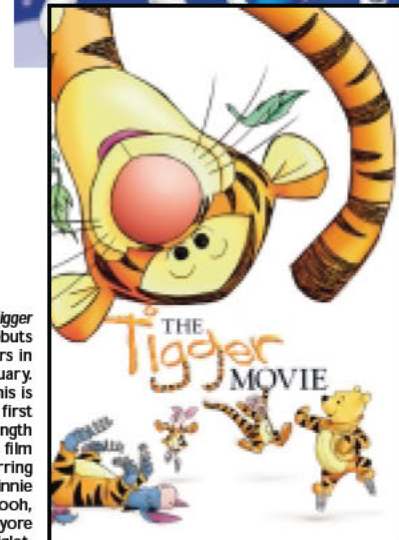
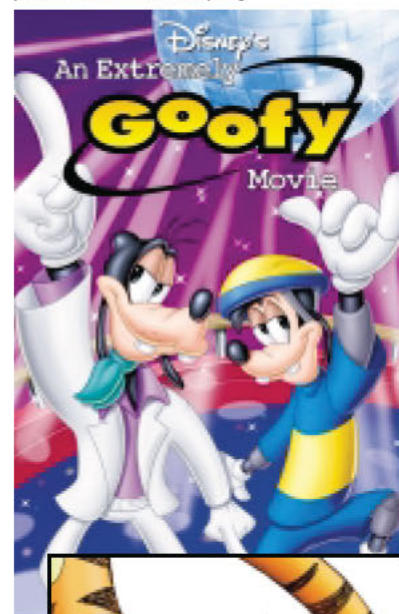
The *Recess* movie brings the popular *One Saturday Morning* characters to the big screen this August.

Armageddon was BVI's biggest hit ever in Japan, grossing \$115 million in that territory alone. The film's total overseas box office receipts of just over \$350 million made *Armageddon* BVI's top-grossing live-action release of all time. Also scoring big last year were *A Bug's Life*, which grossed just under \$200 million; *Enemy of the State*, which grossed \$139 million; and *Tarzan*, which rolled out internationally during the second half of 1999 and is projected to gross \$275 million by the end of its international run.

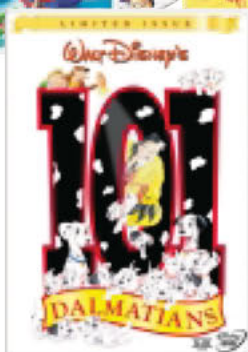
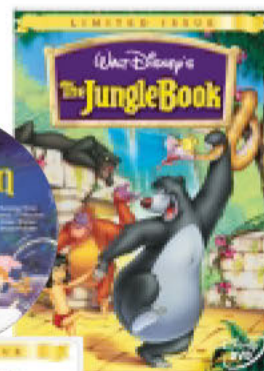
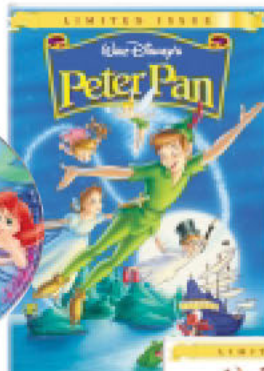
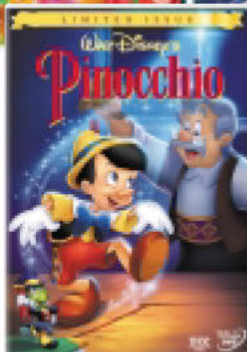
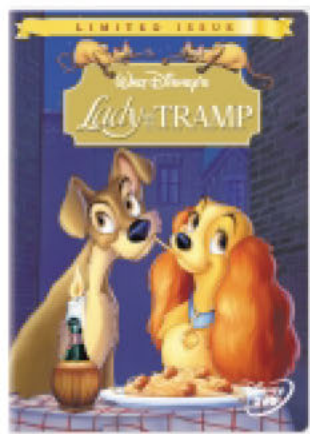
BVI handled international distribution on *Runaway Bride*, a co-production with Paramount, which grossed over \$160 million in its territories. *The Sixth Sense*, co-financed with Spyglass Entertainment Group, the biggest sleeper hit from last summer, began its international run last fall and is expected to generate very strong box office overseas.

In 2000, *Toy Story 2*, *Dinosaur*, *Gone in 60 Seconds* and *Mission to Mars* should be strong entries in the international market. BVI also has international rights throughout most of the world for *End of Days*, a supernatural action thriller starring Arnold Schwarzenegger.

An *Extremely Goofy Movie* premieres on video this spring.



The *Tigger* Movie debuts in theaters in February. This is the first full-length feature film starring Winnie the Pooh, Tigger, Eeyore and Piglet.



BUENA VISTA HOME ENTERTAINMENT

In 1999, Buena Vista Home Entertainment continued its success in the made-for-video arena with the release of *The Lion King II: Simba's Pride*, which became the top-selling made-for-video title of all time with 23 million units sold worldwide.

BVHE also continues to lead the way in the live-action global sell-through market. In 1999, *Armageddon* surpassed *Pretty Woman* as BVHE's top-selling live-action title of all time in sell-through markets around the world.

Domestically, the best-selling titles of 1999 were *Mulan* and *A Bug's Life*, which was the number one sell-through title of the year. In the rental market, *Enemy of the State* and *Shakespeare in Love* were top performers.

In November, BVHE announced a new strategy to revitalize Disney library sales, creating the Disney Platinum Collection. The Platinum Collection will consist of 10 films — *Snow White*, *Beauty & the Beast*, *Aladdin*, *The Lion King*, *Bambi*, *The Jungle Book*, *Cinderella*, *The Little Mermaid*, *Lady and the Tramp* and *101 Dalmatians*. One of these films will be released each fall on video and DVD and then will be withheld from the market for 10 years. All other library titles will come off moratorium and be sequenced back into the market starting in January, 2000. This strategy allows for an annual library event, while making all other titles available to consumers on an ongoing basis. Also, all new animated films will be released onto DVD and video simultaneously. In response to the growth in the DVD market, BVHE released several animated classics on DVD for the first time last fall, including *Mulan*, *Hercules*, *Lady and the Tramp*, *The Little Mermaid*, *Peter Pan*, *Pinocchio*, *101 Dalmatians* and *The Jungle Book*.

This year, *Tarzan* is expected to be the division's best-selling title since *Toy Story*. Other major releases include *Toy Story 2*, *Inspector Gadget* and *The Little Mermaid II: Return to the Sea*.

Last fall, Disney animated classics were released on DVD for the first time ever. From now on, all new animated releases will be made available on video and DVD simultaneously.

BUENA VISTA MUSIC GROUP

The Buena Vista Music Group completed its first year as a consolidated unit with several major successes. The *Tarzan* soundtrack was a multi-platinum hit, selling more than three and a half million units worldwide by year end. Phil Collins' single from the album, "You'll Be in My Heart," was number one on the Adult Contemporary charts for 16 weeks.

BVMG's country label, Lyric Street, released its first album last June. Later in the year, Lyric Street's new group, SHeDAISY, achieved gold record status with its debut album, *THE WHOLE SHeBANG*. Hollywood Records Latin also released its first record, *This Time*, by Los Lobos.

In 1999, Youngstown, a new BVMG pop group, released its debut album, *Let's Roll*. The group garnered significant exposure on Radio Disney and Disney Channel and its single, "I'll Be Your Everything," which was featured in *Inspector Gadget*, reached number nine on the pop charts.

The *Varsity Blues* soundtrack went gold last year. This year, BVMG, which continues to pursue soundtrack business from other studios, will release the album for Paramount's *Mission Impossible II*.

BVMG signed an international distribution deal with the Goo Goo Dolls and signed an overall deal with Duran Duran, whose next album is scheduled to be released this year. Other key releases this year include the soundtrack to *Toy Story 2*, which features songs by Randy Newman and Sarah McLachlan, the *Fantasia 2000* soundtrack and Fastball's follow-up album to its platinum-selling 1998 release.



Youngstown's hit single, "I'll Be Your Everything," was featured in *Inspector Gadget*.

Los Lobos' album, *This Time*, was the first release from Hollywood Records Latin.



Duran Duran joins the Hollywood Records line-up with a new album this year.



SHeDAISY hit gold with their debut album, *THE WHOLE SHeBANG*, on Disney's Lyric Street Music label.

Soundtracks from *Tarzan* and *Varsity Blues* were top-sellers last year for BVMG.

MEDIA NETWORKS



Good Morning America's new home at Times Square Studios, designed by Walt Disney Imagineering in collaboration with Disney Studio Operations and ABC, opened last September.

Good Morning America has seen solid ratings gains with Diane Sawyer and Charles Gibson co-hosting, Antonio Mora anchoring the news desk and Tony Perkins providing weather forecasts.



BROADCAST NETWORKS

ABC TELEVISION NETWORK

With the 1999-2000 season underway, ABC has captured the attention of audiences and critics with its line-up of new shows and returning favorites.

The new drama, *Once and Again*, was the first break-out show of the season. ABC also delivered the season's biggest hit show, *Who Wants to Be a Millionaire*, which has become ABC's most-watched new series in six years, drawing an average of 24.2 million viewers each episode.

ABC was watched by more people during the full broadcast day than any other network and was number two in the key 18-49 demographic in primetime. The network went on to win the November sweeps – the critical four-week period which determines advertising rates – for the first time since 1994.

In primetime, *The Practice* was honored with the Emmy for Outstanding Drama Series for the second year in a row. *NYPD Blue*'s Dennis Franz won for Best Actor in a Drama Series. Returning favorites like *Dharma & Greg*, *The Drew Carey Show* and *Monday Night Football* continued to attract wide audiences.

ABC earned singular praise from the Television Critics' Association (TCA). When asked which network they would watch if they could only watch one, critics chose ABC by a two-to-one margin.

In news, *Good Morning America* moved to a new state-of-the-art studio overlooking New York's Times Square. Ratings for *GMA* are up 20 percent since Charles Gibson and Diane Sawyer took over as co-anchors last year.

World News Tonight with Peter Jennings remains the leader in nightly news, attracting more viewers than any other newscast for the 1998-99 season. *Nightline*, recognized as one of the most respected news programs on TV, celebrates its 20th anniversary this year.

ABC Daytime dominated the ratings among women 18-49 for the 23rd straight year. ABC Daytime swept the top three awards at last year's Daytime Emmys, winning Outstanding Drama Series, *General Hospital*, Best Actor, Tony Geary, and a long-deserved Emmy for Susan Lucci in the Best Actress category.

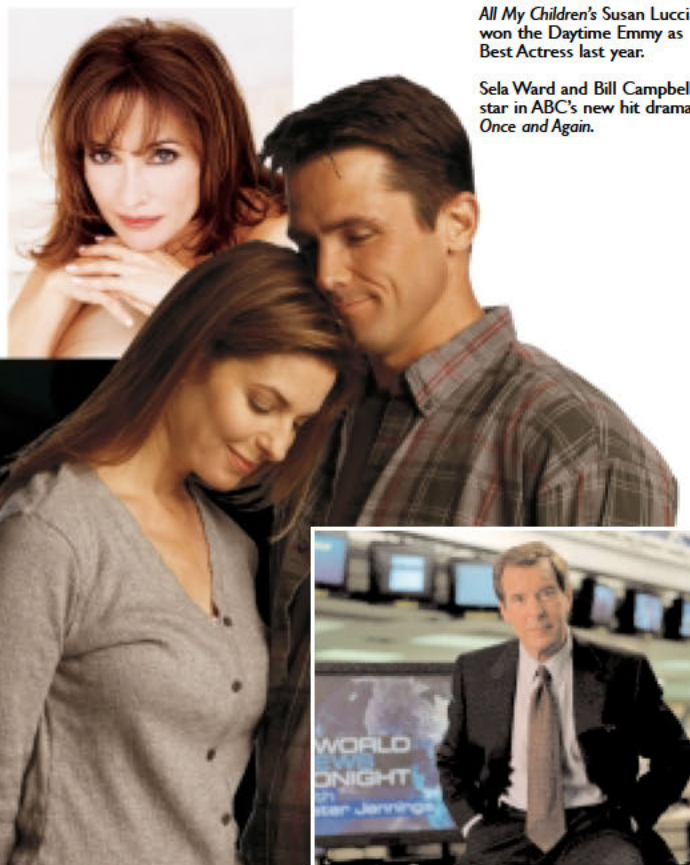
Disney's *One Saturday Morning* block of programming for children was number one among all broadcast networks for the 1998-99 season for the second year in a row.

ABC Sports built on its tradition of excellence last year, delivering memorable moments like the women's World Cup soccer final and the first-ever broadcast network primetime golf match, *Showdown at Sherwood: Woods vs. Duval*. Ratings powerhouse *Monday Night Football* celebrates its 30th anniversary this year, broadcasting in high definition (HDTV). ABC caps off football coverage with Super Bowl XXXIV in January.



Al Michaels and Boomer Esiason call the action on *Monday Night Football*, which celebrated its 30th anniversary this season.

The Practice, starring Dylan McDermott and Steve Harris, was awarded the Emmy for best drama for the second year in a row.



All My Children's Susan Lucci won the Daytime Emmy as Best Actress last year.

Sela Ward and Bill Campbell star in ABC's new hit drama, *Once and Again*.



World News Tonight with Peter Jennings attracted more viewers than any other nightly newscast.



Robert A. Iger
Chairman, ABC Group, and
President, Walt Disney International

ABC ENTERTAINMENT TELEVISION GROUP

Comprised of Touchstone Television and ABC Entertainment, this division develops and produces shows for Network TV.

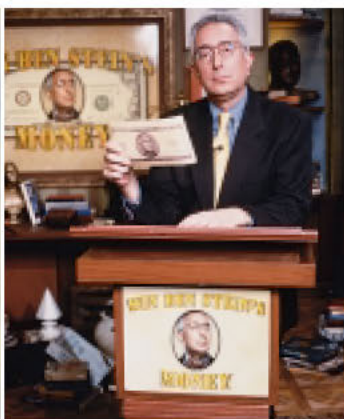
Last fall, Disney's Touchstone television production unit was merged into ABC's primetime entertainment division. The move will allow ABC to better direct and streamline the development and production process and to own and control more of its product. By restructuring these two groups and eliminating redundancies, the company will save up to \$50 million annually.

Once and Again had the highest-rated drama premiere on ABC since 1995. The critically acclaimed show was given a full series order by ABC.

The PJs will return to Fox in midseason. New shows for mid-season will be the high school half-hour series, *Brutally Normal*, on Fox and *Wonderland*, a one-hour drama set in a New York mental hospital, on ABC. *Felicity* moved to Sunday nights on the WB Network, and delivered solid ratings among teens and women.



Kathie Lee Gifford co-hosts the popular morning talk show, *LIVE with Regis and Kathie Lee*, which is now in its 12th season.



The Buena Vista Television game show *Win Ben Stein's Money* garnered Emmys last year for Best Game Show and Best Game Show Host.

BUENA VISTA TELEVISION

Buena Vista Television remains a top provider of syndicated TV programming with hits that include *LIVE with Regis & Kathie Lee*, Disney's *Honey*, *I Shrunk the Kids* and the Emmy-winning game show *Win Ben Stein's Money*. Since the untimely passing of Gene Siskel, BVTV's popular movie review show has been reformatted as *Roger Ebert & the Movies*.

New projects include Disney's *One Too*, a two-hour animation block which features new animated shows along with some of the Disney-produced Saturday morning franchises for UPN and syndication, and *Your Big Break*, a first-run musical talent show from Dick Clark Productions, Inc. BVTV's production and development arm, Buena Vista Productions, produced the break-out hit *Who Wants to Be a Millionaire* for ABC. In January, BVTV launches its new syndicated talk show, *The Ainsley Harriott Show*.

In 1999, BVTV and Encore Media announced a significant long-term pay-TV licensing deal for up to 10 years for all theatrical releases from the Touchstone, Hollywood Pictures, Miramax and Dimension labels.

ABC-OWNED TELEVISION STATIONS

The company owns ten television stations, reaching 24 percent of the nation's TV households. The station group posted excellent ratings results last year, with six of the ten stations ranked number one in household delivery during the total broadcast day in their markets. By the end of this year, the seven largest of these stations will be broadcasting selected network programs in high definition (HDTV).

Regis Philbin hosts the phenomenally successful new game show, *Who Wants to Be a Millionaire*.



WALT DISNEY TELEVISION INTERNATIONAL

The launch of a Disney Channel in Germany, strong performance in distribution activities and new local and international productions heralded an outstanding year of growth for WDTV-I.

Overall Disney Channel subscriptions were up by over 20 percent, making the Channel one of the leading kids and families services in homes around the world. New Disney Channels are scheduled to launch in the next two years in Latin America, Scandinavia and several countries in Asia through the region's Disney Channel Asia Network.

WDTV-I strengthened its position as the leading distributor of programming world wide, licensing some 4,200 hours of programming in 1999. This includes major new agreements in France, Scandinavia and Italy.

New equity investments in HBO Hungary, HBO Czech Republic/Slovakia and an existing investment in HBO Poland have positioned WDTV-I to capitalize on growth opportunities that exist in Central Europe. Existing investments throughout Europe also performed strongly.

Disney's award-winning shows continued to be among the leading programs enjoyed by kids and families around the world, outperforming the competition in their timeslots in a majority of markets, and reaching approximately 300 million viewers every week.



Art Attack, produced in English-, Spanish-, Italian-, French-, and German-language versions, encourages kids' creativity by using everyday objects to create artworks.

