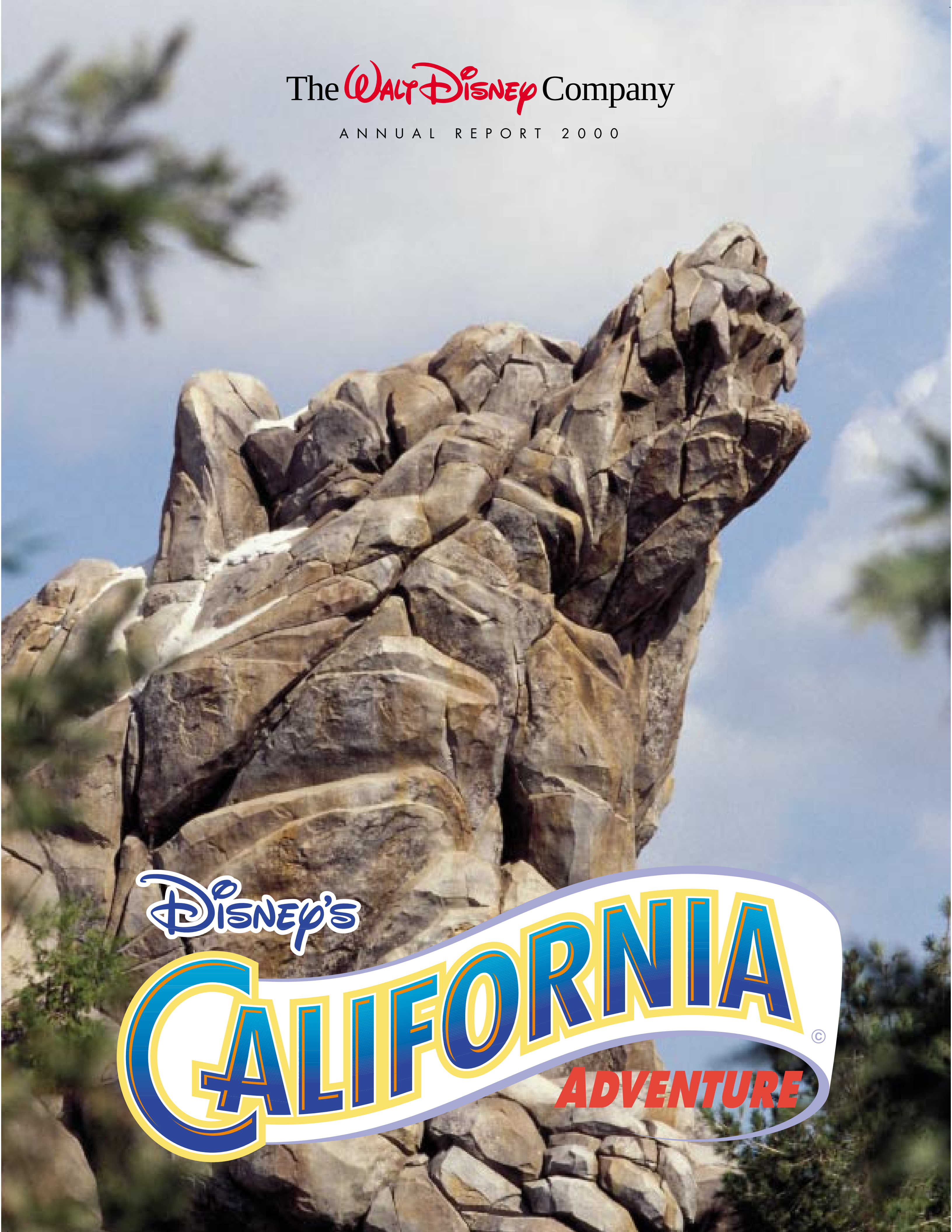
The Walt Disney Company

ANNUAL REPORT 2000



CONTENT LISTING

FINANCIAL HIGHLIGHTS

The Walt Disney Company

(In millions, except per share data)	**2000**	1999	Better (Worse)
Revenues	**$25,402**	$23,435	8%
Operating income [1]	**4,081**	3,720	10%
Diluted earnings (loss) per share			
Disney common stock [2]	**0.92**	0.65	42%
Internet Group common stock [3]	**(1.40)**	n/a	n/a
Cash flow from operations	**6,434**	5,588	15%
Borrowings	**9,461**	11,693	19%
Stockholder's equity	**24,100**	20,975	15%

[1] 2000 excludes amortization of intangible assets of $1.2 billion and gains on the sale of Ultraseek and Fairchild Publication of $153 million and $243 million, respectively. 1999 excludes amortization of intangible assets of $456 million, restructuring charges totaling $132 million and the Starwave gain of $345 million.
[2] Excluding Internet Group losses
[3] Excluding amortization of intangible assets

LETTER TO SHAREHOLDERS 2000

Michael D. Eisner
Chairman and CEO

TO FELLOW DISNEY OWNERS AND CAST MEMBERS:

I am writing this letter as I fly across the Atlantic to spend five weeks working out of our Hammersmith office in London and meeting with our executives throughout Europe. We have a substantial amount of business in Europe, including five Disney Channels, 113 Disney Stores, three stage productions and one very large destination resort. Europe's economy is roughly the same size as that of the United States and thus represents an enormous continuing opportunity for your company. But, before acclimating myself by reading the latest issue of our Italian magazine that first was published in 1932 and features a character named Topolino, aka Mickey Mouse, I will compose this letter to you. I always enjoy this exercise in collecting my corporate thoughts, but there is an odd "time capsule" quality to writing a letter that I know won't be read until a month later in another year. So it is that I offer you my report on a fiscal year that began in 1999 (a millennium ago!) that you'll be reading in 2001.

One of our corporate mantras at Disney is to strive to exceed guest expectations. Well, in FY 2000, we managed to exceed *Wall Street* expectations as well. You can see all the numbers in more detail in the pages that follow, but no matter how you look at it, double-digit growth certainly deserves to be mentioned right up front in this letter, since it represents a return to the kind of growth we have enjoyed for most of the past 16 years. You should be aware that you can continue to monitor Disney's performance throughout the year at our Investor Relations Web site, www.disney.go.com/investors. I find I communicate increasingly with our cast members on the Internet, with business associates outside the company on the Internet, and with my children and my sister and my cousins on the Internet. It stands to reason that I should start communicating with you this way as well. Along these lines, I'm going to point out other pertinent Web sites throughout this letter. As an owner of this company, you shouldn't have to wait for this annual update to keep abreast of the financial and creative goings-on at your company.

As strong as this year was, it really was the equivalent of a race car accelerating nicely on many, but not all, of its cylinders. Let me borrow one of our new Autopia cars to illustrate what I mean.

During the year, one of the improvements we made at Disneyland, working with our colleagues at Chevron, was to update Autopia with these new, more environment-friendly vehicles. But, for purposes of this letter, this car can symbolize our company, and here's how it looks under the hood.

The Disney corporate engine is powered by five cylinders: Media Networks, Parks and Resorts, Consumer Products, Studio Entertainment and the Walt Disney Internet Group.

Throughout much of the '90s, we were truly firing on all cylinders (of course, we didn't have as many as we have now), and the company kept posting solid double-digit growth. What I found most remarkable about 2000 was that our robust growth was achieved with just two of the cylinders firing at 100 percent. I find it very exciting to ponder what this vehicle can achieve when all five cylinders are fully and harmoniously functioning at peak performance.

Certainly, the most effective cylinder of the year was Media Networks. This performance was particularly gratifying since acquisitions are a tricky business (as our strategic planning group, my graduate school son and my nephew like to point out). Companies often pay too much for other companies in search of a headline in *The Wall Street Journal* or because they are afraid to let cash burn a hole in their pockets. We didn't want to fall into this trap and didn't make any large purchases from 1984 until 1995. We were just being careful. But then Tinkerbell sprinkled some pixie dust over us and the value of buying Capital Cities/ABC became apparent. Despite the fact that batting averages in the United States on acquisitions are pretty low and are marked by countless strikeouts, our purchase of Cap Cities/ABC was a homerun, as especially evidenced this year.

On the ABC Network, *Who Wants to Be a Millionaire*, *Dharma & Greg*, *The Drew Carey Show* and *The Practice* were among the most successful primetime shows on television (as I write this, there has been some recent softness in the ad market and ABC's primetime ratings have not been quite so dominant, but the fact is that we have a strong programming infrastructure — which we hope to make even stronger with some mid-season additions — that should help the network continue to perform nicely this year and in the years to come). Throughout 2000, ABC Daytime led the pack. ABC News not only covered history but *made* history with its 24-hour coverage of the millennium. ESPN continued to be in a class of its own, as evidenced by *The New York Times* listing it as one of the "21 brands that will be powerful in the 21st century." Our owned and operated stations experienced record growth. The Disney Channel continued to be a cable leader, as did the other cable properties in which we have a stake: A&E, Lifetime, The History Channel and E! Entertainment Television. ToonDisney and SoapNet quickly came out of the starting blocks as popular new cable services. Our 50 radio stations reached more than 15 million people weekly in the top 20 U.S. markets (our radio stations include ESPN Radio, the number-one sports radio network, and my personal favorite, Radio Disney). Overseas, the number of our international Disney Channels expanded to 13, helping to plant the Disney flag in markets around the world. I was pleased to see that the Disney Channel also expanded on the isle of Manhattan, where it switched from a premium to a basic cable service.

I doubt that there has been a merger in American business history that has experienced a more seamless integration than the Cap Cities/ABC deal. This is largely thanks to the underlying compatibility of our businesses. Obviously, during 2000, our overall company benefited tremendously from the contribution of these broadcast assets. But to me, their long-term benefits have always been the most compelling. With our ABC holdings, Disney is a true full-service entertainment enterprise. Our television assets enable us to be extraordinarily well-positioned to seize opportunities as they emerge in the vast entertainment firmament.

Unlike Media Networks, which is so new to The Walt Disney Company, the other cylinder that has been hitting at 100 percent is one of our most venerable — Parks and Resorts, which is responsible for our flagship theme parks on three continents ... like an athlete lettering in three sports (not something I ever did by the way). During 2000, this cylinder was not only a strong performer, it also continued to show its dependability, as it posted record results for the sixth year in a row. This performance was helped along by the strong performance of the Disney Cruise Line, which was rated either Excellent or Very Good by an astounding 93 percent of our guests. (I remain convinced that the other 7 percent accidentally marked the wrong box — perhaps we should demand a recount.) The Cruise Line also boasted occupancy rates (called load factors) roughly one-third above cruise industry averages. To get some sense of what a Disney cruise is like, you can go to disney.go.com/disneycruise.

But of course, most of the results of our Parks and Resorts unit derive from our company's most distinct assets — our theme parks. The sheer strength and unique appeal of our parks were demonstrated particularly well this year in Anaheim, where Disneyland achieved outstanding attendance levels despite all the construction we have going on nearby. The public clearly understands that, even if it involves some inconvenience, it's worth taking a trip to The Happiest Place on Earth because once you're inside Disneyland's gates, the outside world disappears ... and, in many cases, so do the lines now, thanks to FASTPASS. FASTPASS not only drastically reduces the waiting times for our most popular attractions, but we have found that guests who use it are typically staying at our parks longer, apparently because the entire experience has become that much more enjoyable. What's more, FASTPASS keeps impatient "type A" fathers from staying home in the first place … and mothers, too.

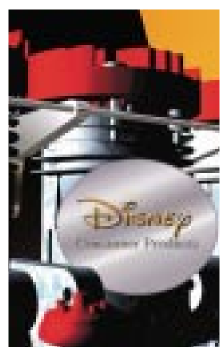
If people felt they had good reason to visit the Disneyland Resort in 2000, they really should feel compelled to join us in 2001. On February 8, we will dedicate a number of extraordinary enhancements in Anaheim, including an all-new entertainment district called Downtown Disney, a magnificent 750-room hotel called Disney's Grand Californian and an entirely new theme park, Disney's California Adventure (notice the great image of one of its icons on the cover of this report). The whole area has been wonderfully landscaped, and getting to the resort will be easier than ever thanks to major improvements in the Santa Ana Freeway, including an off-ramp that goes right into the resort's parking structure. As for Disney's California Adventure, I won't go so far as to say that it has *all* of the wonders of California in one place, but I can tell you that there isn't another spot where you can experience everything from the Golden Gate to Hollywood to the Sierras to Napa Valley to Malibu in one day. The only major California destination that isn't represented at Disney's California Adventure is Disneyland, which is across the street. You can preview the Disneyland Resort later in the pages of this report and at www.disneyland.com.

Just as we are transforming the Disneyland Resort into a true multi-day tourist destination, this fall a similar transformation will take place on the other side of the Pacific. Tokyo Disneyland has regularly posted the highest attendance of all our theme parks. Now, we are putting the finishing touches on Tokyo DisneySea, adjacent to Tokyo Disneyland (www.tokyodisneysea.co.jp/english). This park will be totally original and totally breathtaking, thanks to the commitment of our partner, Oriental Land Company Ltd., whose investment is building the park. As with Tokyo Disneyland, our company will earn royalties from the day the park opens. In addition, we will receive royalties from two Disney-branded hotels — the Disney Ambassador, which opened in July across the street from Tokyo Disneyland, and the Disney MiraCosta, which will open at the same time as Tokyo DisneySea.

In 2002, our third theme park transformation will take place. Disneyland Paris, sitting on 4,800 acres, with seven hotels up and running, is already the most popular tourist destination in Europe. So, it is particularly well-suited for a second theme park, which will give more people more reason to stay in those hotels for multiple nights. Our new Paris park will be called, appropriately enough, Disney Studios Paris. It will be modeled after Disney/MGM Studios at Walt Disney World, which will not only serve as a template, but will also provide economies of scale, since we'll be reproducing popular attractions, thereby saving all of the research and development costs of starting from scratch.

Further down the road, in 2005, we will be opening Hong Kong Disneyland. So I have several more years to write to you about this park. For now, suffice it to say that its potential significance is enormous, as it will represent a beachhead for our company in the world's most populous region.

One final note on all this expansion activity. From a creative standpoint, these new parks are incredibly exciting. But, from a hard, cold financial perspective … they're pretty exciting as well. This is because Disney's total investment in all our new properties outside the United States is less than we have spent to build some individual theme parks in the past. For this reason, Parks and Resorts' capital expenditures should generate after-tax, after-reinvestment free cash flow of more than $1 billion annually, beginning in 2002. Not bad for a single cylinder.



Let's go back under the hood and look at the cylinders that haven't been firing quite so efficiently.

First, there's Disney Consumer Products, which has four main components: licensing, publishing, interactive software and retail.

Licensing is certainly the biggest of the four. In this area, we have been incredibly successful with two characters in particular, Mickey and Winnie the Pooh. But, we have 122 other characters living in Toontown who have been underutilized (and I'm only counting all those Dalmatians as one of the 122). Since these 122 characters would lead the pack for most other companies, we clearly have enormous untapped opportunities in this area. To help tap these opportunities, during 2000 we reached licensing agreements with the world's two premier toy manufacturers — Mattel and Hasbro. Mattel will be producing preschool toys and games through its Fisher-Price unit. Hasbro will create toys and games associated with upcoming Disney-branded films, beginning with the Disney/Pixar release of *Monsters, Inc.*, which is scheduled for November 2001.

Disney Publishing is the world's largest publisher of children's books and magazines, selling 375 million copies annually. This is a profitable division on its own and has become an important source for content that can be leveraged across the company. For example, we have been publishing a book series called *Cheetah Girls,* which is now being developed as a television series produced by Whitney Houston for the Disney Channel.

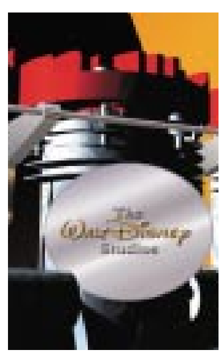
Disney Interactive has been performing extremely well. You can get an idea of the range of innovative product at disney.go.com/DisneyInteractive. This division is currently enjoying robust growth, with profits doubling during the year. Disney Interactive will soon be expanding by entering the sports category with the ESPN brand, as well as the world of fantasy gaming.

Our retailing operations are represented by the Disney Store. The first Disney Store was launched in 1987 and this business went on to set the standard for specialty retail merchandising. For a decade, strong growth was maintained through quality merchandise, outstanding guest service, great locations and aggressive expansion. Now, we expect to re-ignite growth by taking the fantastic Disney Store infrastructure that is in place and bringing a fresh approach to its operation. This is being achieved in two principal ways — in the near term, changing the merchandise on the shelves … and in the longer term, changing the shelves.

As for the merchandise, we are shifting our emphasis to take advantage of every seasonal event that calls for a celebration, such as Halloween, Christmas and Easter. Of course, we will still have a full range of popular year-round products. We are also taking advantage of our online operation (www.disneystore.com) so people can come to the Disney Store and order anything that's not available on the premises through a computer kiosk.

As for changing the shelves, we recently opened our first two redesigned Disney Stores in Costa Mesa, California, and Cherry Hill, New Jersey. Over the next several years, we will be rolling out this new design across the country and around the world. The new Store has a fresh, clean look that offers a number of advantages: It permits a much more flexible use of space, its modular design allows for easy changes down the road and, most important, it allows for 40 percent more merchandise on the floor. Essentially, the new design is the equivalent of significantly expanding the size of a store without leasing a single extra square foot. And I do want to point out that Disney Stores represent the face of our company in communities around the world. Therefore, they are a very important extension of the Disney experience. In other words, there is a lot more to the Stores than the simple profit and loss statements. That said, profits are a good idea!

As you can see, licensing and retail are the areas we are focusing on to improve Disney Consumer Products' overall performance. The changes we are implementing can't happen overnight, but I am confident that in a few years we will be able to look back and see Disney Consumer Products as one of our company's most powerful drivers.



The fourth cylinder in the Disney engine is The Walt Disney Studios. As with Consumer Products, our Studios unit was an engine of growth that has stalled a bit recently. And, as with Consumer Products, in 2000 we put in place new top management to chart a new course.

Fortunately, the disappointing financial performance at the Studios has never been a function of creative shortcomings.

Year after year, our movies have led the box office. In 2000, we saw our international box office go over $1 billion for an unprecedented sixth straight year. So the problem is not a matter of failing to make movies that audiences embrace. Rather, the problem has primarily been — as at all studios — in controlling costs and in maintaining growth in the home video market. We believe we are employing a healthy combination of hard-edged business sense and free-flowing creativity to craft a business that works and will grow.

In terms of costs, we have saved substantial amounts by more carefully selecting the scripts and books we purchase and by reducing the number of films we make so we can target our creativity more effectively. What's more, in animation, cost pressures have come down as a number of other studios that were bidding up the price of talent have now decided they don't want to compete in this area anymore. During the fourth quarter of the year, we could see the fruits of our fiscal prudence, as we saw higher operating income on lower revenues, resulting in better margins.

With regard to home video, DVD is beginning to breathe new life into this market. The growth in sales of DVD players has exceeded the growth of CD players at this stage. When I wrote you a year ago, there were 9.7 million units in American households. Now, there are an estimated 22 million units. And, at the end of 2001, it is forecast that there will be more than 36 million units. This trend is especially important to our company because more and more people are not just buying DVDs of new movies, they are also buying DVDs of movies they already own on VHS. For example, someone who already has *Pinocchio* in his library might now buy *Pinocchio* on DVD because of the added quality and extra features. Indeed, a survey conducted earlier this year indicated that 14 percent of people who own DVD players said they are likely to replace all of their VHS movies … while 55 percent said they are likely to replace their Disney videos. When it comes to home entertainment, there is a Disney difference, and consumers know it.

But the real key to success at the Studios is what it has always been — great and exciting product. Consider *Remember the Titans.* It was originally developed as a Touchstone period drama. We came to realize, however, that its underlying messages about values, racial understanding and our nation's history were a perfect match for the Disney brand, so we produced it under the Walt Disney Pictures banner. This wonderful — and moderately budgeted — motion picture was one of the big hits of 2000, propelled in part by the strength of the Disney name.

As I write this, our next animated film, *The Emperor's New Groove*, is waiting in the wings for the holidays. Coming Memorial Day weekend, we have as close to a sure thing as you get in this business — *Pearl Harbor*, produced by Jerry Bruckheimer and directed by Michael Bay, the same team that brought us *The Rock* and *Armageddon*, with an all-star cast headed by Ben Affleck. You can get a sense of the sweep and drama of this film at www.pearlharbor.com. Wait a second. I take back that this is a "sure thing." That is bad luck. It is not a sure thing. It's an absolutely fantastic, probably successful film that should surely draw a significant audience. This summer, we will release *Atlantis: The Lost Empire*. This is an animated wide-screen action movie that should be the perfect summer film for kids of all ages. For the holiday season, we will have *Monsters, Inc.*, produced with our partners at Pixar. This film presents the previously untold story of all those hard-working monsters whose job it is to hide under kids' beds to scare them in the middle of the night. I strongly urge you to click on www.monstersinc.com to see the very funny trailer for this extremely inventive film.

Our final corporate cylinder is the Walt Disney Internet Group which, of course, is also tracked by a separately traded class of common stock (the Investor Relations site is www.dig.com/ investors).

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

The Internet Group oversees, designs, coordinates and engineers all of the Web sites I've referenced in this letter as well as countless others. Like all Internet enterprises, the Internet Group is still embryonic and evolving. But, unlike many Internet businesses, ours is based on solid assets that should help to power this cylinder to performance down the road. Yes, the Internet Group currently posts losses and, yes, that really concerns me and our management. We spend an enormous amount of time trying to limit those losses. I expect them to get progressively smaller and ultimately I expect Walt Disney Internet Group to turn a profit. But those losses currently represent investment in our strong presence on the Internet, investment that should help assure that Disney will continue to be a large and prosperous entertainment company years down the road. In the meantime, we will be under a lot of pressure as some EPS watchers and journalists forget how important it is to protect our technological future through investments today.

In many ways, today's Internet environment is reminiscent of Disney's early days. Walt and Roy achieved moderate success experimenting with silent cartoon shorts. Then came what we today would call a "killer ap" — in this case, synchronized sound. The Disney Studios produced the first sound cartoon, starring Mickey Mouse, and, overnight, Disney became a household name. The Internet is still in its infancy, but we are getting closer to the day when it will be transformed into a true entertainment medium … and our company will once again be poised at the cutting edge — and still helping us out will be Mickey Mouse.

As it stands now, our collection of Internet sites — ranging from Disney.com to ABC.com to ESPN.com to ABCNews.com to Family.com — includes leaders in their categories and collectively ranks sixth in total usage on the entire Internet. I am particularly proud of what we have achieved in the critically important area of Internet/television convergence with the development of Enhanced TV. It is now a regular feature of *Who Wants to Be a Millionaire* (heavy.etv.go.com) as well as *Monday Night Football* and special event shows such as the Oscars and the Emmys. Other major developments during the year included the re-launch of our GO.com Web site, which has been refined into a site that plays more directly to the entertainment, recreation and lifestyle strengths of our company. I urge you to check it out … and especially spend some time using the search engine, which almost magically brings up the direct and related results that you're looking for. We also

General Colin Powell and I joined Disney cast members at Walt Disney World Resort in June to celebrate their extraordinary commitment to Volunteerism.

launched our auction site with eBay, which allows ardent fans of Disney to come directly to us for collectibles. "Collectibles" is actually a somewhat misleading term that implies fragile trinkets from the past. Well, among the Disney trinkets that have been auctioned are an original Dumbo car and the 20-foot-high letters from the Disneyland sign that stood for years at the entrance to the parking lot. There really is something for every Disneyana budget. You can see for yourself at www.ebay.disney.com.

In order to further strengthen our relationship with our most loyal customers, we have established The Disney Club, which offers a wide range of benefits across our company. Members will receive preferred access to select Disney theatrical performances such as *The Lion King*, *AIDA*, *Beauty and the Beast*, (still the #1, #2 and #3 shows on Broadway) and *Disney on Ice*; discounts and information about new products at Disney Store worldwide retail locations, catalog and online; and special offers on certain Disney videos, DVDs and CDs. Plus, members have access to offers and discounts from Disneyland and Walt Disney World. In the months and years ahead, it will only get better. For example, technology is being developed that could turn a Disney Club card into a "magic key" to the world of Disney. Imagine purchasing a Disney vacation package online, checking in to your hotel over the Internet or telephone before you leave home, and then using your membership card as your hotel room key and park admission pass! This may still be a few years away, but we're already working on it. You can find out all the details about membership and benefits of The Disney Club at www.disneyclub.com.

There you have it. The corporate car is driving quite nicely, but we're engineering it to perform even better in the days ahead. And it is important to make clear that a car, no matter how well engineered, is only as good as its drivers. I believe Disney's management team has never been stronger. With Bob Iger and our Executive Committee, which is made up of our key corporate executives and the heads of our business units, we have an experienced group of individuals whose leadership skills span the breadth of this extraordinary company. Equally important are our 120,000 cast members, who ably carry the Disney and ABC and ESPN and Miramax and all of our other banners before the public. The dedication of thousands of our cast members was recognized in June by no less than General Colin Powell, who commended them for fulfilling their pledge of volunteering 1 million hours of community service by the end of 2000 … a pledge that I am proud to report has been exceeded as I write this letter.

Quite frankly, our cast members are second to none. Working together, all of us plan to drive Disney to great new places in the months and years ahead.

We hope you continue to join us for the ride.

Sincerely,

Michael D. Eisner

Chairman and CEO

November 30, 2000

FINANCIAL REVIEW 2000

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

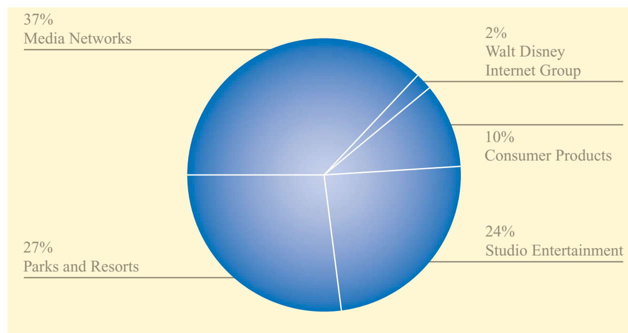
OVERVIEW

The Walt Disney Company's key objective is to be the world's premier family entertainment company through the ongoing development of its powerful brand and character franchises. The 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.

2000 FINANCIAL PERFORMANCE

Fiscal 2000 proved to be a very successful year financially as well as creatively for The Walt Disney Company. For the year, consolidated pro forma revenues grew to $25.4 billion. Revenue growth in 2000 was led by Media Networks, which now constitutes the largest portion of Disney's business in terms of both revenues and operating profits.

THE WALT DISNEY COMPANY
FISCAL 2000 REVENUES

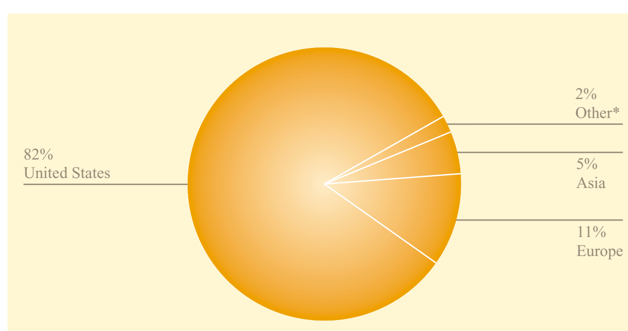


Total Revenues: $25.4 billion

Operating income rose 39 percent to $2.9 billion and net income, excluding non-cash amortization of intangible assets, increased by 30 percent to $2.1 billion.

Disney's strongest drivers of growth in 2000 were Media Networks and Parks and Resorts. Since these two businesses are heavily weighted toward U.S. opportunities, the company's domestic growth outpaced international growth. Nonetheless, international revenues amounted to more than $4.6 billion in fiscal 2000, representing approximately 18 percent of total Walt Disney Company revenues.

THE WALT DISNEY COMPANY
INTERNATIONAL REVENUES



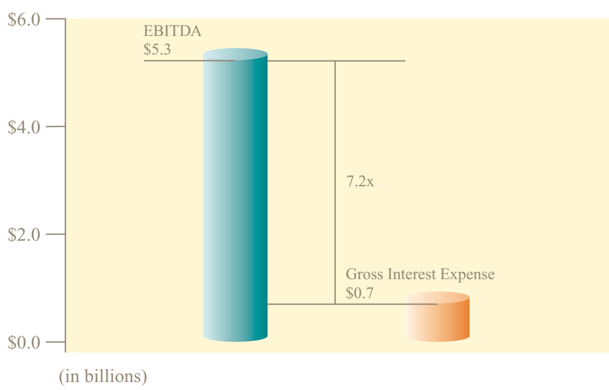
Total Revenues: $25.4 billion
*Includes Canada, Latin America and Other

The company believes that international markets offer Disney tremendous opportunities for long-term growth. To capture that potential, the company continues to invest in businesses that will help further establish Disney's brands and characters around the world. These businesses include international television distribution, such as international Disney Channels, international versions of Disney's Daily Blast Internet product, and new theme parks in Tokyo, Paris and Hong Kong.

CAPITALIZATION

Growing levels of free cash flow generated by operations and the sale of certain assets enabled Disney to reduce its debt balances by $2.2 billion to just under $9.5 billion, leaving the company with an attractive 1.8x total debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio and a fiscal 2000 EBITDA to gross interest coverage ratio of 7.2x.

THE WALT DISNEY COMPANY
GROSS INTEREST EXPENSE COVERAGE



The company monitors its cash flow, interest coverage and debt-to-total-capital ratio with an eye towards maintaining a strong single A credit rating. Currently, Disney's long-term debt is rated A/A2 and its short-term debt A1/P1 by Standard & Poor's/Moody's, respectively. Disney's strong credit ratings allow the company to borrow at attractive rates, thereby reducing its overall cost of capital, and the company's strong balance sheet provides significant financial flexibility to borrow prudently as opportunities arise.

OPERATING AND CAPITAL EFFICIENCIES

At the beginning of its 2000 fiscal year, the company targeted certain cost-containment measures that are expected to lead to $500 million in annual savings by the end of 2001. The efficiency initiatives implemented in 2000 include more than 500 productivity initiatives at its theme parks, overhead reductions in the company's television and film production businesses and a company wide effort to coordinate and bring greater efficiency to the procurement of good and services.

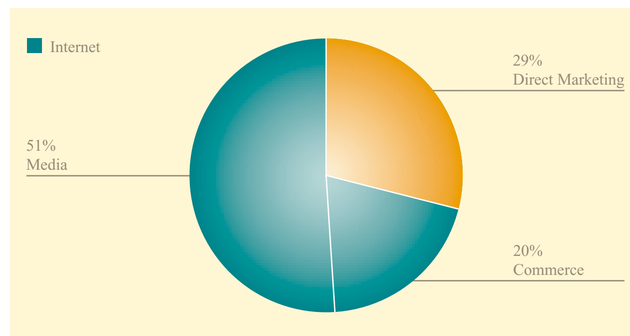
The company's priorities for use of its cash flow are based on the overall goal of driving attractive returns on invested capital. Toward this end, Disney deployed capital in fiscal 2000 toward continued resort expansion at Walt Disney World, the construction of new theme park and resort facilities in Anaheim, the launch of new Disney Channels in Germany, Asia and Latin America, the new SoapNet cable channel, continued growth of the ESPN Classic Sports programming service and development of the company's Internet businesses. In addition, the company utilized funds to repurchase Walt Disney Internet Group common stock and Disney common stock as discussed below.

WALT DISNEY INTERNET GROUP (DIG) — OVERVIEW

Early fiscal 2000 saw the formation of the Walt Disney Internet Group and the issuance of a new, separately traded class of stock listed on the New York and Pacific stock exchanges under the ticker symbol DIG. In fiscal 2000, the Walt Disney Internet Group's revenues were $392 million, 13 percent higher than prior year pro forma amounts. Internet revenues, which exclude the non-Internet based Disney Catalog, grew at a much higher 39 percent. The loss per share attributable to Internet Group shares in fiscal 2000, excluding non-cash amortization of intangibles, was $1.40.

Walt Disney Internet Group's revenues are generated from three key sources: Media, which consists primarily of advertising and sponsorship; Commerce, composed largely of merchandise sales at DisneyStore.com and travel product sales at DisneyVacations.com; and Direct Marketing, which includes The Disney Catalog and the DisneyStore.com fulfillment operation.[1]

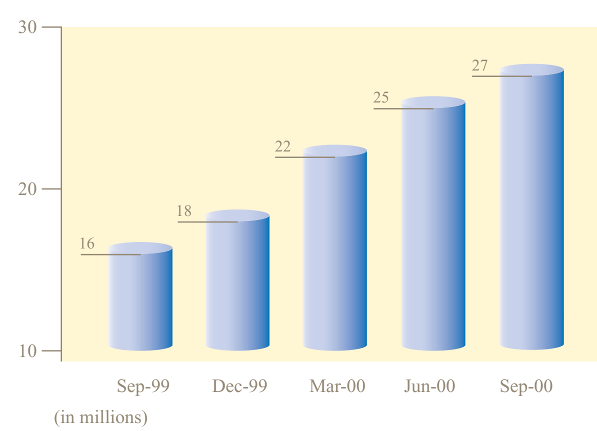
WALT DISNEY INTERNET GROUP
FISCAL 2000 REVENUES



Total Revenues: $392 million

Walt Disney Internet Group's higher revenues in fiscal 2000 were due in part to growth in its media revenues, a reflection of advertisers' attraction to a growing user base over the same time-frame. The Internet Group's registered user base reached 27 million by September 2000.

WALT DISNEY INTERNET GROUP
REGISTERED USERS



[1] *For a full description of the Walt Disney Internet Group's segment performance, please refer to this annual report's Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Walt Disney Internet Group — Investor Returns

Like many Internet company stocks, Walt Disney Internet Group shares did not perform well in 2000. The company continues to believe that investment in its Internet-based businesses is an important part of its long-term growth strategy. The Internet provides an important new distribution outlet for Disney's content as well as a medium in which to create new forms of programming utilizing the company's brand and character franchises. Although the company expects continued losses in its Internet businesses in the near-term, it is constantly evaluating its Internet operations in an effort to focus on those areas that offer the greatest opportunity for profitability and long-term value creation.

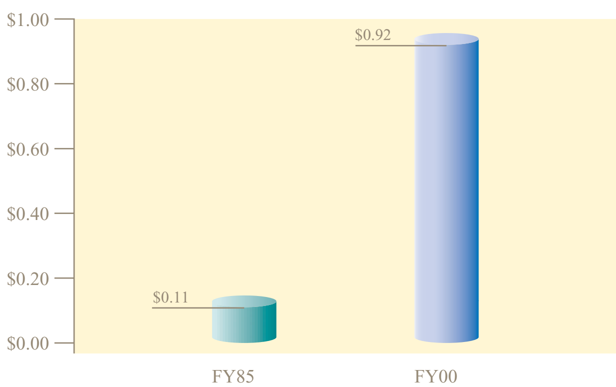
Walt Disney Internet Group — Share Repurchase and Dividends

The company believes that share repurchase is an attractive use of its cash flow over and above that which the company retains for investment in value-creating business opportunities. Accordingly, the company's Board of Directors authorized the open market repurchase of up to 5 million shares of Walt Disney Internet Group stock in April 2000. The company subsequently purchased approximately 910,000 DIG shares at a cost of $11.4 million during fiscal 2000. Consistent with the practice of other Internet and technology growth companies, no dividends were paid on Walt Disney Internet Group shares in 2000.

DISNEY (DIS) — OVERVIEW

Earnings per share attributable to Disney shareholders in fiscal 2000, excluding Disney's share of Walt Disney Internet Group losses, rose 42 percent, to $0.92. For the period from 1985 to 2000, Disney's earnings per share growth measured on the same basis has averaged 15 percent per year.

THE WALT DISNEY COMPANY
EARNINGS PER SHARE ATTRIBUTABLE TO DISNEY COMMON STOCK SINCE 1985*
CAGR = 15%



*Earnings per share excludes Disney's share of Walt Disney Internet Group losses

Non-cash amortization of intangibles, which many investors choose to add back to book earnings for valuation purposes, totaled $0.20 per share in fiscal 2000. Therefore, total earnings per share excluding Disney's share of Walt Disney Internet Group losses and before this non-cash goodwill would have been $1.12.

Including Disney's share of Walt Disney Internet Group losses (71 percent), earnings per share attributable to Disney excluding both Disney and Internet non-cash amortization of intangibles were $1.05, up 31 percent over the prior year.

Disney — Segment Results

While each of Disney's business units is a leader in its sector, two of its five key component businesses were most responsible for driving the outstanding growth in fiscal 2000: Media Networks and Parks and Resorts.[2] Media Networks' record-setting performance was the result of a strong advertising market and higher ratings, not only at the ABC Television Network but also at the company-owned television stations, radio stations and radio networks. The robust advertising environment also benefited several cable properties in which Disney holds ownership interests, namely ESPN, A&E, Lifetime, E! Entertainment Television and The History Channel. The company's cable businesses, including Disney Channel, also grew due to continued subscriber growth and associated fee income.

At Disney's Parks and Resorts unit, higher guest spending and record total theme park attendance due to the Millennium Celebration at Walt Disney World in Florida and the 45th Anniversary celebration at Disneyland in California, contributed to financial success. Improved results at Disney Cruise Line from the full-year sailing of both cruise ships, the *Disney Magic* and the *Disney Wonder*, and record levels of occupied room nights at Walt Disney World resorts, also contributed to Parks and Resorts' performance.

[2] *For a full description of Disney's segment performance, please refer to this annual report's Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Meanwhile, Disney's Consumer Products and Studio Entertainment business units continued to implement key strategies the company believes will lead to improvements in their respective financial performance over time. In Consumer Products, Mickey Mouse and Winnie the Pooh merchandise were once again the leaders in this business. However, 2000 was a year of continued softness in worldwide merchandise licensing. Although recent results have fallen short of historical performance, the company is confident in the long-term appeal and marketability of its assets.

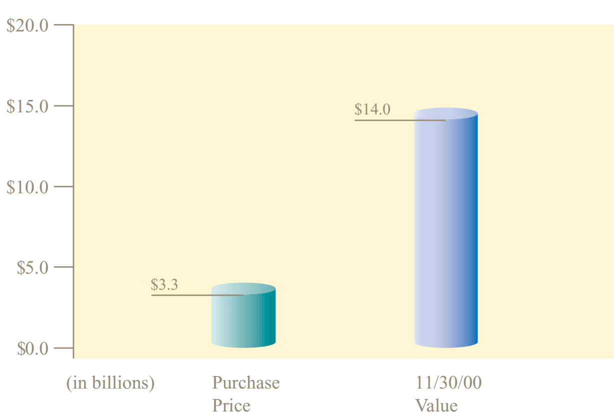
For Studio Entertainment, declines in worldwide home video in 2000 were partially offset by improvements year-over-year in international theatrical distribution. In the medium to long-term, the company believes that the strength of its animation library, including its 37 full-length animation classics, will be a key factor in driving strong results for the Studio. The rapid growth of DVD players and new distribution opportunities afforded by the Internet could also augment the Studio's results.

Disney — Share Repurchase and Dividends

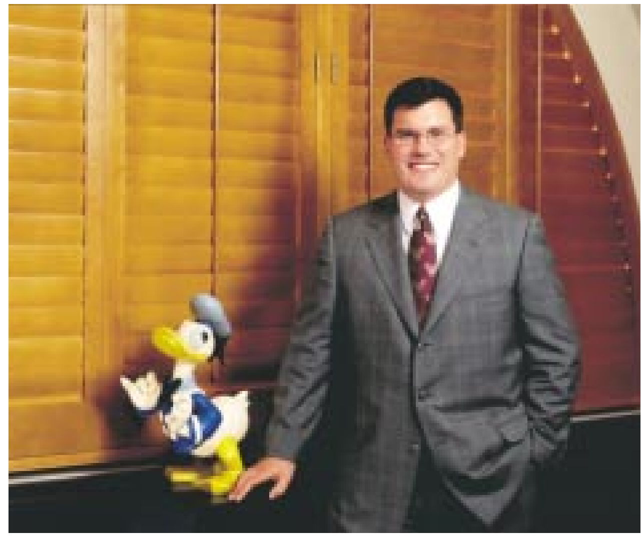
Disney's priority is to apply its growing cash flow and earnings to projects with the potential for creating long-term value for its shareholders. Above and beyond the capital retained for such projects, the company may utilize excess cash flow for share repurchase. In fiscal 2000, the company repurchased approximately 4.9 million Disney shares for a total investment of $155 million. As of September 30, 2000, the company had authorization to purchase approximately 394 million additional Disney shares.

Since 1983, Disney has invested $3.3 billion to buy back nearly 485 million shares at an average price of approximately $6.80 per share. Measured as of November 30, 2000, these shares were worth $14 billion for an annualized return of 15 percent.

DISNEY SHARE REPURCHASE SINCE 1983



In December 2000, the company paid cash dividends of $0.21 per share to holders of Disney stock. The company has paid dividends on Disney stock for the past 44 years.

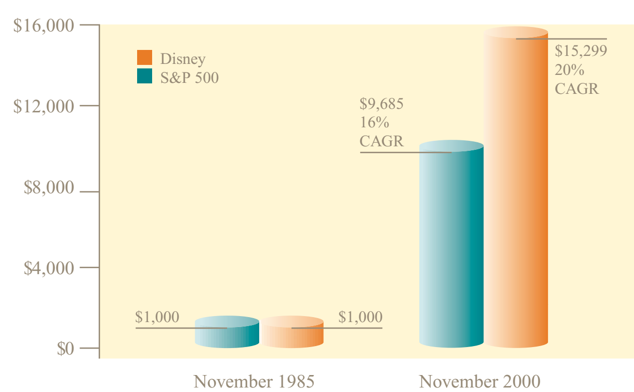


Peter E. Murphy
Senior Executive Vice President and Chief Strategic Officer,
The Walt Disney Company

Disney — Investor Returns

The company strives to maximize growth in earnings and cash flow and to allocate capital profitably toward projects with high potential returns as the primary means of delivering value to its long-term shareholders. The company's long-term financial track record reflects this commitment. The return to investors in Disney stock since 1985 has exceeded the return delivered over the same timeframe by the market overall as measured by the Standard & Poor's 500 Index.

$1,000 INVESTED IN
DISNEY VS. S&P 500



Since 1945, Disney's earnings growth has averaged 16 percent per year. Similarly, Disney stock has appreciated at a compound annual growth rate of approximately 14 percent over the last 60 years, as one share of Disney stock purchased for $25 in the company's initial public offering would have grown to represent 2,503 shares worth approximately $72,431 as of November 30, 2000. Through its relentless focus on the creation of quality entertainment experiences and products, the company will continue seeking to maximize its shareholder returns for the next 60 years and beyond.

PARKS AND RESORTS

2000

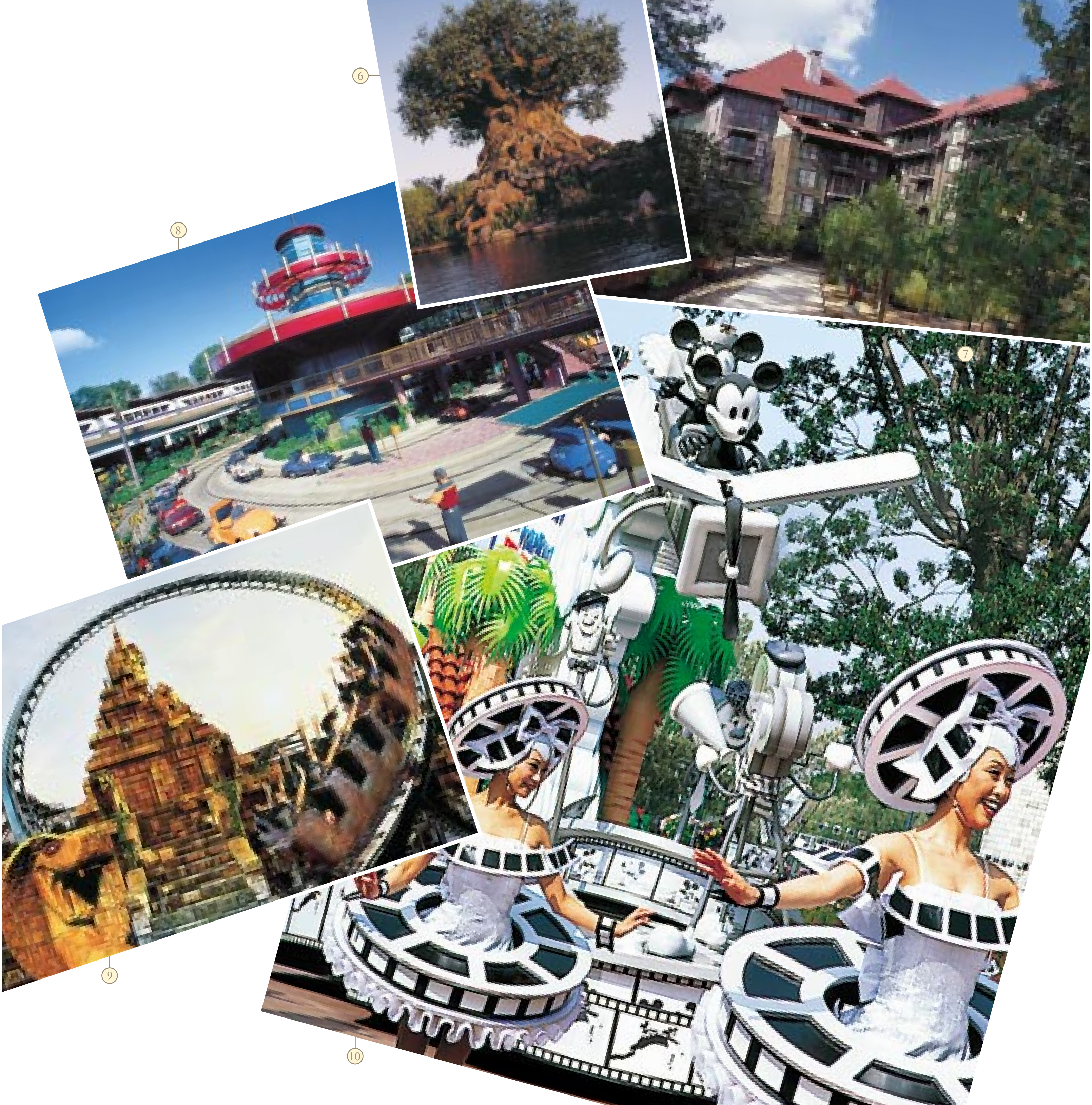
1

2

3

4

5



1. *Grizzly River Run* sends guests on a whitewater rafting adventure that winds through rapids, caverns and waterfalls under the shadows of 110-foot-tall Grizzly Peak.

2. Guests aboard the monorail can travel across this replica of San Francisco's Golden Gate Bridge.

3. Disney's Grand Californian Hotel, which will operate inside the theme park, is designed in the Arts and Crafts style of the early 20th century.

4. Paradise Pier at Disney's California Adventure offers a nostalgic combination of thrilling attractions and the fun of a beachfront boardwalk.

5. Hollywood Pictures Backlot at Disney's California Adventure pays tribute to both the artistry and irreverence of the state's most celebrated industry.

6. The Tree of Life at Disney's Animal Kingdom is carved with the images of nearly 400 animals.

7. The Villas at Disney's Wilderness Lodge, a resort inspired by the Old West, is scheduled to open in early 2001 at Walt Disney World Resort.

8. One of the original rides at Disneyland, a remodeled *Autopia* debuted in July 2000, to thrill travelers in the 21st century.

9. *Indiana Jones and the Temple of Peril, Backwards!* reopened this year at Disneyland Paris with a new twist: It now travels backwards.

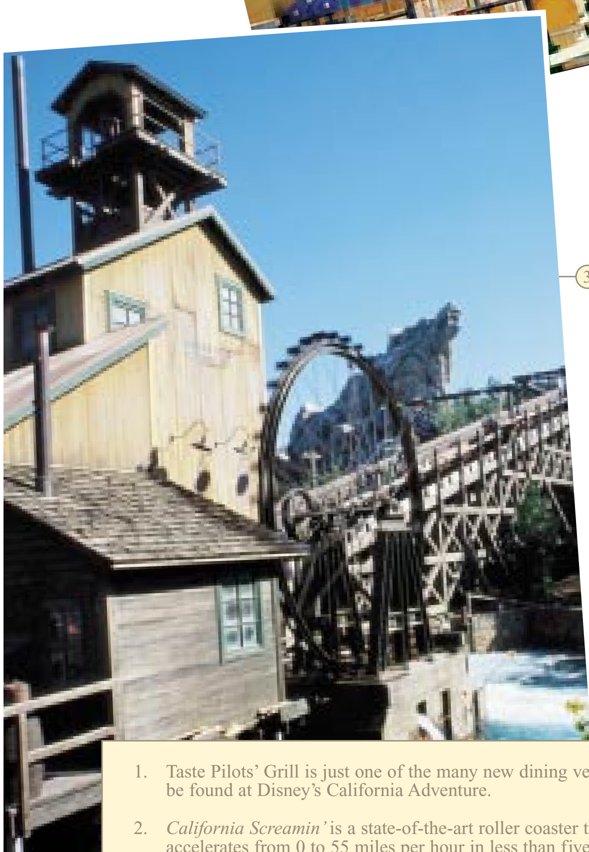
10. *Disney on Parade: 100 Years of Magic* at Tokyo Disneyland features more than 260 characters celebrating Disney's history of creativity.

PARKS AND RESORTS

1


2


Paul S. Pressler
Chairman, Walt Disney Parks and Resorts

3


1. Taste Pilots' Grill is just one of the many new dining venues that can be found at Disney's California Adventure.

2. *California Screamin'* is a state-of-the-art roller coaster that accelerates from 0 to 55 miles per hour in less than five seconds.

3. *Grizzly River Run* passes through a gold mining town and features two action-packed drops.

Walt Disney Parks and Resorts enjoyed record performance in 2000, enhancing its industry leadership and setting the stage for the unveiling of two new theme parks — Disney's California Adventure and Tokyo DisneySea — in 2001. The pace and excitement will continue unabated through the first half of the decade, with a second theme park scheduled to open at Disneyland Paris in 2002, and Hong Kong Disneyland set to debut in 2005. Looking ahead, guests can also expect a steady stream of all-new parades, stage shows and attractions, as well as new hotels, retail establishments and restaurants, at Disney theme parks and resorts around the world.

Guests had reason to celebrate this year as Disney's FASTPASS system was introduced at Disneyland Paris and Tokyo Disneyland, and implemented more broadly at Walt Disney World and Disneyland. This revolutionary computerized virtual queuing system gives guests an alternative to waiting in line for their favorite attractions. Guests choosing Disney's FASTPASS are provided tickets with an assigned window of time during which they can return to the attraction for entry with little or no wait.

FASTPASS — recognized for its ingenuity and innovation with the 2000 Governor's New Product Award from the Florida Engineering Society — is currently available at three attractions at Disneyland Paris, four attractions at Tokyo Disneyland, 10 attractions at Disneyland and 19 attractions at Walt Disney World. Surveys showed that the free service improved guests' enjoyment of Disney parks by significantly reducing wait times and providing them with more time for additional rides, attractions and entertainment throughout the park.

DISNEY'S CALIFORNIA ADVENTURE

Imagineers have been hard at work on Disney's California Adventure theme park, which will open its "golden gates" to guests on February 8, 2001. Disney's California Adventure is the centerpiece of a $1.4 billion expansion at the Disneyland Resort. Located next to Disneyland, Disney's California Adventure celebrates the uniqueness of the Golden State, giving guests a taste of the fun, diversity

4. Souvenir 66 is modeled after the roadside retail stands along the famed Route 66.
5. World of Disney gives visitors to the Downtown Disney entertainment district a truly California-style shopping experience.
6. Guests can enjoy the cuisine of Hollywood's legendary restaurants at Hollywood and Dine.

and lifestyle found only in California. Also included in the expansion is the deluxe 750-room Disney's Grand Californian Hotel and Downtown Disney, an exciting entertainment district with shopping, theaters and dining venues.

Disney's Grand Californian Hotel, designed in the Arts and Crafts style of early 20th century California, is actually inside the new theme park, a first for a Disney hotel. Disney's Grand Californian Hotel will open for guests in early 2001. Downtown Disney serves as the dynamic center of the Disneyland Resort, with its lush garden-like complex connecting the two theme parks with the Disneyland Resort hotels.

Within Disney's California Adventure, guests can explore three specially themed lands: "Paradise Pier," the ultimate beachfront amusement zone, filled with thrilling attractions and vibrant graphics associated with the heyday of the great seaside amusement park piers; "Hollywood Pictures Backlot," featuring shows and attractions celebrating the magic of movie-making and the culture, fame and celebrity atmosphere that surrounds it; and "The Golden State," with unique experiences, dining areas and attractions paying tribute to California's spectacular wilderness areas and its vast cultural richness.

Paradise Pier
Paradise Pier combines the nostalgic thrills of "iron rides" with the energy of a beachfront boardwalk on a summer day. Crashing waves signal the exhilarating catapult launch of the *California Screamin'* roller coaster, featuring a synchronized rock 'n' roll soundtrack and the first 360-degree loop of any coaster at the Disneyland Resort. Other rides include the 160-foot-tall *Sun Wheel*, modeled after a 1927 Ferris wheel, that sends gondolas looping through internal tracks, and the *Maliboomer*, which shoots guests 200 feet straight up in the air in just four seconds.

Hollywood Pictures Backlot
Imagineers have taken a decidedly tongue-in-cheek look at star-gazing with Hollywood Pictures Backlot. For example, in *Superstar Limo*, audio, video, special effects and a bevy of celebrities combine to shower each guest with star treatment during a wild stretch limousine ride through sets full of Southern California kitsch. Next door, the Muppets display their unique brand of mayhem in *Jim Henson's Muppet*Vision 3-D*. And an entire pavilion houses the secrets of Disney Animation.

Golden State
Towering above the entire park, the 110-foot-tall Grizzly Peak serves as a majestic landmark for an area of the Golden State district reminiscent of California's famous national parks. Within this picturesque setting, Imagineers have created *Grizzly River Run*, an exciting whitewater rafting adventure that goes past waterfalls and tumbling cascades that will twist, twirl and tumble guests with two action-packed drops.

Amid the high-desert airfield, Condor Flats, *Soarin' Over California* offers a breathtaking hang glider flight that journeys over vistas and landmarks from the beaches to the mountains. The attraction is one of Imagineering's most spectacular technological achievements ever, and is sure to be a signature ride at Disney's California Adventure.

Downtown Disney
Bridging the two theme parks and resort hotels is Downtown Disney, a new admission-free shopping, dining and entertainment district. Anchored by a World of Disney superstore and an ESPN Zone, Downtown Disney offers an energetic and eclectic experience that also includes House of Blues, Ralph Brennan's Jazz Kitchen, AMC Downtown Disney 12, Catal Restaurant and Uva Bar, Naples Ristorante e Pizzeria and Y Arriba! Y Arriba!, in addition to nearly 20 retail venues.

Disney's Grand Californian Hotel
A key part of the expansion at Disneyland Resort is architect Peter Dominick's design of Disney's Grand Californian Hotel. The hotel's evocative styling features rich woodwork, delicate ironwork and stained glass, and recalls the architectural movement popularized by Charles and Henry Greene and Bernard Maybeck.

1. *Tapestry of Nations* at Walt Disney World is a musical cavalcade highlighted by more than 100 giant figures accompanied by percussionists, puppeteers and performers.

2. Disney's FASTPASS system reduces the time guests spend waiting in line, enabling them to enjoy additional attractions and entertainment.

3. *45 Years of Magic Parade* was an integral part of the celebration marking Disneyland's milestone birthday in 2000.

WALT DISNEY WORLD RESORT

The Walt Disney World Resort had many reasons to celebrate in 2000, including a sixth consecutive year of record attendance and hotel occupancy, and the Millennium Celebration, a 15-month special event centered at Epcot.

The Millennium Celebration brought excitement to every corner of Epcot. Spaceship Earth was crowned with giant, glittering "2000" numerals. Perched on a star-topped wand held by Sorcerer Mickey, the whimsical symbol offered guests a larger-than-life welcome to "celebrate the future hand in hand."

Inside Epcot, guests found a grand and gala celebration every day and every night through December 2000. With lavish Disney spectacles, show-stopping entertainment, groundbreaking technologies and sights, sounds and tastes from around the globe, it was a party for the ages.

New Year's Eve 1999 also proved to be special. Epcot hosted a sellout crowd, and the world joined the fun as ABC broadcast the festivities live as part of its historic *ABC 2000* news coverage.

Also in 2000, Walt Disney World took the millennium show on the road, producing the halftime entertainment for Super Bowl XXXIV on ABC-TV. Seen by nearly one billion people worldwide, the extravaganza featured the pageantry of *Tapestry of Nations.* Performers such as Phil Collins, Christina Aguilera, Enrique Iglesias, Toni Braxton and Edward James Olmos added star power.

In May, Walt Disney World joined with McDonald's to create Millennium Dreamers. Disney and McDonald's searched the world to find young people remarkable for their community service. For three days, these 2,000 Millennium Dreamers Ambassadors, representing nearly 90 countries, were recognized for their good deeds as their inspiring stories were shared with the world.

The coming year brings more new attractions. Disney's Animal Kingdom will expand in 2001 with the addition of a new "mini-land" adjacent to DinoLand U.S.A., *Chester & Hester's Dino-Rama!* Paleontologists of all ages can enjoy *Triceratop Spin*, a Cretaceous takeoff of the beloved *Dumbo Flying Elephants* ride. *Primeval Whirl*, a unique "wild mouse" roller coaster featuring spinning cars careening down switchback tracks, will debut in spring 2002.

In 2001, Aladdin makes his debut with a flying carpet ride in Adventureland at The Magic Kingdom.

Meanwhile, at Disney-MGM Studios, America's number-one game show, *Who Wants to Be a Millionaire*, will debut as a new attraction. Guests will play along in the audience for the chance to sit in the hot seat on an exact duplicate of the ABC set.

In 2003, Epcot guests will venture into deep space when *Mission: SPACE* lifts off. The pavilion will offer guests a one-of-a-kind astronaut experience, launching them into a simulated space adventure that will feature a pulse-racing liftoff and outer space weightlessness. The attraction is being designed in association with NASA advisors, former astronauts and scientists, and is sponsored by Compaq.

DISNEYLAND RESORT

The year 2000 marked the 45th anniversary year of Disneyland, and the park's theme of "Magic in the Stars" was celebrated with classic characters, favorite attractions and new offerings.

The magic at Disneyland culminated each evening in a spectacle designed especially for the park's 45th year. Titled *Believe… There's Magic in the Stars,* the nighttime fireworks spectacular, powered by Compaq technology, combined an exciting original script and musical score with fireworks and other effects. *Believe…* was three times larger than any fireworks show ever presented at Disneyland. Running through New Year's Day 2001 was a special holiday version of *Believe…,* the first time Disneyland has ever presented fireworks as part of its daily holiday entertainment. *Believe…* will return this summer for nightly performances.

A completely redesigned *Autopia* attraction opened in July, highlighted by new visual show elements, restyled car bodies and an entertaining new pre-show area. This latest version of the classic *Autopia* is presented by Chevron.

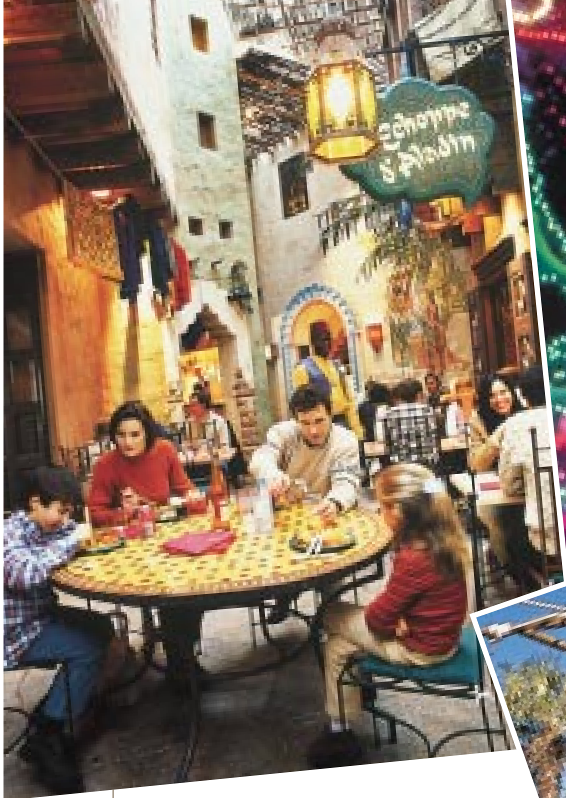
During the summer, Disneyland Resort announced it was beginning the entitlement process for a proposed third Disney park in Anaheim, which would be built on properties the company controls adjacent to Disneyland Park. Currently in the conceptual design stage, the new park would complement Disneyland and Disney's California Adventure and may include a theme park, water park, hotels and integrated retail, dining and entertainment outlets. Some of the best new Disney concepts for rides, shows and attractions will serve as inspiration for Disney Imagineers to create an all-new venue. The first design phase is expected to be completed by the end of 2003, with final completion of the project envisioned in 2010.

In November, The Disneyland Pacific Hotel took on a new name and new theme as Disney's Paradise Pier Hotel. The hotel overlooks Paradise Pier, one of the most dynamic and colorful sections of Disney's California Adventure, making the hotel's name and theme a natural fit.

1

2

3



1

2

3

DISNEYLAND PARIS RESORT

Disneyland Paris celebrated the new millennium with a spectacular two-day celebration that included the premiere of *Disney's ImagiNations* parade and an unforgettable fireworks display. The extravaganza came on the heels of the September 1999 announcement that Disneyland Paris, already the number-one tourist destination in Europe, would add Disney Studios Paris, a second theme park adjacent to the existing park, scheduled to open in 2002.

Last spring, Disneyland Paris introduced a new twist on a spectacular roller coaster with *Indiana Jones and the Temple of Peril, Backwards!*, as well as the *Tarzan™, The Encounter* show. In addition, a Middle Eastern restaurant, Agrabah Cafe, and a children's playground, *Pirates' Beach*, debuted. And, as in other Disney theme parks around the world, Disneyland Paris began offering Disney's FASTPASS.

As new developments and attractions were completed in 2000, the occupancy rate of the Disneyland Paris Resort hotels reached a record high. With the continuing expansion of the Disney Village, including more shops and restaurants, as well as the second theme park and exciting new attractions slated for the original park, Disneyland Paris Resort continues to build upon its strength as Europe's premier destination resort.

TOKYO DISNEYLAND

Disney on Parade: 100 Years of Magic debuted in April, bringing together more than 260 beloved characters and 20 spectacular floats to celebrate a century of Disney magic. This dazzling new parade highlights each Disney decade, beginning with the *Plane Crazy* animated short and the early days of the Disney Studios, and continuing to current hits such as *A Bug's Life* and *Toy Story*.

Pooh's Hunny Hunt opened in September, enabling Tokyo Disneyland guests to step right into the pages of their favorite Winnie the Pooh classic stories. This whimsical new attraction features fanciful "hunny pots" that transport guests, along with Winnie the Pooh, in a search for his favorite food: honey.

Disney Ambassador Hotel, the first Disney-branded hotel in Japan, opened its doors in July. The hotel, adjacent to the Tokyo Disneyland Park, reflects the glamour and art deco style of America during the 1930s.

Imagineers are currently creating Theatre Orleans, a charming venue for live entertainment, designed to reflect the energy of Mardi Gras with French Quarter flourishes. The curtain will rise in March 2001.

For more than 20 years, Disney theme park guests have been awed and delighted by nighttime parades like the *Main Street Electrical Parade, Fantillusion!* and *SpectroMagic*. Tokyo Disneyland will be offering the next generation of spectacular nighttime parades, to debut in spring 2001.

Beginning in fall 2001, guests to the Tokyo Disney Resort will be able to leave their cars behind when the "Disney Resort Line" monorail system begins service. This "highway in the sky" will connect Tokyo Disneyland and the new Tokyo DisneySea to other key locations such as the Maihama JR Keiyo train line and the Tokyo Disney Resort Official Hotels.

4

1. Guests can enjoy a meal at Agrabah Cafe after browsing through Aladdin's shop at Disneyland Paris.
2. *Pirates' Beach*, a new playground for children, debuted at Disneyland Paris in 2000.
3. Designed in the Disney tradition of spectacular parades, *Fantillusion!*, a flowing collage of music and enchantment, is enjoyed nightly at Tokyo Disneyland.
4. Bright Winnie the Pooh balloons delight a young guest at Tokyo Disneyland.

5

6

7

DISNEY CRUISE LINE

Sailing into its third year of operation, Disney Cruise Line continues to offer the finest in entertainment and hospitality on two classic oceanliners. In addition to its three- and four-day Bahamian itineraries, Disney Cruise Line expanded its portfolio this year to include a seven-night voyage aboard the *Disney Magic* to the eastern Caribbean islands of St. Thomas and St. Maarten, as well as Disney's own private island paradise, Castaway Cay. The *Disney Wonder* continues to offer seven-night packages, including three or four nights at the Walt Disney World Resort followed by three- or four-night cruises to the Bahamas and Castaway Cay.

Performance for Disney Cruise Line continues to exceed expectations. Occupancy for both *Disney Magic* and *Disney Wonder* remain strong, with an average load factor of 132 percent during the year, well above the industry average of 100 percent. The load factor refers to the number of guests occupying each stateroom during a cruise, and Disney's strong performance reflects its ability to attract families — who often share a single stateroom.

DISNEY REGIONAL ENTERTAINMENT

ESPN Zone

In 2000, new ESPN Zone sites opened in Atlanta and Washington, D.C., joining ESPN Zones in Baltimore's Inner Harbor, New York City's Times Square and downtown Chicago as the ultimate dining and entertainment experience for sports lovers of all ages.

ESPN Zone has three distinct components: *The Studio Grill* recreates the electric atmosphere of the ESPN studios and features replicas of ESPN studio sets, where patrons are treated to great American grill food. *The Screening Room* has 12-foot-high monitors and dozens of 36-inch-wide video monitors with tiered seating, as well as individual Skyboxes and custom "Zone-Throne" viewing stations, where guests can enjoy an array of sporting events from around the world. *The Sports Arena* challenges fans with a variety of interactive and competitive games, including several proprietary attractions developed exclusively for ESPN Zone.