ABC RADIO

The ABC Radio Division owns 42 stations, which reach a weekly audience of 13 million. The ABC Radio Networks reach an estimated 147 million people weekly through more than 4,400 radio outlets nationwide, featuring five full-service news networks, as well as ESPN Radio. The Networks feature a strong line-up, which includes *ABC News*, *Paul Harvey News & Comment*, *Tom Joyner* and *American Country Countdown with Bob Kingsley*.

Radio Disney, now heard in 16 of the top 20 markets in the U.S., continued its roll-out in 1999, adding stations in New York, Tampa and Houston. Radio Disney is carried on 45 stations that cover nearly 50 percent of the U.S. market, reaching 1.5 million kids aged 6-11 each week. Radio Disney is targeted to reach 70 percent of the U.S. market in 2000.

Significant exposure on Radio Disney and Disney Channel helped propel "I'll Be Your Everything" by Youngstown, which records on the Hollywood Records label, into the top ten on the pop single charts.



The ABC Radio Networks line-up includes legendary newsmen Paul Harvey, the #1 urban radio personality Tom Joyner and Bob Kingsley, host of *American Country Countdown*.

Over 5,000 kids entered DIGGIT's "Search for a Star" competition to find a new reporter for one of the U.K.'s top-rated weekend kids shows.



CABLE NETWORKS

In addition to the wholly owned Disney Channel, Toon Disney and SoapNet, ABC owns 80 percent of ESPN, 50 percent of Lifetime Television and holds significant minority positions in E! Entertainment Television, A&E Television Network and The History Channel.

ESPN

ESPN celebrated its 20th anniversary in 1999, and what began as the first-ever 24-hour sports network has become one of the most recognizable brands in the world. Today, ESPN provides the broadest and most effective multimedia platform in sports, syndication, radio, Internet, print, retail and location-based dining and entertainment ventures.

ESPN reaches 77 million homes; ESPN 2, 67 million; ESPNEWS, 14 million; and ESPN Classic — which has doubled its distribution since its purchase by ESPN in 1997 — reaches 20 million homes. Two digital networks debuted: ESPN Extra for pay-per-view events and ESPN Now, an information channel with TV sports listings, news and promotional spots.

ESPN's NFL telecasts, *Sunday Night Football*, drew increased viewership and remain the most-watched series on cable. Other marquee programming includes the NHL's Stanley Cup playoffs, Major League Baseball playoffs and women's World Cup Soccer. The coverage of the women's World Cup soccer tournament drew strong ratings on ESPN and ESPN2, which promoted the final game to be shown on ABC. The broadcast of the dramatic championship match went on to become the most-watched soccer event ever on American television. And, right after the game, the victorious team members announced, "We're going to Disneyland!"

ESPN and ABC Sports broke new ground in the marketplace by recently merging their sales staffs to offer advertisers and marketers depth and flexibility in creating innovative packages across their many sports properties and media.

ESPN The Magazine has nearly tripled its circulation since its launch in 1998. This award-winning magazine has a circulation of 850,000 and is expected to reach the one million mark this January. ESPN Radio is now the largest sports radio network on the air. ESPN Radio carries the World Series and is also the national radio home of the NBA. Last year, it added *The Dan Patrick Show* to its line-up.

ESPN International is one of the world's largest distributors of sports programming, with ESPN-branded sportscasting reaching more than 150 countries in 21 languages.

DISNEY CHANNEL

Disney Channel, which features programming for kids and families, added 17 million homes to its audience last year and now reaches a total of 59 million homes in the U.S. One of the fastest growing cable networks, Disney Channel consistently ranks among the top five basic cable outlets in primetime ratings.

Disney Channel's original programming saw substantial rating gains last year with both *Out of the Box* and *Rolie Polie Olie* up more than 50 percent and *Disney's PB&J Otter* and *Bear in the Big Blue House* also posting double-digit gains. Disney Channel's original series for older kids, *The Famous Jett Jackson*, *Z Games* and *So Weird*, also dramatically increased its delivery among kids 9 to 14.

TOON DISNEY

Toon Disney features cartoons from the Disney library along with a variety of acquired animated programming. This 24-hour all-animation network reaches 14 million homes and is one of the most demanded new cable channels.

A&E NETWORK

A&E, which offers biographies, mysteries, documentaries and original movies, now serves 81 million subscribers in the U.S.

Last year, A&E received 20 Emmy nominations, the most of any basic cable network, winning a total of five, including Best Miniseries for *Horatio Hornblower*.

LIFETIME TELEVISION

Lifetime reaffirmed its status last season as "television for women" by ranking number one among basic cable networks in all key female demographics throughout the day. In 1999, Lifetime earned the highest ratings in its 15-year history and achieved record levels of distribution, reaching 75 million homes.

The critically acclaimed series, *Any Day Now* and *Oh Baby*, launched second seasons and are joined by the new primetime hit *Beyond Chance*, the *Intimate Portrait* profile series and Lifetime Original Movies.

Last year, Lifetime began same week rebroadcasts of ABC's new drama series, *Once And Again*, on Friday evenings, achieving 50 percent ratings gains over the previous season in its timeslot.



A line of ESPN-branded apparel is available at ESPN Zones, Disney Stores and ESPN.com online.



Emmitt Smith of the Dallas Cowboys heads for the goal line on ESPN's *Sunday Night Football*.

ESPN and ESPN2 televised 30 games of last year's Women's World Cup soccer tournament. The title match on ABC was the most-watched soccer event ever on U.S. TV.



SN
SoapNet



HISTORY CHANNEL
INTERNATIONAL

E! ENTERTAINMENT TELEVISION

E! now reaches 59 million U.S. cable subscribers and direct broadcast satellite subscribers. E!-branded programming reaches 400 million homes in over 120 countries worldwide. The success of *True Hollywood Stories*, *Mysteries & Scandals* and *Fashion Emergency* have contributed to ratings growth. E!'s first spin-off network, "style.", devoted to the worlds of design, fashion and decorating, currently reaches seven million homes.

THE HISTORY CHANNEL

The History Channel, "where the past comes alive," now reaches more than 61 million homes. Last year, The History Channel received the prestigious Governor's Award from the Academy of Television Arts & Sciences for the network's "Save Our History" campaign dedicated to historic preservation.

SOAPNET

SoapNet, the 24-hour soap opera channel, will launch on January 24, 2000. SoapNet will offer a wide variety of soap opera programming, featuring same-day telecasts of the top-rated ABC Daytime series *All My Children*, *General Hospital*, *One Life to Live* and *Port Charles*. The network will also include the popular *Ryan's Hope*, as well as serial dramas such as *Knots Landing*, *Falcon Crest*, *Hotel* and *The Colbys*, in addition to an original soap news show, *Soap Center*.

SoapNet will allow the company to repurpose and optimize ABC's owned daytime franchises in a way that other networks are unable to match.

In Disney Channel's original series *The Jersey*, a tired old football jersey is passed down to Nick (Michael Galeota) from his deceased grandfather, but this is much more than your ordinary jersey...it's a magical portal into the world of sports and the lives of such athletes as WNBA star Lisa Leslie.

Toon Disney, the 24-hour all-animated cable network, now reaches 14 million homes.

style. channel, the first spin-off from E! Entertainment Television, covers the worlds of fashion and design.

Disney's *PB&J Otter*, a Disney Channel original series for preschoolers, saw strong ratings gains last year.

SoapNet, the 24-hour soap opera channel, launches January 24, 2000.

Annie Potts and Lorraine Toussaint star in the critically acclaimed Lifetime Television original series, *Any Day Now*.

PUBLISHING

HYPERION

Hyperion, Disney's trade publishing division, includes ESPN Books, Talk/Miramax Books, ABC Daytime Press and Hyperion East imprints. Best-selling titles in 1999 included *Mother of Pearl* by Melinda Haynes, *Life Strategies* by Phillip McGraw, *The Hungry Ocean* by Linda Greenlaw and Bill Cosby's *Congratulations! Now What?*

Hyperion plans a number of major releases in the year ahead, including *Natural Blonde*, a memoir from America's premiere gossip columnist, Liz Smith; *Good Morning America's Cut The Calories Cookbook*; and *Betrayal of Trust: The Collapse of Global Public Health* by Pulitzer Prize-winner Laurie Garrett.

Hyperion Books hit the best-seller lists last year with a diverse range of fiction and non-fiction.

This year, Hyperion will bring out *Natural Blonde*, a memoir from America's premiere gossip columnist, Liz Smith.



CONSUMER PRODUCTS



"To Infinity and beyond!" Buzz Lightyear returns to toy stores as well as the big screen.

Disney Consumer Products offers a vast array of merchandise, including books, toys, apparel, computer software, magazines, artwork and collectibles, to Disney fans around the globe.

M E R C H A N D I S E L I C E N S I N G

Despite a crowded retail market last summer, toys and apparel based on the hit animated film *Tarzan* proved popular with consumers. Nevertheless, declines in worldwide merchandise licensing resulted in lower revenues for the company.

Among the many strategies underway to reverse these declines are a 50 percent reduction in the number of Disney licensees, which will allow for more effective management of key licensee relationships; greater focus on relationships with the most important retailers in the market; and the placing of greater emphasis on consumer research and marketing in order to bring the right product to the right market at the right time.

Last Thanksgiving's release of *Toy Story 2* was eagerly anticipated by fall retailers, who expected the film to generate one of the best-selling product lines of the holiday season. This summer's *Dinosaur* has inspired products that blend prehistoric adventure with modern colors, designs and technology. Tigger will bounce onto retail shelves this spring along with the theatrical release of *The Tigger Movie*, while *102 Dalmatians* will have consumers seeing spots this holiday season.

Pooh will make more appearances this year on the international front, especially in Asia, where the region's first-ever Pooh Friendship Day celebration will tie in to the release of *The Tigger Movie*.

This millennium year, Disney Merchandise Licensing will give special focus to Mickey and Minnie, unveiling an unprecedented television advertising campaign designed to generate excitement in the retail marketplace for everyone's favorite mice.

Toys inspired by the animated film *Dinosaur* will hit store shelves this spring.



Showcasing a broad array of Disney products, Toys 'R' Us rolled out a program that places Disney in special, front-of-the-store locations. This high-impact retail initiative was introduced last summer and soon expanded to three Toys 'R' Us locations in the U.S., with more planned this year.

T H E D I S N E Y S T O R E

The Disney Store hit a milestone of 700 total stores last March. Among the major openings in 1999 were a flagship store on Chicago's famed Michigan Avenue and another in Rome, Italy.

Since the introduction of new products and fashions, The Disney Store enjoyed an 11 percent same-store increase in infant and children's apparel, and 21 percent growth in plush toys. The 1999 Halloween season saw 60 percent same-store sales increases, thanks to the popularity of Disney character costumes ranging from Tigger to Tinker Bell.

However, overall sales were down in 1999. To help return The Disney Store to strong growth, a new merchandise strategy with an emphasis on young boys and girls, pre-teens and adults has been implemented. It is being backed with direct consumer advertising and an all-new store design that will see existing Disney Store locations thoroughly renovated beginning late this year. The new store design will include computer kiosks that will make it possible for consumers to purchase items not available in a particular store through The Disney Store Online.



The award-winning Walk 'n Wag Baby Pluto was one of the top-selling preschool toys last year.



Barton K. Boyd
Chairman, Disney Consumer Products Worldwide

WALT DISNEY ART CLASSICS

The World of Disney collectibles will expand dramatically this year with the creation of new high-end artwork by Walt Disney Art Classics in celebration of *Fantasia / 2000*. Meanwhile, the Disney Showcase Collection will salute the film with seven new collectible releases by such prestigious companies as Steiff, Artoria Limoges, Cardew, Lenox Collectibles and Giuseppe Armani.

DISNEY INTERACTIVE

Disney Interactive had hits with its Disney's *Action Game* series. *Tarzan* and *A Bug's Life*, created for PCs, the Sony PlayStation and Nintendo Game Boy Color platforms, together sold more than 2.8 million units with some regions of the world still awaiting the *Tarzan* debut. Individually, *Disney's Action Game: Tarzan* ranked in the Top 10 of all PC games sold during its first month of its release and *Disney's Action Game: A Bug's Life* won the Best Children's Entertainment Game for PCs at the second annual Interactive Achievement Awards.

Internationally, *Disney's Action Game: Hercules* and *Mickey's Wild Adventures* were among the five best-selling European Sony PlayStation titles of all time. Three CD-ROM titles featuring Winnie the Pooh became best-sellers in the education-software market. Disney Interactive also brought out a CD-ROM version of the ABC hit game show *Who Wants to Be a Millionaire* last November.



ABC's hit game show *Who Wants to Be a Millionaire* is now a CD-ROM game (millions not included).



Interactive art software features popular Disney characters like Mickey Mouse and Tarzan.



Disney Interactive offers a line of Disney-related computer games in all software formats.

Disney Interactive forges alliances this year with Sega (for the Sega Dreamcast), games publisher and developer Konami (for ESPN-based games across all major sports franchises), and Eidos, which will develop a variety of new titles, including *102 Dalmatians*, across multiple gaming platforms.

Also this year, Disney Interactive will release the first-ever Mickey Mouse game to feature 3-D graphics for Nintendo 64.

WALT DISNEY CHILDREN'S BOOKS

Worldwide, Disney is the number one publisher of children's books and magazines. Last year, *My Very First Winnie the Pooh* collection was released in Latin America, along with 70 new titles in Europe. *Tarzan* sold particularly well, setting sales records at book retailers in the U.K.

The popular Disney's *Magic English* series from Disney Publishing Worldwide will be introduced in Taiwan and Hong Kong. It joins *My First Magic English with Winnie the Pooh*, the world's top-selling English-language learning program.

Disney Children's Books also continued to garner accolades and awards for its authors and illustrators, including the 1999 Caldecott Honor and the 1999 Coretta Scott King/John Steptoe Award for new talent.

Disney Consumer Products also publishes popular general interest and family-oriented magazine titles such as *Discover*, *FamilyFun* and *ESPN The Magazine*.



Disney is the number one publisher of children's books and magazines worldwide.



Disney Consumer Products publishes popular general interest magazines such as *Family Fun*, *Disney Adventures*, *Disney Magazine* and *Discover*.

Disney's *Magic English* series is the best-selling English language learning program in the world.



INTERNET AND DIRECT MARKETING

The Walt Disney Company's wide-ranging Internet businesses were consolidated last year under two major strategic initiatives: the start-up of the GO Network and the acquisition of Infoseek.

The Walt Disney Company agreed to purchase the remainder of Infoseek last July, and in November, the wholly-owned Infoseek was combined with Disney's Internet and Direct Marketing businesses to establish a new business group called GO.com. A new class of common stock was issued to reflect the performance of this new Internet business.

Also last year, Steve Bornstein was named chairman of GO.com. Bornstein, with an extensive background in the television arena as one of the founders of ESPN and the recent president of ABC, brings the vision and expertise needed to guide GO.com as the Internet evolves into a true entertainment medium.

GO NETWORK

Last January, Disney and Infoseek launched the GO Network. GO has all the services that Web users have come to expect in a portal site, including e-mail, a search engine, chat rooms, auctions, stock updates, maps and weather — information from around the block or around the world.

The GO Network also brings together all of the company's web sites into one user-friendly interactive hub. At GO.com, some of the most popular sites on the Internet, such as ESPN.com, Disney.com, ABC.com and ABCNEWS.com, are united with the Infoseek search engine and other outstanding features. This depth and breadth set GO.com apart from other services now available online.

In the coming years, the advent of broadband transmission of full-motion video should transform the Internet into a powerful new medium that blends the best of the computer world and the world of television. GO has already undertaken a variety of convergence efforts that meld today's television and computer offerings into new forms of entertainment.

DISNEY.COM

As the company's flagship Web site, Disney.com is the top-ranked family entertainment destination on the World Wide Web.

Disney.com's "The Zeether" is a special area created just for kids, which offers games, interactive storybooks, activities, celebrity chats and multimedia D-mail.

ZoogDisney.com allows kids to interact with the Zoog Disney telecasts on the Disney Channel, offering polls, games and activities that bring together the on-air and online worlds.

Individual Disney business units can also be accessed through this site. Disney.com posts the latest news and information on the company, including the annual fact book and this report.

ESPN.COM

GO.com also has the top-ranked sports network on the Web, with the popular ESPN.com and the official sites of such major sports leagues as NFL.com, NBA.com, WNBA.com and NASCAR.com.

ESPN.com provides up-to-the-minute news, scores and statistics for all major sports events. In addition, ESPN.com began hosting one of the most ambitious convergence projects to date last fall by working with the NFL, ABC and ESPN to provide "Enhanced TV" coverage of 39 NFL games, including all Sunday night and Monday night contests. "Enhanced TV" brings interactive content through the Internet that is synchronized with game telecasts, giving fans a richer sports viewing experience than ever before.