ESPN Zones continue to host several television and radio broadcasts, such as ESPN's *Sports Reporters* and *RPM 2Nite,* and *Monday Night Football.*

The next ESPN Zone will open in Downtown Disney at the Disneyland Resort in Anaheim in January 2001.

DisneyQuest

DisneyQuest is an indoor interactive theme park that combines cutting-edge entertainment technologies such as virtual reality and 3-D with Disney stories, adventures and characters. These virtual theme parks are located at Walt Disney World Resort in Orlando and in downtown Chicago.

DisneyQuest unveiled two new attractions this year, both created by Walt Disney Imagineers. Inspired by one of the most popular and beloved Disney theme park attractions of all time, *Pirates of the Caribbean: Battle for Buccaneer Gold* allows guests to enter a 3-D pirate world and work together as captain and cannoneers to defend the pirate gold. At *SongMaker*, guests enter a sound booth and combine lyrics and music styles to create one-of-a-kind songs that they can download to a personalized CD.

Another favorite is *Buzz Lightyear's AstroBlasters,* which enables guests to collect and fire "asteroids" in an attempt to hit targets on other space-roving vehicles. Guests can rescue colonists stranded on a distant planet in *Invasion!* DisneyQuest's *Cyberspace Mountain* offers guests a chance to design the roller coaster of their dreams and then ride it in a 360-degree pitch-and-roll flight simulator. *Animation Academy* allows guests to draw their favorite Disney characters on a digital sketch pad and take home a copy of their creation.

5. *Pirates of the Caribbean: Battle for Buccaneer Gold* is one of the newest attractions at the indoor interactive theme park, DisneyQuest.
6. ESPN Zone is the ultimate dining and entertainment experience for sports enthusiasts.
7. Travelers can explore exotic ports of call during seven-night cruises aboard *Disney Magic.*

WALT DISNEY IMAGINEERING

"It's kind of fun to do the impossible."

Imagineers have adopted those words by Walt Disney as their motto, so it's no surprise that the creative, technical and development masterminds are busy doing the impossible: creating four entirely new theme parks, inventing technology for other Disney businesses and developing some of Imagineering's most amazing work in its 48-year history.

TOKYO DISNEYSEA

Imagineers in Japan and California are racing toward a fall 2001 grand opening of Tokyo DisneySea. Construction on the 176-acre site began in 1998, and today the park's seven distinct "ports of call" are coming to life. Guests will savor the old-world charm of Mediterranean Harbor with the 502-room luxury Hotel MiraCosta and will be awed by the massive volcano of Mysterious Island. Guests also will venture to the ragged edge of civilization in Lost River Delta and discover the burgeoning neighborhoods of old New York in American Waterfront.

DISNEY STUDIOS PARIS

Imagineers also are constructing a second theme park at the Disneyland Paris Resort that will allow guests to go behind the scenes at a working film, television and animation production studio. Disney Studios Paris will feature all-new attractions and shows, such as an *Armageddon* special effects show, a journey through 100 years of movie magic, and a one-of-a-kind animated theater show, as well as favorites such as the *Rock 'n' Roller Coaster Starring Aerosmith* and the *Studio Tram Tour*. The park is scheduled to open in 2002.

HONG KONG DISNEYLAND

Preliminary site work is progressing on Disney's 11th theme park, Hong Kong Disneyland. Overlooking the waters of Penny's Bay, Hong Kong Disneyland will feature some of the best-loved attractions from Disneyland, as well as other Disney parks. The site also will feature several Disney hotel accommodations and retail, dining and entertainment facilities when it debuts in 2005.

WALT DISNEY WORLD

Imagineers are close to completing the 1,300-room Disney's Animal Kingdom Lodge, designed by architect Peter Dominick and scheduled to open in April 2001. Inspired by the exotic beauty of an African wildlife reserve, the Lodge features hand-carved furnishings and a grand six-story lobby. In addition, more than 95 percent of the guestrooms enjoy sweeping views of the Lodge's own 33-acre savanna filled with free-ranging animals.

At Walt Disney World, the 235-acre POP Century Resort will be built in two phases, with the opening of the first phase in winter 2001. The hotel will feature approximately 5,800 guestrooms in 20 buildings. Each pair of buildings in this value resort will be themed to a different decade of the 20th century. As guests enter one of the resort's two main POP Centennial Pavilions, they will find themselves transported back in time, surrounded by 50 years of pop culture, including oversized icons such as a giant jukebox from the 1950s and a huge yo-yo representing the 1960s.

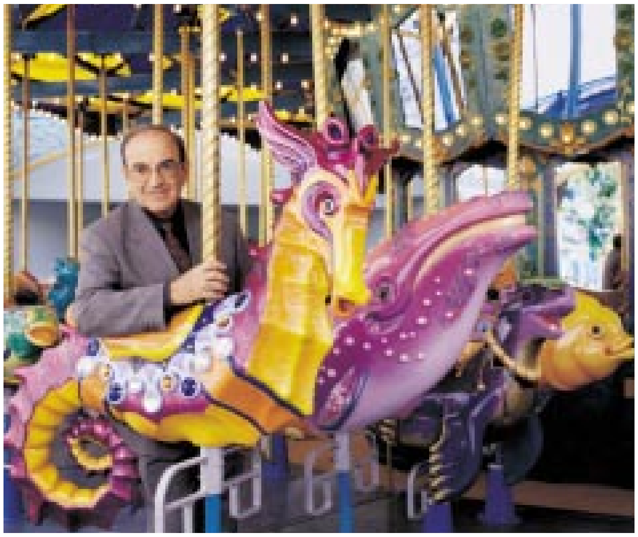
1. *Catastrophe Canyon*, designed to show how disasters are created for movie special effects, is under construction at Disney Studios Paris, adjacent to Disneyland Paris, due to open in 2002.
2. Apolonia is a real estate development adjacent to Disneyland Paris that includes 570 apartments and 280 houses.
3. At Tokyo DisneySea, a Disney Imagineer puts a few finishing touches on this mythical Rukh for *Sinbad's Seven Voyages*.
4. The storybook world of the Arabian Nights will spring to life in *Sinbad's Seven Voyages*, shown here under construction at Tokyo DisneySea.

1

2

3

4



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

RESEARCH AND DEVELOPMENT

The summer release of *Dinosaur* marked Disney's fourth motion picture to make use of state-of-the-art digital projection technology developed by Imagineering's research and development group. The new digital projectors produce images that are brighter and sharper than traditional projection technologies. They also provide better color reproduction and eliminate film degradation and damage, thus creating a much better theater experience for the audience. The research and development group also created the Enhanced TV Web site that allows fans of ABC's *Who Wants to Be a Millionaire* to play along with Regis in real time and enjoy other interactive opportunities on home computers. Another development in Web technology is the GO.com Player, which enables users to program their own personal radio station, drawing from more than 200,000 songs and 20 different genres to customize a playlist that can be shared with friends over the Internet.

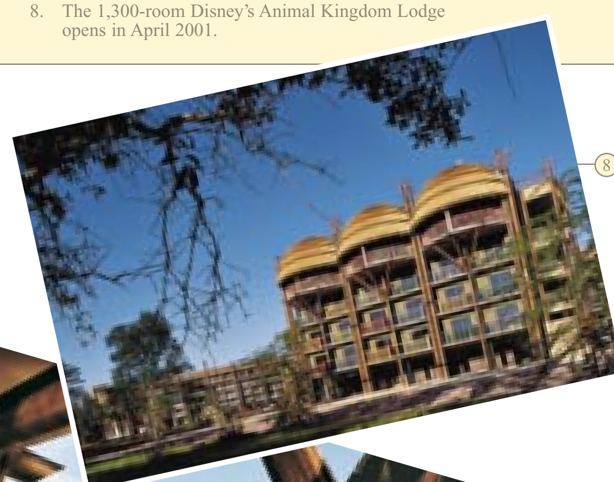
Disney Vacation Club announced plans to expand its Walt Disney World properties with two new resorts: The Villas at Disney's Wilderness Lodge and Disney's Beach Club Villas.

The Villas at Disney's Wilderness Lodge, scheduled to open in early 2001, is an intimate Old West-inspired resort, featuring 136 studio, one- and two-bedroom villas located next to Disney's Wilderness Lodge. The new resort will include a pool and outdoor spa, health club and full access to all of the Lodge's amenities and public areas.

Scheduled to open in late 2002, Disney's Beach Club Villas will be designed by noted architect Robert A.M. Stern, best known for his East Coast seaside houses. The new 205-unit ownership resort will be inspired by the casual elegance of Cape May oceanfront homes built in the early 20th century.

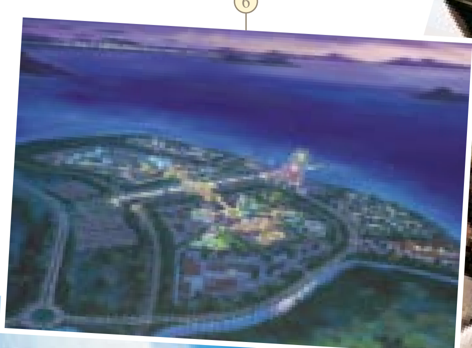
5. *Mission: SPACE*, currently under construction at Epcot, will provide guests with a one-of-a-kind deep space adventure.
6. Hong Kong Disneyland will be Disney's 11th theme park.
7. Guests of Disney's Animal Kingdom Lodge will enjoy the beauty of an African wildlife reserve first-hand.
8. The 1,300-room Disney's Animal Kingdom Lodge opens in April 2001.

8

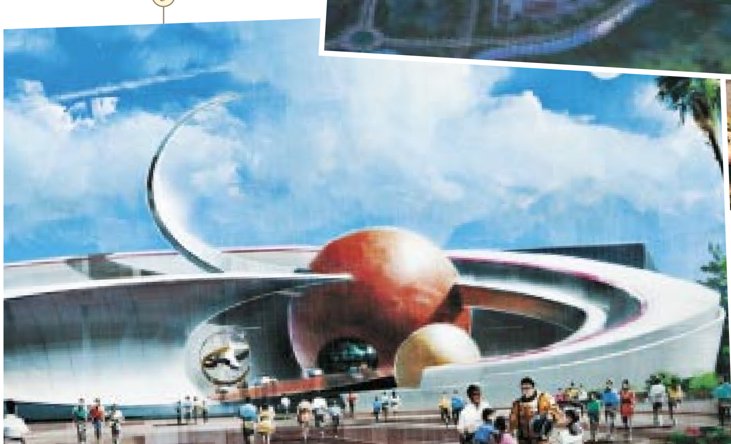


7

6



5



STUDIO ENTERTAINMENT

2000

1

2

3

4

5

6

7

1. *Disney's Lloyd in Space* is a new animated program chronicling the daily adventures of an alien teenager as he nears adulthood.
2. *Unbreakable*, starring Bruce Willis and directed by *The Sixth Sense*'s M. Night Shyamalan, opened Thanksgiving weekend.
3. *Toy Story* makes its DVD debut in a collector's edition that includes *Toy Story 2* and a bonus disc.
4. *Atlantis: The Lost Empire* is Disney's first animated action film.
5. Miramax's *Bounce,* starring Academy Award-winners Ben Affleck and Gwyneth Paltrow, debuted in November.
6. Families can kick off the 2001 holiday season by watching *Monsters, Inc.*, when it premieres during the Thanksgiving weekend.
7. Elton John and Tim Rice's hit *AIDA* has won four Tony Awards and received both popular and critical acclaim.

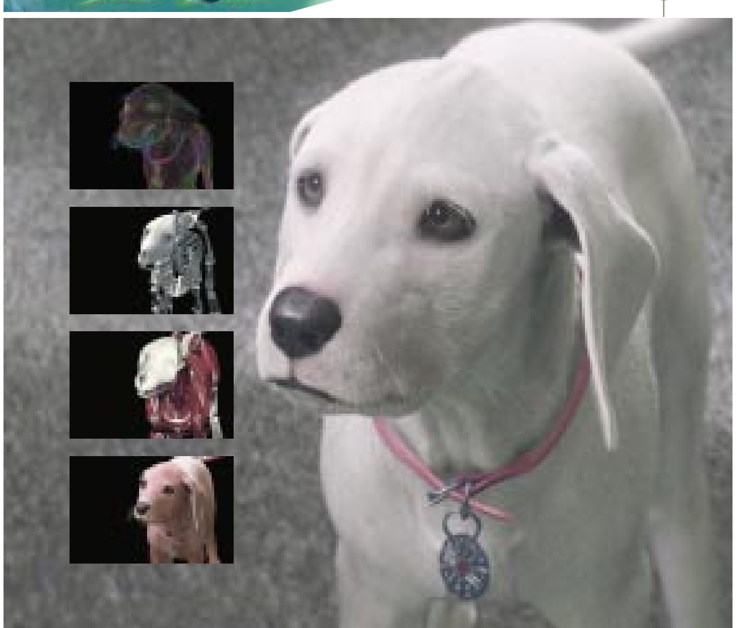
Peter Schneider
Chairman, The Walt Disney Studios

1

1. *Pearl Harbor,* starring Ben Affleck, Josh Hartnett and Kate Beckinsale, tells the story of two navy pilots and a young nurse during the escalation of World War II in the Pacific.
2. *The Emperor's New Groove*, featuring the voices of David Spade and John Goodman, is an animated adventure for all ages.
3. These images from *102 Dalmatians* are an example of the unique work being performed at The Secret Lab.

2

3



The year 2000 was an important one for The Walt Disney Studios, which realized solid performances from each of its business units as it implemented an updated business and creative strategy for the future. Peter Schneider, formerly president of The Walt Disney Studios, took the helm as chairman last February, bringing a renewed focus on quality and artistic achievement while also reducing overall production and distribution costs. With an eye toward reinvigorating Walt Disney-branded entertainment while continuing to build on the Touchstone live-action film and Buena Vista music labels' success, The Walt Disney Studios developed a strong, well-rounded portfolio during the year.

The Walt Disney Studios maintained its premier position in the marketplace, winning the year in box office receipts for the third time in a row and the sixth time in the last decade. The international division became the only company to hit the $1 billion box office mark six years in a row. Buena Vista Home Entertainment also maintained its top position in the marketplace for the 13th consecutive year.

Other initiatives designed to improve The Walt Disney Studios' overall performance include the creation of The Secret Lab, an in-house special effects, new media and computer animation facility, which developed the groundbreaking live-action and animation wizardry that was unveiled in the hit feature *Dinosaur*; the revamping of the home video strategy; and the consolidation of film and video marketing.

WALT DISNEY PICTURES

Greater emphasis was placed on Walt Disney Pictures in 2000 in order to strengthen the Disney brand further and enhance The Walt Disney Studios' position as the leading supplier of high-quality family entertainment. The strategy has started to pay off, with Walt Disney Pictures releasing several major hits during the year, including: *Disney's The Kid*, starring Bruce Willis and directed by John Turtletaub; *Remember The Titans*, starring Academy Award-winner Denzel Washington and produced by Jerry Bruckheimer; and *102 Dalmatians*, starring Glenn Close and Gerard Depardieu.

Notable films for 2001 include: *The Princess Diaries*, the story of a girl who discovers at age 15 that she is actually a princess, starring Julie Andrews and directed by Garry Marshall; *The Rookie*, the true story of a high school teacher and baseball coach who revives his dream of pitching in the major leagues, directed by James Lee Hancock; *Winterdance,* starring Cuba Gooding Jr., which follows the adventures of a Miami dentist who learns that he has inherited a team of Alaskan sled dogs; and *Santa Clause 2,* in which Tim Allen reprises his role as the title character in the 1994 holiday comedy *The Santa Clause.*

TOUCHSTONE PICTURES

A diverse selection of features from Touchstone Pictures realized solid box office performance in 2000, fueled by live-action hits, including two produced by Jerry Bruckheimer: *Gone in 60 Seconds* and *Coyote Ugly*, as well as the Spyglass-produced action comedy *Shanghai Noon*.

Unbreakable, the follow-up film from M. Night Shyamalan, director of the 1999 blockbuster *The Sixth Sense*, and starring Bruce Willis and Samuel L. Jackson, premiered Thanksgiving weekend with an opening box office of $46 million.

The much-anticipated *Pearl Harbor*, directed by Michael Bay, produced by Bruckheimer and starring Ben Affleck, Josh Hartnett and Kate Beckinsale, will premiere Memorial Day weekend.

Among Touchstone's other releases for 2001 is *At 17*, a provocative teen drama in which Nicole (Kirsten Dunst), a spoiled and rebellious rich girl, falls in love with Carlos Nuñez (Jay Hernandez), an intelligent and studious Latino boy from the other side of the tracks. *At 17* is directed by John Stockwell.

Also premiering is *The Count of Monte Cristo*. Based on the classic novel by Alexandre Dumas and directed by Kevin Reynolds, the film portrays dashing young sailor Edmond Dantes (Jim Caviezel), who is betrayed by his best friend, Fernand (Guy Pearce). Edmond takes on a new identity in order to wreak retribution against those who unjustly imprisoned him for 13 years.

Big Trouble, based on the Pulitzer Prize-winning novel by humor columnist Dave Barry and directed by Barry Sonnenfeld, stars Tim Allen and Rene Russo in a twisted and wacky tale of an unsuccessful ad executive in Miami who finds himself caught between two hit men on a routine assignment and an arms smuggling venture gone awry.

WALT DISNEY FEATURE ANIMATION

Under the leadership of chairman Roy Disney and president Thomas Schumacher, Walt Disney Feature Animation enjoyed an outstanding year in terms of performance and artistic achievement, releasing three films during the year. First was *Toy Story 2*, the blockbuster feature from Disney/Pixar, which took in a total of $246 million.

Fantasia/2000: The IMAX® Experience provided a spectacular opening to the new millennium, offering seven new animated sequences set to such musical classics as Beethoven's *Symphony No. 5* and

Roy E. Disney
Vice Chairman, The Walt Disney Company and Chairman, Walt Disney Feature Animation, shown here in front of a photo mural of his father, Roy O. Disney

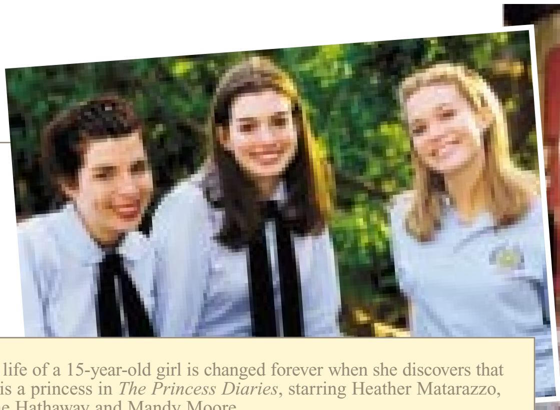
Gershwin's *Rhapsody in Blue*, as well *The Sorcerer's Apprentice*, the timeless favorite from the original *Fantasia*. After the world premiere at Carnegie Hall, *Fantasia/2000* embarked on a global tour that included performances in London, Paris and Tokyo, before settling in for a record-breaking four-month run at IMAX® theaters around the world.

Dinosaur employed a groundbreaking combination of live-action backgrounds and computer-animated dinosaurs, mesmerizing audiences with its visually stunning portrayal of a herd of dinosaurs fighting for survival. It was the top-grossing Disney film for summer 2000, earning more than $137 million by early November.

The holiday release of *The Emperor's New Groove* delighted audiences with its madcap story of the self-absorbed young emperor (David Spade) who strikes an unlikely alliance with a peasant (John Goodman) and discovers the true meaning of friendship.

Walt Disney Feature Animation offers two major event films for the 2001 summer and holiday box office seasons. *Atlantis: The Lost Empire* opens in June, starring Michael J. Fox as the voice of Milo Thatch, an inexperienced young adventurer who joins a group of

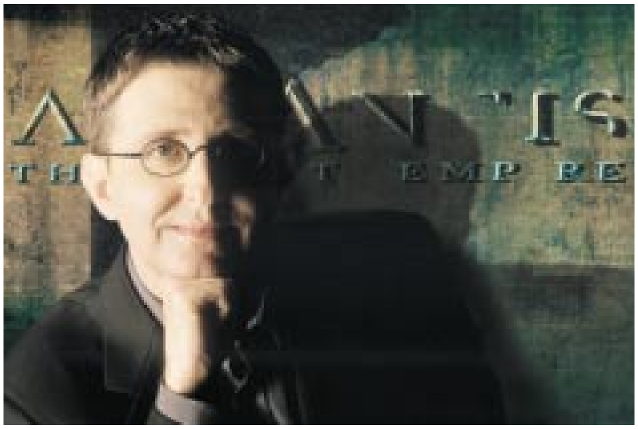
4



5

4. The life of a 15-year-old girl is changed forever when she discovers that she is a princess in *The Princess Diaries*, starring Heather Matarazzo, Anne Hathaway and Mandy Moore.

5. Julie Andrews and Hector Elizondo cut the rug in *The Princess Diaries*.



Thomas Schumacher
President, Walt Disney Feature Animation,
Walt Disney Television Animation and
Buena Vista Theatrical Group

daredevil explorers to find the legendary lost empire. James Garner, Leonard Nimoy and David Ogden Stiers also provide voices. This is Disney's first-ever animated action film, and is directed by Kirk Wise and Gary Trousdale (*Beauty and the Beast* and *The Hunchback of Notre Dame*) and produced by Don Hahn (*The Lion King, Beauty and the Beast* and *The Hunchback of Notre Dame*).

The 2001 Thanksgiving holiday will see the release of *Monsters, Inc.,* an all-new computer-animated feature from Disney's partners at Pixar, the creators of *Toy Story, A Bug's Life* and *Toy Story 2*. *Monsters, Inc.,* is a comedy set in the realm of things that go bump in the night, where chaos breaks loose after a hapless monster accidentally lets a human child into the secret world. The film features an all-star voice cast, including John Goodman, Billy Crystal, James Coburn, Steve Buscemi and Jennifer Tilly. The teaser trailer can be viewed on monstersinc.com or on the *Toy Story 2* video and DVD.

WALT DISNEY TELEVISION ANIMATION

Walt Disney Television Animation produces animated programming for Disney cable and broadcast outlets around the world, including Disney Channel, Toon Disney and ABC.

Disney's One Saturday Morning, a block of programming now in its fourth season on ABC, continues to draw praise from critics and fans alike. New for the *One Saturday Morning* lineup is *Disney's Teacher's Pet*, which debuted in September to critical acclaim. Created by artist and illustrator Gary Baseman and written by Emmy Award-winners Bill and Cheri Steinkellner, the series follows the adventures of a knowledge-hungry canine (Nathan Lane), who disguises himself as a boy in order to go to school.

Disney/Pixar's *Buzz Lightyear of Star Command: The Adventure Begins* also debuted in 2000, first as an animated feature-length video in August, just two months prior to the launch of the daily television series for ABC and Buena Vista Television's *Disney's One Too* lineup on UPN. As the title indicates, the series follows the adventures of *Toy Story* star Buzz Lightyear "to infinity and beyond."

In early 2001, Mickey Mouse and pals will entertain all of the Disney characters (and viewers too) at *Disney's House of Mouse*, an animated variety show featuring music, comedy and cartoon shorts.

Premiering this fall is *Disney's Lloyd in Space*, an animated teen comedy from Paul Germain and Joe Ansolabehere, the creators of *Disney's Recess,* which follows the humorous day-to-day dilemmas of Lloyd, an alien teenager who must endure the often confusing transition toward adulthood.

MOVIETOONS & VIDEO PREMIERES

Walt Disney Television Animation's Movietoons continued to bring popular Disney characters to the big screen. *The Tigger Movie* was the first original, full-length animated feature to star Tigger, Winnie the Pooh, and the rest of the Hundred Acre Wood characters.

1

2

1. A full cast of Disney characters will provide entertainment on the animated variety show, *Disney's House of Mouse,* a new addition to the children's programming lineup.
2. *Disney's Recess*, an animated show about six friends who band together against the perils of the playground, is featured in *Disney's One Saturday Morning* programming.
3. *Chocolat*, starring Juliette Binoche and Johnny Depp, was released in late 2000 by Miramax.
4. *Bridget Jones's Diary*, based on the popular novel, will star Renee Zellweger and be released in spring 2001.
5. Academy Award-winner Billy Bob Thornton directs *All the Pretty Horses,* starring Academy Award-winner Matt Damon.
6. *Talk* magazine, which is published by Miramax, celebrated its first full year in 2000, reaching a circulation of 600,000.

Some of the most famous Disney characters also starred in their own direct-to-video movies in 2000, including the November 1999 release of *Mickey's Once Upon a Christmas; An Extremely Goofy Movie*, which premiered in February 2000; and the September debut of *Little Mermaid II: Return to the Sea*, the much-anticipated sequel to the 1989 animated classic.

BUENA VISTA THEATRICAL GROUP

In keeping with the goal of producing outstanding entertainment for the whole family, Buena Vista Theatrical Group enjoyed a banner year in 2000, with more shows in production than ever before.

The Broadway premiere of Elton John and Tim Rice's *AIDA* garnered international attention and acclaim. This modern telling of the famous love story won four Tony Awards, including Best Performance by a Leading Actress in a Musical for Heather Headley and Best Original Score for Rice and John. *AIDA* continues to play to sold-out audiences at the Palace Theatre.

The Lion King, which garnered six Tony Awards when it opened in 1997, enjoyed yet another year of sold-out performances at the historic New Amsterdam Theatre on Broadway, and opened a much-anticipated run in Los Angeles in October at the newly renovated Pantages Theatre. Productions of *The Lion King* also continue to run in Osaka, Tokyo, London and Toronto.

A Disney favorite*, Beauty and the Beast* also has proven to be a perennial winner with Broadway audiences, enjoying its seventh year on Broadway as well as continuing for a fourth year touring the U.S.

MIRAMAX

Miramax Films maintained its position as the world's leading independent film company and enjoyed another year of box office success in 2000. Miramax continued its winning ways at the Oscars, receiving 14 Academy Award nominations, with *The Cider House Rules* winning awards for Best Supporting Actor (Michael Caine) and Best Screenplay Based on Material Previously Produced or Published (John Irving).

Dimension's *Scary Movie* became Miramax's highest-grossing film ever, bringing in more than $156 million at the domestic box office. Dimension's *Scream 3* garnered $90 million at the U.S. box office, pushing the *Scream* trilogy domestic box office total to more than $290 million.

Among Miramax's releases in late 2000: *Chocolat*, starring Johnny Depp, Juliette Binoche and Judi Dench, directed by Academy Award-nominee Lasse Hallström; *All the Pretty Horses*, adapted from the best-selling novel by Cormac McCarthy, starring Academy Award-winner Matt Damon and directed by Academy Award-winner Billy Bob Thornton; and Giuseppe Tornatore's (director of Academy Award-winning *Cinema Paradiso) Malena.*

In 2001, Miramax will offer *Gangs of New York*, with Leonardo DiCaprio, Cameron Diaz and Liam Neeson, directed by Martin Scorsese; *Bridget Jones's Diary*, starring Renee Zellweger; and *Serendipity*, starring John Cusack and Kate Beckinsale.

In addition, Miramax produced the successful Broadway revival of *The Real Thing*, which won three Tony Awards, and celebrated the first full year of *Talk* magazine, which reached a circulation of 600,000.

3

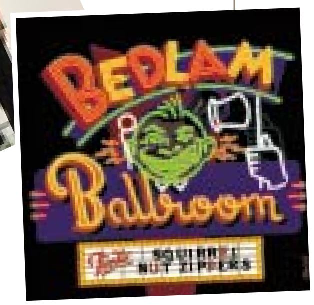
4

5

6

1

2



3

4

5

6

BUENA VISTA MUSIC GROUP

The Buena Vista Music Group, which includes Walt Disney Records, Hollywood Records, Lyric Street Records, Mammoth Records and Walt Disney Music Publishing, achieved its targets for revenue growth during the year and made good progress with its strategy for developing its artist roster.

Buena Vista Music Group's mainstream pop music label, Hollywood Records, released the soundtrack to Paramount's *Mission: Impossible 2*. Featuring tracks from Metallica and Limp Bizkit, the soundtrack achieved multi-platinum status. British pop band BBMak, which recently joined Hollywood Records, released its first album, *Sooner or Later*, and has already achieved gold status with the help of marketing support from Radio Disney and the Disney Channel. In September, Fastball released *The Harsh Light of Day*, the follow-up to its 1998 platinum release, *All the Pain Money Can Buy*. Based on initial orders, *The Harsh Light of Day* is expected to achieve gold status. And the soundtrack to Touchstone's *10 Things I Hate About You* achieved gold status in the U.S., with worldwide sales nearing 1 million units.

SHeDAISY's debut album, *The Whole SHeBANG*, which was released in 1999 on Buena Vista Music Group's country label, Lyric Street Records, achieved platinum status in 2000 and is on its way to multi-platinum. The album's single, *I will...but*, reached number two on the country music charts. And Aaron Tippin's new release, *People Like Us*, debuted in July and has achieved gold status. The first single, *Kiss This*, reached number one on the country charts.

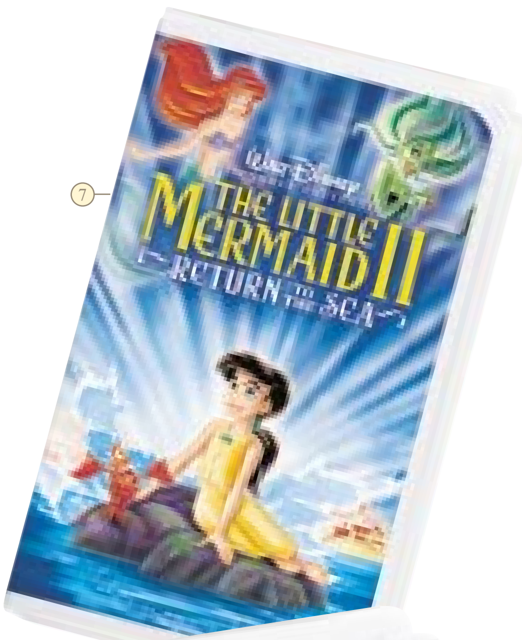
Walt Disney Records released the soundtrack to the smash hit *Tarzan*™ in 1999, which received a Grammy for Best Soundtrack Album of the Year in 2000. Phil Collins' song, *You'll Be In My Heart,* won both an Academy Award and a Golden Globe Award for Best Original Song. The soundtrack for *Fantasia/2000* was another major hit for Walt Disney Records, and has remained in the top five of the Billboard Traditional Classics chart since its release in December 1999.

Other highlights of 2000 were the release of Disney/Pixar's *Toy Story 2* soundtrack, *Woody's Roundup,* and the soundtrack to *Dinosaur*, the summer hit from Walt Disney Feature Animation. SHeDAISY unveiled a collection of Christmas tunes, and the Squirrel Nut Zippers' new album, *Bedlam Ballroom*, was released on the restructured Mammoth Records label.

Upcoming Buena Vista Music Group titles include pop sensation Youngstown's follow-up to its successful 1999 debut album, *Let's Roll*, and an English-language album from Latin Grammy nominee Nydia Rojas. Also hitting the streets this year are soundtracks for *102 Dalmatians*; *The Emperor's New Groove,* featuring music by superstar recording artists Sting and Tom Jones; *Pearl Harbor*; Paramount's *Save the Last Dance*; and *Atlantis: Return of the Lost Empire*.

1. Fastball's newest album, *The Harsh Light of Day*, was released in September.
2. British pop band BBMak released its first album, *Sooner or Later*, on Hollywood Records.
3. *Bedlam Ballroom* is the latest chart-climber from the Squirrel Nut Zippers.
4. SHeDAISY released a collection of Christmas songs titled *Brand New Year.*
5. *Fantasia/2000* was a major hit for Walt Disney Records and has remained in the top five of the Billboard Traditional Classics chart since its release in 1999.
6. Rascal Flats, country music's newest sensation, records on Lyric Street Records.
7. BVHE continued its successful video premiere release record with the debut of *The Little Mermaid II: Return to the Sea*.
8. *The Tigger Movie* performed well at the box office and also has achieved strong VHS and DVD sales.

7



8

BUENA VISTA INTERNATIONAL

As the international marketplace becomes an increasingly important part of the film business, Buena Vista International, Disney's international film distribution unit, had its best year ever, commanding an impressive 23 percent marketshare.

BVI's success was driven by such hits as Disney/Pixar's *Toy Story 2*, the top international release in the spring, garnering $238 million at the box office; and *Tarzan*™*,* featuring a score that pop star Phil Collins recorded in five languages, helping to propel international box office to more than $275 million.

The Sixth Sense premiered internationally in August 1999, and by the end of 2000 had tallied more than $236 million in BVI-managed territories. It now ranks as the second most-popular BVI live-action release ever, just behind *Armageddon*.

Gone in 60 Seconds has opened globally with great success, earning in excess of $125 million at the international box office. Other BVI hits include *Runaway Bride*, with more than $135 million in international box office, and *Dinosaur*, which is expected to exceed $200 million by January 2001.