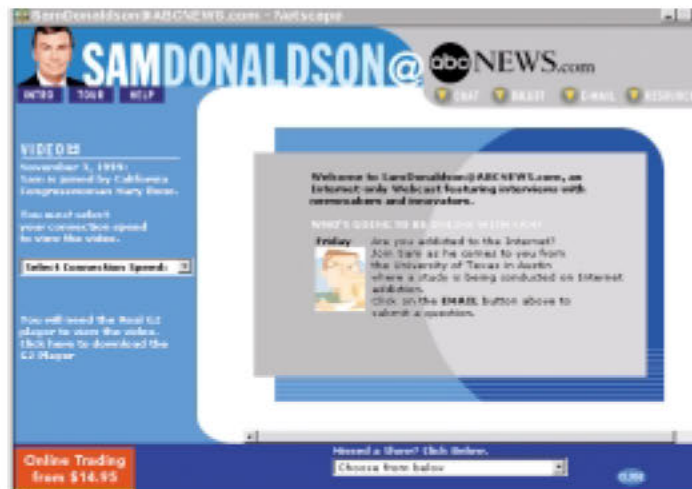
ABCNEWS.COM

ABCNEWS.com combines the editorial acumen of ABC News with cutting-edge streaming technologies to provide comprehensive 24-hour coverage of national, international and local news, as well as in-depth sports, entertainment, business, science and health coverage.

Last fall, ABCNEWS.com successfully introduced the first regularly scheduled live, Internet-only news program. Hosted by Sam Donaldson, SamDonaldson@ABCNEWS.com airs three times a week. Thus far, guests have included former President George Bush, Governor Jesse Ventura and actor and community activist Edward James Olmos.

ABCNEWS.com also has micro-sites such as Mr. Showbiz, an irreverent source of entertainment news, and Wall of Sound, which covers the music world.

Sam Donaldson hosts the first live, regularly-scheduled Internet news program, SamDonaldson@ABCNEWS.com.



FAMILY.COM

Family.com combines top-quality editorial content with a network of more than 100 regional parenting publications, providing families with a wealth of information on subjects ranging from baby care to education to family travel to health care. Thanks to such elements as chat rooms where parents can exchange tips and ideas, bulletin boards, cookbooks and interactive greeting cards, Family.com has established a significant online community of users.

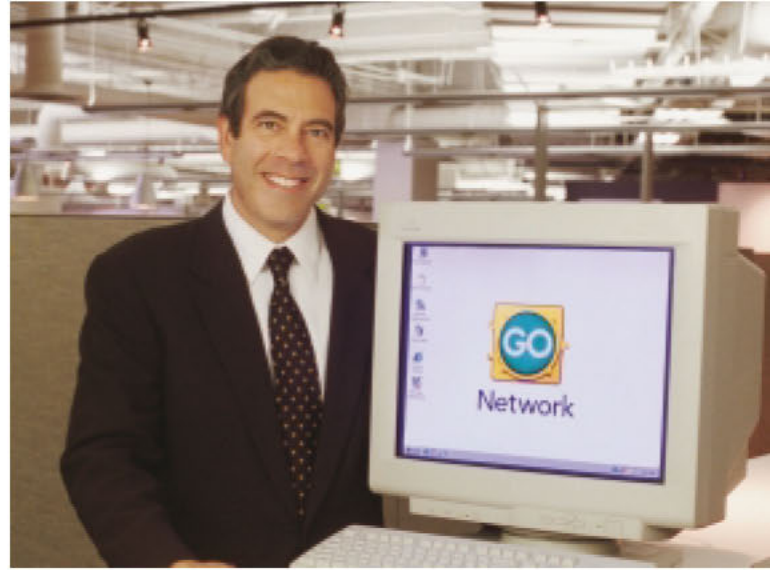
ABC.COM

ABC.com is one of the leading entertainment destinations on the Web and the top TV network site, providing information about ABC programming from primetime to soaps to Disney's *One Saturday Morning*. Features include animated home pages for the network's shows, Web-only story extensions, interviews and story guides for fans who miss their favorite show.

The Zeether is the Internet component of ZoogDisney, a Disney Channel show which crosses over into cyberspace.



ESPN.com is the number one sports site on the Web. In conjunction with *Monday Night Football*, its "Enhanced TV" feature allows fans to interact with the game in progress.



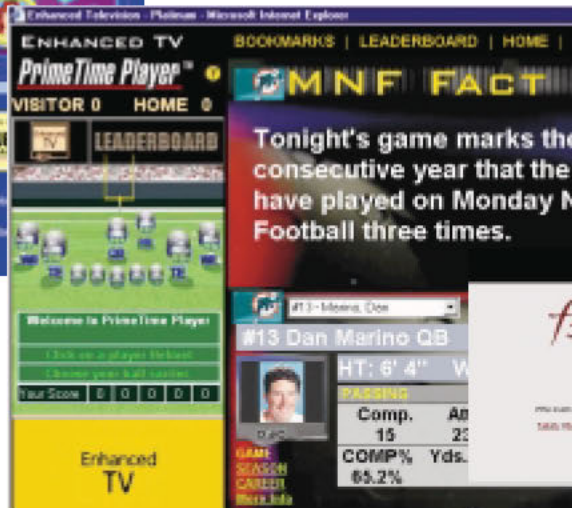
Steven M. Bornstein
Chairman of GO.com

ABC.com is the home of Oscar.com, the official Web site of the Academy Awards. During last year's Academy Awards telecast, Oscar.com offered the first TV-synchronized Web event, which included a multi-player game called "And the Envelope, Please." In this game, viewers from around the world competed against each other to predict the evening's winners. This is another example of how broadcasting and the Internet can converge to offer a new entertainment experience.

DIRECT MARKETING

GO.com includes Direct Marketing activities, which manage merchandise sales through The Disney Catalog. The Direct Marketing business is a strategic asset that provides an infrastructure for our e-commerce services on the Internet. In time, it is anticipated that all Direct Marketing operations will take place on the Internet.

The full purchase of Infoseek will better allow the company to pursue its long-term strategies in the online arena. By combining the strength of Disney's globally recognized brands, marketing savvy, leading content Web sites and the infrastructure of a catalog sales division with Infoseek's technological expertise, the goal is to build a more powerful, market-leading Internet business. The establishment of GO.com should help position Disney to seize opportunities in this medium as the Internet evolves.



Home pages for popular TV shows such as *Felicity* can be accessed at tvplex.go.com on the GO network.



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

RESULTS OF OPERATIONS

In the fourth quarter of 1999, the company changed the manner in which it reports its operating segments. In addition, intangible asset amortization has been excluded from segment results and reported as a separate component of operating income (see Notes 1 and 11 to the Consolidated Financial Statements).

Accordingly, the company now reports five operating segments:

Media Networks, which is broken into two categories, Broadcasting and Cable Networks. Broadcasting includes the ABC Television Network, the company's television stations and radio stations, and the ABC, ESPN and Radio Disney Radio Networks. Cable Networks consists of the ESPN-branded cable networks, the Disney Channel and start-up cable operations, including Toon Disney and the soon-to-be launched SoapNet;

Studio Entertainment, which includes the company's feature animation and live-action motion picture, home video, television, live stage play, and music production and distribution businesses;

Theme Parks and Resorts, reflecting the company's theme park and resort activities except Disneyland Paris, which is accounted for under the equity method and included in Corporate and other activities, its sports team franchises and its DisneyQuest and ESPN Zone regional entertainment businesses;

Consumer Products, reflecting primarily merchandise licensing, publishing, The Disney Store and Disney Interactive software; and

Internet and Direct Marketing, representing the company's online activities, except for its investment in Infoseek Corporation, and the Disney Catalog.

Prior years have been restated to conform to the 1999 presentation.

CONSOLIDATED RESULTS

(in millions, except per share data)	As Reported			Pro forma ⁽¹⁾ (unaudited)
	1999	1998	1997	1997
Revenues:				
Media Networks	\$ 7,512	\$ 7,142	\$ 6,522	\$ 6,501
Studio Entertainment	6,548	6,849	6,981	6,981
Theme Parks and Resorts	6,106	5,532	5,014	5,014
Consumer Products	3,030	3,193	3,782	2,943
Internet and Direct Marketing	206	260	174	174
Total	\$23,402	\$22,976	\$22,473	\$21,613
Operating income: ⁽¹⁾				
Media Networks	\$ 1,611	\$ 1,746	\$ 1,699	\$ 1,695
Studio Entertainment	116	769	1,079	1,079
Theme Parks and Resorts	1,446	1,288	1,136	1,136
Consumer Products	607	801	893	673
Internet and Direct Marketing	(93)	(94)	(56)	(56)
Amortization of intangible assets	(456)	(431)	(439)	(413)
	3,231	4,079	4,312	4,114
Restructuring charges	(132)	(64)	—	—
Gain on sale of Starwave	345	—	—	—
Gain on sale of KCAL	—	—	135	—
Total	3,444	4,015	4,447	4,114
Corporate and other activities	(196)	(236)	(367)	(367)
Equity in Infoseek loss	(322)	—	—	—
Net interest expense	(612)	(622)	(693)	(693)
Income before income taxes	2,314	3,157	3,387	3,054
Income taxes	(1,014)	(1,307)	(1,421)	(1,282)
Net income	\$ 1,300	\$ 1,850	\$ 1,966	\$ 1,772
Earnings per share (EPS): ⁽²⁾				
Diluted	\$ 0.62	\$ 0.89	\$ 0.95	\$ 0.86
Basic	\$ 0.63	\$ 0.91	\$ 0.97	\$ 0.88
Net income and earnings per share excluding restructuring charges and other items: ⁽²⁾⁽³⁾				
Net income	\$ 1,368	\$ 1,890	\$ 1,886	\$ 1,772
Earnings per share:				
Diluted	\$ 0.66	\$ 0.91	\$ 0.92	\$ 0.86
Basic	\$ 0.67	\$ 0.93	\$ 0.93	\$ 0.88
Average number of common and common equivalent shares outstanding: ⁽²⁾				
Diluted	2,083	2,079	2,060	2,060
Basic	2,056	2,037	2,021	2,021

(in millions, except per share data)	As Reported			Pro forma ⁽¹⁾ (unaudited)
	1999	1998	1997	1997
^(a) Segment results exclude intangible asset amortization and include depreciation as follows:				
Media Networks	\$ 131	\$ 122	\$ 104	\$ 111
Studio Entertainment	64	115	86	86
Theme Parks and Resorts	498	443	408	408
Consumer Products	124	85	95	92
Internet and Direct Marketing	8	10	6	6
	<u>\$ 825</u>	<u>\$ 775</u>	<u>\$ 699</u>	<u>\$ 703</u>

^(a)Earnings per share and average shares outstanding have been adjusted to give effect to the three-for-one split of the company's common shares in June 1998

^(b)The 1999 results exclude a \$345 million gain from the sale of Starwave Corporation, equity in Infoseek loss of \$322 million and restructuring charges of \$132 million. The 1998 results exclude restructuring charges of \$64 million and the 1997 results exclude a \$135 million gain from the sale of KCAL (see Notes 2, 14 and 15 to the Consolidated Financial Statements)

⁽¹⁾During 1997, the company sold KCAL, a Los Angeles television station, completed ABC purchase price allocations and disposed of certain ABC publishing assets. The discussion of 1998 versus 1997 performance below includes comparisons to pro forma results for 1997, which assumes these events occurred as of the beginning of 1996, the year in which ABC was acquired. The company believes pro forma results represent a meaningful comparative standard for assessing net income, changes in net income and earnings trends because the pro forma results include comparable operations in each year presented. The pro forma results are not necessarily indicative of the combined results that would have occurred had these events actually occurred at the beginning of 1996. The discussions of Studio Entertainment, Theme Parks and Resorts and Internet and Direct Marketing segments do not include pro forma comparisons, since the pro forma adjustments did not impact these segments.

CONSOLIDATED RESULTS

1999 vs. 1998 Revenues increased 2% to \$23.4 billion, driven by growth at Theme Parks and Resorts and Media Networks, partially offset by decreases in the other segments. Excluding the impact of Infoseek, which includes the gain on the sale of Starwave, and fourth quarter restructuring charges, operating income decreased 21% to \$3.2 billion, net income decreased 28% to \$1.4 billion and diluted earnings per share decreased 27% to \$0.66. Results for the year were driven by decreased operating income, increased equity losses from Infoseek, which include amortization of intangible assets of \$229 million and a \$44 million charge for purchased in-process research and development expenditures, and an increase in restructuring charges recorded in the fourth quarter, as discussed below. These items were partially offset by the gain on the sale of Starwave, as discussed below, and lower net expense associated with Corporate and other activities. Including the restructuring charges and Infoseek, operating income decreased 14% to \$3.4 billion and net income and diluted earnings per share decreased 30% to \$1.3 billion and \$0.62, respectively.

Decreased operating income reflected lower results in Studio Entertainment, Consumer Products and Media Networks and increased amortization of intangible assets primarily as a result of the company's second quarter purchase of 75% interest in the Anaheim Angels that it did not previously own. These items were partially offset by improvements from Theme Parks and Resorts. Lower net expense associated with Corporate and other activities reflected improved results from the company's cable equity investments and Euro Disney, partially offset by increased corporate general and administrative expenses due, in part, to start-up costs associated with a company-wide strategic sourcing initiative designed to consolidate its purchasing power. Net interest expense decreased due to gains from the sale of investments and lower interest rates in the current year, partially offset by higher debt balances.

In April 1997, the company purchased a significant equity stake in Starwave Corporation (Starwave), an Internet technology company. In connection with the acquisition, the company was granted an option to purchase substantially all the remaining shares of Starwave. The company exercised the option during the third quarter of 1998. Accordingly, the accounts of Starwave have been included in the company's September 30, 1998 Consolidated Financial Statements. On June 18, 1998, the company reached an agreement for the acquisition of Starwave by Infoseek Corporation (Infoseek), a publicly-held

Internet search company, pursuant to a merger. On November 18, 1998, the company completed its acquisition of an initial 43% equity interest in Infoseek (see Notes 2 and 15 to the Consolidated Financial Statements). In that transaction, Infoseek exchanged shares of its common stock for the company's interest in Starwave and \$70 million in cash. As a result of the exchange of its Starwave investment, the company recognized a non-cash gain of \$345 million. In connection with its Infoseek investment, the company recorded \$229 million of amortization related to goodwill and other identifiable intangible assets and a charge of \$44 million for purchased in-process research and development expenditures, which have been reflected in "Equity in Infoseek loss" in the company's Consolidated Statements of Income.

Acquired intangible assets are being amortized over a period of two years. The impact of such amortization is expected to be \$256 million in 2000 and \$23 million in 2001. The company determined the economic useful life of acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, consisting of developed technology, trademarks and in-place workforce. In addition, the company considered the competitive environment and the rapid pace of technological change in the Internet industry.

At special meetings on November 17, 1999, the stockholders of the company and Infoseek approved the company's proposed acquisition of the remaining interest in Infoseek that it did not already own. Accordingly, Infoseek became a wholly-owned subsidiary of the company as of that date. The company combined its Internet and Direct Marketing business with Infoseek to establish a new reporting entity, GO.com, and the company created and issued a new class of common stock to reflect the performance of GO.com. The go.com common stock began trading on the NYSE under the symbol GO on November 18, 1999. Subsequent to the acquisition, the company will separately report earnings per share for GO.com and the Disney Group. The company's existing class of outstanding common stock will track Disney Group financial performance, which will reflect all of the company's businesses (other than GO.com), as well as the company's initial 72% retained interest in GO.com. The remaining 28% interest in GO.com is publicly traded. As a result of its initial 72% interest in GO.com, the company expects this transaction to have a significant negative impact on fiscal 2000 Disney Group earnings per share, including a substantial increase in amortization of intangible assets (see Notes 2 and 15 to the Consolidated Financial Statements).

The company expects certain trends that affected its 1999 results

to continue in fiscal 2000, especially in the first half of the year, primarily in the company's home video and merchandise licensing businesses. In addition, continued strategic investments in the company's network television production and cable network businesses, including Toon Disney and the SoapNet, are expected to result in higher costs in fiscal 2000. As a result, the company believes that fiscal 2000 earnings per share should be approximately in line with fiscal 1999 results, excluding restructuring charges discussed below and go.com, as previously discussed. The company remains committed to investing in core markets, pursuing international opportunities, including theme park expansions, achieving operational improvements and leveraging technologies such as DVD and the Internet.

1999 RESTRUCTURING CHARGES

In the third quarter, the company began an across-the-board assessment of its cost structure. The company's efforts are directed toward leveraging marketing and sales efforts, streamlining operations and further developing distribution channels, including its Internet sites and cable and television networks (see Note 14 to the Consolidated Financial Statements).

In connection with actions taken to streamline operations, restructuring charges of \$132 million (\$0.04 per share) were recorded in the fourth quarter. The restructuring activities primarily related to the following:

Consolidation of Television Production and Distribution Operations

The company decided to consolidate certain of its television production and distribution operations to improve efficiencies through reduced labor and overhead costs. Related charges include lease and contract termination costs and severance, substantially all of which was paid as of September 30, 1999.

Club Disney Closure – The company determined that its Club Disney regional entertainment centers would not provide an appropriate return on invested capital, and, accordingly decided to close its five Club Disney locations and terminate further investment. Related charges primarily include lease termination costs and write-offs of fixed assets.

ESPN Store Closures and Consolidation of Retail Operations

The company determined that the sale of ESPN-branded product could be accomplished more efficiently via the Internet and through its ESPN Zone regional entertainment centers, rather than through stand-alone retail stores, and accordingly decided to close its three ESPN stores. In addition, the company will eliminate certain job responsibilities as part of the consolidation of its retail operations. Related charges for both actions include severance and asset write-offs.

A summary of the restructuring charges is as follows (in millions):

Description	
Lease and other contract cancellation costs	\$ 55
Severance	24
Non-cash charges:	
Asset write-offs and write-downs	53
Total	<u>\$132</u>

The company's cost-saving initiatives will continue into next year and may result in additional charges of a similar nature. In addition, the company is undertaking a strategic sourcing initiative which is designed to consolidate its purchasing power. Together these cost-saving measures are expected to result in total annual savings in excess of \$500 million beginning in fiscal 2001.

1998 vs. 1997 Compared to 1997 pro forma results, revenues increased 6% to \$23 billion, driven by growth in all business segments. Net income and diluted earnings per share increased 4% and 3% to \$1.9 billion and \$0.89, respectively. These results were driven by a reduction in net expense associated with Corporate and other activities and lower net interest expense, partially offset by decreased operating income. The reduction in net expense associated with Corporate and other activities was driven by improved results from the company's equity investments, including A&E Television and Lifetime Television, and a gain on the sale of the company's interest in Scandinavian Broadcasting System. Decreased net interest expense reflected lower average debt balances during 1998. Lower operating income was driven by a decline in Studio Entertainment and Internet and Direct Marketing results, partially offset by improvements from Theme Parks and Resorts, Consumer Products and Media Networks.

As reported revenues increased 2% and net income and diluted earnings per share decreased by 6%. The as reported results reflect the items described above, as well as the impact of the disposition of certain ABC publishing assets and the sale of KCAL in 1997.

BUSINESS SEGMENT RESULTS

MEDIA NETWORKS

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

	As Reported			Pro Forma (unaudited)
	1999	1998	1997	1997
Revenues:				
Broadcasting	\$4,694	\$4,734	\$4,526	\$4,505
Cable Networks	2,818	2,408	1,996	1,996
	<u>\$7,512</u>	<u>\$7,142</u>	<u>\$6,522</u>	<u>\$6,501</u>
Operating Income:				
Broadcasting	\$ 659	\$ 977	\$1,016	\$1,012
Cable Networks	952	769	683	683
	<u>\$1,611</u>	<u>\$1,746</u>	<u>\$1,699</u>	<u>\$1,695</u>

1999 vs. 1998 Revenues increased 5% or \$370 million to \$7.5 billion, driven by increases of \$410 million at the Cable Networks, partially offset by a \$40 million decrease in Broadcasting revenues. Cable Network revenue growth reflected increased advertising revenues, subscriber growth and contractual rate increases at ESPN and subscriber growth at the Disney Channel. International expansion at the Disney Channel also contributed to increased revenues. Lower Broadcasting revenues were driven by decreases at the television network and stations, partially offset by growth from radio operations. Television network revenues were impacted by lower ratings, and lower revenues at owned television stations reflected ongoing softness in local advertising markets. Revenue growth at the radio network and stations was driven by strong advertising markets and higher ratings.

Operating income decreased 8% or \$135 million to \$1.6 billion, reflecting higher Broadcasting and Cable Network costs and expenses and lower Broadcasting revenues. These decreases were partially offset by Cable Network revenue growth. Costs and expenses, which consist primarily of programming rights and amortization, production costs, distribution and selling expenses and labor costs, increased 9% or \$505 million, driven by higher sports programming costs associated with the NFL contract and other programming costs at the television network and ESPN.

There has been a continuing decline in viewership at all major broadcast networks, including ABC, reflecting the growth in the cable industry's share of viewers. In addition, there have been continuing increases in the cost of sports and other programming.

During the second quarter of 1998, the company entered into a new agreement with the National Football League (NFL) for the right to broadcast NFL football games on the ABC Television Network and ESPN. The contract provides for total payments of approximately \$9 billion over an eight-year period, commencing with the 1998 season. Under the terms of the contract, the NFL has the right to cancel the contract after 5 years. The programming rights fees under the new contract are significantly higher than those required by the previous contract and the fee increases exceed the estimated revenue increases over the contract term. The higher fees under the new contract reflect various factors, including increased competition for sports programming rights and an increase in the number of games to be broadcast by ESPN. The company is pursuing a variety of strategies, including marketing efforts, to reduce the impact of the higher costs. The contract's impact on the company's results over the remaining contract term is dependent upon a number of factors, including the strength of advertising markets, effectiveness of marketing efforts and the size of viewer audiences.

The cost of the NFL contract is charged to expense based on the ratio of each period's gross revenues to estimated total gross revenues over the non-cancelable contract period. Estimates of total gross revenues can change significantly and, accordingly, they are reviewed periodically and amortization is adjusted if necessary. Such adjustments could have a material effect on results of operations in future periods.

The company has investments in cable operations that are accounted for as unconsolidated equity investments. The table below presents "Operating Income from Cable Television Activities," which comprise the Cable Networks and the company's cable equity investments (unaudited, in millions):

	1999	1998	% Change
Operating Income:			
Cable Networks	\$ 952	\$ 769	24%
Equity Investments:			
A&E Television and Lifetime			
Television	480	393	22%
Other	37	(68)	n/m
Operating Income from Cable			
Television Activities	1,469	1,094	34%
Partner Share of Operating Income	(462)	(333)	—
Disney Share of Operating Income	\$1,007	\$ 761	32%

Note: Operating Income from Cable Television Activities presented in this table represents 100% of both the company's owned cable businesses and its cable equity investees. The Disney Share of Operating Income represents the company's ownership interest in cable television operating income. Cable Networks are reported in "Operating income" in the Consolidated Statements of Income. Equity Investments are accounted for under the equity method and the company's proportionate share of the net income of its cable equity investments is reported in "Corporate and other activities" in the Consolidated Statements of Income.

The company believes that Operating Income from Cable Television Activities provides additional information useful in analyzing the underlying business results. However, Operating Income from Cable Television Activities is a non-GAAP financial metric and

should be considered in addition to, not as a substitute for, reported operating income.

The company's share of Cable Television Operating Income increased 32% or \$246 million to \$1.0 billion, driven by increases at the Cable Networks, subscriber growth at A&E Television and Lifetime Television and lower losses on start-up investments.

1998 vs. 1997 Revenues increased 10%, or \$641 million to \$7.1 billion compared with pro forma 1997 results, reflecting a \$412 million increase at the Cable Networks and \$229 million increase in Broadcasting revenues. Cable Network revenues were driven by a strong advertising market, which resulted in increased revenues at ESPN, and subscriber growth, which contributed to revenue increases at ESPN and the Disney Channel. Broadcasting revenue growth was driven by higher sports advertising revenues, primarily attributable to the 1998 soccer World Cup at the television network, and a strong advertising market which benefited the television stations.

On an as reported basis, revenues increased \$620 million or 10%, reflecting the items described above, partially offset by the impact of the sale of KCAL in 1997.

Operating income increased 3%, or \$51 million to \$1.7 billion compared with pro forma 1997 results, reflecting growth at the Cable Networks, partially offset by lower Broadcasting results. Broadcasting results reflected decreases at the television network driven by lower ratings. Additionally, increased costs and expenses across the segment and start-up and operating losses from new cable business initiatives also impacted results. Costs and expenses increased 12% or \$590 million, reflecting increased programming and production costs at the Cable Networks, driven by ESPN, higher Broadcasting program amortization at the television network, reflecting a reduction in benefits from the ABC acquisition, increased costs related to the NFL contract (see discussion above) and start-up and operating costs related to new cable business initiatives.

On an as reported basis, operating income increased \$47 million or 3%, reflecting the items described above, partially offset by the impact of the sale of KCAL in 1997.

STUDIO ENTERTAINMENT

1999 vs. 1998 Revenues decreased 4%, or \$301 million to \$6.5 billion, driven by declines of \$481 million in domestic home video, partially offset by growth of \$152 million in worldwide theatrical motion picture distribution. Domestic home video revenues reflected fewer unit sales in the current year due to the greater number of classic animated library titles released in the prior year. Growth in worldwide theatrical motion picture distribution revenues was primarily attributable to a stronger film slate in the current year, including the box office successes: *The Sixth Sense*, *Inspector Gadget*, *The Waterboy*, *Tarzan* and *A Bug's Life* domestically and *A Bug's Life* and *Armageddon* internationally.

Operating income decreased 85%, or \$653 million to \$116 million, reflecting declines in worldwide home video and network television production and distribution, partially offset by increases in worldwide theatrical motion picture distribution. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs, labor and leasehold expenses, increased 6% or \$352 million. In worldwide home video, participation and production cost amortization increased, reflecting an increase in the current year in the proportion of recent titles, versus classic animated library titles, whose production costs are fully amortized. In addition, participation costs increased due to the release of *A Bug's*

Life and *The Sixth Sense*. Production cost amortization also increased in network television production and distribution, reflecting, in part, increased network television pilot activity and production deficits for four new prime time series, all of which have been renewed for the 1999/2000 season. Improved results in theatrical motion picture distribution were partially offset by higher distribution costs and participation cost amortization.

Increases in production and participation costs are reflective of industry trends: as competition for creative talent has increased, costs within the industry have increased at a rate significantly higher than inflation.

1998 vs. 1997 Studio Entertainment revenues decreased 2%, or \$132 million to \$6.8 billion compared with 1997 results, driven by declines in worldwide home video and theatrical motion picture distribution of \$330 million, partially offset by growth of \$204 million in television distribution. Lower worldwide home video revenues reflected difficult comparisons to 1997, which benefited from the strength of *Toy Story*, *The Hunchback of Notre Dame* and *101 Dalmatians*, compared to the 1998 releases of *Lady & the Tramp*, *Hercules* and *The Little Mermaid*, as well as economic weaknesses in Asian markets. In worldwide theatrical motion picture distribution, while 1998 revenues reflected successful box-office performances of *Armageddon* and *Mulan*, revenues were lower overall due to difficult comparisons to 1997, which benefited from the strong performances of *101 Dalmatians*, *Ransom* and *The English Patient*. Growth in television distribution revenue was driven by high volume of television programming and theatrical releases distributed to the worldwide television market.

Operating income decreased 29%, or \$310 million to \$769 million compared with 1997 results, reflecting declines in worldwide theatrical motion picture distribution and international home video. These declines were partially offset by growth in television distribution and improved results in domestic home video, which was driven by the success of *The Little Mermaid*, *Lady & the Tramp* and *Peter Pan*. Costs and expenses increased 3% or \$178 million. The increase was driven by increased write-downs related to domestic theatrical live-action releases and an increase in production costs for theatrical and television product, as well as an increase in the number of shows produced for network television and syndication. Production cost increases are reflective of industry trends: as competition for creative talent has increased, costs within the industry have increased at a rate significantly above inflation. In addition, expenses increased \$10 million related to a restructuring charge in connection with the consolidation of the company's Touchstone Pictures and Hollywood Pictures theatrical motion picture production banners. Increased expenses for 1998 were partially offset by declines in distribution and selling expenses in the home video and domestic theatrical motion picture distribution markets, reflecting lower volume, and declines within television distribution due to the termination of a network production joint venture.

THEME PARKS AND RESORTS

1999 vs. 1998 Revenues increased 10%, or \$574 million to \$6.1 billion, driven by growth at the Walt Disney World Resort, reflecting \$153 million from increased guest spending and record attendance, as well as increases of \$202 million from Disney Cruise Line, \$101 million from Anaheim Sports, Inc. and \$36 million of increased guest spending at Disneyland. Increased revenues at Disney Cruise Line reflected a full period of operations of the company's first ship, the

Disney Magic, which launched in the fourth quarter of the prior year, and a partial period of operations of the company's second ship, the *Disney Wonder*, which launched in the fourth quarter of the current year. The increase at Anaheim Sports, Inc. reflects consolidation of the operations of the Anaheim Angels, following the company's second quarter purchase of the 75% of the Angels that it did not previously own.

Operating income increased 12%, or \$158 million to \$1.4 billion, resulting primarily from revenue growth at the Walt Disney World Resort and a full period of operations at Disney Cruise Line, compared to pre-opening costs for the majority of the prior year. Costs and expenses, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expenses, increased \$416 million or 10%. Increased operating costs were driven by higher theme park attendance, a full year of operations of Disney's Animal Kingdom and Disney Cruise Line, and increased ownership in the Anaheim Angels.

1998 vs. 1997 Revenues increased 10%, or \$518 million to \$5.5 billion, driven by growth at the Walt Disney World Resort, reflecting contributions of \$256 million from increased guest spending and record attendance, growth of \$106 million from higher occupied room nights and \$76 million from Disney Cruise Line. Higher guest spending reflected strong per capita spending, due in part to new food, beverage and merchandise offerings throughout the resort, and higher average room rates. Increased occupied room nights reflected additional capacity resulting from the opening of Disney's Coronado Springs Resort in August 1997. Record theme park attendance resulted from growth in domestic and international tourist visitation due to the opening of the new theme park, Disney's Animal Kingdom. Disneyland's revenues for 1998 increased slightly as higher guest spending was largely offset by reduced attendance driven primarily by difficult comparisons to 1997's Main Street Electrical Parade farewell season and construction of New Tomorrowland in the first half of 1998.

Operating income increased 13%, or \$152 million to \$1.3 billion, resulting primarily from higher guest spending, increased occupied room nights and record attendance at the Walt Disney World Resort, partially offset by start-up and operating costs associated with Disney's Animal Kingdom and Disney Cruise Line. Costs and expenses increased 9% or \$366 million. Increased costs and expenses were driven by higher theme park attendance and start-up and operating costs at the new theme park and Disney Cruise Line.

CONSUMER PRODUCTS

1999 vs. 1998 Revenues decreased 5%, or \$163 million to \$3.0 billion, driven by declines of \$159 million in worldwide merchandise licensing, \$98 million in domestic Disney Stores, partially offset by growth of \$49 million at the Disney Stores internationally, \$34 million in publishing operations and \$23 million at Disney Interactive. Lower merchandise licensing revenues were primarily attributable to declines in domestic activity and in Japan. Lower revenues at the Disney Stores reflected a decline in comparable store sales domestically. Publishing revenue increases primarily reflected improvements at *ESPN The Magazine* due to increased circulation and a full year of operations. Disney Interactive revenue increased due to increased licensing activity and strong results for video game products.

Operating income decreased 24%, or \$194 million to \$607 million, reflecting declines in worldwide merchandise licensing and the Disney Stores domestically, partially offset by increases at Disney Interactive. Declines in merchandise licensing primarily reflected continuing softness domestically and in Japan, partially offset by improvements in the rest of Asia and Latin America. Costs and expenses, which consist primarily of labor, product costs, including product development costs, distribution and selling expenses and leasehold expenses increased 1% or \$31 million. Higher costs and expenses were driven by increases at the Disney Stores due, in part, to write-downs of underutilized assets and inventory, principally domestically, partially offset by decreased operating expenses at Disney Interactive.

1998 vs. 1997 Consumer Product revenues increased 8%, or \$250 million to \$3.2 billion compared with pro forma 1997 results driven by growth of \$136 million in the Disney Stores, \$75 million in domestic publishing and \$51 million in domestic character merchandise licensing. Increased revenues at the Disney Stores reflected an increase in comparable store sales in North America and Europe and continued worldwide expansion, partially offset by a decrease in comparable store sales in Asian markets. The increase in domestic publishing revenues resulted from the success of book titles such as *Don't Sweat the Small Stuff* and the launch of *ESPN The Magazine*. Character merchandise licensing growth was driven primarily by the continued strength of *Winnie the Pooh* in the domestic market, partially offset by declines internationally, primarily due to softness in Asian markets.

On an as reported basis, revenue decreased 16% or \$589 million reflecting the items described above, as well as the impact of the disposition of certain ABC publishing assets in 1997.

Operating income increased 19%, or \$128 million to \$801 million compared with pro forma 1997 results driven by an increase in domestic merchandise licensing and Disney Store growth in North America and Europe, partially offset by declines in international merchandise licensing and increased costs. Costs and expenses increased 5% or \$122 million. Costs and expense increases were due, in part, to 1998 charges totaling \$50 million related to strategic downsizing, particularly in response to Asian economic difficulties. Increased costs and expenses for 1998 were partially offset by operating expense improvements at Disney Interactive.

On an as reported basis, operating income decreased 10% or \$92 million, reflecting the items described above, as well as the impact of the disposition of certain ABC publishing assets in 1997.

INTERNET AND DIRECT MARKETING

On November 18, 1998, the company exchanged its ownership interest in Starwave plus \$70 million in cash for a 43% equity interest in Infoseek. This transaction resulted in a change in the manner of accounting for Starwave and certain related businesses from the consolidation method, which was applied prior to the exchange, to the equity method, which was applied after the exchange.

The following table provides supplemental revenue and operating income detail for the Internet and Direct Marketing segment, on an as reported basis (unaudited, in millions):

	1999	1998	1997
Revenues:			
Direct Marketing	\$148	\$192	\$147
Internet	58	68	27
Total	\$206	\$260	\$174
Operating Income (Loss):			
Direct Marketing	\$ (23)	\$ (19)	\$ 10
Internet	(70)	(75)	(66)
Total	\$ (93)	\$ (94)	\$ (56)

The following discussion of 1999 versus 1998 performance includes comparisons on a pro forma basis as if Starwave and the related businesses had been accounted for using the equity method of accounting during 1998. The company believes pro forma results represent a meaningful comparative standard for assessing changes because the pro forma results reflect comparable accounting methodologies in each year presented. The discussion of Direct Marketing does not include pro forma comparisons, since the pro forma adjustments did not impact this business.

1999 vs. 1998 On a pro forma basis, Internet revenues increased \$20 million, driven primarily by increased media and commerce revenues due to growth in advertising, licensing and subscription businesses as a result of increased site traffic and related page views and additional advertising and sponsorship agreements. This increase was offset by a \$44 million decline in Direct Marketing revenues, which resulted in a 10% decrease in total segment revenues to \$206 million compared to pro forma 1998 revenues of \$230 million. Internet operating losses increased 43% or \$21 million, to \$70 million, on a pro forma basis, driven primarily by increased development and investment spending. In addition, as discussed below, increased operating losses of 21% or \$4 million at Direct Marketing resulted in an increase in total segment operating losses to \$93 million compared to pro forma operating losses of \$68 million.