In 2001, BVI will be launching the international release of *Coyote Ugly, 102 Dalmatians*, *Remember the Titans*, *Unbreakable, The Emperor's New Groove* and *Pearl Harbor.*

BUENA VISTA HOME ENTERTAINMENT — DOMESTIC

This year, Buena Vista Home Entertainment maintained its top position in the market for the 13th consecutive year, highlighted by the release of best-selling titles such as *Tarzan*™*, The Sixth Sense* and Disney/Pixar's *Toy Story 2*, along with the rollout of the Walt Disney Gold Collection, a special group of Disney animated classics that enables consumers to access these titles at all times.

The smash hit *The Sixth Sense* was the top-selling DVD in 2000, with more than 2.5 million units shipped. It is now the second best-selling DVD of all time and top rental title of all time.

In addition, sales of *The Tigger Movie* reached 4 million VHS and DVD units combined in 2000, while *The Little Mermaid II: Return to the Sea* sold 6 million combined units, *Buzz Lightyear of Star Command: The Adventure Begins* sold 3 million combined units and *An Extremely Goofy Movie* sold 2.8 million combined units.

This year promises another outstanding slate from Disney Video Premieres, with *Lady and the Tramp II: Scamp's Adventure* and the sequel to *Hunchback of Notre Dame*.

BUENA VISTA HOME ENTERTAINMENT — INTERNATIONAL

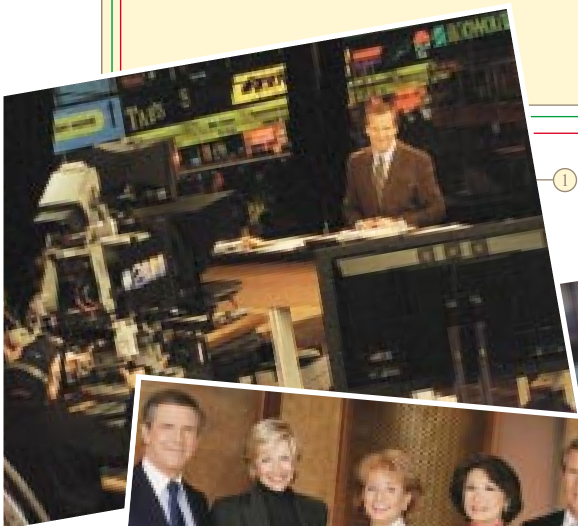
BVHEI has distributed more than 10 million DVD units internationally since the format debuted. This burgeoning market helped BVHEI in 2000, with DVD sales doubling between 1999 and 2000. Volume was up 134 percent in Europe and 102 percent in Asia during the year, with *Tarzan*™, *Armageddon* and Disney/Pixar's *A Bug's Life* among the top sellers. In addition, BVHEI continues to lead the international VHS sell-through business.

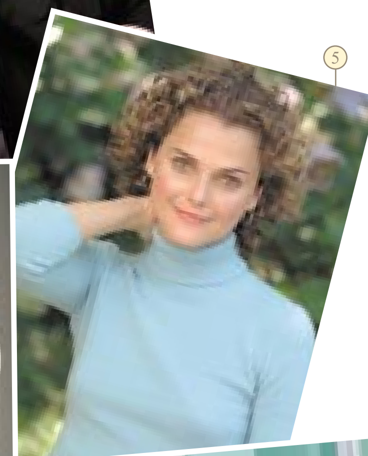
The company also set a number of international rental records with *The Sixth Sense.* It is now the U.K.'s number-two rental title of all time and also the top rental title in Italy, Spain and Australia.

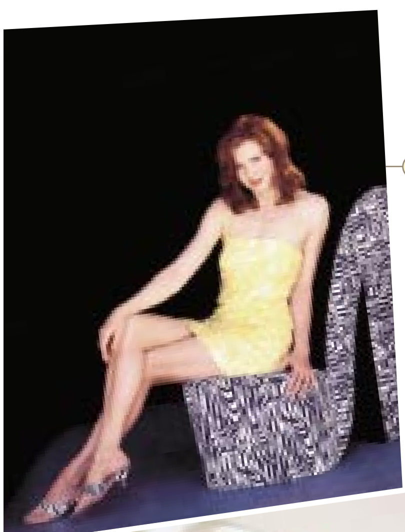
Key releases in 2001 include *Dinosaur* and Disney/Pixar's *Toy Story 2*. BVHEI also will continue its activities in the video premiere market with *The Little Mermaid II: Return to the Sea* and *Lady and the Tramp II: Scamp's Adventure*.

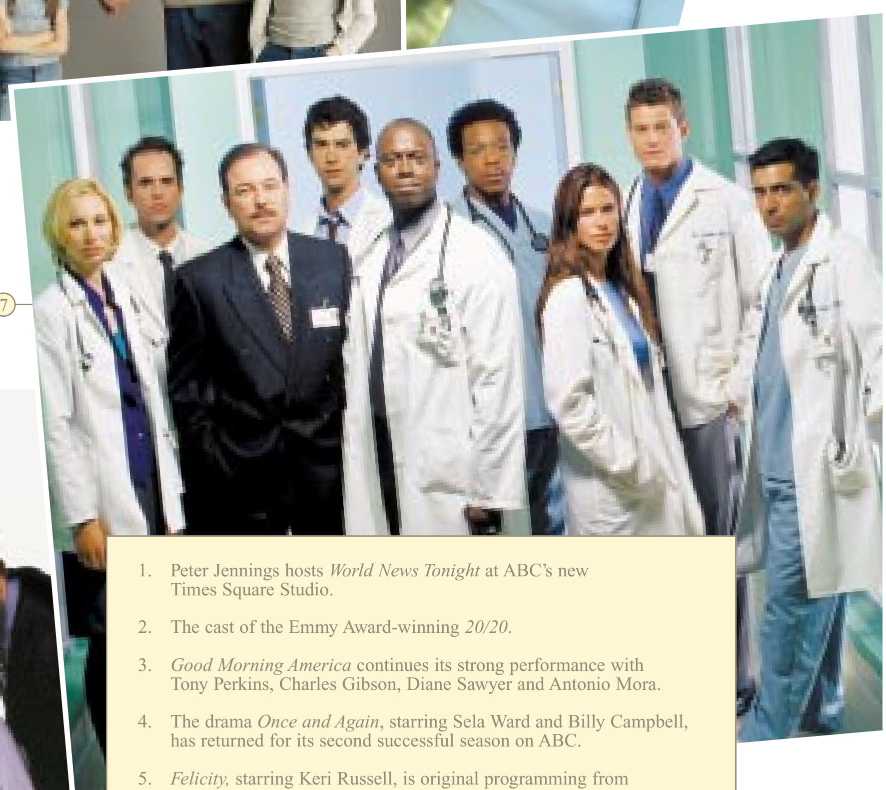
MEDIA NETWORKS

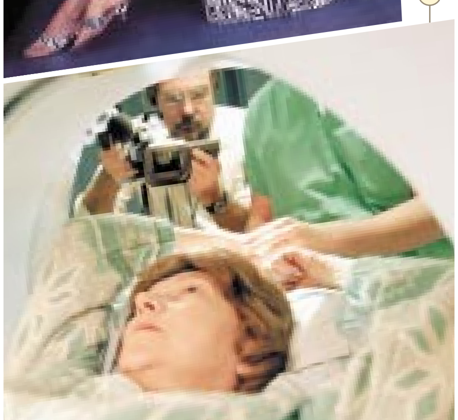
2000

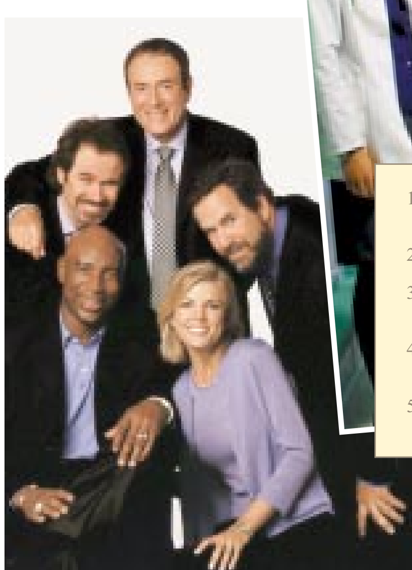












1. Peter Jennings hosts *World News Tonight* at ABC's new Times Square Studio.
2. The cast of the Emmy Award-winning *20/20*.
3. *Good Morning America* continues its strong performance with Tony Perkins, Charles Gibson, Diane Sawyer and Antonio Mora.
4. The drama *Once and Again*, starring Sela Ward and Billy Campbell, has returned for its second successful season on ABC.
5. *Felicity,* starring Keri Russell, is original programming from Touchstone.

BROADCAST NETWORKS

ABC TELEVISION NETWORK

ABC retains its outstanding performance in the 2000-2001 season. In primetime, a number of popular returning programs are helping to maintain ABC's strong position among the highly coveted sales demographic of adults 18–49 as well as total viewers. These include

Who Wants to Be a Millionaire, The Drew Carey Show, The Practice, Once and Again, Whose Line Is It Anyway, Spin City, Norm, The Wonderful World of Disney and *NYPD Blue*. In addition, promising new series such as *The Geena Davis Show* and *Gideon's Crossing* point toward continued success in the future.

ABC NEWS

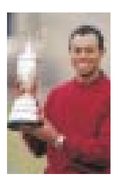
ABC 2000, the news division's extraordinary and unprecedented millennium special, featured a team of ABC News anchors and correspondents covering millennium celebrations around the globe. The 24-hour broadcast became a major television event and was watched by more than 175 million people.

ABC News also won significantly more Emmys than its competitors in the 1999 News & Documentary Emmy Awards. The 11 Emmy Awards (with 21 nominations) were presented to *Nightline*, which won five awards, including two for *Brave New World; ABC 2000,* which won two awards; *The Century*, which won two awards; *World News Tonight — Weekend*, which received one award; and *20/20*, which received one award.

ABC News continues to lead the way in political coverage. The network's primetime specials on the Republican and Democratic national conventions were watched by more people than the coverage of any other broadcast network and had a larger audience than the three cable news networks combined.

Consistent with the news division's commitment to report on issues of spirituality and religion, the network broadcast *Peter Jennings Reporting: In Search of Jesus* in June. The special was a critical success and garnered more viewers than any news program on a broadcast or cable network during the year. ABC News also aired *Hopkins 24/7*, a powerful six-hour documentary about the medical world. This new series brought viewers behind the scenes of The Johns Hopkins Hospital, showing doctors in rare moments of candor and vulnerability.

ABC SPORTS



ABC Sports continued its tradition of excellence, with dramatic and memorable moments such as Super Bowl XXXIV, the Bowl Championship Series and Tiger Woods' historic victory at the British Open. *Monday Night Football* ushered in a new era in its 31st year with a new broadcast team of Al Michaels, Dennis Miller and Dan Fouts. As the broadcast home of college football, ABC Sports also is televising the best games from all the top conferences, culminating with the FedEx Orange Bowl. In addition, ABC Sports will continue to broadcast the Indianapolis 500, the World and U.S. Figure Skating Championships, the British Open and the NHL Stanley Cup Finals.

6. *The Geena Davis Show* tells the story of a single New Yorker who falls in love and finds herself part of a ready-made family.
7. *Gideon's Crossing*, an hour-long drama about a Boston teaching hospital, stars Emmy Award-winning actor Andre Braugher.
8. *Hopkins 24/7,* a gripping documentary about the medical world, aired on ABC News.
9. *Monday Night Football* welcomed comedian Dennis Miller to its broadcast team for the 2000-2001 season.

ABC DAYTIME

For the 24th straight year, ABC Daytime dominated the ratings among the key demographic of women 18–49. Among total women 18 and older, *The View* has proven to be the strongest performer in its time period in nine years. *General Hospital* set a new standard and made Emmy Award history with a record seventh win as "Outstanding Drama Series," marking the show's fifth win in six years. The Fifth Annual Super Soap Weekend at Disney-MGM Studios on November 11–12, 2000, remained the premier interactive fan event, showcasing ABC Daytime's most popular stars in the spectacular theme park arena.

ABC CHILDREN'S

ABC's award-winning Saturday morning children's programming continues to perform well. *Disney's One Saturday Morning* lineup attracts more than 1 million kids each Saturday.

In addition to their strong performance, ABC's Saturday morning programs received numerous honors for their commitment to quality. *Disney's Doug* was named the Most Outstanding Educational Program on a Broadcast Network for 1999–2000 by the Annenberg School of Public Policy. Also, *Disney's Pepper Ann, Disney's Recess* and *Squigglevision* received Parents' Choice Award commendations.

ABC ENTERTAINMENT TELEVISION GROUP

Encompassing ABC Entertainment and Touchstone Television, this division develops and produces shows for network TV.

Last season, *Who Wants to Be a Millionaire* quickly became part of American culture and helped catapult ABC to number one in both total viewers and adults 18–49. Bolstered by the addition of this programming sensation to an already strong schedule, ABC Entertainment premiered four new series in the fall, thereby allowing the network to strategically target and maximize its development, marketing and advertising resources. Building upon this stability, the network plans to spotlight the premieres of its high-profile mid-season shows *My Wife and Kids, Leary* and *The Joan Cusack Show* throughout the year. It also has several marquee reality projects in production, including *The Mole* and the new Ben Affleck/Matt Damon series *The Runner*, which may premiere during the season.

Along with its successful series programming, ABC has a slate of high-profile movies and miniseries in store for the 2000–2001 season. These include the Carrie Fisher/Elaine Pope telefilm *These Old Broads*, starring Shirley MacLaine, Debbie Reynolds, Joan Collins and Elizabeth Taylor; and *Me and My Shadows: Life with Judy Garland*, a story based on Lorna Luft's best-selling memoir, which stars Judy Davis as the legendary singer/actress. And following in the rich tradition of *Annie* and *Rogers and Hammerstein's Cinderella*, the network will air a new version of the classic musical *South Pacific*, starring Glenn Close and Harry Connick, Jr.

The merger of ABC Entertainment and Touchstone Television more than a year ago has been very successful. The restructuring has allowed Touchstone Television to successfully develop many high-profile new series for ABC, including *The Geena Davis Show* and *Gideon's Crossing*, while continuing to sell original programming, such as *Felicity, Popular* and *Daddio* to other networks. For mid-season, the studio is also producing the half-hour comedies *Go Fish* for NBC, and *My Wife and Kids* and *Leary* for ABC, as well as the reality series *Race Around the World* for CBS. To ensure that this level of development continues, the studio also formed strategic talent alliances with some of the best and brightest creative professionals in the television industry.

ABC-OWNED TELEVISION STATIONS

ABC's 10 stations reach 24 percent of the nation's TV households, and all are ranked number one in primetime. The station group experienced an outstanding year, achieving record financial performance and posting excellent ratings results, with eight of the stations ranked number one in household delivery during the total broadcast day.

Robert F. Callahan
President, ABC Broadcast Group

The ABC station group also provided viewers with top-ranked syndicated programs such as *The Oprah Winfrey Show, Wheel of Fortune, Jeopardy!, The Rosie O'Donnell Show* and *Live! With Regis*. WABC-TV in New York celebrated its 13th year of producing *Regis,* syndicated by Buena Vista Television. KRTK-TV in Houston is in its third year of producing a daytime talk show, *The Debra Duncan Show*, slated for future syndication.

KABC-TV in Los Angeles recently moved into the ABC7 Media Center, a state-of-the-art broadcasting facility. In addition, ABC will continue to build high definition television (HDTV) facilities in all of its markets. The seven largest stations are already broadcasting in high definition, with the remaining three stations' conversion scheduled to take place by May 2002.

ABC RADIO

The ABC Radio Group experienced an outstanding year, also achieving record financial performance. The ABC Radio Division owns 50 stations, which reach a weekly audience of 15 million. The ABC Radio Networks reach an estimated 130 million people weekly through more than 4,500 radio outlets nationwide, featuring five full-service news networks, as well as ESPN Radio. Network programming 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 rollout in 2000, purchasing previously affiliated stations in Boston, Hartford, Providence, Richmond, West Palm and Charlotte. Radio Disney is carried on 47 stations that cover more than 50 percent of the U.S. market, reaching 1.9 million kids aged 6–11 and 600,000 moms each week. Radio Disney is targeted to reach 70 percent of the U.S. market in 2001.

BUENA VISTA TELEVISION

Buena Vista Television continues as one of the top providers of syndicated television programs. Its hits include *Live! With Regis*, which is entering its new era with outstanding ratings. Returning for a second season was Buena Vista Television's *Your Big Break*, the Dick Clark-produced first-run music variety show. And another stalwart Buena Vista show, *Ebert & Roeper and the Movies*, entered this season with new co-host Richard Roeper in the balcony next to Roger Ebert, who has been co-hosting the show for 25 years.

Buena Vista Television launched *HouseCalls* in September 2000, the newest television series in the recent reality genre boom. Hosted by Dr. Irvin Wolkoff, *HouseCalls* invites viewers into the homes of real people, counseling families and couples in crisis. The show is produced by a subsidiary of Chris-Craft/United Television.

Win Ben Stein's Money continued on Comedy Central, the network that also added Buena Vista Television's outrageous new game show, *Don't Forget Your Toothbrush*, to its lineup.

Disney's One Too, the two-hour animation block for UPN and syndication, continued with *Buzz Lightyear of Star Command: The Adventure Begins* joining the line up.

Buena Vista Television operates successfully in the arena of pay TV, pay-per-view, cable and network television with the sales of all Disney-labeled movies. In 2000, BVTV closed a record-breaking deal with FX Networks, with the network licensing 54 movie titles as part of the movie package, Buena Vista 6. Included were box office hits such as *The Sixth Sense, Armageddon, Enemy of the State, The Waterboy, Shakespeare in Love* and *Six Days, Seven Nights*. Buena Vista Television also distributes *Who Wants to Be a Millionaire*.

BUENA VISTA PRODUCTIONS

Buena Vista Productions was reorganized this year, and is now responsible for all development and programming for syndication and cable, as well as development for ABC Daytime.

Buena Vista Productions also provides creative input for Buena Vista Television's syndicated and cable shows such as *Live! With Regis, Your Big Break, Ebert & Roeper and the Movies, Win Ben Stein's Money* and *Don't Forget Your Toothbrush*. The division currently is developing a number of new programs targeted for the fall 2001 season.

WALT DISNEY TELEVISION INTERNATIONAL

WDTV-I reinforced its position as a worldwide leader in television broadcasting, distribution and production in 2000. Fueling WDTV-I's record growth this year and securing future growth were its strong distribution performance, the development of Enhanced TV content, transactional TV investments, and the launch of Disney Channel Latin America and the Disney Channel Asia Network, which increased the number of Disney Channels around the world to 13.

WDTV-I signed major new distribution agreements in key territories including Italy, the U.K. and Israel. It also completed a first-time agreement with Chinese broadcaster CCTV, a key step in building a stronger presence on Chinese television. WDTV-I now distributes more than 4,200 hours of programming to 120 countries.

Operating in some of the most competitive television markets in the world, WDTV-I increased overall Disney Channel subscriptions by 60 percent, confirming its position as the leading kids and families channel in homes around the world. Additional Disney Channels are planned in Scandinavia, Portugal and Central Europe.

Building on the continued success of the award-winning U.K. Disney Channel, WDTV-I has launched a family of four new services, including Toon Disney and Playhouse Disney, which is targeted to preschoolers and their caregivers. This further extends access to the Disney brand on TV for kids and families and will increase subscriptions to Disney Channel.

WDTV-I continues to provide Disney-branded and non-branded programming to a large free-TV audience, including 95 regularly scheduled, Disney-branded shows that now air in 42 countries, a majority of which consistently win their time slot.

The original production slate includes the highly successful *Art Attack*, produced in eight languages, which is being supported by other Disney businesses, including Consumer Products and Publishing.

WDTV-I also extended its equity investment portfolio, which includes Super RTL in Germany, GMTV in the U.K. and the HBO services in Central Europe and Latin America, by taking a 45 percent stake in CineNova, Holland's first 24-hour premium movie channel.

1. *Your Big Break* returned for its second season with host Alfonso Ribiero.

2. *Buzz Lightyear of Star Command* is Buena Vista Television's latest addition to Disney's animation block of programming, *Disney's One Too.*

3. *Paul Harvey News & Comment* is heard three times each weekday and once on Saturday on ABC Radio, reaching 19 million listeners weekly.

4. Regis Philbin hosts the hit shows *Live! With Regis* and *Who Wants to Be a Millionaire*.

5. Roger Ebert and Richard Roeper co-host the Buena Vista Television show *Ebert & Roeper and the Movies*.

6. *The View* has been a star of ABC Daytime since its launch in 1997.

2

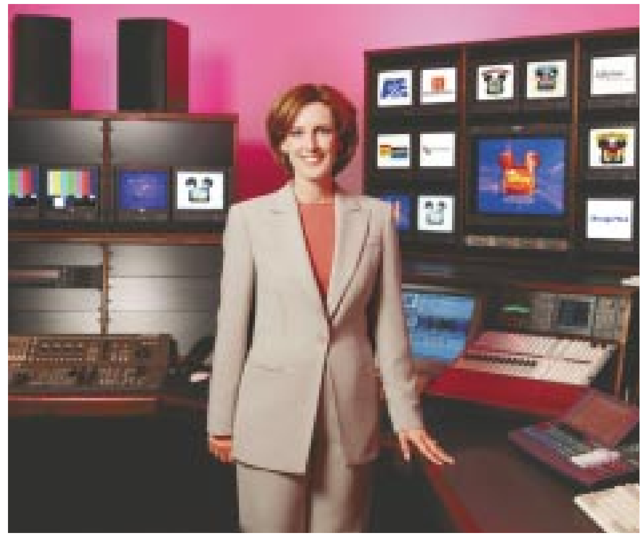
1

3

4

5

6



Anne M. Sweeney
President, ABC Cable Networks Group and
President, Disney Channel Worldwide

1. ESPN has announced an expansion of its popular X Games to five continents in two years.
2. Playhouse Disney, a programming block designed specifically for preschoolers, is shown daily on Disney Channel.
3. The breakout hit *The Color of Friendship* is an Emmy Award-winner for Disney Channel.
4. *The Famous Jett Jackson,* starring Lee Thompson Young, is an original series that attracts a large “tween” audience for Disney Channel.
5. Disney Channel continues to add viewers, now reaching almost 70 million homes.

CABLE NETWORKS

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

George W. Bodenheimer
President, ESPN, Inc.

ESPN

ESPN's continued growth in 2000 further enhanced its position as the worldwide leader in sports. The flagship television network ESPN reaches 80 million U.S. homes. ESPN2, now in 73 million homes, hit the 70 million household mark faster than any cable network in history. ESPN Classic's subscriber base has tripled to 30 million homes since it was acquired in October 1997, and ESPNEWS passed the 20 million household mark. In addition to ESPN Extra and ESPN Now, ESPN launched yet another digital service called ESPN Today, providing interactive capabilities through the TV remote control.

ESPN expanded its original programming lineup with the inaugural *Great Outdoor Games; ESPN's 2-Minute Drill*, developed by Michael Davies, the executive producer of *Who Wants to Be a Millionaire*; and the weekly expansion of the award-winning documentary series *Outside the Lines*. Global expansion of ESPN's highly popular X Games was announced with plans for events on five continents in two years. ESPN Classic was relaunched with the Peabody award-winning series *SportsCentury*.

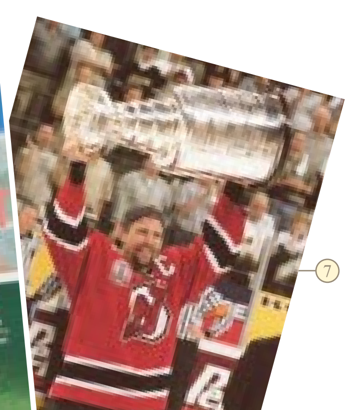
Major league event programming included *Sunday Night NFL*, again the most-watched series on cable, and exclusive National Hockey League coverage, with unprecedented cross-promotion across ESPN, ESPN2 and ABC. This led to significant growth in the coveted male 18–34 audience demographic. Programming also included a long-term Major League Baseball multimedia agreement with double the hours of event and news coverage, Major League Soccer and the WNBA. ESPN also reached out to Hispanic fans by producing select MLB telecasts with Spanish commentary and launching ESPNdeportes.com.

ESPN and ESPN.com continue to focus on Internet/TV convergence with groundbreaking *NHL Rules!* telecasts. Play-by-play commentary is suspended intermittently so e-mail questions from ESPN.com users can be answered on-air. More than 16,000 e-mails were received during one game.

ESPN Internet Group, now in its fifth year, boasted a record 10.8 million unique users in September, as ESPN.com continued to be the largest provider of sports content on the Internet.

ESPN also struck several wireless distribution agreements to provide sports news to cell phones, pagers and palm computer devices.

6



7

ESPN Radio, with more than 620 affiliates, is the largest sports radio network, featuring the World Series, the NBA and WNBA finals, and *The Dan Patrick Show*. In less than three years since its launch, *ESPN The Magazine* has more than tripled its circulation to 1.25 million.

ESPN International, which reaches more than 80 million homes and distributes programming to most countries around the globe, continues to leverage the ESPN brand worldwide. As part of that branding strategy, ESPN sold its interest in Eurosport, and is preparing to launch the ESPN brand in key European markets. The *SportsCenter* franchise was extended with the launch of a regional version across South America. ESPN Israel was launched in June, and new joint ventures were created to enhance local market presence in Brazil.

The sixth ESPN Zone, a sports-themed dining and entertainment experience, is scheduled to open in 2001 at Disney's California Adventure in Anaheim, followed by sites in Las Vegas and Denver.

DISNEY CHANNEL

Now reaching nearly 70 million homes, Disney Channel added more than 9 million homes in fiscal year 2000, a gain of 15 percent over last year. One of the fastest-growing cable networks, Disney Channel saw substantial ratings gains in the past year.

The network's daily Playhouse Disney programming block for preschoolers increased household delivery by 12 percent over fiscal year 1999, and improved target kids delivery by 9 percent.

The fastest-growing segment of Disney Channel's audience is "tweens" (kids aged 9–14.) Propelled by such original series as *The Famous Jett Jackson, So Weird* and the new original comedy series *Even Stevens*, Disney Channel increased its tween delivery by 29 percent in total day and more than 23 percent in primetime versus last year.

Disney Channel's Original Movie franchise continues to lead the marketplace with tween viewers, with such breakout hits as *Miracle in Lane Two, Quints* and the Humanitas and Emmy Award-winning *The Color of Friendship*. In 2000, Disney Channel captured an average of nine of the top 10 basic cable movies each month with tween 9–14 ratings, and five of the top 10 were Disney Channel Original Movies.

6. *ESPN The Magazine* achieved a circulation of nearly 1.25 million in less than three years since its launch.
7. With exclusive National Hockey League coverage, ABC, ESPN and ESPN2 were the places to be for Stanley Cup action.

TOON DISNEY

Targeted to kids aged 2–11, Toon Disney features an array of family-friendly animated programming from the Disney library. In recent Beta Research surveys, both cable subscribers with kids under the age of 13, and non-cable subscribers with kids, ranked Toon Disney as the number-one emerging network they are most interested in watching. This year, Toon Disney, which reaches 17 million homes, participated in its first upfront ad sales offering and was received very enthusiastically by advertisers. Toon Disney began carrying national advertising in September 2000.

SOAPNET

Launched in January 2000, SoapNet reached nearly five million Nielsen homes in its first year. SoapNet offers a wide variety of soap opera programming 24 hours a day, seven days a week. SoapNet's primetime schedule features same-day telecasts of the top-rated ABC Daytime series *All My Children, General Hospital, One Life to Live* and *Port Charles*. The network also airs the popular classic *Ryan's Hope* and serial dramas such as *Knots Landing, Falcon Crest, Hotel* and *The Colbys*, as well as the original soap news series, *SoapCenter*.

LIFETIME TELEVISION

This past season, Lifetime Television not only solidified its status as "television for women," but also achieved its highest ratings ever. Lifetime ranked number two throughout the day among all basic cable networks for the first time in its 16-year history, moving up from number four a year ago, while also continuing number one status in all key female demographics among all basic cable networks. In 2000, Lifetime also achieved record levels of distribution, reaching more than 78 million homes.

Lifetime Television's programming slate for the 2000–2001 season boasts its highest number of original primetime hours ever, including the launch of two new original one-hour drama series. *Strong Medicine* is executive produced by Whoopi Goldberg (and the highest-rated new primetime series in all basic cable as of August 2000). *The Division* stars Bonnie Bedelia and launches in January. Lifetime launched two new original daytime series: the game show *Who Knows You Best?* and the reality series *The Things We Do For Love*. It continued to air *Lifetime Live*, a one-hour information program for women produced by ABC News and hosted by Deborah Roberts and Dana Reeve.

The critically acclaimed series *Any Day Now* entered its third season, while the popular reality series *Beyond Chance*, hosted by Grammy Award-winning artist Melissa Etheridge, began its second season. Rounding out Lifetime's strong schedule are new monthly Lifetime Original Movies, with such stars as Christine Lahti, Stockard Channing and Lorraine Bracco, and new installments of the award-winning *Intimate Portrait* series.

A&E TELEVISION NETWORK

A&E is the winner of the 2000 Governor's Award from The Television Academy of Arts & Sciences for The Biography Project for Schools. The network won five 1999 Emmy Awards, including Outstanding Miniseries for *Horatio Hornblower*. A&E offers viewers a unique blend of original programming, including the highly acclaimed *BIOGRAPHY®* series, original movies, drama series and engaging documentaries. A&E is available in more than 79 million Nielsen homes in the U.S.

THE HISTORY CHANNEL

The History Channel received the prestigious Governor's Award from the Television Academy of Arts & Sciences for the network's "Save Our History" campaign dedicated to historic preservation. Now reaching more than 69 million Nielsen homes, The History Channel reveals the power and passion of history, inviting people to experience history personally by connecting their own lives to the great lives and events of the past. The History Channel is truly "Where the Past Comes Alive."

6


1



4

5



2

3


THE BIOGRAPHY CHANNEL

Featuring the programming of the Emmy Award-winning *BIOGRAPHY®* series, The Biography Channel takes viewers into the world of exceptional people, 24 hours a day. Here viewers will find a total entertainment experience, where biographies, documentaries and original short features are woven together into rich themes and tapestries, creating a unique, multi-dimensional view of fascinating people.

HISTORY CHANNEL INTERNATIONAL

History Channel International focuses on global history and issues. Viewers can broaden their horizons with a mix of historical documentaries, original short features, interviews with historians, foreign-language programs and historyinternational.com, a companion Web site. History Channel International is a brand extension of The History Channel.

E! ENTERTAINMENT TELEVISION

E! Entertainment Television, which celebrated its 10th anniversary in July, is now available to 66 million cable and direct broadcast satellite subscribers in the U.S. Its programming reaches 400 million homes in 120 countries worldwide. The 24-hour network, with programming dedicated to the world of entertainment, has experienced significant growth in both ratings and profile in 2000 due to the success of trademark shows *The E! True Hollywood Story* and *E! News Daily*.

style.

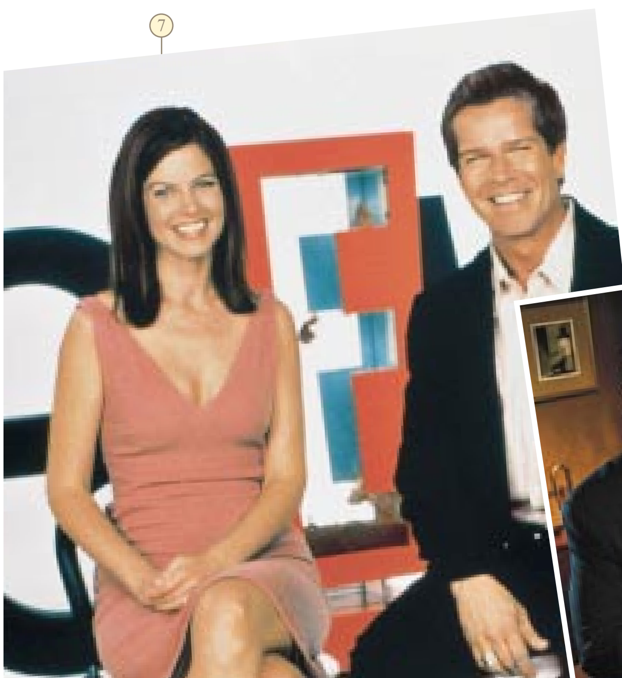
Now in its second year, style., a 24-hour network with programming dedicated to fashion, beauty, home design and the people and events that shape these worlds, is available to 10 million cable subscribers. It further solidified this position this year when it signed a multi-year deal with the Council of Fashion Designers of America to be the official network of the fashion event "7th on Sixth" and the New York Fashion Weeks.

PUBLISHING

Hyperion, Disney's trade publishing division, includes ESPN Books, Talk/Miramax Books, ABC Daytime Press and Hyperion East imprints. Best-selling titles in 2000 included Steve Martin's *Shopgirl*, Regis Philbin's *Who Wants to Be Me?*, Richard Carlson's *Don't Sweat the Small Stuff for Teens*, Liz Smith's *Natural Blonde: A Memoir*, Ridley Pearson's *Middle of Nowhere*, Judy Wallerstein's *The Unexpected Legacy of Divorce* and the paperback edition of Linda Greenlaw's *The Hungry Ocean*.