On an as reported basis, segment revenues decreased 21% or \$54 million to \$206 million, driven by declines of \$44 million in Direct Marketing revenues and \$10 million in Internet revenue. Lower Direct Marketing revenues reflected slower order fill rates due to system and capacity constraints resulting from the relocation of the Direct Marketing distribution center from Tennessee to South Carolina and reduced average order size. In addition, management reduced catalog circulation during the 1998 holiday season to ensure better quality of customer service during the holiday period. Internet revenues decreased, since the increases described above were more than offset by the change in the manner of accounting for Starwave and related businesses from the consolidation method to the equity method.

On an as reported basis, operating losses decreased 1% or \$1 million to \$93 million, reflecting lower losses from Internet operations, partially offset by increased losses from Direct Marketing operations. Increased expenses in Internet operations from continued expansion of the business were more than offset by the effects of the change in the manner of accounting for Starwave and related businesses, as described above. Increased operating losses from Direct Marketing operations reflected costs relating to the start-up of the Direct Marketing distribution center and the implementation of new business processes, systems and software applications.

Segment costs and expenses, which consist primarily of cost of revenues, sales and marketing, other operating expenses and depreciation, decreased 16% or \$55 million, driven by the change in the manner of accounting for Starwave and related businesses and lower Direct Marketing selling expenses, driven by reduced catalog mailings and lower outbound shipping costs, partially offset by increased Internet expenses associated with continued development of entertainment and family websites and operations of Toysmart.com and Socccernet.com, two Internet companies acquired during the fourth quarter of 1999.

1998 vs. 1997 Segment revenues increased 49%, or \$86 million to \$260 million, driven by Direct Marketing growth of \$45 million and Internet growth of \$41 million. Growth in Direct Marketing reflects increased sales volume driven primarily by an increase in the number of catalogs. Increased Internet revenues were driven primarily by increased media and commerce revenue due to growth in advertising, licensing and subscription businesses. Commerce and subscription revenue increases also reflected a full year of operations and growth of Disney's Club Blast and DisneyStore.com.

Operating losses increased 68%, or \$38 million, to \$94 million, due to growth in Direct Marketing cost of revenues, driven by higher sales volume, increased inventory liquidation efforts during 1998 and increased spending on development and growth of the Internet operations, including increased promotional activities.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations increased 9% or \$473 million to \$5.6 billion, driven by a decline in receivables, lower income tax payments and higher depreciation and amortization of intangible assets, partially offset by decreased net income.

In 1999, the company invested \$3.0 billion to develop, produce and acquire rights to film and television properties, including \$310 million in connection with a prior year agreement to acquire a film library. Excluding the payment in connection with the film library acquisition, film and television expenditures decreased \$625 million, driven by lower live-action production spending.

During the year, the company invested \$2.1 billion in theme parks, resorts and other properties. These expenditures reflected continued expansion activities related to Disney's California Adventure, Disney's Animal Kingdom, Disney Cruise Line and certain resort facilities at the Walt Disney World Resort. While several of our recent significant Theme Park and Resort expansions such as Disney's Animal Kingdom and Disney Cruise Line are substantially complete, we expect fiscal 2000 spending will be comparable to 1999, reflecting significant increases driven by construction at Disney's California Adventure.

During 1998, the company's Board of Directors decided to move to an annual, rather than quarterly, dividend policy to reduce costs and simplify payments to the more than 2.7 million stockholders of company common stock. Accordingly, there was no dividend payment during the year ended September 30, 1999. On November 4, 1999, the Board of Directors declared an annual cash dividend of 21 cents per share applicable to 1999. The \$433 million dividend was payable December 17, 1999 to shareholders of Disney common stock at the close of business November 16, 1999.

During the year, the company received approximately \$2.3 billion from various financing arrangements. These borrowings have effective interest rates, including the impact of interest rate swaps, ranging from 4.8% to 5.6% and maturities in fiscal 2000 through fiscal 2039.

Certain of these financing agreements are denominated in foreign currencies, and the company has entered into cross-currency swap agreements effectively converting these obligations into U.S. dollar denominated LIBOR-based variable rate debt instruments. Commercial paper borrowings outstanding as of September 30, 1999 totaled \$1.7 billion, with maturities of up to one year, supported by bank facilities totaling \$4.8 billion, which expire in one to three years and allow for borrowings at various interest rates. The company also has the ability to borrow under a U.S. shelf registration statement and a euro medium-term note program, which collectively permit the issuance of up to approximately \$3.8 billion of additional debt.

The company believes that its financial condition is strong and that its cash, other liquid assets, operating cash flows, access to 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.

OTHER MATTERS

YEAR 2000

The Y2K Problem. During the year, the company continued to devote significant resources throughout its business operations to minimize the risk of potential disruption from the "year 2000" (Y2K) problem. This problem is a result of computer programs having been written using two digits (rather than four) to define the applicable year. Any information technology (IT) systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The problem also extends to many "non-IT" systems; that is, operating and control systems that rely on embedded chip systems. In addition, like every other business enterprise, the company is at risk from Y2K failures on the part of its major business counterparties, including suppliers, distributors, licensees and manufacturers, as well as potential failures in public and private infrastructure services, including electricity, water, gas, transportation and communications.

System failures resulting from the Y2K problem could adversely affect operations and financial results in all of the company's business segments. Failures may affect security, payroll operations or employee and guest health and safety, as well as such routine but important operations as billing and collection. In addition, the company's business segments face more specific risks. For example:

In the Media Networks segment, at-risk operations include satellite transmission and communication systems. Y2K failures in such systems could adversely affect the company's television and radio networks, including cable services, as well as its owned and operated stations.

In the Studio Entertainment segment, Y2K failures could interfere with critical systems in such areas as the production, duplication and distribution of motion picture and home video product.

The company's Theme Parks and Resorts operations could be significantly impeded by failures in hotel and cruise line reservation and operating systems; in theme park operating systems, including those controlling individual rides, attractions, parades and shows; and in security, health and safety systems.

In the Consumer Products segment, operations that could be significantly affected include the ordering, distribution and sale of merchandise at the company's retail stores.

In the Internet and Direct Marketing segment, system failures could affect systems available to Disney guests on the Internet, online security and internal operations such as web page maintenance.

Addressing the Problem. The company has developed a six-phase approach to resolving the Y2K issues that are reasonably within its control. All of these efforts are being coordinated through a senior-level task force chaired by the company's Chief Information Officer (CIO), as well as individual task forces in each major business unit. As of September 30, 1999, approximately 400 employees were devoting more than half of their time to Y2K efforts, in addition to approximately 400 expert consultants retained on a full-time basis to assist with specific potential problems. The CIO reports periodically to the Audit Review Committee of the Board of Directors with respect to the company's Y2K efforts.

The company's approach to and the anticipated timing of each phase are described below.

Phase 1 – Inventory. The first phase entailed a worldwide inventory of all hardware and software (including business and operational applications, operating systems and third-party products) that may be at risk, and identification of key third-party businesses whose Y2K failures might most significantly impact the company. The IT system inventory process, as well as the inventories of key third-party businesses and of internal non-IT systems have been completed.

Phase 2 – Assessment. Once each at-risk system was identified, the Y2K task forces assessed how critical the system was to business operations and the potential impact of failure in order to establish priorities for repair or replacement. Systems were classified as "critical," "important" or "non-critical." A "critical" system is one that, if not operational, would cause the shutdown of all or a portion of a business unit within two weeks, while an "important" system is one that would cause such a shutdown within two months. This process has been completed for all IT systems, resulting in the identification of nearly 600 business systems that are "critical" to continued functioning and more than 1,000 that are either "important" or are otherwise being monitored. The assessment process for internal non-IT systems and for key third-party businesses has also been completed.

Phase 3 – Strategy. This phase involved the development of appropriate remedial strategies for both IT and non-IT systems. These strategies included repairing, testing and certifying, replacing or abandoning particular systems (as discussed under Phases 4 and 5 below). Selection of appropriate strategies was based upon such factors as the assessments made in Phase 2, the type of system, the availability of a Y2K-compliant replacement and cost. The strategy phase has been completed for all IT and non-IT systems.

Phase 4 – Remediation. The remediation phase involves creating detailed project plans, marshalling necessary resources and executing the strategies chosen. For IT systems, this phase has been completed. For non-critical systems, most corrections are expected to be completed by December 31, 1999. For those systems that are not expected to be reliably functional after January 1, 2000, detailed manual workaround plans will be developed prior to the end of 1999.

Phase 5 – Testing and Certification. This phase includes establishing a test environment, performing systems testing (with third parties if necessary) and certifying the results. The certification process entails having functional experts review test results, computer screens and printouts against pre-established criteria to ensure system compliance. The testing and certification of all critical and important IT systems has been completed. Testing for non-IT systems has been completed, and where feasible and practical, the systems have been tested by either validating that the system has no date function, is not date-aware, or operates properly when the millennial date is tested. In other cases, the company has reviewed vendor or manufacturer design specifications, drawings, lab results or test data in order to

verify proper date capability. Where the company has not received adequate assurance of successful certification efforts by third parties, contingency plans have been established to minimize potential disruption to operations.

The company has initiated written and telephonic communications with key third-party businesses, as well as public and private providers of infrastructure services, to ascertain and evaluate their efforts in addressing Y2K compliance. The company has tested as many online interfaces between critical business partners as is practical. In cases where joint testing has not been possible, the company has reviewed partners' test scripts and other indications that ongoing communications and commerce will not be disrupted. For critical partners' systems interactions with the company, IT and functional experts will carefully review the evidence of correct operation at the earliest possible time in the new year. Manual and semi-automated workarounds have been developed, where practical. For many hundreds of vendors and partners for which the company does not rely upon automated interfaces, but rather, relies on physical supplies of food, merchandise, fuel and general supplies, safety stocks of critical items have been, or will be, secured.

Phase 6 – Contingency Planning. This phase involves addressing any remaining open issues expected in 1999 and early 2000. Contingency planning is now the primary focus of efforts throughout the company. Primary emphasis is on guest and employee safety and comfort, followed by our desire to continue to generate revenues and minimize any unnecessary costs caused by unexpected outages. Contingency plans have been developed by all business segments. They include, as appropriate, plans for guest evacuation from rides, theme parks and other entertainment settings, assuring that guests and employees are safe and warm, protection of assets and continued operation in the event of loss of power or communications and the resumption of normal business operations at the earliest time possible.

Costs. The company anticipates that expenditures related to the Y2K project will total \$260 million, of which \$140 million is expected to be capitalized. The majority of these costs have been incurred as of September 30, 1999. A significant portion of these costs has not been incremental, but rather reflected redeployment of internal resources from other activities. The company believes that these redeployments did not have a material adverse effect on other ongoing business operations. All costs of the Y2K project are being borne out of the company's operating cash flow.

Based upon its efforts to date, the company believes that the vast majority of both its IT and non-IT systems, including all critical and important systems, will remain up and running after January 1, 2000. Accordingly, the company does not currently anticipate that internal systems failures will result in any material adverse effect to its operations or financial condition. During 1999, the company has continued its efforts to ensure that major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation, will also be prepared for the year 2000, and to develop contingency plans to address any failures on their part to become Y2K compliant. At this time, the company believes that the most likely "worst-case" scenario involves potential disruptions in areas in which the company's operations must rely on such third parties whose systems may not work properly after January 1, 2000. In addition, the company's international operations may be adversely affected by failures of businesses in other parts of the world to take adequate steps to address the Y2K problem. While such failures could affect important operations of the company and its sub-

sidiaries, either directly or indirectly, in a significant manner, the company cannot presently estimate either the likelihood or the potential cost of such failures.

It is important to note that the description of the company's efforts necessarily involves estimates and projections with respect to activities required in the future. These estimates and projections are subject to change as work continues, and such changes may be substantial.

CONVERSION TO THE EURO CURRENCY

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (euro). The transition period for the introduction of the euro ends June 30, 2002. Issues facing the company as a result of the introduction of the euro include converting information technology systems, reassessing currency risk, negotiating and amending licensing agreements and contracts, and processing tax and accounting records. The company is addressing these issues and does not expect the euro to have a material effect on the company's financial condition or results of operations.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the company. The company and its representatives 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 the company's stockholders. Management believes that all statements that express expectations and projections with respect to future matters, including further restructuring or strategic initiatives and actions relating to the company's strategic sourcing initiative, as well as from developments beyond the company's control including changes in global economic conditions that may, among other things, affect the international performance of the company's theatrical and home video releases, television programming and consumer products and, in addition, uncertainties associated with the Internet; the launching or prospective development of new business initiatives; "Year 2000" remediation efforts and the introduction of the euro are forward-looking statements within the meaning of the Act. These statements are made on the basis of management's views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management's expectations will necessarily come to pass.

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

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

Changes in U.S., global or regional economic conditions, which may affect attendance and spending at the company's theme parks and resorts, purchases of company-licensed consumer products and the performance of the company's broadcasting and motion picture operations;

Changes in U.S. and global financial and equity markets, including significant interest rate fluctuations, which may impede the

company's access to, or increase the cost of, external financing for its operations and investments;

Increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the company's theme park, resort and regional entertainment operations and lead to increased expenses in such areas as television programming acquisition and motion picture production and marketing;

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

Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, impair performance at the company's theme 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; and

Changing public and consumer taste, which may affect the company's entertainment, broadcasting and consumer products businesses.

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

MARKET RISK

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

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

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

The company's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its 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 antici-

pated foreign currency revenues. The company uses option strategies that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. The principal currencies hedged are the Japanese yen, European euro, Australian dollar, British pound and Canadian dollar. The company also uses forward contracts to hedge foreign currency assets and liabilities in the same principal currencies. By policy, the company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

In addition, the company uses forward sale contracts to minimize the exposure to changes in fair market value of certain of its investments in debt and equity securities.

It is the company's policy to enter into foreign currency, interest rate transactions and forward sale contracts only to the extent considered necessary to meet its objectives as stated above. The company does not enter into these transactions for speculative purposes.

Value at Risk. The company utilizes a "Value-at-Risk" (VAR) model to determine the maximum potential one-day loss in the fair value of its interest rate and foreign exchange sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. There are various modeling techniques which can be used in the VAR computation. The company's computations are based on the interrelationships between movements in various currencies and interest rates (a "variance/co-variance" technique). These interrelationships were determined by observing interest rate and foreign currency market changes over the preceding quarter for the calculation of VAR amounts at year-end and over each of the four quarters for the calculation of average VAR amounts during the year. The model includes all of the company's debt as well as all interest rate and foreign exchange derivative contracts. 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. Anticipated transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the company, nor does it consider the potential effect of favorable changes in market factors. (See Note 12 to the Consolidated Financial Statements regarding the company's financial instruments at September 30, 1999 and 1998.)

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

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Combined Portfolio
VAR as of September 30, 1999	\$15	\$22	\$27
Average VAR during the year ended September 30, 1999	\$13	\$17	\$23

New Accounting Guidance. In June 1998, the Financial Accounting Standards Board (the FASB) issued Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), subsequently amended by SFAS No. 137, which the company is required to adopt effective October 1, 2000. SFAS 133 will require the company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other stockholders' equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. The impact of SFAS 133 on the company's financial statements will depend on a variety of factors, including future interpretative guidance from the FASB, the future level of forecasted and actual foreign currency transactions, the extent of the company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. However, the company does not believe the effect of adopting SFAS 133 will be material to its financial position.

CONSOLIDATED STATEMENTS OF INCOME

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	Year Ended September 30		
	1999	1998	1997
Revenues	\$ 23,402	\$ 22,976	\$ 22,473
Costs and expenses	(19,715)	(18,466)	(17,722)
Amortization of intangible assets	(456)	(431)	(439)
Restructuring charges	(132)	(64)	—
Gain on sale of Starwave	345	—	—
Gain on sale of KCAL	—	—	135
Operating income	3,444	4,015	4,447
Corporate and other activities	(196)	(236)	(367)
Equity in Infoseek loss	(322)	—	—
Net interest expense	(612)	(622)	(693)
Income before income taxes	2,314	3,157	3,387
Income taxes	(1,014)	(1,307)	(1,421)
Net income	\$ 1,300	\$ 1,850	\$ 1,966
Earnings per share			
Diluted	\$ 0.62	\$ 0.89	\$ 0.95
Basic	\$ 0.63	\$ 0.91	\$ 0.97
Average number of common and common equivalent shares outstanding			
Diluted	2,083	2,079	2,060
Basic	2,056	2,037	2,021

See Notes to Consolidated Financial Statements

(In millions)	September 30	
	1999	1998
<i>Assets</i>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 414	\$ 127
Receivables	3,633	3,999
Inventories	796	899
Film and television costs	4,071	3,223
Deferred income taxes	607	463
Other assets	679	664
Total current assets	10,200	9,375
Film and television costs	2,489	2,506
Investments	2,434	1,821
Theme parks, resorts and other property, at cost		
Attractions, buildings and equipment	15,869	14,037
Accumulated depreciation	(6,220)	(5,382)
	9,649	8,655
Projects in progress	1,272	1,280
Land	425	411
	11,346	10,346
Intangible assets, net	15,695	15,787
Other assets	1,515	1,543
	<u>\$43,679</u>	<u>\$41,378</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Current Liabilities</i>		
Accounts and taxes payable and other accrued liabilities	\$ 4,588	\$ 4,767
Current portion of borrowings	2,415	2,123
Unearned royalties and other advances	704	635
Total current liabilities	7,707	7,525
Borrowings	9,278	9,562
Deferred income taxes	2,660	2,488
Other long term liabilities, unearned royalties and other advances	3,059	2,415
<i>Stockholders' Equity</i>		
Preferred stock, \$.01 par value		
Authorized — 100 million shares		
Issued — none		
Common stock, \$.01 par value	9,324	8,995
Authorized — 3.6 billion shares		
Issued — 2.1 billion shares		
Retained earnings	12,281	10,981
Cumulative translation and other	(25)	13
	21,580	19,989
Treasury stock, at cost, 29 million shares	(605)	(593)
Shares held by TWDC Stock Compensation Fund, at cost — 0.4 million shares as of September 30, 1998	—	(8)
	<u>20,975</u>	<u>19,388</u>
	<u>\$43,679</u>	<u>\$41,378</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Walt Disney Company and Subsidiaries

(In millions)	Year Ended September 30		
	1999	1998	1997
<i>Net Income</i>	\$ 1,300	\$ 1,850	\$ 1,966
<i>Items Not Requiring Cash Outlays</i>			
Amortization of film and television costs	2,472	2,514	1,995
Depreciation	851	809	738
Amortization of intangible assets	456	431	439
Gain on sale of Starwave	(345)	—	—
Equity in Infoseek loss	322	—	—
Gain on sale of KCAL	—	—	(135)
Other	80	31	(15)
<i>Changes In</i>			
Receivables	376	(664)	(177)
Inventories	103	(46)	8
Other assets	(165)	73	(441)
Accounts and taxes payable and other accrued liabilities	477	218	608
Film and television costs — television broadcast rights	(319)	(447)	(179)
Deferred income taxes	(20)	346	292
	4,288	3,265	3,133
<i>Cash Provided by Operations</i>	5,588	5,115	5,099
<i>Investing Activities</i>			
Film and television costs	(3,020)	(3,335)	(3,089)
Investments in theme parks, resorts and other property	(2,134)	(2,314)	(1,922)
Acquisitions (net of cash acquired)	(319)	(213)	(180)
Proceeds from sale of investments	202	238	31
Purchases of investments	(39)	(13)	(56)
Investment in and loan to E! Entertainment	—	(28)	(321)
Proceeds from disposal of publishing operations	—	—	1,214
Proceeds from disposal of KCAL	—	—	387
	(5,310)	(5,665)	(3,936)
<i>Financing Activities</i>			
Change in commercial paper borrowings	(451)	308	(2,088)
Other borrowings	2,306	1,522	2,437
Reduction of borrowings	(2,031)	(1,212)	(1,990)
Repurchases of common stock	(19)	(30)	(633)
Exercise of stock options and other	204	184	180
Dividends	—	(412)	(342)
Proceeds from formation of REITs	—	—	1,312
	9	360	(1,124)
Increase (Decrease) in Cash and Cash Equivalents	287	(190)	39
Cash and Cash Equivalents, Beginning of Year	127	317	278
Cash and Cash Equivalents, End of Year	\$ 414	\$ 127	\$ 317
<i>Supplemental disclosure of cash flow information:</i>			
Interest paid	\$ 575	\$ 555	\$ 777
Income taxes paid	\$ 721	\$ 1,107	\$ 958

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	Shares	Common Stock	Retained Earnings	Cumulative Translation and Other	Treasury Stock	TWDC Stock Compensation Fund	Stockholders' Equity Total	Comprehensive Income
<i>Balance at September 30, 1996</i>	2,022	\$8,590	\$ 7,919	\$ 39	\$(462)	\$ —	\$16,086	\$ —
Exercise of stock options, net	15	(42)	—	—	—	301	259	—
Common stock repurchased	(24)	—	—	—	—	(633)	(633)	—
Dividends (\$0.17 per share)	—	—	(342)	—	—	—	(342)	—
Cumulative translation and other (net of tax benefit of \$37 million)	—	—	—	(51)	—	—	(51)	(51)
Net income	—	—	1,966	—	—	—	1,966	1,966
<i>Balance at September 30, 1997</i>	2,013	8,548	9,543	(12)	(462)	(332)	17,285	<u>\$1,915</u>
Common stock issued	4	160	—	—	—	—	160	\$ —
Exercise of stock options, net	34	287	—	—	(131)	354	510	—
Common stock repurchased	(1)	—	—	—	—	(30)	(30)	—
Dividends (\$0.20 per share)	—	—	(412)	—	—	—	(412)	—
Cumulative translation and other (net of tax expense of \$18 million)	—	—	—	25	—	—	25	25
Net income	—	—	1,850	—	—	—	1,850	1,850
<i>Balance at September 30, 1998</i>	2,050	8,995	10,981	13	(593)	(8)	19,388	<u>\$1,875</u>
Exercise of stock options, net	14	329	—	—	(12)	17	334	\$ —
Common stock reissued	1	—	—	—	—	10	10	—
Common stock repurchased	(1)	—	—	—	—	(19)	(19)	—
Cumulative translation and other (net of tax benefit of \$30 million)	—	—	—	(38)	—	—	(38)	(38)
Net income	—	—	1,300	—	—	—	1,300	1,300
<i>Balance at September 30, 1999</i>	2,064	\$9,324	\$12,281	\$(25)	\$(605)	\$ —	\$20,975	\$1,262

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollars in millions, except per share amounts)

NOTE 1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Walt Disney Company owns 100% of Disney Enterprises, Inc. (DEI) which, together with its subsidiaries (the company), is a diversified worldwide entertainment company with operations in the following businesses.

MEDIA NETWORKS

The company operates the ABC Television Network, which has affiliated stations providing coverage to U.S. television households. The company also owns television and radio stations, most of which are affiliated with either the ABC Television Network or the ABC Radio Networks. The company's cable 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 programming services, which operate through consolidated subsidiary companies, are ESPN-branded networks, the Disney Channel and Disney Channel International. 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.

STUDIO ENTERTAINMENT

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

THEME PARKS AND RESORTS

The company operates the Walt Disney World Resort in Florida, and Disneyland Park, the Disneyland Hotel and the Disneyland Pacific Hotel in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot, Disney-MGM Studios and Disney's Animal Kingdom, thirteen resort hotels and a complex of villas and suites, a retail, dining and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks and other recreational facilities. In addition, the resort operates Disney Cruise Line from Port Canaveral, Florida. Disney Regional Entertainment designs, develops and operates a variety of new entertainment concepts based on Disney brands and creative properties, operating under the names ESPN Zone and DisneyQuest. The company earns royalties on revenues generated by the Tokyo Disneyland theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation. The company also has an investment in Euro Disney S.C.A., a publicly-held French entity that operates Disneyland Paris. The company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Theme Parks and Resorts are the company's National Hockey League franchise, the Mighty Ducks of Anaheim, and the Anaheim Angels, a Major League Baseball team.

CONSUMER PRODUCTS

The company licenses the name "Walt Disney," as well as the

company's characters, visual and literary properties, to various consumer manufacturers, retailers, show promoters and publishers throughout the world. The company also engages in direct retail distribution principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the company produces audio and computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace.

INTERNET AND DIRECT MARKETING

The Internet business develops, publishes and distributes content for online services intended to appeal to broad consumer interest in sports, news, family and entertainment. Internet websites include Disney.com, Family.com, ESPN.com, ABCNEWS.com, ABCSports.com and ABC.com. The Internet business also produces Disney's Club Blast, an entertainment and educational online subscription service for kids. Internet commerce activities include the DisneyStore.com, which markets Disney-themed merchandise online, Disney Travel Online, which offers travel packages to the Walt Disney World Resort and other Disney destinations and ESPNStore.com, which offers ESPN-themed and other sports-related merchandise. The Direct Marketing business operates the Walt Disney Catalog, which markets Disney-themed merchandise via direct mail.

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.

Accounting Changes Effective September 30, 1999, the company adopted Statement of Financial Accounting Standards (SFAS) No. 131 *Disclosure about Segments of an Enterprise and Related Information* (SFAS 131) (see Note 11).

During the first quarter, the company adopted SFAS No. 130 *Reporting Comprehensive Income*, which requires that the company present comprehensive income, a measure that reflects all non-owner changes in equity, in addition to net income. Comprehensive income has been reflected in the accompanying Consolidated Statements of Stockholders' Equity.

During 1998, the company adopted SFAS No. 128 *Earnings Per Share* (SFAS 128), which specifies the method of computation, presentation and disclosure for earnings per share (EPS). SFAS 128 requires the presentation of two EPS amounts, basic and diluted. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS includes the dilution that would occur if outstanding stock options and other dilutive securities were exercised and is comparable to the EPS the company has historically reported. The company uses the treasury stock method to calculate the impact of outstanding stock options. Stock options for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation.

During 1997, the company adopted SFAS No. 123 *Accounting for Stock-Based Compensation* (SFAS 123), which requires disclosure of the fair value and other characteristics of stock options (see Note 9). The company has chosen under the provisions of SFAS 123 to continue using the intrinsic-value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* (APB 25).

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 could differ from those estimates.

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

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

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

Revenues from participants and sponsors at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

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

Investments Debt securities that the company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively. All other equity securities are accounted for using either the cost method or the equity method. The company's share of earnings or losses in its equity investments accounted for under the equity method, other than Infoseek, is included in "Corporate and other activities" in the Consolidated Statements of Income.

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

Film and Television Costs Film and television costs are stated at the lower of cost, less accumulated amortization, or net realizable value. Television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use.

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

Estimates of total gross revenues can change significantly due to

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

Theme Parks, Resorts and Other Property Theme parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives ranging from three to fifty years.

Intangible/Other Assets Intangible assets are amortized over periods ranging from two to forty years. The company continually reviews the recoverability of the carrying value of these assets using the methodology prescribed in SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The company also reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount, including associated intangible assets, of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

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

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

The company classifies its derivative financial instruments as held or issued for purposes other than trading. 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 in the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts and taxes payable and other accrued liabilities. Unrealized gains and losses on forward sale contracts that hedge investments in equity and debt securities are accounted for off-balance sheet until the contracts are settled, at which time any gain or loss is recognized net of the gain or loss on the underlying investment. Costs associated with forward sale contracts are deferred and included in the basis of the underlying investment. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and

exchange rates shift as adjustments to net interest expense over the lives of the swaps. Gains and losses on the termination of swap agreements, prior to their original maturity, are deferred and amortized to net interest expense over the remaining term of the underlying hedged transactions.

Cash flows from hedges are classified in the statement of cash flows under the same category as the cash flows from the related assets, liabilities or anticipated transactions (see Notes 5 and 12).

Earnings Per Share Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted earnings per share, for the company, is solely attributable to stock options. For the years ended September 30, 1999, 1998 and 1997, options for 28 million, 18 million and 15 million shares, respectively, were excluded from diluted earnings per share because they were anti-dilutive.

Earnings per share amounts have been adjusted for all years presented, to reflect the three-for-one split of the company's common shares effective June 1998 (see Note 8).

Reclassifications Certain reclassifications have been made in the 1998 and 1997 financial statements to conform to the 1999 presentation, including changes in segment information as a result of adopting SFAS 131.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

In April 1997, the company purchased a significant equity stake in Starwave Corporation (Starwave), an Internet technology company. In connection with the acquisition, the company was granted an option to purchase substantially all the remaining shares of Starwave, which the company exercised during the quarter ended June 30, 1998. Thereafter, the accounts of Starwave were included in the company's Consolidated Financial Statements.

On June 18, 1998, the company reached an agreement for the acquisition of Starwave by Infoseek Corporation (Infoseek), a publicly held Internet search company, the purchase of additional shares of Infoseek common stock for \$70 million and the purchase of warrants for \$139 million, enabling it, under certain circumstances, to achieve a majority stake in Infoseek. These warrants vest over a three-year period and expire in five years. On November 18, 1998, the shareholders of both Infoseek and Starwave approved the acquisition. As a result of the acquisition and the company's purchase of additional shares of Infoseek common stock pursuant to the merger agreement, the company acquired approximately 43% of Infoseek's outstanding common stock.

Upon completion of this transaction, the company recognized a non-cash gain of \$345 million. The gain reflected the market value of the Infoseek shares received under a partial sale accounting model. As a result of its investment in Infoseek, the company recorded intangible assets of \$460 million, including \$421 million of goodwill, which are being amortized over an estimated useful life of two years. The company determined the economic useful life of the acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, consisting of developed technology, trademarks and in-place workforce. In addition, the company considered the competitive environment and the rapid pace of technological change in the Internet industry.

The company accounts for its investment in Infoseek under the equity method of accounting. For the year ended September 30, 1999, the company recorded \$229 million of amortization related to intangible assets, and a charge of \$44 million for purchased in-process research and development expenditures. The amortization of intangible assets and the charge for research and development expenditures have been reflected in "Equity in Infoseek loss" in the company's Consolidated Statements of Income. As of September 30, 1999, the company's recorded investment in Infoseek was \$495 million. The quoted market value of the company's Infoseek shares at September 30, 1999 was approximately \$815 million.

On November 17, 1999, Infoseek became a wholly-owned subsidiary of the company (see Note 15).

On February 9, 1996, the company completed its acquisition of ABC. The aggregate consideration paid to ABC shareholders consisted of \$10.1 billion in cash and 155 million shares of company common stock valued at \$8.8 billion based on the stock price as of the date the transaction was announced. As a result of the ABC acquisition, the company sold its independent Los Angeles television station, KCAL, during the first quarter of 1997 for \$387 million, resulting in a gain of \$135 million.

The company completed its final purchase price allocation and determination of related goodwill, deferred taxes and other accounts during the second quarter of 1997.

During the third and fourth quarters of 1997, the company disposed of most of the publishing businesses acquired with ABC to various third parties for consideration approximating their carrying amount. Proceeds consisted of \$1.2 billion in cash, \$1.0 billion in debt assumption and preferred stock convertible to common stock with a market value of \$660 million.

The unaudited pro forma information below presents results of operations as if the finalization of purchase price allocation and the disposition of certain ABC publishing assets in 1997 had occurred at the beginning of that year. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had these events occurred at the beginning of the year presented, nor is it necessarily indicative of future results.

	1997
Revenues	\$21,613
Net income	1,772
Earnings per share	
Diluted	\$ 0.86
Basic	\$ 0.88

NOTE 3. INVESTMENT IN EURO DISNEY

Euro Disney S.C.A. (Euro Disney) operates the Disneyland Paris theme park and resort complex on a 4,800-acre site near Paris, France. The company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 1999, the company's recorded investment in Euro Disney was \$296 million. The quoted market value of the company's Euro Disney shares at September 30, 1999 was approximately \$433 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. (Disney SNC), a wholly-owned affiliate of the company, entered into a lease arrangement with a noncancelable term of 12 years (the Lease) related to substantially all of the Disneyland Paris theme park assets, and then entered into

a 12-year sublease agreement (the Sublease) with Euro Disney. Remaining lease rentals at September 30, 1999 of FF 7.5 billion (\$1.2 billion) receivable from Euro Disney under the Sublease approximate the amounts payable by Disney SNC under the Lease. At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the Lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the theme park assets, estimated to be \$1.2 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also as part of the restructuring, the company agreed to arrange for the provision of a 10-year unsecured standby credit facility of approximately \$177 million, upon request, bearing interest at PIBOR. As of September 30, 1999, Euro Disney had not requested that the company establish this facility. The company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years and at least 16.67% for an additional term thereafter.

After a five-year waiver resulting from the restructuring, royalties and management fees from Euro Disney were partially reinstated in fiscal year 1999. As a result, the company earned approximately \$33 million in royalties and management fees in fiscal year 1999. Royalties will be fully reinstated beginning in fiscal year 2004 and management fees will be progressively reinstated through fiscal year 2018.

In November 1999, Euro Disney stockholders approved an increase in share capital through an equity rights offering. The offering has been underwritten to raise \$238 million by the end of December 1999. The net proceeds will be used to partially finance the construction of a second theme park, Disney Studios, adjacent to the Magic Kingdom. The company subscribed to approximately \$93 million of the equity rights offering, maintaining its 39% interest in Euro Disney. Disney Studios is expected to open in spring 2002.

NOTE 4. FILM AND TELEVISION COSTS

	1999	1998
Theatrical film costs		
Released, less amortization	\$2,246	\$2,035
In-process	1,966	2,041
	<u>4,212</u>	<u>4,076</u>
Television costs		
Released, less amortization	582	374
In-process	643	589
	<u>1,225</u>	<u>963</u>
Television broadcast rights	<u>1,123</u>	<u>690</u>
	<u>6,560</u>	<u>5,729</u>
Less: current portion	<u>4,071</u>	<u>3,223</u>
Non-current portion	<u>\$2,489</u>	<u>\$2,506</u>

Based on management's total gross revenue estimates as of September 30, 1999, approximately 82% of unamortized film and television costs (except in-process) are expected to be amortized during the next three years.

NOTE 5. BORROWINGS

The company's borrowings at September 30, 1999 and 1998, including interest rate swaps designated as hedges, are summarized below.