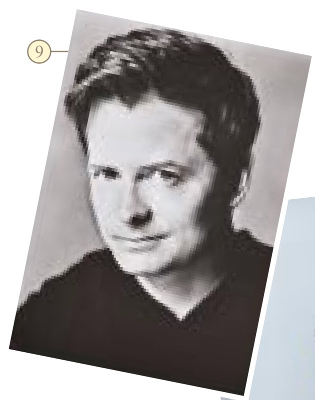
Hyperion will publish several major releases beginning in 2001, including George Carlin's *Napalm and Silly Putty* and Michael J. Fox's memoir about his battle with Parkinson's disease. Hyperion's new literary imprint, Theia, also will launch in 2001.

7



8

9



10

1. A&E's *100 Centre Street* stars Joseph Lyle Taylor as Bobby Esposito, Manny Perez as Ramon Rodriguez and Paula Devicq as Cynthia Bennington.
2. Christine Lahti and Tom Skerritt star in *An American Daughter*, one of the new Lifetime Original Movies.
3. *Rolie Polie Olie*, an animated show designed for kids aged 2-8, airs daily on Disney Channel.
4. *Strong Medicine* is a new Lifetime drama executive produced by Whoopi Goldberg and starring Janine Turner and Rosa Blasi.
5. *This Week in History* is hosted by Josh Binswager and Giselle Fernandez on The History Channel.
6. *Founding Fathers*, which examines the lives of some of America's early leaders, was a special presentation on The History Channel.
7. Emmy-nominated *E! News Daily* is hosted by Steve Kmetko and Jules Asner.
8. The Emmy Award-winning *BIOGRAPHY®* is hosted by Harry Smith.
9. Michael J. Fox's memoir about his battle with Parkinson's disease is one of several major upcoming releases for Hyperion.
10. New York Times best-seller *Shopgirl*, a new work of fiction by Steve Martin, is published by Hyperion.

DISNEY CONSUMER PRODUCTS 2000

Disney Consumer Products is gaining ground through an array of new initiatives for merchandise licensing and the Disney Store, as well as its Interactive and Publishing units.

Licensing

A key strategy for merchandise licensing this year has been the realignment of operations into three distinct businesses: toys, apparel and “hardlines,” which includes such diverse items as home furnishings, personal care and stationery. This new approach enables Disney Consumer Products to develop distinct strategies for each line of business. In the hardlines category, this new approach has led to innovative licensing initiatives such as The Disney Home Collection, which features home furnishings and the 166-color paint palette of Disney Color. The Disney Home Collection can be found in more than 2,000 Wal-Mart stores nationwide, and is expected to reach more than 8,000 home improvement retailers by mid-2001.

Disney Consumer Products also has refined its strategies for leveraging Disney’s unparalleled brand strength by continuing to enhance the value of Disney’s beloved characters while at the same time diversifying the portfolio of licensed products to include an appealing array of non-character items. For example, Disney Consumer Products has developed entirely new apparel lines based on highly popular Princess icons from the Disney film library. It also is extending the Disney brand into the non-character segment of the children’s apparel market, enabling parents to create stylish outfits for their children by mixing and matching character and non-character clothing. Parents also will be able to choose items from brand-new thematic clothing collections such as *it’s a small world,* which adapts the original art of Mary Blair, designer of the beloved *small world* attraction.

Disney Consumer Products also is bringing renewed excitement to its global apparel line in 2001. In Europe, licensee and retailer Donaldson is expanding its successful line of high-end Disney-branded clothing. This exclusive collection has grown in popularity and brings favorite Disney characters to clothing of the highest quality for adults and children.

1


2


3


4

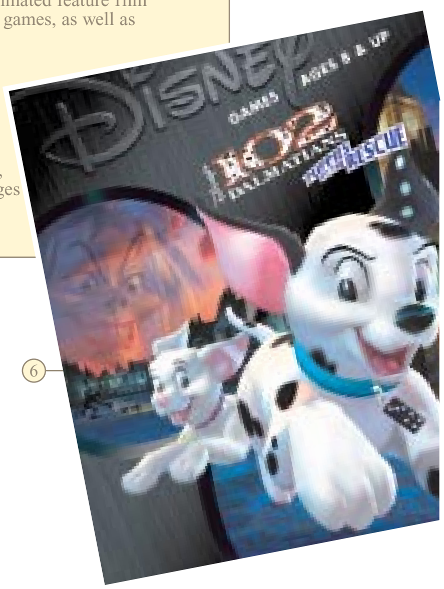

1. This shape sorter, based on Disney classic characters, is an infant/preschool learning toy from Fisher-Price.
2. Action figures based on *Atlantis: The Lost Empire* will be available for fans of the animated feature, set to premiere in summer 2001.
3. *Osceola: Memories of a Sharecropper’s Daughter*, is one of the offerings from Disney’s Jump at the Sun line of books.
4. Disney Publishing offers a variety of magazines, including *Discover*, which is celebrating its 20th anniversary.

Disney Consumer Products' new strategy for toy licensing is highlighted by the September announcement of agreements with Hasbro, Inc., and Mattel, Inc., that leverage the global scale and respective strengths of these toy industry leaders. Under terms of the newly restructured licensing agreement with Mattel, its Fisher-Price subsidiary will produce toys based on classic Disney characters such as Mickey Mouse, Winnie the Pooh and the Disney Princesses, as well as any new infant and preschool toys based on film and television properties created by Disney. Hasbro will develop and market toys and games associated with upcoming Disney-branded film properties, beginning with *Monsters, Inc.*, a Disney/Pixar animated feature film scheduled for release in fall 2001.

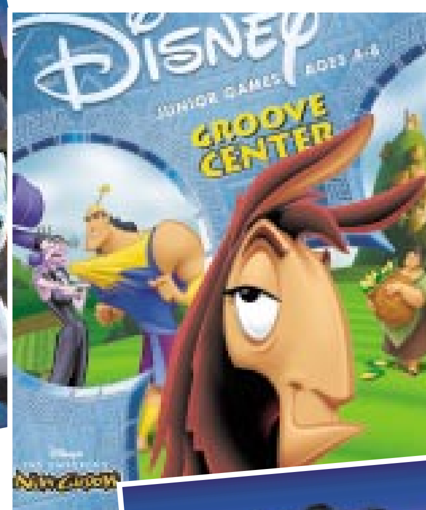
In addition, the holiday 2000 release of *102 Dalmatians* brings a new level of technological wizardry to toys, with the introduction of a Dalmatian "Poo-Chi" from Tiger Electronics. And there is no better character than Mickey Mouse to assist in the cognitive development of infants than a new range of Mickey developmental toys from Mattel, which stimulate coordination and motor skills.

5. Fisher-Price makes this teething ring for infants.
6. *102 Dalmatians: Puppies to the Rescue* is a 3-D action-adventure game that lets a child become one of the puppies in a journey to save the other pups from Cruella De Vil.
7. *Groove Center*, the activity center for the animated feature film *The Emperor's New Groove*, features arcade games, as well as creativity and logic adventures.
8. A new game for Nintendo 64, *Mickey's Speedway USA* allows players to choose their favorite Disney characters and race them through a variety of worlds.
9. The redesigned Disney Store in Costa Mesa, Calif., features an interactive wall that engages guests with Disney programming.

Barton K. Boyd
Chairman, Disney Consumer Products Worldwide

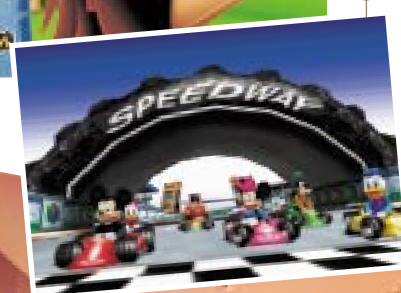


6



7

8



9

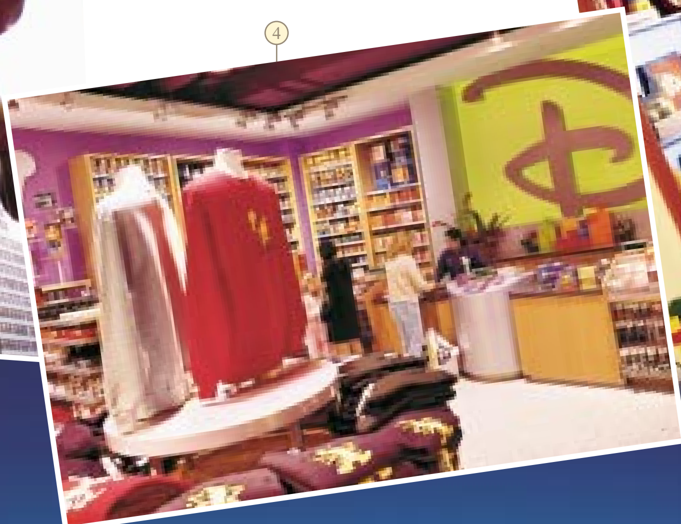
5

1

2

3

4



5

Disney Store

Disney Stores are powerful “brand ambassadors” for Disney. Some 250 million guests around the world visit these entertainment retail outlets each year, making them a critical interface between Disney and consumers. As part of Disney Consumer Products’ strategy to transform the Disney Store into a highly effective retail environment and brand statement, two completely redesigned stores were unveiled in Cherry Hill, N.J., and Costa Mesa, Calif. The all-new store design showcases merchandise in an engaging and contemporary fashion, and keeps pace with evolving retail trends. Technological elements — including a front-of-store media wall that engages guests with Disney programming, and interactive kiosks that bring Disney’s online shopping, travel planning and entertainment directly to shoppers — set the stage for Disney Store in the 21st century.

Disney Store also continues to focus on introducing all-new, innovative merchandise such as its comprehensive line of *102 Dalmatians* products unveiled in late 2000. Additionally, Disney Store’s approach for the future creates a “one-stop shopping headquarters” dedicated to seasonal shopping and gift-giving for such key family events as Christmas, Valentine’s Day, the back-to-school season and Halloween.

Disney Interactive

The significant growth and ever-increasing popularity of PC and video games helped Disney Interactive achieve robust growth in 2000. In fact, Disney Interactive had the top-selling family PC game in North America with *Who Wants to Be a Millionaire*. Software sales for the Game Boy Color platform also were strong throughout the year, with hit titles that included Disney/Pixar’s *A Bug’s Life, Tarzan™, Dinosaur* and *Winnie the Pooh*.

In 2001, Disney Interactive will spur growth from Disney’s film properties with multi-platform product releases for *102 Dalmatians, The Emperor’s New Groove* and *Atlantis: The Lost Empire*.

Disney Interactive also debuted in the sports category with *ESPN: The Games*, covering a wide range of sports titles and leveraging the strength of the ESPN brand. In addition, Disney Interactive will unveil breakthrough 3-D technology with *Mickey’s Speedway USA*, a brand-new Mickey Mouse racing game developed in conjunction with Nintendo.

Disney Interactive also intends to focus on product development for the next generation of gaming consoles, particularly PlayStation2, Game Boy Advance and Nintendo’s new Gamecube.

Publishing

This year, some 375 million Disney titles will be published globally, making Disney one of the largest children’s publishers in the world. The billionth copy of *Micky Maus* magazine was sold in Germany in 2000. In addition, Disney Publishing Worldwide saw substantial advertising sales growth for its U.S. magazine unit.

Andrew P. Mooney
President, Disney Consumer Products Worldwide

In January, Disney Publishing began its multi-year licensing relationship with Random House, which joins a prestigious list of licensees that includes a.o. Kodansha, Hachette, Mondadori, Penguin and Egmont.

Disney Publishing has become an increasingly important source of content that can be successfully adapted to other Disney entertainment platforms. For example, *Cheetah Girls*, a story of four African-American girls who aspire to become recording artists, is currently in development as a program for Disney Channel, produced by Whitney Houston, and is one of several Disney Publishing properties that are either on the air or in development for Disney Channel.

For 2001, Disney Publishing is focusing on at-home learning programs. A new developmental book program, *Disney’s Smart Steps*, will roll out worldwide for infants to children age three. In addition, a new card program called *Disney’s Photo Safari*, featuring animals and habitats on more than 1,200 cards, will debut globally, along with a learning series for preschoolers, *Disney’s Wonderful World of You*.

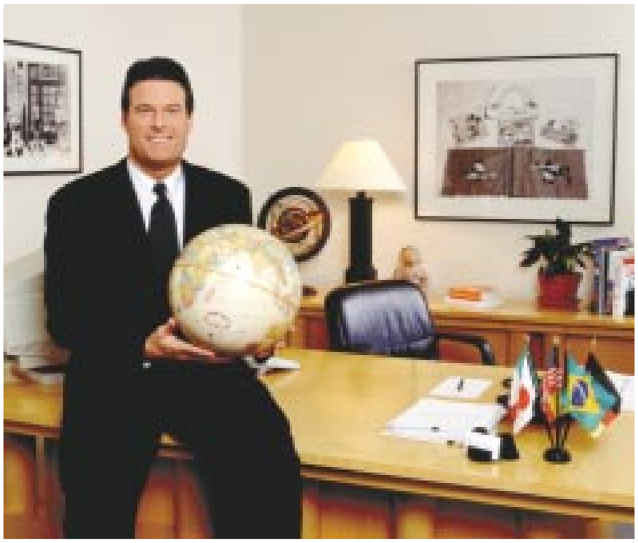
New book titles from acclaimed authors Rosemary Wells, Jules Feiffer and Academy Award-winner Julie Andrews are due from Hyperion Books for Children. Meanwhile, Disney’s African-American imprint, Jump at the Sun, will publish *Diary of a Light-Skinned Boy*, a novel for teens by best-selling author E. Lynn Harris.

6

1. This Mickey Mouse toaster plays the tune *it’s a small world* when the toast is ready, and also leaves Mickey’s imprint on the bread.
2. The Disney Home Collection features a Disney Color line of paint from Sherwin-Williams, a decoration guide, stencils and silhouettes.
3. Mickey floats high above the crowds in New York at the Macy’s Thanksgiving Day Parade.
4. More than 250 million guests visit Disney Store locales each year.
5. Dalmatian “Poo-Chi” interactive puppies sing, sit and dance.
6. *it’s a small world* clothing collection for children is one of the new themed lines of clothing being introduced by Disney Consumer Products.

2000

WALT DISNEY INTERNATIONAL



Michael O. Johnson
President, Walt Disney International

Walt Disney International is responsible for a wide range of Disney's corporate activities outside the U.S. In 2000, the unit focused on acquisition opportunities, strengthening and expanding operations in regions that are strategically advantageous, leveraging the Disney brand to enhance worldwide growth and consolidating cost centers in order to lower operating expenses.

This year, country managers have been appointed in every major territory, including Japan, England, Germany, France, Italy, Spain, the Scandinavian region, Latin America, Australia, Korea and Taiwan. The country managers work in concert with the international operations of Disney's major business units, coordinating marketing and strategic initiatives in each territory and thus ensuring that business opportunities are maximized across all business units locally and globally.

1. Developed for the Japanese market, "Disney-i" is a subscription service offering everything from Disney music to games.
2. Hong Kong Disneyland will debut in 2005.
3. Disney publications are available in a variety of languages to reach consumers around the world.

In 2000, Walt Disney International developed a strategic multi-year marketing plan in order to maximize the effectiveness of Disney's key companywide marketing initiatives. The effort is expected to enable the company to maximize reach to consumers in each market, increasing revenue opportunities for Disney and its business partners.

Optimizing the Disney brand is key to Walt Disney International's global expansion. For example, it is currently working with all Disney's business units to market on an international retail basis, a wide range of products based on Disney's highly popular Princess icons. Looking to the year ahead, emerging markets such as China, India, Turkey and parts of Eastern Europe offer prime opportunities to further expand the Disney brand.

Working in partnership with both corporate staff and the regional executives of Disney's business units, Walt Disney International also explores and develops new business initiatives. One of this year's new business ventures is "Disney-i," a Disney-branded entertainment and information subscription service on the Japanese wireless carrier DoCoMo. This service, which has garnered more than 425,000 subscribers since its launch in August, provides four subscriber services, including Disney music and character downloads, a Disney "theme park" game and a "Disney Fan" magazine developed specifically for the Japanese market. New features already have been added, including a "paperless coupon" that can be changed daily and customized for purchases at Disney Store locations in Japan. Walt Disney Internet Group now manages Disney-i and will roll out the service in other markets with help from local country managers.

Walt Disney
INTERNET GROUP

abc SPORTS

MILLIONAIRE

RADIO Disney

nba.com

ESPN.com

Go.com

movies.com

Disney store

MR.SHOWBIZ

Disney .com

Disney.com

abc.com

NFL.com

abc NEWS.com

SN SoapNet

Hollywood RECORDS

ESPN.com

playhouse Disney

Oscar.com

WALL OF SOUND

WNBA.COM

INSIDER

family.com

Enhanced TV

Steven M. Bornstein
Chairman, Walt Disney Internet Group

As the Internet media business of The Walt Disney Company, Walt Disney Internet Group manages some of the Web's most popular sites. Several, including Disney.com, ESPN.com, ABC.com, ABCNEWS.com, MrShowbiz.com, Movies.com, Family.com and GO.com, are leaders in their respective categories. Collectively, these sites, along with the remaining portfolio of Disney Web sites, represent the sixth-largest Web property overall, according to industry measurer Jupiter Media Metrix.

Fiscal 2000 was a transitional year, beginning with the acquisition of Infoseek Corp. Walt Disney Internet Group achieved significant operating efficiencies, eliminated non-core assets and built a strong platform for growth and long-term profitability. The business is now enhancing and growing its market-leading Web properties and achieving broad distribution for all of its Internet brands and services with the goal of achieving market leadership, realizing substantial operating margins and leveraging the significant assets of The Walt Disney Company.

WEB SITES

Walt Disney Internet Group redesigned and enhanced many of its vertical properties to increase their value to users and marketing partners, improve their business models and more completely integrate them with Disney's offline assets.

ABC.com is the number-one network television Web site, with significant year-over-year growth driven in part by the huge popularity of the *Who Wants to Be a Millionaire* Enhanced TV game. The site extends the ABC-TV experience by integrating primetime and daytime programming into its content. ABC.com also produces Oscar.com in partnership with the Academy of Motion Picture Arts and Sciences.

ABCNEWS.com is a pacesetter in breaking news stories online, presenting information in an innovative fashion and enabling users to customize news on a local basis. It has also significantly increased its coverage of business and financial issues with the launch of Moneyscope.

Disney.com, the number-one family entertainment Web site, has seen strong growth in traffic with a virtual theme park home page design that allows users to navigate the site faster and more easily. Its popular content spans the breadth of The Walt Disney Company. Families also can access premium content such as multi-player games, Internet communication tools with built-in parental controls, and discounts on merchandise by joining Disney's subscription service, Disney's Blast.

DisneyStore.com, the online buying resource for Disney, also sports a new look and feel, offering users easier ways to navigate the site with a more prominent search box and themed merchandise. The site is highly integrated with the Disney Store in terms of design and products.

During the last year, the Walt Disney Internet Group continued to expand DisneyVacations.com, which offers vacation packages and options to Disney destinations, including Walt Disney World, Disneyland and Disney Cruise Line.

1. Disney's Blast, the most popular subscription kids site on the Web, offers access to multi-player games and discounts on merchandise.
2. Created just for kids, *Zeether,* which is interactive with Disney Channel, offers games, interactive storybooks, activities and multimedia D-mail, all on Disney.com.
3. Fans of the hit show *Who Wants to Be a Millionaire* can participate via their computers thanks to Enhanced TV technology.
4. Disney.com is the Disney vacation destination where travel packages can be ordered online for Walt Disney World, Disneyland and Disney Cruise Line.

3

4

1

2

Walt Disney Internet Group manages and publishes 19 local language Disney sites outside the U.S. Flagship sites include www.disney.co.uk (U.K.), www.disney.jp (Japan), www.disney.co.au (Australia), and www.disneylatino.com (Latin America). Each site provides a focus for country-specific Disney initiatives and acts as a local language resource for non-U.S. Disney fans.

ESPN.com, the worldwide leader in online sports, delivers comprehensive sports information and has pioneered a wide variety of features using breakthrough technology. ESPN.com recently introduced “Page 2,” a page with “attitude” that features articles by celebrity writers not generally associated with sports writing. Late last year, ESPN also introduced the ESPN.com Mall, offering online sports enthusiasts the opportunity to purchase merchandise from premier sports retailers, including Nike and FanBuzz. Soccernet.com, considered to be the world’s leading soccer site, was fully acquired by Walt Disney Internet Group last year.

Entertainment sites include Mr. Showbiz, which attracts the largest audience of any entertainment Web site. Its successful spinoff, Wall of Sound, is dedicated to the latest news in the music world. Movies.com, launched in 2000, offers information on major films in production, screens trailers and photo galleries, and provides a movie-locator directory.

Family.com is known as the premier online parenting resource. Its combination of top-quality editorial content and interactive elements such as chats and bulletin boards make it a leading destination for information on family activities, education, meal planning, parenting advice, travel tips and much more.

Stephen H. Wadsworth
President, Walt Disney Internet Group

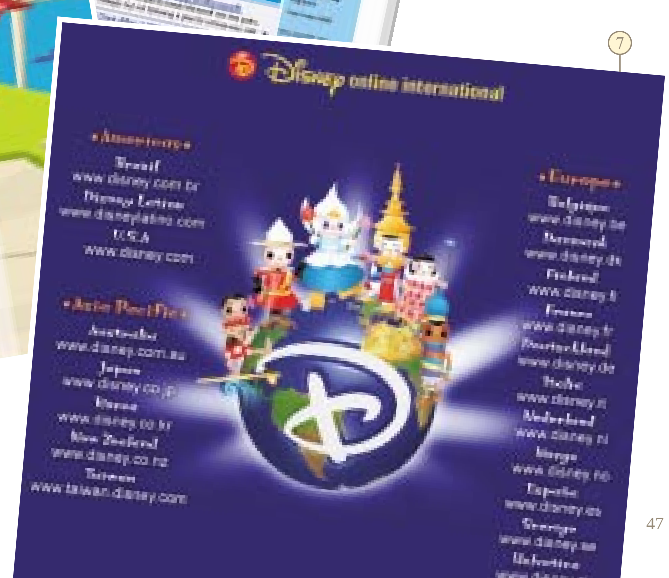
5. Family.com gives parents access to reliable, easy-to-use information on education, travel tips, meal planning and more.
6. At ABCNEWS.com, users can create customized sites to receive local news, sports and weather information.
7. Disney fans outside the U.S. can get information in their local language through country-specific Web sites available in 19 languages.

soccernet.com

5

6

7

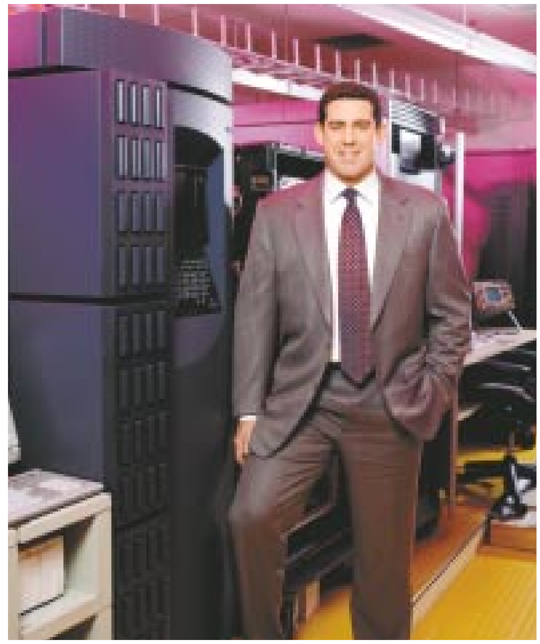


1

1. The new GO.com Web guide targets users who are focused on entertainment, sports, travel and other leisure activities.

2. Enhanced TV allows viewers to interact with *Sunday Night NFL* and *Monday Night Football* games.

3. Soccernet.com is considered the world's leading soccer site.



Spencer Neumann
Senior Vice President and Chief Financial Officer,
Walt Disney Internet Group

GO.com, a newly refocused Web guide, is unlike any other search and directory experience on the Internet today. GO.com targets the growing number of online users who want a search and content experience focused on "free time" and lifestyle categories of entertainment, sports, news, travel and other leisure activities. GO.com offers complete information drawn from its powerful search engine, from a list of user-rated sites ranked by the GO Guides, a volunteer Internet community of 43,000 Web site reviewers, and from existing content sources from Disney Internet sites and partner sites. GO.com also provides marketing partners with highly targeted advertising opportunities that enable them to reach audiences with specific interests.

COMPANY HIGHLIGHTS

Across several of its Web sites, Walt Disney Internet Group is pioneering the "Big Impression," a more prominent and well-positioned advertising space that is 30 percent larger than typical Internet ads. Launched on ESPN.com, the Big Impression also is showcased on GO.com, ABC.com and ABCNEWS.com, and will be incorporated into other sites later this year. It offers marketing partners a better means of targeting their messages with specific audiences, and using the Web more effectively as an advertising vehicle and branding opportunity.

Disney's Internet business continues to lead in interactive TV. It is the first step toward true convergence programming and allows TV viewers to access live programming via the Internet that is synchronized with ABC-TV and ESPN telecasts. Millions of viewers have participated in Enhanced TV programming, playing *Who Wants to Be a Millionaire* online in sync with the television show, interacting with Sunday and Monday Night Football games and the Primetime and Daytime Emmy Awards.

A significant new component of Disney's Internet business is its online auctions capability. In partnership with eBay, the Walt Disney Internet Group offers consumers the opportunity to purchase authentic Disney memorabilia sourced directly from various business units of The Walt Disney Company.

One of Walt Disney Internet Group's strategic directives is ensuring broad distribution of its vertical content and services. In the wireless space, Walt Disney Internet Group content is available on smart phones, hand-held devices, laptop computers and other wireless devices. AT&T, Verizon, Point Click, Valu Page and Internet appliances by 3Com and Intel carry its content on their wireless services as do leading information service providers NetZero, Earthlink and MSN. Internationally, Walt Disney Internet Group content is provided to users of NTT DoCoMo's successful i-Mode wireless platform accessed by more than 10 million wireless phone owners in Japan. This relationship is part of a strategy to distribute Disney Internet content to consumers globally.

DIRECT MARKETING

Walt Disney Internet Group also includes Disney's direct marketing activities, which manage merchandise sales through The Disney Catalog. The direct marketing business provides an infrastructure for Walt Disney Internet Group's e-commerce services on the Internet and, in time, it is anticipated that a significant portion of direct marketing sales will take place online.

2

3

RESULTS OF OPERATIONS

On November 4, 1999, the company sold Fairchild Publications, which was acquired with its 1996 acquisition of ABC, Inc. The sale resulted in a pre-tax gain of $243 million. Income taxes on the transaction largely offset the pre-tax gain. 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 (see Note 2 to the Consolidated Financial Statements). To enhance comparability, certain information for fiscal 2000 and 1999 is presented on a pro forma basis, which assumes that these events had occurred at the beginning of fiscal 1999. The pro forma results are not necessarily indicative of the consolidated results that would have occurred had these events actually occurred at the beginning of fiscal 1999, nor are they necessarily indicative of future results. The pro forma results include gains on the sales of Ultraseek of $153 million and Eurosport of $93 million (see Note 2 to the Consolidated Financial Statements).

Pro forma operating income excludes charges for purchased in-process research and development costs of $23 million and $73 million for the years ended September 30, 2000 and 1999.

CONSOLIDATED RESULTS

	Pro Forma (unaudited)			As Reported		
(In millions, except per share data)	**2000**	1999	% Change	**2000**	1999	1998
Revenues:						
Media Networks	**$ 9,615**	$ 7,970	21%	**$ 9,615**	$ 7,970	$ 7,433
Studio Entertainment	**5,994**	6,166	(3%)	**5,994**	6,166	6,586
Parks and Resorts	**6,803**	6,139	11%	**6,803**	6,139	5,532
Consumer Products	**2,608**	2,777	(6%)	**2,622**	2,954	3,165
Internet Group	**392**	348	13%	**368**	206	260
Total revenues	**$25,412**	$23,400	9%	**$25,402**	$23,435	$22,976
Operating income:[1]						
Media Networks	**$ 2,298**	$ 1,580	45%	**$ 2,298**	$ 1,580	$ 1,757
Studio Entertainment	**110**	154	(29%)	**110**	154	749
Parks and Resorts	**1,620**	1,479	10%	**1,620**	1,479	1,288
Consumer Products	**454**	567	(20%)	**455**	600	810
Internet Group	**(396)**	(208)	(90%)	**(402)**	(93)	(94)
Amortization of intangible assets	**(1,351)**	(1,362)	1%	**(1,233)**	(456)	(431)
	2,735	2,210	24%	**2,848**	3,264	4,079
Restructuring charges	**—**	(132)	n/m	**—**	(132)	(64)
Gain on sale of Ultraseek	**153**	—	n/m	**153**	—	—
Gain on sale of Fairchild	**—**	—		**243**	—	—
Gain on sale of Starwave	**—**	—		—	345	—
Total operating income	**2,888**	2,078	39%	**3,244**	3,477	4,015
Corporate and other activities	**(103)**	(131)	21%	**(105)**	(140)	(164)
Gain on sale of Eurosport	**93**	—	n/m	**93**	—	—
Equity in Infoseek loss	**—**	—		**(41)**	(322)	—
Net interest expense	**(554)**	(595)	7%	**(558)**	(612)	(622)
Income before income taxes and minority interests	**2,324**	1,352	72%	**2,633**	2,403	3,229
Income taxes	**(1,385)**	(941)	(47%)	**(1,606)**	(1,014)	(1,307)
Minority interests	**(107)**	(88)	(22%)	**(107)**	(89)	(72)
Net income	**$ 832**	$ 323	158%	**$ 920**	$ 1,300	$ 1,850
Earnings (loss) attributed to:						
Disney common stock[2]	**$ 1,149**	$ 609	89%	**$ 1,196**	$ 1,300	$ 1,850
Walt Disney Internet Group common stock	**(317)**	(286)	(11%)	**(276)**	—	—
	$ 832	$ 323	158%	**$ 920**	$ 1,300	$ 1,850
Earnings (loss) per share attributed to:						
Disney						
Diluted	**$ 0.55**	$ 0.29	90%	**$ 0.57**	$ 0.62	$ 0.89
Basic	**$ 0.55**	$ 0.30	83%	**$ 0.58**	$ 0.63	$ 0.91
Internet Group (basic and diluted)	**$ (7.10)**	$ (6.66)	(7%)	**$ (6.18)**	n/a	n/a
Average number of common and common equivalent shares outstanding:						
Disney						
Diluted	**2,103**	2,083		**2,103**	2,083	2,079
Basic	**2,074**	2,056		**2,074**	2,056	2,037
Internet Group (basic and diluted)	**45**	43		**45**	n/a	n/a

[(1)]Segment results exclude intangible asset amortization. Segment EBITDA, which also excludes depreciation, is as follows:

(In millions, except per share data)	Pro Forma (unaudited) 2000	Pro Forma (unaudited) 1999	As Reported 2000	As Reported 1999	As Reported 1998
Media Networks	**$2,438**	$1,711	**$2,438**	$1,711	$1,879
Studio Entertainment	**164**	218	**164**	218	864
Parks and Resorts	**2,201**	1,977	**2,201**	1,977	1,731
Consumer Products	**558**	690	**559**	724	895
Internet Group	**(359)**	(184)	**(367)**	(85)	(84)
	$5,002	$4,412	**$4,995**	$4,545	$5,285

[(2)] Including Internet Group losses attributed to Disney common stock. Earnings attributed to Disney common stock reflect 100% of Internet Group losses through November 17, 1999, and approximately 71% thereafter.

CONSOLIDATED RESULTS

2000 vs. 1999 On a pro forma basis, revenues increased 9% to $25.4 billion, driven by growth at Media Networks, Parks and Resorts and the Internet Group, partially offset by decreases in the other segments. Operating income increased 39% to $2.9 billion and net income increased 158% to $832 million. Diluted earnings per share attributed to Disney common stock increased 90% to $0.55 and diluted loss per share attributed to Internet Group common stock increased to $7.10. The current year includes gains on the sale of Ultraseek and Eurosport totaling $153 million and $93 million, respectively, which increased diluted earnings per Disney share by $0.01 and $0.02, respectively. The Ultraseek gain also had a $0.25 impact on diluted earnings per Internet Group share. The prior year included restructuring charges that had a $0.04 impact on diluted earnings per Disney share. Results for the year were driven by increased operating income, the gains on the sale of Ultraseek and Eurosport, lower net interest expense and improved Corporate and other activities.

Increased operating income reflected increases in Media Networks and Parks and Resorts, partially offset by decreases in Studio Entertainment and Consumer Products as well as higher Internet Group operating losses. Additionally, the current year includes a $153 million gain on the sale of Ultraseek and the prior year includes a $132 million restructuring charge discussed in more detail below. Net interest expense decreased due to lower average debt balances, partially offset by higher interest rates in the current year. Lower average debt balances were driven by reductions in debt, which were funded by increased cash flow. Lower net expense associated with Corporate and other activities reflected improved results from the company's cable equity investments, partially offset by higher corporate general and administrative expenses.

As previously noted, the company completed its acquisition of Infoseek during the quarter ended December 31, 1999. The acquisition resulted in a significant increase in intangible assets, which are being amortized over periods ranging from two to nine years.

The impact of amortization related to the November 1998 and November 1999 acquisitions, after the impact of the Ultraseek sale (see Note 2 to the Consolidated Financial Statements), is expected to be $642 million in 2001, $597 million in 2002, $89 million in 2003 and $13 million over the remainder of the amortization period. The company determined the economic useful life of acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, including developed technology, trademarks, user base, joint venture agreements and in-place workforce. In addition, the company considered the competitive environment and the rapid pace of technological change in the Internet industry.

On an as-reported basis, net income decreased 29% to $920 million and operating income decreased 7% to $3.2 billion. The as-reported results reflect the items described above, as well as the impact of the sale of Fairchild Publications and equity in Infoseek loss in the current year and the gain on the sale of Starwave and higher Infoseek equity losses in the prior year. The prior-year equity in Infoseek loss includes amortization of intangible assets of $229 million and a charge for purchased in-process research and development costs of $44 million. Current period as-reported operating income and net income also reflect increased amortization of intangible assets of $772 million resulting from the Infoseek acquisition and a $23 million charge for purchased in-process research and development expenditures. The higher effective tax rate for the current year reflects the income tax impact of the sale of Fairchild Publications and the impact of higher non-deductible amortization of intangible assets.

1999 vs. 1998 On an as-reported basis, revenues increased 2% to $23.4 billion, driven by growth at 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 the fourth quarter restructuring charges in 1999 and 1998, operating income decreased 20% to $3.3 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 (see discussion in Note 2 to the Consolidated Financial Statements) and lower net expense associated with Corporate and other activities. Including the restructuring charges and Infoseek, operating income decreased 13% to $3.5 billion and net income and diluted earnings per share decreased 30% to $1.3 billion and $0.62, respectively.

1999 Restructuring Charges

In the third quarter of 1999, 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 15 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 of 1999. 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 included lease and contract termination costs and severance.

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 included 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 eliminated certain job responsibilities as part of the consolidation of its retail operations. Related charges for both actions included 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
Asset write-offs and write-downs	53
Total	$132

Remaining balances recorded at September 30, 2000 totaled $47 million and relate principally to lease and other contract cancellation costs, which will be relieved throughout fiscal 2001 as leases and contracts expire.

The company's cost-saving initiatives will continue into next year and may result in additional charges of a similar nature. In addition, in fiscal 2000, the company commenced 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.

RESULTS ATTRIBUTED TO DISNEY COMMON STOCK

In addition to the consolidated results of operations for The Walt Disney Company, the company has also presented the operating results attributable to Disney common stock (NYSE:DIS). Earnings attributed to Disney common stock represent the results of Disney's operations and the portion of the net loss of the Internet Group attributed to Disney. For fiscal 2000, the Disney statement reflects approximately 71% of the Internet Group's net loss. Both the Disney and Internet Group common stocks are classes of common stock issued by The Walt Disney Company.

	Pro Forma (unaudited)			As Reported		
(In millions, except per share data)	**2000**	1999	% Change	**2000**	1999	1998
Revenues:						
Media Networks	**$ 9,615**	$ 7,970	21%	**$ 9,615**	$ 7,970	$ 7,433
Studio Entertainment	**5,994**	6,166	(3%)	**5,994**	6,166	6,586
Parks and Resorts	**6,803**	6,139	11%	**6,803**	6,139	5,532
Consumer Products	**2,608**	2,777	(6%)	**2,622**	2,954	3,165
Total revenues	**$25,020**	$23,052	9%	**$25,034**	$23,229	$22,716
Operating income:						
Media Networks	**$ 2,298**	$ 1,580	45%	**$ 2,298**	$ 1,580	$ 1,757
Studio Entertainment	**110**	154	(29%)	**110**	154	749
Parks and Resorts	**1,620**	1,479	10%	**1,620**	1,479	1,288
Consumer Products	**454**	567	(20%)	**455**	600	810
Amortization of intangible assets	**(442)**	(448)	1%	**(442)**	(451)	(424)
	4,040	3,332	21%	**4,041**	3,362	4,180
Restructuring Charges	**—**	(132)	n/m	**—**	(132)	(64)
Gain on sale of Fairchild	**—**	—		**243**	—	—
Total operating income	**4,040**	3,200	26%	**4,284**	3,230	4,116
Corporate and other activities	**(91)**	(124)	27%	**(93)**	(124)	(152)
Gain on sale of Eurosport	**93**	—	n/m	**93**	—	—
Net interest expense	**(523)**	(600)	13%	**(525)**	(605)	(623)
Income before income taxes, minority interests and Internet Group losses	**3,519**	2,476	42%	**3,759**	2,501	3,341
Income taxes	**(1,458)**	(1,040)	(40%)	**(1,695)**	(1,051)	(1,343)
Minority interests	**(127)**	(91)	(40%)	**(127)**	(91)	(77)
Income before Internet Group losses	**1,934**	1,345	44%	**1,937**	1,359	1,921
Net losses of the Internet Group attributed to Disney[1]	**(785)**	(736)	(7%)	**(741)**	(59)	(71)
Net income attributed to Disney common stock	**$ 1,149**	$ 609	89%	**$ 1,196**	$ 1,300	$ 1,850
Earnings per share attributed to Disney common stock:[2]						
Diluted	**$ 0.55**	$ 0.29	90%	**$ 0.57**	$ 0.62	$ 0.89
Basic	**$ 0.55**	$ 0.30	83%	**$ 0.58**	$ 0.63	$ 0.91
Earnings per share attributed to Disney common stock excluding Internet Group losses:[2]						
Diluted	**$ 0.92**	$ 0.65	42%	**$ 0.92**	$ 0.65	$ 0.92
Basic	**$ 0.93**	$ 0.65	43%	**$ 0.93**	$ 0.66	$ 0.94
Average number of common and common equivalent shares outstanding:						
Diluted	**2,103**	2,083		**2,103**	2,083	2,079
Basic	**2,074**	2,056		**2,074**	2,056	2,037
[1] Amounts include non-cash amortization of intangible assets as follows:	**$ 648**	$ 658		**$ 564**	$ 234	$ 7

[2] Disney is a class of common stock of The Walt Disney Company. Income attributed to Disney common stock should be reviewed in conjunction with the consolidated results of operations for The Walt Disney Company presented elsewhere herein.

2000 vs. 1999 On a pro forma basis, revenues increased 9% to $25.0 billion, driven by growth at Media Networks and Parks and Resorts, partially offset by decreases in the other segments. Excluding Internet Group losses, operating income, net income attributed to Disney common stock (Disney net income) and diluted earnings per share attributed to Disney common stock (Disney diluted earnings per share) increased 26%, 44% and 42% to $4.0 billion, $1.9 billion and $0.92, respectively. The current year included the Eurosport gain, which increased Disney diluted earnings per share by $0.02. The prior year included restructuring charges, which decreased Disney diluted earnings per share by $0.04. Including Internet Group losses, Disney net income and Disney diluted earnings per share increased 89% and 90% to $1.1 billion and $0.55, respectively. Results for the year were driven by increased operating income, the gain on the sale of Eurosport, lower net interest expense, improved Corporate and other activities, partially offset by higher Internet Group losses.

Increased operating income reflected increases in Media Networks and Parks and Resorts, partially offset by decreases in Studio Entertainment and Consumer Products. Additionally, prior-year operating income includes a $132 million restructuring charge. Net interest expense decreased due to lower average debt balances, partially offset by higher interest rates in the current year. Lower average debt balances were driven by reductions in debt, which were funded by increased cash flow. Lower net expense associated with Corporate and other activities reflected improved results from the company's cable equity investments, partially offset by higher corporate general and administrative expenses.

On an as-reported basis, Disney net income decreased 8% to $1.2 billion and operating income increased 33% to $4.3 billion. As-reported results reflect the items discussed above, as well as the impact of the Infoseek acquisition on Internet Group losses attributed to Disney and the sale of Fairchild Publications. Internet Group losses attributed to Disney reflect a gain on the sale of Starwave of $345 million in the prior year and Infoseek losses and incremental amortization of acquired intangible assets in the current period. The higher effective tax rate for the current year reflects the income tax impact of the sale of Fairchild Publications.

1999 vs. 1998 On an as-reported basis, revenues increased 2% to $23.2 billion, driven by increases at Parks and Resorts and Media Networks, partially offset by decreases in the other segments. Operating income decreased 22% to $3.2 billion, and Disney net income and Disney diluted earnings per share decreased 30% to $1.3 billion and $0.62, respectively. Results for the year were driven by decreased operating income, partially offset by decreased net expense associated with Corporate and other activities and lower net interest expense.

BUSINESS SEGMENT RESULTS

Media Networks

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

	2000	1999	1998
Revenues:			
Broadcasting	**$6,160**	$5,100	$5,008
Cable Networks	**3,455**	2,870	2,425
	$9,615	$7,970	$7,433
Operating Income:			
Broadcasting	**$1,241**	$ 637	$ 998
Cable Networks	**1,057**	943	759
	$2,298	$1,580	$1,757

2000 vs. 1999 Revenues increased 21%, or $1.6 billion, to $9.6 billion, driven by increases of $1.1 billion at Broadcasting and $585 million at the Cable Networks. Broadcasting revenue growth reflected increased advertising revenues at the television networks and the company's owned television stations due to a strong advertising market, the continued success of *Who Wants to Be a Millionaire* and higher overall ratings on network programming. Television station revenue growth also benefited from higher spot advertising rates driven by the ABC Television Network placing first in the May and February sweeps. Additionally, the strong advertising market resulted in revenue growth at the radio networks and stations. Cable Network revenue growth reflected increased advertising revenues driven by a strong advertising market and higher affiliate fees reflecting contractual rate increases and subscriber growth. International expansion at the Disney Channel also contributed to increased revenues.

Operating income increased 45%, or $718 million, to $2.3 billion, driven by increases of $604 million at Broadcasting and $114 million at the Cable Networks, resulting from revenue growth at both Broadcasting and Cable Networks, partially offset by increased costs and expenses. Costs and expenses, which consist primarily of programming rights and amortization, production costs, distribution and selling expenses and labor costs, increased 15%, or $927 million, driven by higher sports programming costs at the television and cable networks, principally related to National Football League (NFL), Major League Baseball (MLB) and National Hockey League (NHL) broadcasts. In addition, higher costs and expenses reflected start-up costs associated with the launch of various international Disney Channels and the January launch of SoapNet.

During the second quarter of 1998, the company entered into a new agreement with the 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.

There has been softness in the advertising market during the first two months of fiscal 2001 relative to the strong growth during fiscal 2000. However, management believes that the company is well positioned to respond to market conditions due to ongoing efforts to manage costs and strong results in this season's upfront markets.

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 comprises the Cable Networks and the company's cable equity investments (unaudited, in millions):

	2000	1999	% Change
Operating Income:			
Cable Networks	**$1,057**	$ 943	12%
Equity Investments:			
A&E Television and Lifetime Television	**614**	480	28%
Other[1]	**211**	37	n/m
Operating Income from Cable Television Activities	**1,882**	1,460	29%
Partner Share of Operating Income	**(639)**	(462)	(38%)
Disney Share of Operating Income	**$1,243**	$ 998	25%

[1]The current year includes a pre-tax gain of $93 million from the sale of Eurosport.

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 25%, or $245 million to $1.2 billion, driven by increases at the Cable Networks, the gain on the sale of Eurosport and increased advertising revenues at Lifetime Television, E! Entertainment Television, The History Channel and A&E Television, partially offset by start-up costs associated with the launch of various international Disney Channels, as well as the January launch of SoapNet.

1999 vs. 1998 Revenues increased 7%, or $537 million, to $8.0 billion, primarily driven by increases of $445 million at the Cable Networks and $92 million in Broadcasting. 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. Broadcast revenue growth was driven by increased network television production and distribution revenues from four new prime time series and increases at the radio networks and stations due to a strong advertising market and higher ratings, partially offset by decreases at the television network and stations. Television network revenues were impacted by lower ratings, and lower revenues at owned television stations reflected softness in local advertising markets.

Operating income decreased 10%, or $177 million, to $1.6 billion, reflecting higher costs and expenses, partially offset by revenue gains. Costs and expenses increased 13% or $714 million, driven by higher sports programming costs associated with the NFL contract and other programming costs at the television network and ESPN.

Studio Entertainment

2000 vs. 1999 Revenues decreased 3%, or $172 million, to $6.0 billion, driven by declines of $206 million in network television production and distribution, $168 million in worldwide home video and $58 million in domestic theatrical motion picture distribution, partially offset by growth of $197 million in international theatrical motion picture distribution and $82 million in stage plays. The decline in network television production and distribution revenues primarily reflected the end of production of *Home Improvement* in the prior year, which was a significant contributor to revenues. The decline in worldwide home video revenues reflected fewer unit sales in the current year, despite the successful releases of *Tarzan* and *Little Mermaid II: Return to Sea,* as the prior year included the combination of *Lion King II: Simba's Pride, Mulan, Armageddon* and *Disney/Pixar's A Bug's Life.* In domestic theatrical motion picture distribution, the success of *Scary Movie, Dinosaur* and *Disney/Pixar's Toy Story 2* faced difficult comparisons to the prior year, which included *The Sixth Sense, Tarzan* and *The Waterboy.* Growth in international theatrical motion picture distribution revenues reflected the performances of *Toy Story 2, Tarzan* and *The Sixth Sense.* Stage play revenues increased due to expansion of *The Lion King* into additional cities, the launch of *Aida* and the re-launch of the *Beauty and the Beast* national tour.

Operating income decreased 29%, or $44 million, to $110 million, due to declines in worldwide home video and network television production and distribution, partially offset by growth in international theatrical motion picture distribution and stage plays. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs, labor and leasehold expenses, decreased 2% or $128 million. Production cost amortization decreased in network television production and distribution reflecting the production of *Home Improvement* in the prior year. In worldwide home video, distribution and selling costs and production cost amortization decreased due to a reduction in videotape unit sales compared to the prior year. *The Sixth Sense,* which drove higher participation costs in domestic theatrical motion picture distribution in the prior year, had a similar impact in international theatrical motion picture distribution in the current year. Cost increases in international theatrical motion picture distribution also reflected higher overall production cost amortization. Stage play operating and production cost amortization expenses also increased driven by revenue increases.

1999 vs. 1998 Revenues decreased 6%, or $420 million to $6.2 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 79%, or $595 million, to $154 million, reflecting declines in worldwide home video, partially offset by increases in worldwide theatrical motion picture distribution. Costs and expenses, increased 3% or $175 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.* Improved results in worldwide theatrical motion picture distribution were partially offset by higher distribution costs and production cost amortization.

Parks and Resorts

2000 vs. 1999 Revenues increased 11%, or $664 million, to $6.8 billion, driven by growth of $383 million at the Walt Disney World Resort, reflecting increased guest spending, record attendance and record occupied room nights; $129 million from Disney Cruise Line, reflecting full-year operations from both cruise ships, the *Disney Magic* and the *Disney Wonder,* compared to just the *Disney Magic* for the first three and a half quarters of the prior year; and $35 million from increased attendance and guest spending at Disneyland. Increased guest spending and record attendance at the Walt Disney World Resort were driven by the ongoing Millennium Celebration and record occupied room nights reflected the opening of the All-Star Movies Resort in the second quarter of the prior year. At Disneyland, the 45th Anniversary Celebration and the strength of the annual passport program drove increased attendance and guest spending.

Operating income increased 10%, or $141 million, to $1.6 billion, driven by revenue growth at the Walt Disney World Resort, improved results at Disney Cruise Line and higher guest spending and attendance at Disneyland partially offset by increased costs and expenses. 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 11%, or $523 million, driven by increased volume at the Walt Disney World Resort resulting from the ongoing Millennium Celebration, expanded operations at Disney Cruise Line as a result of the addition of the second ship and increased volume at Disneyland due to the 45th Anniversary Celebration, as well as pre-opening costs at Disney's California Adventure.

1999 vs. 1998 Revenues increased 11%, or $607 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. reflected consolidation of the operations of the Anaheim Angels baseball team, following the company's second quarter purchase of the 75% of the team that it did not previously own.

Operating income increased 15%, or $191 million, to $1.5 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 increased 10%, or $416 million. 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.

Consumer Products

2000 vs. 1999 On a pro forma basis, revenues decreased 6%, or $169 million, to $2.6 billion, reflecting declines of $166 million in worldwide merchandise licensing and publishing, partially offset by growth of $23 million at Disney Interactive. Lower merchandise licensing and publishing revenues were primarily attributable to declines domestically and in Europe. Disney Interactive revenues increased due to the success of the *Who Wants to Be a Millionaire* video games, *Pooh* learning titles and the *Toy Story 2* action game.

On an as-reported basis, revenues decreased 11%, or $332 million, to $2.6 billion, reflecting the items described above, as well as the impact of the disposition of Fairchild Publications in the first quarter of the current year.

On a pro forma basis, operating income decreased 20%, or $113 million, to $454 million, reflecting declines in worldwide merchandise licensing and publishing, partially offset by increases at the Disney Stores, primarily driven by a reduction in costs, and at Disney Interactive. Costs and expenses, which consist primarily of labor, product costs, including product development costs, distribution and selling expenses and leasehold expenses, decreased 3% or $56 million. Cost decreases at the Disney Stores, which reflected write-downs of underutilized assets and inventory in the prior year, were partially offset by an increase in advertising costs.

On an as-reported basis, operating income decreased 24%, or $145 million, to $455 million, reflecting the items described above, as well as the impact of the disposition of Fairchild Publications in the first quarter of the current year.

1999 vs. 1998 On an as-reported basis, revenues decreased 7%, or $211 million, to $3.0 billion, driven by declines of $159 million in worldwide merchandise licensing and $98 million in domestic Disney Stores, partially offset by growth of $49 million at the Disney Stores internationally and $23 million at Disney Interactive. Lower merchandise licensing revenues were primarily attributable to declines domestically and in Japan. Lower revenues at the Disney Stores domestically reflected a decline in comparative store sales, while improvements at the Disney Stores internationally reflected an increase in comparative store sales. Disney Interactive revenue increased due to increased licensing activity and strong results for video game products.

On an as-reported basis, operating income decreased 26%, or $210 million, to $600 million, reflecting declines in worldwide merchandise licensing and the Disney Stores domestically, partially offset by increases at Disney Interactive. Costs and expenses were comparable to the prior year. Increased costs at the Disney Stores, which were driven by write-downs of underutilized assets and inventory, principally domestically, were offset by decreased operating expenses at publishing, principally domestically.

Internet Group

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.

On November 17, 1999, the 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 Internet Group's results of operations have incorporated Infoseek's activity since the date of the acquisition.

The following discussion of 2000 versus 1999 performance includes pro forma comparisons as if the acquisition of the remaining interest in Infoseek and subsequent creation of the Internet Group had occurred at the beginning of fiscal 1999. The discussion of direct marketing does not include pro forma comparisons, since the pro forma adjustments did not impact this business.

2000 vs. 1999 On a pro forma basis, revenues increased 13%, or $44 million, to $392 million, driven by an increase of $77 million in Internet revenues, partially offset by a $33 million decrease in direct marketing revenues. Internet revenue growth reflected higher advertising and sponsorship revenues driven by increased advertiser demand and higher online site traffic, increased licensing revenues from international operations, and strong sales at DisneyStore.com and DisneyTravel.com. Lower direct marketing revenues were due principally to planned reductions in catalog circulation, fewer product offerings, lower catalog response rates during the year, changes in the company's merchandising strategy and customer migration to the Internet Group's online business.

On an as-reported basis, revenues increased 79%, or $162 million, to $368 million, driven by a $195 million increase in Internet revenues, partially offset by a decline of $33 million in direct marketing revenues. The increase in Internet revenues reflects the items described above, as well as the operations of Infoseek, which were consolidated into the Internet Group beginning November 18, 1999.

On a pro forma basis, operating losses increased 90%, or $188 million, to $396 million, reflecting higher costs and expenses and lower direct marketing revenues, partially offset by increased Internet revenues. Cost and expenses, which consist primarily of cost of revenues, sales and marketing, other operating expenses and depreciation, increased 42% or $232 million. Cost increases were primarily due to continued investment in Web site technology and new product initiatives, growth in infrastructure due to expansion of the business, ongoing enhancements to existing Web sites, the redesign of the GO.com Web site, operations at toysmart.com, a one-time employee retention payment of $17 million required by the 1999 Infoseek acquisition agreement and a non-cash charge of $31 million to reflect the impairment of goodwill and certain intangible assets. Increased operating losses from direct marketing operations resulted primarily from the decline in revenues, which was not fully offset by cost reductions due to fixed costs which do not fluctuate significantly from period to period.

On an as-reported basis, operating losses increased 332%, or $309 million, to $402 million, reflecting higher losses from Internet operations. Increased losses from Internet operations reflect the items described above, as well as the operations of Infoseek, which were consolidated into the Internet Group beginning November 18, 1999.

Going forward, costs and expenses are expected to reflect continued investment in Web site technology and infrastructure, new product initiatives and incremental marketing and sales expenditures. The Internet Group has begun participating in the traditional television network up front marketplace and has sold approximately $30 million in Internet advertising which it expects to fulfill and recognize as revenue during fiscal 2001.

1999 vs. 1998 On an as-reported basis, 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 due to 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 operating losses from direct marketing operations reflected costs relating to the start-up of the new direct marketing distribution center and the implementation of new business processes, systems and software applications.

Costs and expenses 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.

LIQUIDITY AND CAPITAL RESOURCES

During the year, strong operating and other cash flows enabled the company to reduce its borrowings by $2.2 billion, even after investing approximately $4.7 billion in film and television projects and parks, resorts and other properties, and after paying dividends totaling $434 million and repurchasing $166 million of its common stock.

Cash provided by operations increased 15%, or $846 million, to $6.4 billion, driven by higher income before amortization of intangible assets and non-cash gains and higher amortization of television broadcast rights relative to cash payments, partially offset by higher income tax payments.

In 2000, the company invested $2.7 billion to develop, produce and acquire rights to film and television properties, a decrease of $341 million compared to the prior year. The decrease was primarily due to a $310 million payment related to the acquisition of a film library in the prior year.

During the year, the company invested $2.0 billion in parks, resorts and other properties. These expenditures reflected continued expansion activities related to Disney's California Adventure and certain resort facilities at the Walt Disney World Resort. The decrease of $121 million from the prior year reflects the final payment for the second cruise ship, the *Disney Wonder,* in the prior year, partially offset by increased spending on Disney's California Adventure in the current year.

During the year, the company invested $91 million in Euro Disney S.C.A. to maintain its 39% ownership interest after a Euro Disney equity rights offering, the proceeds of which will be used to fund construction of a new theme park.

Additionally, investing activities included $913 million of cash proceeds from dispositions primarily related to the sale of Fairchild Publications and Eurosport. Cash proceeds generated by the sale of investments were driven by the sale of Inktomi shares acquired through the disposition of Ultraseek. These proceeds were partially offset by purchases of investments in Internet-related companies.

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 Disney common stock. Accordingly, there was no dividend payment during the year ended September 30, 1999. The company paid a $434 million dividend ($0.21 per Disney share) during the first quarter of the current year applicable to fiscal 1999. On November 28, 2000, the Board of Directors declared a cash dividend, applicable to fiscal 2000, of $0.21 per Disney share, to be paid on December 22, 2000, to stockholders of Disney common stock at the close of business December 8, 2000.

During the year, the company repaid approximately $2.5 billion of term debt, which matured during the year, and reduced its commercial paper borrowings by $741 million. These repayments were partially funded by proceeds of $1.1 billion from various financing arrangements. These borrowings have effective interest rates, including the impact of interest rate swaps, ranging from 5.5% to 6.9% and maturities in fiscal 2002 through fiscal 2015.

Commercial paper borrowings outstanding as of September 30, 2000 totaled $940 million, with maturities of up to one year, supported by bank facilities totaling $4.8 billion, which expire in one to five 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 $4.8 billion of additional debt.

Total commitments to purchase broadcast programming approximated $13.6 billion at September 30, 2000, including approximately $7.1 billion related to the NFL contract. Substantially all of this amount is payable over the next six years.

The company expects the ABC Television Network, ESPN and the company's television and radio stations to continue to enter into programming commitments to purchase the broadcast rights for various feature films, sports and other programming.

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

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.

Implementation of SAB 101

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements,* in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the fourth quarter of the current year, the company performed a comprehensive review of its revenue recognition policies and determined that they are in compliance with SAB 101.

Accounting Changes

Effective October 1, 2000, the company adopted AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP 00-2). The company's results of operations and financial position will reflect the impact of the new standard commencing October 1, 2000 and the company will record a one-time after-tax charge for the initial adoption of the standard totaling $221 million for SOP 00-2 in its financial statements for the quarter ended December 31, 2000.

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 and SFAS No. 138. SFAS 133 requires 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 accumulated comprehensive income 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 company will record a one-time after-tax charge for the initial adoption of SFAS 133 totaling $51 million in its income statement, as well as an unrealized gain of $95 million recorded to other accumulated comprehensive income for the quarter ended December 31, 2000.

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 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 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 exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign exchange rate changes in order to allow management to focus on core business issues and challenges. Accordingly, the company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and anticipated 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 various financial instruments 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 and interest rate transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The company does not enter into these transactions for speculative purposes.

Value at Risk

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, foreign exchange and qualifying equity sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques 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, foreign currency and equity 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 and qualifying equity investments. The values of foreign exchange options do not change on a one-to-one basis with the underlying currencies, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. 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 13 to the Consolidated Financial Statements regarding the company's financial instruments at September 30, 2000 and 1999.)

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	Equity Sensitive Financial Instruments	Combined Portfolio
VAR as of September 30, 2000	$5	$21	$14	$20
Average VAR during the year ended September 30, 2000	$8	$17	$ 8	$19

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	Year Ended September 30 2000	1999	1998
Revenues	**$25,402**	$23,435	$22,976
Costs and expenses	**21,321**	19,715	18,466
Amortization of intangible assets	**1,233**	456	431
Restructuring charges	**—**	132	64
Gain on sale of Ultraseek	**153**	—	—
Gain on sale of Fairchild	**243**	—	—
Gain on sale of Starwave	**—**	345	—
Operating income	**3,244**	3,477	4,015
Corporate and other activities	**(105)**	(140)	(164)
Gain on sale of Eurosport	**93**	—	—
Equity in Infoseek loss	**(41)**	(322)	—
Net interest expense	**(558)**	(612)	(622)
Income before income taxes and minority interests	**2,633**	2,403	3,229
Income taxes	**(1,606)**	(1,014)	(1,307)
Minority interests	**(107)**	(89)	(72)
Net income	**$ 920**	$ 1,300	$ 1,850
Earnings (loss) attributed to:			
Disney common stock[1]	**$ 1,196**	$ 1,300	$ 1,850
Internet Group common stock	**(276)**	—	—
	$ 920	$ 1,300	$ 1,850
Earnings (loss) per share attributed to:			
Disney[1]			
Diluted	**$ 0.57**	$ 0.62	$ 0.89
Basic	**$ 0.58**	$ 0.63	$ 0.91
Internet Group (basic and diluted)	**$ (6.18)**	n/a	n/a
Average number of common and common equivalent shares outstanding:			
Disney			
Diluted	**2,103**	2,083	2,079
Basic	**2,074**	2,056	2,037
Internet Group (basic and diluted)[2]	**45**	n/a	n/a

[1]Including Internet Group losses attributed to Disney common stock. Earnings attributed to Disney common stock reflect 100% of Internet Group losses through November 17, 1999, and approximately 71% thereafter.
[2]Does not include the interest in the Internet Group retained by Disney, representing approximately 71% of the entire equity in the Internet Group.

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(In millions)	September 30 2000	1999
Assets		
Current Assets		
Cash and cash equivalents	**$ 842**	$ 414
Receivables	**3,599**	3,633
Inventories	**702**	796
Film and television costs	**3,606**	3,598
Deferred income taxes	**623**	607
Other assets	**635**	679
Total current assets	**10,007**	9,727
Film and television costs	**2,895**	2,962
Investments	**2,270**	2,434
Parks, resorts and other property, at cost		
Attractions, buildings and equipment	**16,610**	15,869
Accumulated depreciation	**(6,892)**	(6,220)
	9,718	9,649
Projects in progress	**1,995**	1,272
Land	**597**	425
	12,310	11,346
Intangible assets, net	**16,117**	15,695
Other assets	**1,428**	1,515
	$45,027	$43,679
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts and taxes payable and other accrued liabilities	**$ 5,161**	$ 4,588
Current portion of borrowings	**2,502**	2,415
Unearned royalties and other advances	**739**	704
Total current liabilities	**8,402**	7,707
Borrowings	**6,959**	9,278
Deferred income taxes	**2,833**	2,660
Other long term liabilities, unearned royalties and other advances	**2,377**	2,711
Minority interests	**356**	348
Stockholders' Equity		
Preferred stock, $.01 par value		
Authorized — 100 million shares, Issued — none		
Common stock		
Common stock — Disney, $.01 par value		
Authorized — 3.6 billion shares, Issued — 2.1 billion shares	**9,920**	9,324
Common stock — Internet Group, $.01 par value		
Authorized — 1.0 billion shares, Issued — 45.3 million shares	**2,181**	—
Retained earnings	**12,767**	12,281
Other accumulated comprehensive income	**(28)**	(25)
	24,840	21,580
Treasury stock, at cost, 31 million Disney shares	**(689)**	(605)
Shares held by TWDC Stock Compensation Fund II, at cost		
Disney — 1.1 million shares as of September 30, 2000	**(40)**	—
Internet Group — 0.9 million shares as of September 30, 2000	**(11)**	—
	24,100	20,975
	$45,027	$43,679

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended September 30 2000	1999	1998
Net Income	**$ 920**	$ 1,300	$ 1,850
Operating Items Not Requiring Cash Outlays			
Amortization of film and television costs	**2,469**	2,472	2,514
Depreciation	**962**	851	809
Amortization of intangible assets	**1,233**	456	431
Gain on sale of Ultraseek	**(153)**	—	—
Gain on sale of Fairchild	**(243)**	—	—
Gain on sale of Eurosport	**(93)**	—	—
Gain on sale of Starwave	**—**	(345)	—
Minority interests	**107**	89	72
Equity in Infoseek loss	**41**	322	—
Impairment charges	**67**	—	—
Other	**54**	80	31
Changes In			
Receivables	**205**	376	(664)
Inventories	**65**	103	(46)
Other assets	**183**	(165)	73
Accounts and taxes payable and other accrued liabilities	**(16)**	388	146
Film and television costs — television broadcast rights	**402**	(319)	(447)
Deferred income taxes	**231**	(20)	346
	5,514	4,288	3,265
Cash provided by operations	**6,434**	5,588	5,115
Investing Activities			
Dispositions	**913**	—	—
Film and television costs	**(2,679)**	(3,020)	(3,335)
Investments in parks, resorts and other property	**(2,013)**	(2,134)	(2,314)
Investments in Euro Disney	**(91)**	—	—
Acquisitions (net of cash acquired)	**(34)**	(319)	(213)
Proceeds from sale of investments	**207**	202	238
Purchases of investments	**(82)**	(39)	(13)
Other	**9**	—	(28)
Cash used by investing activities	**(3,770)**	(5,310)	(5,665)
Financing Activities			
Commercial paper borrowings, net	**(741)**	(451)	308
Other borrowings	**1,117**	2,306	1,522
Reduction of borrowings	**(2,494)**	(2,031)	(1,212)
Repurchases of common stock	**(166)**	(19)	(30)
Exercise of stock options and other	**482**	204	184
Dividends	**(434)**	—	(412)
Cash (used) provided by financing activities	**(2,236)**	9	360
Increase (Decrease) in cash and cash equivalents	**428**	287	(190)
Cash and cash equivalents, beginning of year	**414**	127	317
Cash and cash equivalents, end of year	**$ 842**	$ 414	$ 127
Supplemental disclosure of cash flow information:			
Interest paid	**$ 583**	$ 659	$ 645
Income taxes paid	**$ 1,170**	$ 721	$ 1,107

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions, except per share data)	Shares DIS	Shares DIG	Common Stock DIS	Common Stock DIG	Retained Earnings	Other Accumulated Comprehensive Income	Treasury Stock	TWDC Stock Compensation Fund DIS	TWDC Stock Compensation Fund DIG	Stockholders' Equity Total
Balance at September 30, 1997	2,013	—	$8,548	$ —	$ 9,543	$(12)	$(462)	$(332)	$ —	$17,285
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
Net income	—	—	—	—	1,850	—	—	—	—	1,850
Balance at September 30, 1998	2,050	—	8,995	—	10,981	13	(593)	(8)	—	19,388
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)
Net income	—	—	—	—	1,300	—	—	—	—	1,300
Balance at September 30, 1999	2,064	—	9,324	—	12,281	(25)	(605)	—	—	20,975
Common stock issued	—	44	—	2,149	—	—	—	—	—	2,149
Exercise of stock options, net	27	2	596	32	—	—	(84)	115	—	659
Common stock repurchased	(5)	(1)	—	—	—	—	—	(155)	(11)	(166)
Dividends ($0.21 per Disney share)	—	—	—	—	(434)	—	—	—	—	(434)
Cumulative translation and other (net of tax benefit of $2 million)	—	—	—	—	—	(3)	—	—	—	(3)
Net income	—	—	—	—	920	—	—	—	—	920
Balance at September 30, 2000	**2,086**	**45**	**$9,920**	**$2,181**	**$12,767**	**$(28)**	**$(689)**	**$ (40)**	**$ (11)**	**$24,100**

Comprehensive income is as follows:

	2000	1999	1998
Net income	**$920**	$1,300	$1,850
Cumulative translation and other	**(3)**	(38)	25
	$917	$1,262	$1,875

See 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, 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, Disney Channel International and Soapnet. Other programming services that operate through joint ventures, and are accounted for under the equity method, include A&E Television Networks, Lifetime Entertainment Services and E! Entertainment Television. The company also produces original television programming for network, first-run syndication, pay and international syndication markets.