	1999					
	Balance	Stated Interest Rate ^(a)	Interest rate and cross-currency swaps ^(b)		Effective Interest Rate ^(a)	Swap Maturities
			Pay Float	Pay Fixed		
Commercial paper due 2000 ^(a)	\$ 1,748	5.1%	\$ —	\$1,700	5.4%	2001–2002
U.S. dollar notes and debentures due 2000–2093 ^{(b)(c)}	7,545	6.3%	3,840	500	6.1%	2000–2029
Dual currency and foreign notes due 2000–2003 ^(a)	765	6.4%	765	—	5.1%	2000–2003
Senior participating notes due 2000–2001 ^(a)	1,247	2.7%	—	—	n/a	n/a
Other due 2000–2027	388	5.5%	—	—	n/a	n/a
	<u>11,693</u>	<u>5.7%</u>	<u>—</u>	<u>—</u>		
Less current portion	<u>2,415</u>		<u>—</u>	<u>—</u>		
Total long-term borrowings	<u>\$ 9,278</u>		<u>\$4,605</u>	<u>\$2,200</u>		
	1998					
	Balance	Stated Interest Rate ^(a)	Interest rate and cross-currency swaps ^(b)		Effective Interest Rate ^(a)	Swap Maturities
			Pay Float	Pay Fixed		
Commercial paper due 1999 ^(a)	\$ 2,225	5.5%	\$ —	\$2,225	6.2%	1999
U.S. dollar notes and debentures due 1999–2093 ^(b)	6,321	6.6%	2,886	675	6.4%	1999–2012
Dual currency and foreign notes due 1999–2003 ^(a)	1,678	5.8%	1,678	—	5.4%	1999–2003
Senior participating notes due 2000–2001 ^(a)	1,195	2.7%	—	—	n/a	n/a
Other due 1999–2027	266	5.2%	—	—	n/a	n/a
	<u>11,685</u>	<u>5.8%</u>	<u>—</u>	<u>—</u>		
Less current portion	<u>2,123</u>		<u>—</u>	<u>—</u>		
Total long-term borrowings	<u>\$ 9,562</u>		<u>\$4,564</u>	<u>\$2,900</u>		

^(a) The company has established bank facilities totaling \$4.8 billion which expire in one to three years. Under the bank facilities the company has the option to borrow at various interest rates. Commercial paper is classified as long-term since the company intends to refinance these borrowings on a long-term basis through continued commercial paper borrowings supported by available bank facilities.

^(b) Includes \$722 million in 1999 and \$771 million in 1998 representing minority interest in a real estate investment trust established by the company.

^(c) Denominated principally in U.S. dollars, Japanese yen and Italian lira.

^(d) Additional interest may be paid based on the performance of designated portfolios of films. The effective interest rate at September 30, 1999 and 1998 was 6.8%.

^(e) 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, 1999 and 1998; these rates are not necessarily an indication of future interest rates.

^(f) Amounts represent notional values of interest rate swaps.

^(g) The effective interest rate reflects the effect of interest rate and cross-currency swaps entered into with respect to certain of these borrowings as indicated in the "Pay Float" and "Pay Fixed" columns.

^(h) Includes \$306 million in 1999 representing mandatorily redeemable preferred stock maturing in 2004.

Borrowings, excluding commercial paper and minority interest, have the following scheduled maturities:

2000	\$2,350
2001	2,184
2002	628
2003	203
2004	1,111
Thereafter	2,747

The company capitalizes interest on assets constructed for its theme parks, resorts and other property, and on theatrical and television productions in process. In 1999, 1998 and 1997, respectively, total interest costs incurred were \$826 million, \$824 million and \$841 million, of which \$109 million, \$139 million and \$100 million were capitalized.

NOTE 6. INCOME TAXES

	1999	1998	1997
<i>Income before income taxes</i>			
Domestic (including U.S. exports)	\$2,199	\$3,114	\$3,193
Foreign subsidiaries	115	43	194
	<u>\$2,314</u>	<u>\$3,157</u>	<u>\$3,387</u>
<i>Income tax provision</i>			
Current			
Federal	\$ 715	\$ 698	\$1,023
State	140	119	203
Foreign (including withholding)	174	139	190
	<u>1,029</u>	<u>956</u>	<u>1,416</u>
Deferred			
Federal	(21)	303	21
State	6	48	(16)
	<u>(15)</u>	<u>351</u>	<u>5</u>
	<u>\$1,014</u>	<u>\$1,307</u>	<u>\$1,421</u>
<i>Components of Deferred Tax Assets and Liabilities</i>	1999	1998	
<i>Deferred tax assets</i>			
Accrued liabilities	\$(1,112)	\$(1,051)	
Other, net	(82)	(61)	
Total deferred tax assets	<u>(1,194)</u>	<u>(1,112)</u>	
<i>Deferred tax liabilities</i>			
Depreciable, amortizable and other property	2,469	2,396	
Licensing revenues	232	249	
Leveraged leases	327	313	
Investment in Euro Disney	169	129	
Total deferred tax liabilities	<u>3,197</u>	<u>3,087</u>	
Net deferred tax liability before valuation allowance	2,003	1,975	
Valuation allowance	50	50	
Net deferred tax liability	<u>\$ 2,053</u>	<u>\$ 2,025</u>	
<i>Reconciliation of Effective Income Tax Rate</i>	1999	1998	1997
Federal income tax rate	35.0%	35.0%	35.0%
Nondeductible amortization of intangible assets	6.0	4.4	4.4
State taxes, net of federal income tax benefit	4.1	3.4	3.6
Other, net	(1.3)	(1.4)	(1.0)
	<u>43.8%</u>	<u>41.4%</u>	<u>42.0%</u>

In 1999, 1998 and 1997, income tax benefits attributable to employee stock option transactions of \$96 million, \$327 million and \$81 million, respectively, were allocated to stockholders' equity.

NOTE 7. 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 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 Benefit Plans	
	1999	1998	1999	1998
Reconciliation of funded status of the plans and the amounts included in the company's consolidated balance sheets:				
Projected benefit obligations				
Beginning obligations	\$(1,793)	\$(1,438)	\$(321)	\$(293)
Service cost	(89)	(71)	(12)	(11)
Interest cost	(119)	(109)	(21)	(22)
Amendments	(9)	9	—	(3)
Actuarial gains (losses)	160	(247)	52	(2)
Benefits paid	71	63	11	10
Ending obligations	<u>(1,779)</u>	<u>(1,793)</u>	<u>(291)</u>	<u>(321)</u>
Fair value of plans' assets				
Beginning fair value	2,014	1,726	185	162
Actual return on plans' assets	249	294	21	26
Employer contributions	36	75	7	7
Participants' contributions	1	1	—	—
Benefits paid	(71)	(63)	(11)	(10)
Expenses	(18)	(19)	—	—
Ending fair value	<u>2,211</u>	<u>2,014</u>	<u>202</u>	<u>185</u>
Funded status of the plans	432	221	(89)	(136)
Unrecognized net gain	(275)	(80)	(85)	(30)
Unrecognized prior service (benefit) cost	(1)	(11)	6	1
Fourth quarter contributions	—	33	—	—
Net balance sheet asset (liability)	<u>\$ 156</u>	<u>\$ 163</u>	<u>\$(168)</u>	<u>\$(165)</u>
Rate Assumptions				
Discount rate	7.5%	6.8%	7.5%	6.8%
Rate of return on plans' assets	10.5%	10.5%	10.5%	10.5%
Salary increases	5.1%	4.4%	n/a	n/a
Annual increase in cost of benefits	n/a	n/a	6.1%	6.4%

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$110 million, \$83 million and \$0 for 1999, respectively, and \$96 million, \$74 million and \$0 for 1998, respectively.

The accumulated postretirement benefit obligations and fair value of plan assets for postretirement plans with accumulated postretirement benefit obligations in excess of plan assets were \$231 million and \$72 million for 1999, respectively, and \$254 million and \$67 million for 1998, respectively.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plans. A one percentage point decrease in the assumed health care cost trend rates would reduce total service and interest costs and postretirement benefit obligations by \$9 million and \$44 million, respectively. A one percentage point increase in the assumed health care cost trend rates would increase total service and interest costs and postretirement benefit obligations by \$13 million and \$59 million, respectively. The annual increase in cost of postretirement benefits is assumed to decrease .3 percentage points per year until reaching 4.9%.

The company's accumulated pension benefit obligations at September 30, 1999 and 1998 were \$1.6 billion, of which 97.6% and 97.7% were vested, respectively. In addition, the company contributes to various pension plans under union and industry-wide agreements.

The income statement expenses of pension plans for 1999, 1998 and 1997 totaled \$11 million, \$12 million and \$45 million, respectively. The discount rate, rate of return on plan assets and salary increase assumptions for the pension plans were 7.8%, 10.5% and 5.4%, respectively, in 1997. The income statement expense (credits) for postretirement benefit plans for 1999, 1998 and 1997 were \$10 million, \$(13) million and \$(18) million, respectively. The discount rate, rate of return on plan assets and annual increase in cost of postretirement benefits assumptions were 7.8%, 10.5% and 6.7%, respectively, in 1997.

The market values of the company's shares held by the pension plan master trust as of September 30, 1999 and 1998 were \$73 million and \$71 million, respectively.

For eligible employees, the company has savings and investment plans which allow eligible employees to allocate up to 10% or 15% of salary through payroll deductions depending on the plan in which the employee participates. The company matches 50% of the employee's pre-tax contributions, up to plan limits. In 1999, 1998 and 1997, the costs of such plans were \$29 million, \$31 million and \$32 million, respectively.

NOTE 8. STOCKHOLDERS' EQUITY

During 1998, the company's Board of Directors decided to move to an annual, rather than quarterly, dividend policy to reduce costs and simplify payments to the more than 2.7 million shareholders of company common stock. Accordingly, there was no dividend payment during the year ended September 30, 1999. On November 4, 1999, the Board of Directors declared an annual cash dividend of 21 cents per share applicable to fiscal 1999. The dividend is payable December 17, 1999 to shareholders of Disney common stock at the close of business November 16, 1999.

In June 1998, the company effected a three-for-one split of its common stock, by means of a special stock dividend. Stockholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from retained earnings to common stock the par value of additional shares issued pursuant to the split. In connection with the common stock split, the company amended its corporate charter to increase the company's authorized common stock from 1.2 billion shares to 3.6 billion shares. The Board of Directors also approved an increase in the company's share repurchase authorization to 133.3 million shares of common stock pre-split or 400 million post-split. All share and per share data included herein have been restated to reflect the split.

In 1996, the company established the TWDC Stock Compensation Fund (Fund) pursuant to the repurchase program to acquire shares of the company for the purpose of funding certain stock-based compensation. All shares acquired by the Fund were disposed of and the Fund was dissolved in April 1999. The company has established TWDC Stock Compensation Fund II (Fund II) to fund certain future stock-based compensation. Any shares acquired by Fund II that are not utilized must be disposed of by December 31, 2002.

NOTE 9. STOCK INCENTIVE PLANS

Under various plans, the company may grant stock options and other awards to key executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. In general, options become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. In certain cases for senior executives, options become exercisable over periods up to 10 years and expire up to 15 years after date of grant. Shares available for future option grants at September 30, 1999, totaled 108 million.

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

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	163	\$21.70	183	\$17.44	189	\$15.84
Awards canceled	(9)	27.35	(10)	20.98	(18)	19.32
Awards granted	20	32.97	27	33.07	27	25.64
Awards exercised	(15)	13.92	(37)	9.06	(15)	11.14
Outstanding at September 30	159	\$24.29	163	\$21.70	183	\$17.44
Exercisable at September 30	57	\$19.01	51	\$16.34	63	\$11.77

The following table summarizes information about stock options outstanding at September 30, 1999 (shares in millions):

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 5-\$ 9	3	1.52	\$ 8.74	3	\$ 8.78
\$10-\$14	15	4.14	13.51	12	13.44
\$15-\$19	21	5.73	18.34	17	18.37
\$20-\$24	55	6.79	21.51	18	21.45
\$25-\$29	30	8.41	27.13	5	26.59
\$30-\$34	17	8.65	33.30	1	31.76
\$35-\$39	15	8.77	37.15	1	37.91
\$40-\$44	3	7.00	42.21	—	—
	159			57	

During 1997, the company adopted SFAS 123 and, pursuant to its provisions, elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees in accordance with APB 25. Accordingly, the company has not recognized compensation expense for its stock-based awards to employees. The following table reflects pro forma net income and earnings per share had the company elected to adopt the fair value approach of SFAS 123:

	1999	1998	1997
Net income:			
As reported	\$1,300	\$1,850	\$1,966
Pro forma	1,169	1,749	1,870
Diluted earnings per share:			
As reported	0.62	0.89	0.95
Pro forma	0.56	0.84	0.91

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

The weighted average fair values of options at their grant date during 1999, 1998 and 1997, where the exercise price equaled the market price on the grant date, were \$11.11, \$10.82 and \$9.09, respectively. The weighted average fair value of options at their grant date during 1998, where the exercise price exceeded the market price on the grant date, was \$8.55. No such options were granted during 1999 and 1997. The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	1999	1998	1997
Risk-free interest rate	5.3%	5.4%	6.4%
Expected years until exercise	6.0	6.0	6.1
Expected stock volatility	25%	23%	23%
Dividend yield	.69%	.71%	.71%

NOTE 10. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	1999	1998
<i>Current receivables</i>		
Trade, net of allowances	\$ 3,160	\$ 3,447
Other	473	552
	\$ 3,633	\$ 3,999
<i>Other current assets</i>		
Prepaid expenses	\$ 515	\$ 483
Other	164	181
	\$ 679	\$ 664
<i>Intangible assets</i>		
Cost in excess of ABC's net assets acquired	\$14,248	\$14,248
Trademark	1,100	1,100
FCC licenses	1,100	1,100
Other	856	492
Accumulated amortization	(1,609)	(1,153)
	\$15,695	\$15,787
<i>Accounts and taxes payable and other accrued liabilities</i>		
Accounts payable	\$ 3,628	\$ 3,792
Payroll and employee benefits	802	853
Other	158	122
	\$ 4,588	\$ 4,767
<i>Other current liabilities</i>		
Unearned royalties and other advances	\$ 669	\$ 566
Other	35	69
	\$ 704	\$ 635

NOTE 11. SEGMENTS

During the year the company changed the manner in which it reports operating segments. The company is in the leisure business and has operations in five major segments: Media Networks, Studio Entertainment, Theme Parks and Resorts, Consumer Products and Internet and Direct Marketing, as described in Note 1.

The operating segments reported below are the segments of the company for which separate financial information is available and for which operating income amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies (see Note 1).

Operating income amounts evaluated include earnings before Corporate and other activities, net interest expense, income taxes, restructuring charges and amortization of intangible assets. Corporate and other activities principally consists of executive management, certain unallocated administrative support functions, income or loss from equity investments and minority interest from ESPN.

The following segment results include allocations of certain costs, including certain information technology costs, pension, legal and other shared services, which are allocated based on consumption. In addition, while all significant intersegment transactions have been eliminated, Studio Entertainment revenues and operating income include an allocation of Consumer Products revenues, which is meant to reflect a portion of Consumer Products revenues attributable to cer-

tain film properties. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in an arms-length transaction.

<i>Business Segments</i>	1999	1998	1997
Revenues			
Media Networks	\$ 7,512	\$ 7,142	\$ 6,522
Studio Entertainment			
Third parties	6,472	6,755	6,840
Intersegment	76	94	141
	<u>6,548</u>	<u>6,849</u>	<u>6,981</u>
Theme Parks and Resorts	6,106	5,532	5,014
Consumer Products			
Third parties	3,106	3,287	3,923
Intersegment	(76)	(94)	(141)
	<u>3,030</u>	<u>3,193</u>	<u>3,782</u>
Internet and Direct Marketing	206	260	174
Total Consolidated Revenues	<u>\$23,402</u>	<u>\$22,976</u>	<u>\$22,473</u>
Operating income			
Media Networks	\$ 1,611	\$ 1,746	\$ 1,699
Studio Entertainment	116	769	1,079
Theme Parks and Resorts	1,446	1,288	1,136
Consumer Products	607	801	893
Internet and Direct Marketing	(93)	(94)	(56)
Amortization of intangible assets	(456)	(431)	(439)
	<u>3,231</u>	<u>4,079</u>	<u>4,312</u>
Restructuring charges	(132)	(64)	—
Gain on sale of Starwave	345	—	—
Gain on sale of KCAL	—	—	135
Total Consolidated Operating Income	<u>\$ 3,444</u>	<u>\$ 4,015</u>	<u>\$ 4,447</u>
Capital expenditures			
Media Networks	\$ 159	\$ 245	\$ 152
Studio Entertainment	51	117	171
Theme Parks and Resorts	1,758	1,693	1,266
Consumer Products	106	77	109
Internet and Direct Marketing	17	27	21
Corporate	43	155	203
Total Consolidated Capital Expenditures	<u>\$ 2,134</u>	<u>\$ 2,314</u>	<u>\$ 1,922</u>
Depreciation expense			
Media Networks	\$ 131	\$ 122	\$ 104
Studio Entertainment	64	115	86
Theme Parks and Resorts	498	443	408
Consumer Products	124	85	95
Internet and Direct Marketing	8	10	6
Corporate	26	34	39
Total Consolidated Depreciation Expense	<u>\$ 851</u>	<u>\$ 809</u>	<u>\$ 738</u>

<i>Business Segments (continued)</i>	1999	1998	1997
Amortization expense			
Media Networks	\$ 423	\$ 421	\$ 405
Studio Entertainment	1	1	—
Theme Parks and Resorts	21	1	—
Consumer Products	6	1	27
Internet and Direct Marketing	5	7	7
Total Consolidated Amortization Expense	<u>\$ 456</u>	<u>\$ 431</u>	<u>\$ 439</u>
Identifiable assets			
Media Networks	\$19,326	\$18,749	\$18,415
Studio Entertainment	7,865	8,089	6,864
Theme Parks and Resorts	10,272	9,214	8,051
Consumer Products	1,964	1,975	2,065
Internet and Direct Marketing	214	336	168
Corporate*	4,038	3,015	2,934
Total Consolidated Assets	<u>\$43,679</u>	<u>\$41,378</u>	<u>\$38,497</u>
Supplemental revenue data			
Media Networks			
Advertising	\$ 5,486	\$ 5,287	\$ 4,937
Theme Parks and Resorts			
Merchandise, food and beverage	1,878	1,780	1,754
Admissions	1,860	1,739	1,603
Geographic Segments			
Revenues			
United States	\$18,657	\$18,106	\$17,868
U.S. Exports	1,147	1,036	874
Europe	2,059	2,215	2,073
Asia Pacific	974	996	987
Latin America, Canada and Other	565	623	671
	<u>\$23,402</u>	<u>\$22,976</u>	<u>\$22,473</u>
Operating income			
United States	\$ 3,142	\$ 3,468	\$ 3,712
Europe	229	369	499
Asia Pacific	228	217	335
Latin America, Canada and Other	115	173	62
Unallocated expenses	(270)	(212)	(161)
	<u>\$ 3,444</u>	<u>\$ 4,015</u>	<u>\$ 4,447</u>
Identifiable assets			
United States	\$41,938	\$39,462	\$36,706
Europe**	1,238	1,468	1,275
Asia Pacific	319	270	341
Latin America, Canada and Other	184	178	175
	<u>\$43,679</u>	<u>\$41,378</u>	<u>\$38,497</u>

*Primarily investments accounted for under the equity method, deferred tax assets, other investments, fixed and other assets

**Primarily current assets and investment in Euro Disney

NOTE 12. FINANCIAL INSTRUMENTS

Investments As of September 30, 1999 and 1998, the company held \$102 million and \$126 million, respectively, of securities classified as available for sale. Realized gains and losses are determined principally on an average cost basis. In 1999, the company recognized \$70 million in gains on sales of securities; in 1998 and 1997, realized gains and losses were not material. In 1999, 1998 and 1997, unrealized gains and losses on available-for-sale securities were not material.