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 animated 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.

PARKS AND RESORTS

The company operates the Walt Disney World Resort in Florida, and the Disneyland Park, the Disneyland Hotel and Disney's Paradise Pier Hotel in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot, Disney-MGM Studios and Disney's Animal Kingdom, twelve 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, Disney Cruise Line is operated out of 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 and an associated Disney-branded hotel near Tokyo, Japan, which are owned and operated by an unrelated Japanese corporation. The company also has an investment in Euro Disney S.C.A. (Euro Disney), a publicly held French entity that operates Disneyland Paris and earns royalties on Disneyland Paris revenues and also receives management fees from Euro Disney. 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 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 GROUP

The Walt Disney Internet Group (hereinafter referred to as the Internet Group) has operations in the Internet and Direct Marketing businesses. The Internet media business develops, publishes and distributes content for online services intended to appeal to broad consumer interest in sports, news, family and entertainment. Internet media Web sites and products include ABC.com, ABCNEWS.com, ABCNEWS4KIDS.com, ABCSports.com, Disney.com, Disney's Blast, Enhanced TV, ESPN.com, Family.com, GO.com, Movies.com, Mr. Showbiz, NBA.com, NFL.com, Soccernet.com and Wall of Sound. The Internet commerce business manages Web sites which include the DisneyStore.com, DisneyVacation.com, ABC.com Store, ESPN Store Online and NASCAR Store Online. Other commerce activities include Ultraseek's intranet search software, prior to Ultraseek's sale on July 19, 2000, Web site development and Disney Auctions. The Direct Marketing business operates The Disney Catalog, which markets Disney-themed merchandise through the direct mail channel. Catalog offerings include merchandise developed exclusively for The Disney Catalog and DisneyStore.com, as well as products from The Disney Store, other internal Disney partners and Disney licensees.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements of the company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions. In December 1999, DVD Financing, Inc. (DFI), a subsidiary of Disney Vacation Development Inc. and an indirect subsidiary of the company, completed a receivable sale transaction. In connection with this sale, DFI prepares separate financial statements, although its separate assets and liabilities are also consolidated in these final statements.

Accounting Changes Effective October 1, 2000, the company adopted two new accounting pronouncements, AICPA Statement of Position No. 00-2, *Accounting by Producers or Distributors of Films* (SOP 00-2) and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The company's results of operations and financial position will reflect the impact of the new standards commencing October 1, 2000. The company will record a one-time after-tax charge for the initial adoption of SOP 00-2 totaling approximately $221 million in its Consolidated Statements of Income for the quarter ending December 31, 2000. The company will also record a one-time after-tax charge of approximately $51 million in its Consolidated Statements of Income and an unrealized gain of $95 million to other accumulated comprehensive income for the initial adoption of SFAS 133 during the quarter ending December 31, 2000.

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 of the resulting receivable 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.

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements,* in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the fourth quarter of the current year, the company performed a comprehensive review of its revenue recognition policies and determined that they are in compliance with SAB 101.

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.

The company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statements of Income.

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 reviewed using a daypart methodology.

Parks, Resorts and Other Property 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. Upon such an occurrence, 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 Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or anticipated transactions (see Notes 6 and 13).

Earnings Per Share The company presents two earnings per share (EPS) amounts, basic and diluted. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS 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 EPS, for the company, is solely attributable to stock options. 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.

For the years ended September 30, 2000, 1999 and 1998, options for 20 million, 28 million and 18 million shares, respectively, were excluded from the diluted EPS calculation for Disney common stock because they were anti-dilutive. For the year ended September 30, 2000, all Internet Group options were anti-dilutive and, accordingly, options for 19 million shares were excluded from the diluted EPS calculation for Internet Group common stock.

In addition to the consolidated results of operations for The Walt Disney Company, the company has also presented the operating results attributable to Disney common stock (NYSE:DIS). Disney's allocated earnings represent the results of Disney's operations and the portion of the net loss of the Internet Group attributed to Disney common stock. For fiscal 2000, the Disney statement reflects approximately 71% of the Internet Group's net loss. Both the Disney and Internet Group common stocks are classes of common stock issued by The Walt Disney Company.

Stock Options The company uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not recognize compensation expense for its stock-based awards to employees in the Consolidated Statements of Income. See Note 10 for supplemental information on the impact of the fair-value method of accounting for stock options.

Reclassifications Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the 2000 presentation.

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. 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.

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 common stock for each Infoseek share. Upon consummation of the acquisition, the company combined its Internet and direct marketing businesses with Infoseek to create a single Internet and direct marketing business called GO.com. On August 2, 2000, the Internet and direct marketing business was renamed Walt Disney Internet Group.

Effective November 18, 1999, shares of the company's existing common stock were reclassified as Disney common stock, to track the financial performance of the company's businesses other than the Internet Group, plus Internet Group losses attributed to Disney common stock. For fiscal 2000, approximately 71% of Internet Group losses were attributed to Disney common stock.

The acquisition has been accounted for as a purchase, and the acquisition cost of $2.1 billion has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. Assets acquired totaled $130 million and liabilities assumed were $46 million. A total of approximately $2.0 billion, representing the excess of acquisition cost over the fair value of Infoseek's net assets, has been allocated to identifiable intangible assets and goodwill of $1.9 billion, and is being amortized over two to nine years. The company determined the economic useful life of acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, including developed technology, trademarks, user base, joint venture agreements and in-place workforce. In addition, the company considered the competitive environment and the rapid pace of technological change in the Internet industry.

In November 1999, the company sold Fairchild Publications which it had acquired as part of the 1996 acquisition of ABC, Inc., generating a pre-tax gain of $243 million.

In June 2000, the company sold its 33% interest in Eurosport, a European sports cable service, for $155 million. The sale resulted in a pre-tax gain of $93 million.

In July 2000, the company's Internet Group sold Ultraseek Corporation, a subsidiary that provides intranet search software, which it had acquired as part of its acquisition of Infoseek. Proceeds from the sale consisted of shares of common stock of the purchaser, Inktomi Corporation, a publicly held company, and cash with an aggregate fair value totaling $313 million. The sale resulted in a pre-tax gain of $153 million ($39 million after tax). Since October 2000, the stock price of Inktomi shares declined, like those of many technology companies, and as of November 30, 2000, there was an unrealized loss of $154 million on the remaining shares of stock that the company held at September 30, 2000.

The company's consolidated results of operations have incorporated Infoseek's activity, on a consolidated basis, from November 18, 1999 and the activity of Fairchild Publications through the date of its disposal. The unaudited pro forma information below presents combined results of operations as if the Infoseek acquisition and the disposition of Fairchild Publications had occurred at the beginning of fiscal 1999. The unaudited pro forma information is not necessarily indicative of results of operations had the Infoseek acquisition and the disposition of Fairchild Publications occurred at the beginning of fiscal 1999, nor is it necessarily indicative of future results.

	Year Ended September 30, 2000	1999
Revenues	**$25,412**	$23,400
Net income	**832**	323
Diluted earnings (loss) per share attributed to:		
Disney common stock	**0.55**	0.29
Internet Group common stock	**(7.10)**	(6.66)

The pro forma amounts above exclude charges for purchased in-process research and development costs of $23 million and $117 million in 2000 and 1999, respectively.

NOTE 3. FINANCIAL INFORMATION FOR DISNEY AND INTERNET GROUP COMMON STOCK

On November 17, 1999, the company issued a new class of common stock to track the performance of its Internet and direct marketing businesses (Note 2). Accordingly, the company now has two classes of common stock, Disney common stock (NYSE:DIS) and Internet Group common stock (NYSE:DIG). The company presents financial position, results of operations and cash flows for the businesses that each of its two classes of common stock are intended to track.

Holders of both Disney and Internet Group common stock are stockholders of the company and, as such, are subject to all risks associated with an investment in the company and all of its businesses, assets and liabilities. In any liquidation, holders of Disney common stock and Internet Group common stock will have only the rights specified in the company's certificate of incorporation and will not have any legal rights related to specific assets. In any liquidation, shareholders of each group will receive a fixed share of the net assets of the company, which may not reflect the actual trading prices of the respective classes of stock at such time.

Financial impacts that affect the company's consolidated results of operations or financial position could affect the results of operations or financial condition of the Internet Group or the market price of the Internet Group common stock. In addition, any dividends or distributions on, or repurchases of, Disney common stock will reduce the assets of the company legally available for dividends on Internet Group common stock.

Income statement, balance sheet and cash flow information for the Disney and Internet Group common stocks for the year ended September 30, 2000 is as follows:

CONSOLIDATING STATEMENT OF INCOME

Year Ended September 30, 2000	Disney Common Stock	Internet Group Common Stock	Consolidated
Revenues	$25,034	$ 368	$25,402
Cost and expenses	20,551	770	21,321
Amortization of intangible assets	442	791	1,233
Gain on sale of Ultraseek	—	153	153
Gain on sale of Fairchild	243	—	243
Operating income (loss)	4,284	(1,040)	3,244
Corporate and other activities	(93)	(12)	(105)
Equity in Infoseek loss	—	(41)	(41)
Gain on sale of Eurosport	9 3	—	93
Net interest expense	(525)	(33)	(558)
Income (loss) before income taxes and minority interests	3,759	(1,126)	2,633
Income taxes	(1,695)	89	(1,606)
Minority interests	(127)	20	(107)
Income (loss) before attribution	1,937	(1,017)	920
Income attribution	(741)	741	—
Attributed net income	$ 1,196	$ (276)	$ 920
Attributed earnings (loss) per share:			
Diluted	$ 0.57	$ (6.18)	
Basic	$ 0.58	$ (6.18)	
Average number of common and common equivalent shares outstanding:			
Diluted	2,103	45	
Basic	2,074	45	

The unaudited pro forma information below presents combined results of operations for Disney common stock and Internet Group common stock as if the Infoseek acquisition and the disposition of Fairchild Publications had occurred at the beginning of fiscal 1999 (Note 2).

	Disney Common Stock		Internet Group Common Stock	
Year Ended September 30,	**2000**	1999	**2000**	1999
Revenues	**$25,020**	$23,052	**$ 392**	$ 348
Attributed net income (loss)	**1,149**	609	**(317)**	(286)
Diluted earnings (loss) per share	**0.55**	0.29	**(7.10)**	(6.66)

CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2000	Disney Common Stock	Internet Group Common Stock	Eliminations	Consolidated
Assets				
Current assets	$ 9,872	$ 135	$ —	$10,007
Intergroup loan receivable	223	124	(347)	—
Film and television costs	2,895	—	—	2,895
Deferred income taxes	—	6	(6)	—
Investments	2,055	215	—	2,270
Retained interest in the Internet Group	1,106	—	(1,106)	—
Parks, resorts and other property, at cost, net	12,207	103	—	12,310
Intangible assets, net	14,748	1,369	—	16,117
Other assets	1,425	3	—	1,428
	$44,531	$1,955	$(1,459)	$45,027
Liabilities and Group Equity				
Current liabilities	$ 8,230	$ 172	$ —	$ 8,402
Borrowings	6,959	—	—	6,959
Intergroup loan payable	124	223	(347)	—
Deferred income taxes	2,839	—	(6)	2,833
Other long term liabilities, unearned royalties and other advances	2,367	10	—	2,377
Minority interests	356	—	—	356
Group equity	23,656	1,550	(1,106)	24,100
	$44,531	$1,955	$(1,459)	$45,027

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW

Year Ended September 30, 2000	Disney Common Stock	Internet Group Common Stock	Consolidated
Cash Provided by Operations	$ 6,589	$(155)	$ 6,434
Investing Activities			
Dispositions	909	4	913
Film and television costs	(2,679)	—	(2,679)
Investments in parks, resorts and other property	(1,955)	(58)	(2,013)
Intergroup borrowings, net	124	(124)	—
Other	(37)	46	9
	(3,638)	(132)	(3,770)
Financing Activities			
Intergroup capital contributions	(22)	22	—
Borrowings, net	(2,122)	4	(2,118)
Intergroup borrowings, net	(251)	251	—
Other	(124)	6	(118)
	(2,519)	283	(2,236)
Increase (Decrease) in cash and cash equivalents	432	(4)	428
Cash and cash equivalents, beginning of year	408	6	414
Cash and cash equivalents, end of year	$ 840	$ 2	$ 842

NOTE 4. INVESTMENT IN EURO DISNEY

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, 2000, the company's recorded investment in Euro Disney, including accounts and notes receivable, was $337 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 non-cancelable term of 12 years related to substantially all of the Disneyland Paris theme park assets, and then entered into a 12-year sublease agreement with Euro Disney. Remaining lease rentals at September 30, 2000 of FF 6.7 billion ($909 million) 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 $1.0 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 FF 1.1 billion ($148 million), upon request, bearing interest at PIBOR. As of September 30, 2000, 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 25% of the outstanding common stock of Euro Disney through June 2004 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 beginning fiscal year 1999. As a result, the company earned approximately $30 million and $33 million in royalties and management fees in fiscal year 2000 and 1999, respectively. 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 raised $238 million. The net proceeds are to be used to partially finance the construction of a second theme park, Disney Studios, adjacent to the Magic Kingdom. The company subscribed to approximately $91 million of the equity rights offering, maintaining its 39% interest in Euro Disney. Disney Studios is expected to open in spring 2002.

NOTE 5. FILM AND TELEVISION COSTS

	2000	1999
Theatrical film costs		
Released, less amortization	**$2,571**	$2,246
In-process	**1,644**	1,966
	4,215	4,212
Television costs		
Released, less amortization	**682**	582
In-process	**403**	643
	1,085	1,225
Television broadcast rights	**1,201**	1,123
	6,501	6,560
Less: current portion	**3,606**	3,598
Non-current portion	**$2,895**	$2,962

Based on management's total gross revenue estimates as of September 30, 2000, approximately 76% of unamortized film and television costs (except in-process) are expected to be amortized during the next three years.

NOTE 6. BORROWINGS

The company's borrowings at September 30, 2000 and 1999, including interest rate swaps designated as hedges, are summarized below.

2000

	Balance	Stated Interest Rate[e]	Interest rate and cross-currency swaps[f] Pay Float	Pay Fixed	Effective Interest Rate[g]	Swap Maturities
Commercial paper due 2001[a]	**$ 940**	**6.5%**	**$ —**	**$900**	**5.5%**	**2001–2002**
U.S. dollar notes and debentures due 2001–2093[b][h]	**7,578**	**6.4%**	**3,472**	**—**	**6.8%**	**2001–2030**
Dual currency and foreign notes due 2001–2003[c]	**146**	**6.9%**	**146**	**—**	**6.5%**	**2001–2003**
Senior participating notes due 2001[d]	**469**	**4.2%**	**—**	**—**	**n/a**	**n/a**
Other due 2000–2027	**328**	**6.4%**	**—**	**—**	**n/a**	**n/a**
	9,461	**6.3%**	**—**	**—**		
Less: current portion	**2,502**		**—**	**—**		
Total long-term borrowings	**$6,959**		**$3,618**	**$900**		

1999

	Balance	Stated Interest Rate[e]	Interest rate and cross-currency swaps[f] Pay Float	Pay Fixed	Effective Interest Rate[g]	Swap Maturities
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][h]	7,545	6.3%	3,840	500	6.1%	2000–2029
Dual currency and foreign notes due 2000–2003[c]	765	6.4%	765	—	5.1%	2000–2003
Senior participating notes due 2000–2001[d]	1,247	2.7%	—	—	n/a	n/a
Other due 2000–2027	388	5.5%	—	—	n/a	n/a
	11,693	5.7%	—	—		
Less: current portion	2,415		—	—		
Total long-term borrowings	$9,278		$4,605	$2,200		

[a] The company has established bank facilities totaling $4.8 billion, which expire in one to five 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 $571 million in 2000 and $722 million in 1999 of minority interest in a real estate investment trust established by the company.

[c] Amounts at September 30, 2000 are denominated in Swiss francs and South African rands. Amounts at September 30, 1999 are denominated principally in Japanese yen and Italian lira.

[d] Additional interest may be paid based on the performance of designated portfolios of films. The effective interest rate was 6.5% and 6.8% at September 30, 2000 and September 30, 1999, respectively.

[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, 2000 and 1999; 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 $102 million in 2000 and $306 million in 1999 of mandatorily redeemable preferred stock maturing in 2004.

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

2001	$2,431
2002	751
2003	179
2004	903
2005	750
Thereafter	2,936

The company capitalizes interest on assets constructed for its parks, resorts and other property, and on theatrical and television productions in process. In 2000, 1999 and 1998, respectively, total interest costs incurred were $730 million, $826 million and $824 million, of which $132 million, $109 million and $139 million were capitalized.

NOTE 7. INCOME TAXES

	2000	1999	1998
Income Before Income Taxes and Minority Interests			
Domestic (including U.S. exports)	**$2,509**	$2,288	$3,186
Foreign subsidiaries	**124**	115	43
	$2,633	$2,403	$3,229
Income Tax Provision			
Current			
Federal	**$ 977**	$ 715	$ 698
State	**182**	140	119
Foreign (including withholding)	**177**	174	139
	1,336	1,029	956
Deferred			
Federal	**247**	(21)	303
State	**23**	6	48
	270	(15)	351
	$1,606	$1,014	$1,307

Components of Deferred Tax Assets and Liabilities	**2000**	1999
Deferred tax assets		
Accrued liabilities	**$ (990)**	$(1,112)
Net operating loss carryforward	**(41)**	—
Other, net	**(16)**	(82)
Total deferred tax assets	**(1,047)**	(1,194)
Deferred tax liabilities		
Depreciable, amortizable and other property	**2,541**	2,469
Licensing revenues	**132**	232
Leveraged leases	**323**	327
Investment in Euro Disney	**207**	169
Total deferred tax liabilities	**3,203**	3,197
Net deferred tax liability before valuation allowance	**2,156**	2,003
Valuation allowance	**54**	50
Net deferred tax liability	**$ 2,210**	$ 2,053

Reconciliation of Effective Income Tax Rate	2000	1999	1998
Federal income tax rate	**35.0%**	35.0%	35.0%
Nondeductible amortization of intangible assets	**14.8**	5.8	4.3
State taxes, net of federal income tax benefit	**5.1**	4.0	3.4
Dispositions	**7.5**	—	—
Other, net	**(1.4)**	(2.6)	(2.2)
	61.0%	42.2%	40.5%

Deferred tax assets at September 30, 2000, were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain net operating losses (NOLs) reflected on state tax returns of Infoseek and its subsidiaries for periods prior to the Infoseek acquisition on November 17, 1999 (Note 2), where applicable state tax laws limit the utilization of such NOLs. Since this valuation allowance relates to acquired deferred tax assets, the subsequent realization of these tax benefits would result in the application of the allowance amount as a reduction to goodwill. Deferred tax assets at September 30, 1999, do not include the NOLs of Infoseek and its subsidiaries as the company's investment in Infoseek was accounted for under the equity method prior to the November 17, 1999 acquisition.

At September 30, 2000, approximately $121 million of NOL carryforwards is available to offset taxable income through the year 2019. While the acquisition of Infoseek by the Internet Group constituted a change in ownership as defined under Section 382 of the Internal Revenue Code, the resulting annual limitation on the use of Infoseek's pre-acquisition NOLs exceeds the remaining amount of NOL carryforwards and will not limit their utilization.

In 2000, 1999 and 1998, income tax benefits attributable to employee stock option transactions of $197 million, $96 million, and $327 million, respectively, were allocated to stockholders' equity.

NOTE 8. PENSION AND OTHER BENEFIT PROGRAMS

The company maintains pension 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	
	2000	1999	**2000**	1999
Reconciliation of funded status of the plans and the amounts included in the company's Consolidated Balance Sheets:				
Projected benefit obligations				
Beginning obligations	**$(1,779)**	$(1,793)	**$(291)**	$(321)
Service cost	**(87)**	(89)	**(10)**	(12)
Interest cost	**(131)**	(119)	**(21)**	(21)
Amendments	**—**	(9)	**(24)**	—
Actuarial gains (losses)	**89**	160	**(80)**	52
Benefits paid	**78**	71	**13**	11
Curtailment gains	**5**	—	**—**	—
Ending obligations	**(1,825)**	(1,779)	**(413)**	(291)
Fair value of plans' assets				
Beginning fair value	**2,211**	2,014	**203**	185
Actual return on plans' assets	**674**	249	**58**	21
Employer contributions	**5**	36	**8**	7
Participants' contributions	**1**	1	**—**	—
Benefits paid	**(78)**	(71)	**(13)**	(11)
Expenses	**(40)**	(18)	**—**	—
Ending fair value	**2,773**	2,211	**256**	202
Funded status of the plans	**948**	432	**(157)**	(89)
Unrecognized net gain	**(779)**	(275)	**(38)**	(85)
Unrecognized prior service (benefit) cost	**1**	(1)	**5**	6
Net balance sheet asset (liability)	**$ 170**	$ 156	**$(190)**	$(168)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	**$ 310**	$ 288	**$ 31**	$ 29
Accrued benefit liability	**(140)**	(132)	**(221)**	(197)
	$ 170	$ 156	**$(190)**	$(168)
Rate Assumptions:				
Discount rate	**8.0%**	7.5%	**8.0%**	7.5%
Rate of return on plans' assets	**10.0%**	10.5%	**10.0%**	10.5%
Salary increases	**5.5%**	5.1%	**n/a**	n/a
Annual increase in cost of benefits	**n/a**	n/a	**7.5%**	6.1%

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 $126 million, $94 million and $0 for 2000, respectively, and $110 million, $83 million and $0 for 1999, 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 $319 million and $90 million for 2000, respectively, and $231 million and $72 million for 1999, 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 $8 million and $66 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 $12 million and $87 million, respectively. The annual increase in cost of postretirement benefits is assumed to decrease 0.3 percentage points per year until reaching 5.4% and then decrease by 0.4 percentage points for one year to a 5.0% ultimate rate.

The company's accumulated pension benefit obligations at September 30, 2000 and 1999 were $1.6 billion, of which 97.7% and 97.6% were vested, respectively. In addition, the company contributes to various pension plans under union and industry-wide agreements.

The income statement expenses (credits) of pension plans for 2000, 1999 and 1998 totaled $(3) million, $11 million and $12 million, respectively. The discount rate, rate of return on plan assets and salary increase assumptions for the pension plans were 6.8%, 10.5% and 4.4%, respectively, in 1998. The income statement expense (credits) for postretirement benefit plans for 2000, 1999 and 1998 were $6 million, $10 million and $(13) million, respectively. The discount rate, rate of return on plan assets and annual increase in cost of postretirement benefits assumptions were 6.8%, 10.5% and 6.4%, respectively, in 1998.

The market values of the company's shares held by the pension plan master trust as of September 30, 2000 and 1999 were $107 million and $73 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 2000, 1999 and 1998, the costs of such plans were $30 million, $29 million and $31 million, respectively.

NOTE 9. STOCKHOLDERS' EQUITY

As described more fully in Note 2, effective November 17, 1999, shares of the company's existing common stock were reclassified as Disney common stock, to track the financial performance of the company's businesses other than the Internet Group, plus Internet Group losses attributed to Disney. In addition, the company issued a new class of common stock, currently called Internet Group common stock.

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 authorized Disney common stock from 1.2 billion shares to 3.6 billion shares. The Board of Directors also approved an increase in the Disney share repurchase authorization to 133.3 million shares of common stock pre-split or 400 million post-split. All share data included herein have been restated to reflect the split. For the year, the company repurchased a total of 4.9 million shares of Disney common stock for approximately $155 million. As of September 30, 2000, the company was authorized to repurchase approximately 394 million additional Disney shares.

In April 2000, the company's Board of Directors approved a share repurchase program for up to five million shares of Internet Group common stock in the open market. During the year, the company's Internet Group repurchased a total of 0.9 million Internet Group shares for approximately $11 million. The company was authorized to repurchase 4.1 million additional Internet Group shares as of September 30, 2000.

In 1996, the company established the TWDC Stock Compensation Fund pursuant to the repurchase program to acquire shares of company common stock 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. In December 1999, the company established the TWDC Stock Compensation Fund II (Fund II) pursuant to the repurchase program to acquire shares of both Disney and Internet Group common stock for the purpose of funding certain future stock-based compensation. Any shares acquired by Fund II that are not utilized must be disposed of by December 31, 2002.

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. The company paid a $434 million dividend ($0.21 per Disney share) during the first quarter applicable to fiscal 1999. Accordingly, there was no dividend payment during the year ended September 30, 1999. On November 28, 2000, the Board of Directors declared a cash dividend of $0.21 per Disney share applicable to fiscal 2000. The dividend is payable December 22, 2000 to stockholders of Disney common stock at the close of business December 8, 2000.

NOTE 10. STOCK INCENTIVE PLANS

Under various plans, the company may grant stock options and other awards for both classes of stock 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 for Disney common stock become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. Options for Internet Group common stock become exercisable over a four-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. Disney and Internet Group shares available for future option grants at September 30, 2000, totaled 76 million and 5 million, respectively.

On November 26, 2000, one of the company's stock incentive plans expired, reducing the number of Disney shares available for future option grants by 21 million.

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

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**159**	**$24.29**	163	$21.70	183	$17.44
Awards canceled	**(18)**	**29.56**	(9)	27.35	(10)	20.98
Awards granted	**49**	**32.92**	20	32.97	27	33.07
Awards exercised	**(28)**	**18.94**	(15)	13.92	(37)	9.06
Outstanding at September 30	**162**	**$27.24**	159	$24.29	163	$21.70
Exercisable at September 30	**51**	**$21.22**	57	$19.01	51	$16.34

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

	2000	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	—	
Options converted[1]	**11.66**	**$24.54**
Awards canceled	**(8.75)**	**28.79**
Awards granted	**27.63**	**20.48**
Awards exercised	**(2.36)**	**7.20**
Outstanding at September 30	**28.18**	**$20.70**
Exercisable at September 30	**1.83**	**$26.43**

[1] Represents options held by Infoseek shareholders that were converted into options to purchase Internet Group common stock on November 17, 1999, when the company acquired the remaining interest in Infoseek (Note 2).

The following table summarizes information about Disney stock options outstanding at September 30, 2000 (shares in millions):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 5–$ 9	**1**	**0.8**	**$ 9.10**	**1**	**$ 9.10**
$10–$14	**8**	**3.2**	**13.59**	**8**	**13.58**
$15–$19	**14**	**3.6**	**18.33**	**14**	**18.32**
$20–$24	**42**	**6.3**	**21.53**	**17**	**21.54**
$25–$29	**34**	**8.3**	**26.89**	**7**	**26.78**
$30–$34	**38**	**9.1**	**32.95**	**2**	**32.67**
$35–$39	**14**	**8.1**	**37.33**	**2**	**37.63**
$40–$44	**11**	**10.0**	**40.96**	**—**	**—**
	162			**51**	

The following table summarizes information about Internet Group stock options outstanding at September 30, 2000 (shares in millions):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0–$ 4	**0.29**	**5.4**	**$ 1.16**	**0.27**	**$ 0.87**
$ 5–$ 9	**0.29**	**6.7**	**8.32**	**0.21**	**8.08**
$10–$ 14	**14.31**	**9.7**	**12.14**	**0.04**	**14.36**
$15–$ 19	**0.21**	**7.4**	**17.11**	**0.11**	**17.09**
$20–$ 24	**1.47**	**9.3**	**21.97**	**0.04**	**23.28**
$25–$ 29	**5.45**	**9.2**	**25.94**	**0.39**	**26.56**
$30–$ 34	**0.12**	**8.3**	**31.90**	**0.03**	**32.48**
$35–$ 39	**5.36**	**9.0**	**35.70**	**0.46**	**37.13**
$40–$ 44	**0.40**	**8.3**	**43.47**	**0.16**	**43.51**
$45–$100	**0.28**	**7.8**	**60.86**	**0.12**	**60.09**
	28.18			**1.83**	

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 (in millions, except for per share data):

Disney	2000	1999	1998
Attributed net income:			
As reported	**$1,196**	$1,300	$1,850
Pro forma	**958**	1,169	1,749
Diluted earnings per share attributed to Disney common stock:			
As reported	**0.57**	0.62	0.89
Pro forma	**0.46**	0.56	0.84

Internet Group	2000
Attributed net loss:	
As reported	**$ (276)**
Pro forma	**(286)**
Diluted loss per share attributed to Internet Group common stock:	
As reported	**(6.18)**
Pro forma	**(6.42)**

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 Disney options at their grant date during 2000, 1999 and 1998, where the exercise price equaled the market price on the grant date, were $12.49, $11.11 and $10.82, 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 2000 and 1999. The estimated fair value of each Disney option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

Disney Shares	2000	1999	1998
Risk-free interest rate	**6.5%**	5.3%	5.4%
Expected years until exercise	**6.0**	6.0	6.0
Expected stock volatility	**26%**	25%	23%
Dividend yield	**.59%**	.69%	.71%

The weighted average fair values of the Internet Group options at their grant date during 2000, where the exercise price equaled the market price on the grant date, was $15.00. The estimated fair value of each Internet Group option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

Internet Group Shares	2000
Risk-free interest rate	**6.4%**
Expected years until exercise	**6.0**
Expected stock volatility	**80.0%**
Dividend yield	**0.0%**

NOTE 11. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	2000	1999
Current receivables		
Trade, net of allowances	**$ 3,210**	$ 3,160
Other	**389**	473
	$ 3,599	$ 3,633
Other current assets		
Prepaid expenses	**$ 493**	$ 515
Other	**142**	164
	$ 635	$ 679
Intangible assets		
Cost in excess of ABC's net assets acquired	**$13,780**	$14,248
Cost in excess of Infoseek's net assets acquired	**1,966**	—
Trademarks	**1,112**	1,100
FCC licenses	**1,100**	1,100
Other	**1,080**	856
Accumulated amortization	**(2,921)**	(1,609)
	$16,117	$15,695
Accounts and taxes payable and other accrued liabilities		
Accounts payable	**$ 4,278**	$ 3,628
Payroll and employee benefits	**778**	802
Other	**105**	158
	$ 5,161	$ 4,588

NOTE 12. SEGMENTS

The company is in the leisure and entertainment business and has operations in five major segments: Media Networks, Studio Entertainment, Parks and Resorts, Consumer Products and Internet Group, 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 (Note 1).

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

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

Business Segments	2000	1999	1998
Revenues			
Media Networks	**$ 9,615**	$ 7,970	$ 7,433
Studio Entertainment			
Third parties	**5,913**	6,090	6,492
Intersegment	**81**	76	94
	5,994	6,166	6,586
Parks and Resorts	**6,803**	6,139	5,532
Consumer Products			
Third parties	**2,703**	3,030	3,259
Intersegment	**(81)**	(76)	(94)
	2,622	2,954	3,165
Internet Group	**368**	206	260
Total Consolidated Revenues	**$25,402**	$23,435	$22,976
Operating income			
Media Networks	**$ 2,298**	$ 1,580	$ 1,757
Studio Entertainment	**110**	154	749
Parks and Resorts	**1,620**	1,479	1,288
Consumer Products	**455**	600	810
Internet Group	**(402)**	(93)	(94)
Amortization of intangible assets	**(1,233)**	(456)	(431)
	2,848	3,264	4,079
Restructuring charges	**—**	(132)	(64)
Gain on sale of Fairchild	**243**	—	—
Gain on sale of Starwave	**—**	345	—
Gain on sale of Ultraseek	**153**	—	—
Total Consolidated Operating Income	**$ 3,244**	$ 3,477	$ 4,015
Capital expenditures			
Media Networks	**$ 198**	$ 159	$ 245
Studio Entertainment	**50**	51	117
Parks and Resorts	**1,523**	1,699	1,624
Consumer Products	**67**	106	77
Internet Group	**58**	17	27
Corporate	**117**	102	224
Total Consolidated Capital Expenditures	**$ 2,013**	$ 2,134	$ 2,314
Depreciation expense			
Media Networks	**$ 140**	$ 131	$ 122
Studio Entertainment	**54**	64	115
Parks and Resorts	**581**	498	443
Consumer Products	**104**	124	85
Internet Group	**34**	8	10
Corporate	**49**	26	34
Total Consolidated Depreciation Expense	**$ 962**	$ 851	$ 809

Business Segments (continued)	**2000**	1999	1998
Amortization expense			
Media Networks	**$ 418**	$ 423	$ 421
Studio Entertainment	**1**	1	1
Parks and Resorts	**21**	21	1
Consumer Products	**2**	6	1
Internet Group	**791**	5	7
Total Consolidated Amortization Expense	**$ 1,233**	$ 456	$ 431
Identifiable assets			
Media Networks[(1)]	**$20,049**	$20,178	$19,452
Studio Entertainment	**7,295**	7,606	7,844
Parks and Resorts[(1)]	**10,820**	10,568	9,554
Consumer Products	**1,105**	1,548	1,414
Internet Group[(1)]	**1,955**	706	336
Corporate[(2)]	**3,803**	3,073	2,778
Total Consolidated Assets	**$45,027**	$43,679	$41,378
Supplemental revenue data			
Media Networks			
Advertising	**$ 6,637**	$ 5,486	$ 5,287
Parks and Resorts			
Merchandise, food and beverage	**2,094**	1,860	1,780
Admissions	**2,006**	1,878	1,739

Geographic Segments			
Revenues			
United States	**$20,771**	$18,930	$18,658
U.S. Exports	**1,164**	1,147	1,036
Europe	**2,069**	1,920	1,855
Asia Pacific	**929**	926	900
Latin America, Canada and Other	**469**	512	527
	$25,402	$23,435	$22,976
Operating income			
United States	**$ 2,987**	$ 3,146	$ 3,468
Europe	**250**	259	369
Asia Pacific	**193**	227	217
Latin America, Canada and Other	**62**	115	173
Unallocated expenses	**(248)**	(270)	(212)
	$ 3,244	$ 3,477	$ 4,015
Identifiable assets			
United States	**$43,284**	$41,938	$39,462
Europe	**1,235**	1,238	1,468
Asia Pacific	**281**	319	270
Latin America, Canada and Other	**227**	184	178
	$45,027	$43,679	$41,378

(1) Included in identifiable assets are equity method investments as follows:

Media Networks	**738**	639	475
Parks and Resorts	**337**	296	340
Internet Group	**21**	498	1

(2) Primarily deferred tax assets, other investments, fixed and other assets

NOTE 13. FINANCIAL INSTRUMENTS

Investments As of September 30, 2000 and 1999, the company held $330 million and $102 million, respectively, of securities classified as available-for-sale. Realized gains and losses are determined principally on an average cost basis. In 2000, the company recognized $41 million in gains on sales of securities, and recorded non-cash charges of $37 million to reflect impairments in the value of certain investments. In 1999, the company recognized $70 million in gains on sales of securities. In 1998, realized gains and losses were not material. In 2000, 1999 and 1998, unrealized gains and losses on available-for-sale securities were not material.