During the year, the company hedged certain investment holdings using collar and forward sale contracts. The collar contracts were terminated during the year, and the forward contracts, with notional amounts totaling \$718 million, expire in five years.

Interest Rate Risk Management The company is exposed to the impact of interest rate changes. The company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. The company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The company uses interest rate swaps and other instruments to manage net exposure to interest rate changes related to its borrowings and investments and to lower its overall borrowing costs. Significant interest rate risk management instruments held by the company during 1999 and 1998 included pay-floating and pay-fixed swaps and interest rate caps. Pay-floating swaps effectively convert medium and long-term obligations to LIBOR or commercial paper rate indexed variable rate instruments. These swap agreements expire in one to 30 years. Pay-fixed swaps and interest rate caps effectively convert floating rate obligations to fixed rate instruments. The pay-fixed swaps expire in two to three years. The interest rate caps either expired or were terminated during the year.

The following table reflects incremental changes in the notional or contractual amounts of the company's interest rate contracts during 1999 and 1998. Activity representing renewal of existing positions is excluded.

	September 30, 1998	Additions	Maturities/ Expirations	Terminations	September 30, 1999
Pay-floating swaps	\$2,886	\$4,704	\$ (925)	\$(2,825)	\$3,840
Pay-fixed swaps	2,900	2,200	(2,900)	—	2,200
Interest rate caps	1,100	2,500	(1,100)	(2,500)	—
	<u>\$6,886</u>	<u>\$9,404</u>	<u>\$(4,925)</u>	<u>\$(5,325)</u>	<u>\$6,040</u>

	September 30, 1997	Additions	Maturities/ Expirations	Terminations	September 30, 1998
Pay-floating swaps	\$2,086	\$ 950	\$ (50)	\$(100)	\$2,886
Pay-fixed swaps	950	6,000	(4,050)	—	2,900
Interest rate caps	—	3,100	(2,000)	—	1,100
Swaption contracts	300	—	(300)	—	—
	<u>\$3,336</u>	<u>\$10,050</u>	<u>\$(6,400)</u>	<u>\$(100)</u>	<u>\$6,886</u>

The impact of interest rate risk management activities on income in 1999, 1998 and 1997, and the amount of deferred gains and losses from interest rate risk management transactions at September 30, 1999 and 1998 were not material.

Foreign Exchange Risk Management The company transacts business in virtually every part of the world and is subject to risks associated with changing foreign exchange rates. The company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its 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 and liabilities, commitments and anticipated foreign currency revenues. By policy, the company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures 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 transactions only to the extent considered necessary to meet its objectives as stated above. The company does not enter into foreign currency transactions for speculative purposes.

The company uses option strategies that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the European euro, Japanese yen, Australian dollar, Canadian dollar and British pound. The company also uses forward contracts to hedge foreign currency assets and liabilities. Cross-currency swaps are used to hedge foreign currency-denominated borrowings.

At September 30, 1999 and 1998, the notional amounts of the company's foreign exchange risk management contracts, net of notional amounts of contracts with counterparties against which the company has a legal right of offset, the related exposures hedged and the contract maturities are as follows:

	1999		
	Notional Amount	Exposures Hedged	Fiscal Year Maturity
Option contracts	\$1,416	\$ 524	2000
Forward contracts	1,620	1,353	2000
Cross-currency swaps	765	765	2000–2003
	<u>\$3,801</u>	<u>\$2,642</u>	

	1998		
	Notional Amount	Exposures Hedged	Fiscal Year Maturity
Option contracts	\$2,966	\$1,061	1999–2000
Forward contracts	2,053	1,773	1999–2000
Cross-currency swaps	1,678	1,678	1999–2003
	<u>\$6,697</u>	<u>\$4,512</u>	

Gains and losses on contracts hedging anticipated foreign currency revenues and foreign currency commitments are deferred until such revenues are recognized or such commitments are met, and offset changes in the value of the foreign currency revenues and commitments. At September 30, 1999 and 1998, the company had deferred gains of \$38 million and \$245 million, respectively, and deferred losses of \$26 million and \$118 million, respectively, related to foreign currency hedge transactions. Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. The impact

of foreign exchange risk management activities on operating income in 1999 and in 1998 was a net gain of \$66 million and \$227 million, respectively.

Fair Value of Financial Instruments At September 30, 1999 and 1998, the company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate, forward and foreign exchange risk management contracts.

At September 30, 1999 and 1998, the fair values of cash and cash equivalents, receivables, accounts payable and commercial paper approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 569	\$ 832	\$ 686	\$ 765
Borrowings	\$(10,971)	\$(10,962)	\$(10,914)	\$(11,271)
Risk management contracts:				
Foreign exchange forwards	\$ (37)	\$ (27)	\$ 49	\$ 18
Foreign exchange options	58	69	58	178
Interest rate swaps	10	(46)	30	181
Forward sale contracts	—	(36)	—	—
Cross-currency swaps	13	(65)	25	(89)
	<u>\$ 44</u>	<u>\$ (105)</u>	<u>\$ 162</u>	<u>\$ 288</u>

Credit Concentrations The company continually monitors its positions with, and the credit quality of, the financial institutions which 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, 1999 in the event of nonperformance by any one counterparty. The company enters into transactions only with financial institution counterparties that have a credit rating of A- or better. The company's current policy regarding agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the company limits the amount of investment credit exposure with any one institution. At September 30, 1999, financial institution counterparties had not posted any collateral to the company, and the company was required to collateralize \$176 million of its financial instrument obligations.

The company's trade receivables and investments do not represent a significant concentration of credit risk at September 30, 1999, due to the wide variety of customers and markets into which the company's products are sold, their dispersion across many geographic areas, and the diversification of the company's portfolio among instruments and issuers.

New Accounting Guidance In June 1998, the Financial Accounting Standards Board (the FASB) issued SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, which the company is required to adopt effective October 1, 2000. SFAS 133 will require the company to record all derivatives on

the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other stockholders' equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. The impact of SFAS 133 on the company's financial statements will depend on a variety of factors, including future interpretative guidance from the FASB, the future level of forecasted and actual foreign currency transactions, the extent of the company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. However, the company does not believe the effect of adopting SFAS 133 will be material to its financial position.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The company is committed to the purchase of broadcast rights for various feature films, sports and other programming aggregating approximately \$13.3 billion as of September 30, 1999, including approximately \$7.9 billion related to NFL programming. This amount is substantially payable over the next six years.

The company has various real estate operating leases, including retail outlets for the distribution of consumer products and office space for general and administrative purposes. Future minimum lease payments under these non-cancelable operating leases totaled \$2.2 billion at September 30, 1999, payable as follows:

2000	\$ 297
2001	262
2002	239
2003	216
2004	185
Thereafter	1,019

Rental expense for the above operating leases during 1999, 1998 and 1997, including overages, common-area maintenance and other contingent rentals, was \$385 million, \$321 million and \$327 million, respectively.

The company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various 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, nor does it expect that such actions will have a material effect on the company's liquidity or operating results.

NOTE 14. RESTRUCTURING CHARGES

In the third quarter of the current year, the company began an across-the-board assessment of its cost structure. The company's efforts are directed toward leveraging marketing and sales efforts, streamlining operations, identifying new markets and further developing distribution channels, including its Internet sites and cable and television networks.

In connection with actions taken to streamline operations, restructuring charges were recorded in the fourth quarter and amounted to \$132 million (\$0.04 per share). The restructuring activities primarily related to severance and lease and other contract cancellation costs, primarily in connection with the consolidation of operations in the

company's broadcasting, television production and regional entertainment businesses.

The charge included cash charges of \$24 million for severance and \$55 million for lease and other contract cancellation costs, and non-cash charges for asset write-offs and write-downs of underutilized assets of \$53 million.

Accrued balances at September 30, 1999 relate principally to lease and other contract cancellation costs and will be relieved throughout fiscal 2000, as leases and contracts expire.

NOTE 15. SUBSEQUENT EVENT

On November 17, 1999 stockholders of the company and Infoseek approved the company's acquisition of the remaining interest in Infoseek that the company did not already own.

The acquisition was effected by the creation and issuance of a new class of common stock, called go.com common stock, in exchange for outstanding Infoseek shares, at an exchange rate of 1.15 shares of GO.com for each Infoseek share.

As of the effective date of the Infoseek acquisition, the company retained an initial interest of approximately 72% in GO.com. Former Infoseek stockholders initially owned the remaining 28%. Shares of the company's existing common stock were reclassified as Disney Group common stock, and track Disney Group financial performance, which reflects the company's businesses other than GO.com, plus the company's retained interest in GO.com. The Infoseek acquisition will be accounted for as a purchase. Accordingly, operating results for Infoseek and amortization of its intangible assets, which is expected

to be substantial, will be reflected in the company's financial statements from the effective date of the transaction.

The unaudited pro forma information below presents results of operations of the businesses that are tracked by the Disney Group common stock and the go.com common stock, as if the Infoseek acquisition and issuance of go.com common stock had occurred at the beginning of the year. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had these events occurred at the beginning of the year presented, nor is it necessarily indicative of future results.

	Pro forma 1999 (unaudited)	
	Disney Group	GO.com
Revenues	\$23,196	\$ 348
Net income (loss)	1,364	(1,097)
Disney Group retained interest in GO.com:	(790)	790
Net income (loss) attributable to shareholders:	\$ 574	\$ (307)
Diluted and basic earnings (loss) per share attributable to shareholders:	\$ 0.28	\$(7.28)

In November 1999, the company sold the Fairchild Publishing assets acquired with its acquisition of ABC. The company is currently finalizing the accounting for the transaction. The sale is not expected to have a material effect on the company's financial position.

(In millions, except per share data) (Unaudited)	December 31	March 31	June 30	September 30
1999^{(1) (2) (3)}				
Revenues	\$6,589	\$5,510	\$5,522	\$5,781
Operating income	1,375	729	951	389
Net income	622	226	367	85
Earnings per share ⁽⁴⁾				
Diluted	0.30	0.11	0.18	0.04
Basic	0.30	0.11	0.18	0.04
1998⁽³⁾				
Revenues	\$6,339	\$5,242	\$5,248	\$6,147
Operating income	1,492	849	923	751
Net income	755	384	415	296
Earnings per share ⁽⁴⁾				
Diluted	0.37	0.18	0.20	0.14
Basic	0.37	0.19	0.20	0.14

⁽¹⁾ Reflects a \$345 million gain on the sale of Starwave in the first quarter of 1999. The earnings per share impact of the gain was \$0.10. See Note 2 to the Consolidated Financial Statements.

⁽²⁾ Reflects Equity in Infoseek loss of \$84 million, \$75 million, \$87 million and \$76 million for each of the four quarters in 1999, respectively. The earnings per share impacts of the losses were \$0.03, \$0.02, \$0.02 and \$0.02, respectively. See Notes 2 and 15 to the Consolidated Financial Statements.

⁽³⁾ Reflects \$132 million and \$64 million of restructuring charges in the fourth quarter of 1999 and 1998, respectively. The earnings per share impacts of the charges were \$0.04 and \$0.02, respectively. See Note 14 to the Consolidated Financial Statements.

⁽⁴⁾ Amounts have been adjusted to give effect to the three-for-one split of the company's common shares effective June 1998. See Note 8 to the Consolidated Financial Statements.

SELECTED FINANCIAL DATA

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	1999	1998	1997	1996	1995
<i>Statements of income</i>					
Revenues	\$23,402	\$22,976	\$22,473	\$ 18,739	\$12,151
Operating income	3,444	4,015	4,447	3,033	2,466
Net income	1,300	1,850	1,966	1,214	1,380
<i>Per share</i>					
Earnings					
Diluted	\$ 0.62	\$ 0.89	\$ 0.95	\$ 0.65	\$ 0.87
Basic	0.63	0.91	0.97	0.66	0.88
Dividends	0.21	0.20	0.17	0.14	0.12
<i>Balance sheets</i>					
Total assets	\$43,679	\$41,378	\$38,497	\$ 37,341	\$14,995
Borrowings	11,693	11,685	11,068	12,342	2,984
Stockholders' equity	20,975	19,388	17,285	16,086	6,651
<i>Statements of cash flows</i>					
Cash provided by operations	\$ 5,588	\$ 5,115	\$ 5,099	\$ 3,707	\$ 3,510
Investing activities	(5,310)	(5,665)	(3,936)	(12,546)	(2,288)
Financing activities	9	360	(1,124)	8,040	(332)

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

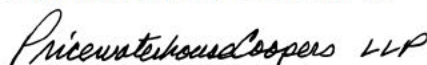
The Board of Directors of the company has an Audit Review Committee composed of seven non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated balance sheets (page 55) and the related consolidated statements of income (page 54) and cash flows (page 56) and of stockholders' equity (page 57) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the company) at September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP



Los Angeles, California
November 22, 1999

SUPPLEMENTAL INFORMATION

STOCK EXCHANGES

Disney Group common stock and go.com common stock are listed for trading on the New York Stock Exchange under the ticker symbols DIS and GO, respectively. Disney Group common stock is also listed on the Pacific Stock Exchange. Certain debt securities of the company are listed on the Luxembourg and Swiss stock Exchanges.

REGISTRAR AND STOCK TRANSFER AGENT

The Walt Disney Company
Shareholder Services
611 N. Brand Boulevard, Suite 6100
Glendale, California 91203
(818) 553-7200 (Disney shareholders)
(818) 553-7220 (GO.com shareholders)

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, Los Angeles

OTHER INFORMATION

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

Please visit the Disney and GO.com Investor Relations sites at www.disney.go.com/investors and www.go.com/investors. On these sites you can order financial documents online, send e-mail inquiries, get instructions on how to transfer shares, and review additional information about the company and its shareholder services.

BOARD OF DIRECTORS

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Center for Early Education

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Vice Chairman
The Walt Disney Company

*Michael D. Eisner*⁴
Chairman and Chief Executive Officer
The Walt Disney Company

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Senior Vice President
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*Sanford M. Litvack*²
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The Walt Disney Company

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Lozano Communications

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² Member Capital Stock Committee
³ Member of Compensation Committee
Member of Executive Committee
⁵ Member of Executive Performance
Subcommittee of the Compensation
Committee
⁶ Member of Nominating Committee

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Chairman Emeritus
Federal Reserve Bank of San Francisco

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Walt Disney Attractions

E. Cardon Walker
Former Chairman and Chief Executive Officer
The Walt Disney Company

CORPORATE EXECUTIVE OFFICERS

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

Roy E. Disney
Vice Chairman of the Board

Sanford M. Litvack
Vice Chairman of the Board

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

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

Louis M. Meisinger
Executive Vice President and General Counsel

PRINCIPAL BUSINESSES

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International

Disney Consumer Products
Barton K. Boyd, Chairman
Andrew Mooney, President

Disneyland Paris
Gilles Pelisson, Chairman and Chief Executive Officer

Go Network
Steven M. Bornstein, Chairman
Stephen H. Wadsworth, President

Walt Disney Attractions
Judson C. Green, Chairman
Paul S. Pressler, President

Walt Disney Studios
Joseph E. Roth, Chairman, The Walt Disney Studios
Peter Schneider, President, The Walt Disney Studios