During 2000 and 1999, the company hedged certain investment holdings using forward sale and collar contracts. The forward contracts, with notional amounts totaling $663 million and $718 million in 2000 and 1999, respectively, expire in four years. The collar contracts were terminated during 1999.

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 2000 and 1999 included pay-floating and pay-fixed swaps and interest rate caps. Pay-floating swaps effectively convert medium and long-term obligations to LIBOR 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 one to two years. The interest rate caps either expired or were terminated in 1999. As of September 30, 2000, the company held $186 million of pay-floating swaps and $786 million of pay-fixed swaps that were not designated as hedges. The market values of these swaps as of September 30, 2000 have been included in current earnings.

The following table reflects incremental changes in the notional or contractual amounts of the company's interest rate contracts during 2000 and 1999. Activity representing renewal of existing positions is excluded.

	September 30, 1999	Additions	Maturities/ Expirations	Terminations	**September 30, 2000**
Pay-floating swaps	$3,840	$1,035	$ (194)	$(1,024)	**$3,657**
Pay-fixed swaps	2,200	186	—	(700)	**1,686**
	$6,040	$1,221	$ (194)	$(1,724)	**$5,343**

	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)	—
	$6,886	$9,404	$(4,925)	$(5,325)	$6,040

The impact of interest rate risk management activities on income in 2000, 1999 and 1998 was not material. As of September 30, 2000 the company had net deferred losses of $87 million from interest rate risk management transactions. The amount of deferred gains and losses from interest rate risk management transactions at September 30, 1999 was 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, British pound and Canadian dollar. 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, 2000 and 1999, 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:

	2000		
	Notional Amount	Exposure Hedged	Fiscal Year Maturity
Option contracts	**$ 734**	**$ 442**	**2001–2003**
Forward contracts	**1,700**	**1,473**	**2001–2002**
Cross-currency swaps	**146**	**146**	**2001–2003**
	$2,580	**$2,061**	

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

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, 2000 and 1999, the company had deferred gains of $24 million and $38 million, respectively, and deferred losses of $7 million and $26 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 2000 and in 1999 was a net gain of $195 million and $66 million, respectively.

Fair Value of Financial Instruments At September 30, 2000 and 1999, 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, 2000 and 1999, the fair values of cash and cash equivalents, receivables and accounts payable approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	**$ 732**	**$ 989**	$ 569	$ 832
Borrowings	**$(8,890)**	**$(8,760)**	$(10,971)	$(10,962)
Risk management contracts:				
Foreign exchange forwards	**$ 16**	**$ 22**	$ (37)	$ (27)
Foreign exchange options	**27**	**39**	58	69
Interest rate swaps	**2**	**(83)**	10	(46)
Forward sale contracts	**—**	**41**	—	(36)
Cross-currency swaps	**5**	**(45)**	13	(65)
	$ 50	**$ (26)**	$ 44	$ (105)

Credit Concentrations The company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments, and does not anticipate nonperformance by the counterparties. The company would not realize a material loss as of September 30, 2000 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, 2000, financial institution counterparties posted collateral of $18 million to the company, and the company was required to collateralize $46 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, 2000, 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* (SFAS 133), as amended by SFAS No. 137 and SFAS No. 138. SFAS 133 requires 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 company will record a one-time after-tax charge for the initial adoption of SFAS 133 totaling $51 million in its income statement and will record an unrealized gain of $95 million in other accumulated comprehensive income for the quarter ending December 31, 2000.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The company has various contractual commitments, including certain guarantees, which are primarily for the purchase of broadcast rights for various feature films, sports and other programming aggregating approximately $13.6 billion as of September 30, 2000, including approximately $7.1 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, 2000, payable as follows:

2001	$ 293
2002	263
2003	232
2004	202
2005	166
Thereafter	1,037

Rental expense for the above operating leases during 2000, 1999 and 1998, including overages, common-area maintenance and other contingent rentals, was $482 million, $385 million and $321 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.

All Pro Sports Camps, Inc., Nicholas Stracick and Edward Russell v. Walt Disney Company, Walt Disney World Co., Disney Development Company and Steven B. Wilson. On January 8, 1997, the plaintiff entity and two of its principals or former principals filed a lawsuit against the company, two of its subsidiaries and a former employee in the Circuit Court for Orange County, Florida. The plaintiffs asserted that the defendants had misappropriated from them the concept used for the Disney's Wide World of Sports complex at the Walt Disney World Resort. On August 11, 2000, a jury returned a verdict against the company and its two subsidiaries in the amount of $240 million. Subsequently, the Court awarded plaintiffs an additional $100.00 in exemplary damages based on particular findings by the jury. The company intends to challenge the judgment by way of appeal and believes that there are substantial grounds for complete reversal or reduction of the verdict.

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

NOTE 15. RESTRUCTURING CHARGES

In 1999, the company began an across-the-board assessment of its cost structure. The company's efforts were 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 of 1999 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.

Remaining balances recorded at September 30, 2000 totaled $47 million and relate principally to lease and other contract cancellation costs, which will be relieved throughout fiscal 2001 as leases and contracts expire.

(In millions, except per share data) (Unaudited)	December 31	March 31	June 30	September 30
2000[(1) (2) (3)]				
Revenues	**$6,932**	**$6,303**	**$6,051**	**$6,116**
Operating income	**1,164**	**484**	**860**	**736**
Net income	**315**	**77**	**361**	**167**
Earnings per share attributed to:				
Disney				
Diluted	**0.17**	**0.08**	**0.21**	**0.11**
Basic	**0.17**	**0.08**	**0.21**	**0.12**
Internet Group (basic and diluted)	**(0.95)**	**(1.88)**	**(1.75)**	**(1.61)**
1999[(4) (5) (6)]				
Revenues	$6,597	$5,516	$5,531	$5,791
Operating income	1,383	735	960	399
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

(1) Reflects a $243 million pre-tax gain on the sale of Fairchild Publications in the first quarter of 2000. There was no earnings per Disney share impact, as the income taxes on the transaction largely offset the pre-tax gain. See Note 2 to the Consolidated Financial Statements.

(2) Reflects a $93 million pre-tax gain on the sale of the company's 33% interest in Eurosport, a European sports cable service, in the third quarter of 2000. The earnings per Disney share impact of the gain was $0.02. See Note 2 to the Consolidated Financial Statements.

(3) Reflects a $153 million pre-tax gain on the sale of Ultraseek Corporation in the fourth quarter of 2000. The earnings per Disney share and Internet Group share were $0.01 and $0.25, respectively. See Note 2 to the Consolidated Financial Statements.

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

(5) 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 Disney share impact of the losses were $0.03, $0.02, $0.02 and $0.02, respectively. See Note 2 to the Consolidated Financial Statements.

(6) Reflects $132 million of restructuring charges in the fourth quarter of 1999. The earnings per Disney share impact of the charges were $0.04. See Note 15 to the Consolidated Financial Statements.

SELECTED FINANCIAL DATA

(In millions, except per share data)	**2000**	1999	1998	1997	1996
Statements of income					
Revenues	**$25,402**	$23,435	$22,976	$22,473	$ 18,739
Operating income	**3,244**	3,477	4,015	4,447	3,033
Net income	**920**	1,300	1,850	1,966	1,214
Per share —					
Disney					
Attributed earnings					
Diluted	**$ 0.57**	$ 0.62	$ 0.89	$ 0.95	$ 0.65
Basic	**0.58**	0.63	0.91	0.97	0.66
Dividends	**0.21**	0.21	0.20	0.17	0.14
Internet Group					
Attributed earnings — basic and diluted	**$ (6.18)**	n/a	n/a	n/a	n/a
Balance sheets					
Total assets	**$45,027**	$43,679	$41,378	$38,497	$ 37,341
Borrowings	**9,461**	11,693	11,685	11,068	12,342
Stockholders' equity	**24,100**	20,975	19,388	17,285	16,086
Statements of cash flows					
Cash provided by operations	**$ 6,434**	$ 5,588	$ 5,115	$ 5,099	$ 3,707
Investing activities	**(3,770)**	(5,310)	(5,665)	(3,936)	(12,546)
Financing activities	**(2,236)**	9	360	(1,124)	8,040

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 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 accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the company) at September 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit 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 our opinion.

PricewaterhouseCoopers LLP

Los Angeles, California
November 30, 2000

SUPPLEMENTAL INFORMATION

Stock Exchanges
Disney common stock and Walt Disney Internet Group common stock are listed for trading on the New York and Pacific stock exchanges under the ticker symbols DIS and DIG, respectively. 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 (Walt Disney Internet Group 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 Walt Disney Internet Group Investor Relations sites at **www.disney.go.com/investors** and **www.dig.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.

RESULTS OF OPERATIONS

On November 17, 1999, the stockholders of the company and Infoseek approved the company's acquisition of the remaining interest in Infoseek that the company did not already own. As more fully discussed in Notes 2 and 3 to the Combined Financial Statements, the acquisition resulted in the creation of the Internet Group, which comprises all of Disney's Internet businesses and Infoseek, as well as Disney's direct marketing operations. The company now separately reports Internet Group operating results, which reflect the combination of the company's businesses that comprise the Internet Group.

The Internet Group's results of operations have incorporated Infoseek's activity since the date of the acquisition. To enhance comparability, operating results for fiscal 2000 and fiscal 1999 have been presented on a pro forma basis, which assumes that the acquisition of the remaining interest in Infoseek and subsequent creation of the Internet Group had occurred at the beginning of fiscal 1999. The pro forma results are not necessarily indicative of the combined results that would have occurred had the acquisition actually occurred at the beginning of fiscal 1999, nor are they necessarily indicative of future results.

Pro forma operating loss excludes charges for purchased in-process research and development costs of $23.3 million and $72.6 million in 2000 and 1999, respectively, and the Starwave gain in 1999.

WALT DISNEY INTERNET GROUP COMBINED RESULTS

	Pro Forma (unaudited)			As Reported		
(In thousands, except per share data)	**2000**	1999	% Change	**2000**	1999	1998
Revenues	**$ 391,982**	$ 348,081	13%	**$ 368,513**	$206,413	$ 259,572
Cost of revenues	**350,678**	244,963	(43%)	**334,129**	162,248	196,936
Sales and marketing	**243,426**	210,064	(16%)	**233,158**	87,967	106,586
Other operating expenses	**156,813**	77,365	(103%)	**168,355**	41,615	40,453
Depreciation	**36,015**	23,222	(55%)	**34,134**	8,075	9,550
Gain on sale of Ultraseek	**152,869**	—	n/m	**152,869**	—	—
Gain on sale of Starwave	**—**	—		**—**	345,048	—
	(242,081)	(207,533)	(17%)	**(248,394)**	251,556	(93,953)
Amortization of intangible assets	**909,427**	914,289	1%	**790,774**	4,613	6,639
Operating (loss) income	**(1,151,508)**	(1,121,822)	(3%)	**(1,039,168)**	246,943	(100,592)
Corporate and other activities	**(11,439)**	(6,862)	(67%)	**(11,830)**	(16,442)	(11,646)
Equity in Infoseek loss	**—**	—		**(40,575)**	(321,346)	—
Net interest (expense) income	**(722)**	5,348	(114%)	**(2,150)**	(7,321)	1,058
Net investment losses	**(31,060)**	—	n/m	**(31,060)**	—	—
Loss before income taxes and minority interests	**(1,194,729)**	(1,123,336)	(6%)	**(1,124,783)**	(98,166)	(111,180)
Income tax benefit	**72,702**	98,854	(26%)	**88,439**	36,587	35,633
Minority interests	**20,023**	2,743	n/m	**20,012**	2,323	4,477
Net loss	**$(1,102,004)**	$(1,021,739)	(8%)	**$(1,016,332)**	$ (59,256)	$ (71,070)
Net loss attributed to:						
Disney common stock	**$ (785,333)**	$ (736,398)	(7%)	**$ (740,705)**	$ (59,256)	$ (71,070)
Internet Group common stock [1]	**$ (316,671)**	$ (285,341)	(11%)	**$ (275,627)**	n/a	n/a
Loss per share attributed to Internet Group common stock: [1] [2]						
Diluted and Basic	**$ (7.10)**	$ (6.66)	(7%)	**$ (6.18)**	n/a	n/a
Loss per share attributed to Internet Group common stock excluding amortization of intangibles: [1] [2] [3]						
Diluted and Basic	**$ (1.40)**	$ (0.84)	(67%)	**$ (1.34)**	n/a	n/a
Average number of common and common equivalent shares outstanding: [4]						
Diluted and Basic	**44,575**	42,834		**44,575**	n/a	n/a

[1] As-reported amounts reflect results for the period from November 18, 1999 (date of issuance of Internet Group common stock) through September 30, 2000.

[2] Walt Disney Internet Group common stock is a class of common stock of The Walt Disney Company. Losses attributed to the Internet Group common stock should be reviewed in conjunction with the consolidated results of operations for The Walt Disney Company presented elsewhere herein.

[3] The Internet Group believes that attributed loss per share excluding amortization of intangible assets provides additional information useful in analyzing business results. Attributed loss per share excluding amortization of intangible assets is a financial metric which is not in conformity with generally accepted accounting principles (GAAP) and should be considered in addition to, not as a substitute for, reported attributed loss per share.

[4] Total shares amount to 155,119 and 153,378 shares for 2000 and 1999, respectively, including 110,544 shares attributed to Disney.

COMBINED RESULTS

2000 vs. 1999 On a pro forma basis, revenues increased 13%, or $43.9 million, to $392.0 million, driven by a $77.3 million increase in Internet revenues, partially offset by a $33.4 million decline in Direct Marketing revenues. Operating loss, net loss, net loss attributed to Internet Group common stock and diluted attributed loss per share increased 3% to $1.2 billion, 8% to $1.1 billion, 11% to $316.7 million and 7% to $7.10, respectively. These increases were driven by higher operating losses in both the Internet and Direct Marketing segments and charges of $36.5 million to reflect impairments as of September 30, 2000 in the value of certain investments, partially offset by the gain on the sale of Ultraseek. In July 2000, the Internet Group sold Ultraseek Corporation, a subsidiary that provides intranet search software, which it had acquired as part of its acquisition of Infoseek. Proceeds from the sale consisted of shares of common stock of the purchaser, Inktomi Corporation, a publicly held company, and approximately $4 million in cash. The sale resulted in a pre-tax gain of $152.9 million ($39.3 million, after tax). The lower effective tax benefit rate primarily reflects the tax expense on the sale of Ultraseek.

As previously discussed, the company completed the acquisition of Infoseek during the quarter ended December 31, 1999 (see Note 2 to the Combined Financial Statements). The acquisition resulted in a significant increase in intangible assets. Intangible assets are being amortized over periods ranging from two to nine years.

The impact of amortization related to the November 1998 and November 1999 Infoseek acquisitions, after the impact of the Ultraseek sale (see Note 2 to the Combined Financial Statements), is expected to be $642.4 million in 2001, $596.8 million in 2002, $89.2 million in 2003 and $13.4 million over the remainder of the amortization period. The Internet Group determined the economic useful life of acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, including developed technology, trademarks, user base, joint venture agreements and in-place workforce. In addition, the Internet Group considered the competitive environment and the rapid pace of technological change in the Internet industry.

On an as-reported basis, revenues increased 79%, or $162.1 million, to $368.5 million. Operating loss, net loss, net loss attributed to Internet Group common stock and diluted attributed loss per share were $1.0 billion, $1.0 billion, $275.6 million and $6.18, respectively. As-reported results reflect the items described above, as well as the incremental amortization of intangible assets related to the Infoseek acquisition, the consolidation of Infoseek's operations beginning November 18, 1999, the gain on the sale of Starwave in the first quarter of fiscal 1999 and decreased corporate and other activities due to a change in the manner of accounting for Starwave and related businesses.

Going forward, costs and expenses are expected to reflect continued investment in Web site technology and infrastructure, new product initiatives and incremental marketing and sales expenditures. The Internet Group has begun participating in the traditional television network up front marketplace and has sold approximately $30 million in Internet advertising which it expects to fulfill and recognize as revenue during fiscal 2001.

1999 vs. 1998 On June 18, 1998, the Internet Group reached an agreement for the acquisition of Starwave by Infoseek, the purchase of additional shares of Infoseek common stock and warrants for additional Infoseek shares, for $70 million in cash and a $139 million note payable over five years. On November 18, 1998, the shareholders of both Infoseek and Starwave approved the acquisition. As a result of the acquisition and its purchase of additional shares of Infoseek common stock, pursuant to the merger agreement, the Internet Group owned approximately 43% of Infoseek's outstanding common stock. 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. On an as-reported basis, this change resulted in decreases in revenues, costs and expenses, and operating losses for the year ended September 30, 1999 versus the year ended September 30, 1998 amounting to $29.8 million, $62.3 million, and $32.5 million, respectively. As a result of its sale of Starwave to Infoseek and its related acquisition of an equity interest in Infoseek, the Internet Group recognized a non-cash gain of $345.0 million and recorded through "Equity in Infoseek loss" charges for purchased in-process research and development, amortization of intangible assets and its portion of Infoseek's operating losses totaling $43.6 million, $228.5 million and $49.3 million, respectively, during the year ended September 30, 1999. These events had a significant impact on the comparability of as-reported results of operations between periods.

The following discussion of fiscal 1999 versus 1998 performance includes comparisons on an as-adjusted basis as if Starwave and the related businesses had been accounted for using the equity method of accounting during 1998. Management believes the as-adjusted results represent a meaningful comparative standard for assessing changes because the as-adjusted results include comparable operations in each year presented. The discussion of the Direct Marketing segment does not include as-adjusted comparisons, since the adjustments do not impact this segment.

Revenues decreased 10% to $206.4 million compared to as-adjusted 1998 results, driven by a $43.7 million decline in Direct Marketing revenues, partially offset by a $20.4 million increase in Internet revenues. Excluding the $345.0 million gain on the sale of Starwave, operating losses increased 44%, or $30.0 million.

On an as-reported basis, revenues decreased 20%, or $53.2 million, to $206.4 million, driven by a $43.7 million decline in Direct Marketing revenues and a $9.5 million decline in Internet revenues. Excluding the $345.0 million gain on the sale of Starwave, as-reported operating losses decreased 2%, or $2.5 million, to $98.1 million, reflecting lower costs and expenses related to Direct Marketing operations and the change in the manner of accounting for Starwave and related businesses from consolidation to the equity method, partially offset by increased spending on development and growth of Internet operations.

Net loss improved to $59.3 million, driven by the gain on the sale of Starwave, partially offset by equity losses of Infoseek of $321.3 million, increased expenses for corporate and other activities and increased interest expense driven by the note payable for Infoseek warrants.

BUSINESS SEGMENT RESULTS

The following table provides supplemental revenue and operating (loss)/income detail for the Internet and Direct Marketing segments (in thousands).

	Pro Forma (unaudited)			As Reported		
	2000	1999	% Change	**2000**	1999	1998
Revenues:						
Internet						
Media	**$ 200,827**	$ 161,691	24%	**$ 179,069**	$ 34,828	$ 51,604
Commerce	**76,389**	38,263	100%	**74,678**	23,458	16,160
	277,216	199,954	39%	**253,747**	58,286	67,764
Direct Marketing	**114,766**	148,127	(23%)	**114,766**	148,127	191,808
	$ 391,982	$ 348,081	13%	**$ 368,513**	$206,413	$ 259,572
Operating (loss) income:[1]						
Internet	**$ (365,008)**	$ (184,174)	(98%)	**$ (371,321)**	$ (70,133)	$ (75,373)
Direct Marketing	**(29,942)**	(23,359)	(28%)	**(29,942)**	(23,359)	(18,580)
	(394,950)	(207,533)	(90%)	**(401,263)**	(93,492)	(93,953)
Gain on sale of Ultraseek	**152,869**	—	n/m	**152,869**	—	—
Gain on sale of Starwave	**—**	—		**—**	345,048	—
	(242,081)	(207,533)	(17%)	**(248,394)**	251,556	(93,953)
Amortization of intangible assets	**(909,427)**	(914,289)	1%	**(790,774)**	(4,613)	(6,639)
	$(1,151,508)	$(1,121,822)	(3%)	**$(1,039,168)**	$246,943	$(100,592)

[1] Segment results exclude intangible asset amortization. Segment EBITDA, which also excludes depreciation, is as follows:

Internet	**$ (332,637)**	$ (164,050)		**$ (340,831)**	$ (65,156)	$ (67,455)
Direct Marketing	**(26,298)**	(20,261)		**(26,298)**	(20,261)	(16,948)
	$ (358,935)	$ (184,311)		**$ (367,129)**	$ (85,417)	$ (84,403)

Internet

2000 vs. 1999 Pro forma revenues increased 39%, or $77.3 million, to $277.2 million, reflecting growth in both media and commerce revenues. Media revenues increased 24%, or $39.1 million, to $200.8 million, reflecting higher advertising and sponsorship revenues driven by increased advertiser demand and higher online site traffic at the ABC-branded Web sites, ESPN.com, Disney.com and Family.com, partially offset by decreases at the GO.com Web site. Media revenues also benefited from increased licensing revenues from international operations. Commerce revenues increased 100%, or $38.1 million, to $76.4 million, driven by strong sales at the DisneyStore.com and DisneyVacations.com, Web site development revenues generated from Web site services provided to affiliates, and operations at toysmart.com until its closure in May 2000. Commerce revenue growth reflected a 74% increase over the prior-year period in the total number of orders per month, as well as an increase in average order size across the Internet Group's commerce sites.

On an as-reported basis, revenues increased 335%, or $195.5 million, to $253.7 million, reflecting the items described above, as well as the operations of Infoseek, ESPN Internet Ventures and ABC News Internet Ventures, which were consolidated into the Internet Group beginning November 18, 1999.

Pro forma operating loss increased 98%, or $180.8 million, to $365.0 million, reflecting higher costs and expenses which increased 67%, or $258.1 million, partially offset by increased revenues. Cost of revenues, which consist primarily of employee compensation, third party development and engineering costs, and hosting and delivery costs associated with the Web sites, increased primarily due to continued investment in Web site technology and new product initiatives, growth in infrastructure due to expansion of the business, ongoing enhancements to existing Web sites, the redesign of the GO.com Web site, operations at toysmart.com and a one-time employee retention payment of $7.9 million required by the 1999 Infoseek acquisition agreement. Sales and marketing expenses increased primarily due to operations at toysmart.com, expanded promotion of commerce and media businesses and one-time employee retention payments of $5.2 million. Increased other operating expenses were driven by a non-cash charge of $30.8 million to reflect the impairment of goodwill and certain intangible assets, continued infrastructure growth, operations at toysmart.com and one-time employee retention payments of $4.2 million.

On an as-reported basis, operating loss increased $301.2 million to $371.3 million, reflecting the items described above, as well as losses at Infoseek, which was consolidated into the Internet Group beginning November 18, 1999.

1999 vs. 1998 As discussed above, the following discussion of 1999 versus 1998 Internet segment performance includes comparisons on an as-adjusted basis as if Starwave and the related businesses had been accounted for using the equity method of accounting during 1998.

Internet revenues increased $20.4 million compared to as-adjusted 1998, driven by strong growth in media and commerce revenues. Media revenues increased $12.6 million, reflecting increased Web site traffic and page views, additional advertising and sponsorship agreements and subscription revenues from subscriber growth at Disney's Blast. Commerce revenues increased $7.8 million, driven by continued growth in DisneyStore.com merchandise sales and commissions on sales of travel packages and tickets for the Walt Disney World Resort and Disneyland.

On an as-reported basis, Internet revenues decreased 14%, or $9.5 million, to $58.3 million, due to the change in the manner of accounting for Starwave and related businesses from the consolidation method to the equity method, partially offset by the impact of the items described above.

Operating losses decreased 42%, or $20.6 million, to $70.1 million compared with as-adjusted 1998, reflecting increased revenues, partially offset by higher costs and expenses. Costs and expenses increased 47%, or $41.0 million.

On an as-adjusted basis, cost of revenues increased 48%, or $24.6 million. The increase was driven primarily by the continued development of entertainment and family Web sites, which were redesigned during 1999 and operations of toysmart.com and Soccernet.com, two companies acquired during the fourth quarter of 1999. Sales and marketing increased 18%, or $3.6 million, due to higher marketing and promotional spending to drive visitor traffic and to establish brand identity. Other operating expenses increased 101%, or $12.1 million, driven by personnel additions to support growth in the business and related infrastructure.

As-reported operating losses decreased 7%, or $5.2 million, to $70.1 million, reflecting the items described above, as well as the change in the manner of accounting for Starwave and related businesses from the consolidation method to the equity method.

Direct Marketing

2000 vs. 1999 Revenues decreased 23%, or $33.4 million, to $114.8 million, resulting from planned reductions in catalog circulation, fewer product offerings, lower catalog response rates during changes in the company's merchandising strategy and customer migration to the Internet Group's online business.

Operating loss increased $6.6 million to $29.9 million, compared to $23.4 million in the prior year, primarily reflecting the 23% decline in revenues. Cost of revenues declined 22%, or $19.2 million, due to the lower sales volumes. The decrease in revenues was not fully offset by cost reductions due to fixed costs which do not fluctuate significantly from period to period. Selling and other operating expenses, decreased 10%, or $8.1 million.

1999 vs. 1998 Revenues decreased 23%, or $43.7 million, to $148.1 million, largely due to the impact of relocating the Direct Marketing distribution facilities from Tennessee to South Carolina. As a result of capacity and system constraints resulting from the winding down of the Tennessee facility, management reduced catalog circulation during the 1998 holiday season to ensure quality of customer service during the key holiday period. Lower customer response rates and one less edition of the catalog in the second quarter of 1999 also contributed to the decline in revenues.

Operating losses increased 26%, or $4.8 million, to $23.4 million, driven principally by lower revenues. The decrease in revenues was not fully offset by cost reductions due to fixed costs which do not fluctuate significantly from period to period. Costs and expenses decreased 18%, or $38.9 million.

Cost of revenues decreased 22%, or $24.2 million, due to reduced sales volume. Selling expenses, which consist primarily of catalog production, delivery, marketing and variable labor costs for customer service and order fulfillment, decreased 16%, or $12.6 million. The decrease was driven by reduced mailings and lower outbound shipping costs, partially offset by higher expenses from inefficiencies relating to the relocation of the distribution center, the transition to the new facility and the implementation of new business processes, systems and software applications. The relocation and related systems implementation was completed as of June 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Internet Group's cash needs are funded by Disney and such funding is accounted for as either a capital contribution from Disney (i.e., as an increase in the Internet Group's group equity and Internet Group results attributable to Disney), or as a loan.

Disney may account for all cash transfers from Disney or the Internet Group to or for the account of the other as inter-group loans, other than transfers in return for assets or services rendered or transfers in respect to dividends attributable to Disney paid on Internet Group common stock. These loans bear interest at the rate at which Disney could borrow such funds. The company's Board of Directors has discretion to determine, in the exercise of its business judgment, that a given transfer or type of transfer should be accounted for as a long-term loan, a capital contribution increasing Disney's retained interest in the Internet Group or a return of capital reducing Disney's retained interest in the Internet Group. The company has agreed, however, that advances from Disney to the Internet Group up to $250.0 million on a cumulative basis will be accounted for as short-term or long-term loans at interest rates at which Disney could borrow such funds and will not be accounted for as capital contributions.

For the year ended September 30, 2000, cash used by operations of $154.5 million was driven by higher pre-tax losses before non-cash items, partially offset by tax benefits attributed to the Internet Group's operations, an increase in accounts payable outstanding and a reduction in inventory levels.

The Internet Group has invested in Internet-related companies. Total investment purchases were $75.5 million for the year ended September 30, 2000. Cash proceeds of $119.8 million generated from the sale of Inktomi shares acquired in the Ultraseek sale were loaned to Disney.

From October 1, 1999 through the November 17, 1999 Infoseek acquisition, the Internet Group received $21.5 million in capital contribution funding from Disney.

The Internet Group's net borrowings from Disney during the year ended September 30, 2000, totaled $222.9 million and represent advances from Disney to be accounted for as a loan.

In November 2000, the Internet Group entered into an agreement to purchase approximately $40.0 million in computer equipment and services over a three-year period.

In April 2000, the company's Board of Directors approved a share repurchase program for up to five million shares of Internet Group common stock in the open market. During 2000, the Internet Group repurchased 908,533 shares at a cost of $11.4 million under this program. The company was authorized to repurchase approximately 4.1 million additional Internet Group shares as of September 30, 2000.

OTHER MATTERS

Shipping and Handling Fees and Costs

In September 2000, the Financial Accounting Standards Board Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs.* This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling, be classified as revenue. The Internet Group historically has netted shipping charges to customers with shipping and handling costs which are included in operating expenses in the Combined Statements of Operations. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. The Internet Group will adopt the consensus in the Issue in fiscal 2001.

Revenue Reporting
In July 2000, the EITF reached a consensus on EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.* This consensus provides guidance concerning under what circumstances a company should report revenue based on (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or services or (b) the net amount retained (that is, the amount billed to the customer less the amount paid to a supplier) because it has earned a commission or fee. Application of the provisions of this consensus did not change the Internet Group's existing accounting policies.

Web Site Development Costs
In April 2000, the EITF issued EITF Issue No. 00-2, *Accounting for Web Site Development Costs.* The Internet Group adopted the consensus in the Issue in the fourth quarter of fiscal 2000, and the effect the adoption was not material to its combined results of operations and financial position.

Implementation of SAB 101
The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements*, in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the fourth quarter of the current year, the Internet Group performed a comprehensive review of its revenue recognition policies and determined that they are in compliance with SAB 101.

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 Internet Group. The Internet Group and its representatives may from time to time make written or oral statements that the Internet Group believes are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to the Internet Group stockholders. The Internet Group believes that all statements that express expectations and projections with respect to future matters, including the launching or prospective development of new business initiatives and Internet projects, 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. A wide range of factors could materially affect future developments and performance. A list of such factors is set forth in the company's Discussion and Analysis of Financial Condition and Results of Operations included in Annex I, presented elsewhere herein, under the heading "Factors that may affect forward-looking statements."

COMBINED STATEMENTS OF OPERATIONS

(In thousands)	Year Ended September 30 2000	1999	1998
Revenues	**$ 368,513**	$ 206,413	$ 259,572
Costs and expenses			
Cost of revenues	**334,129**	162,248	196,936
Sales and marketing	**233,158**	87,967	106,586
Other operating	**168,355**	41,615	40,453
Depreciation	**34,134**	8,075	9,550
Amortization of intangible assets	**790,774**	4,613	6,639
Gain on sale of Ultraseek	**152,869**	—	—
Gain on sale of Starwave	—	345,048	—
Operating (loss) income	**(1,039,168)**	246,943	(100,592)
Corporate and other activities	**(11,830)**	(16,442)	(11,646)
Equity in Infoseek loss	**(40,575)**	(321,346)	—
Net interest (expense) income	**(2,150)**	(7,321)	1,058
Net investment losses	**(31,060)**	—	—
Loss before income taxes and minority interests	**(1,124,783)**	(98,166)	(111,180)
Income tax benefit	**88,439**	36,587	35,633
Minority interests	**20,012**	2,323	4,477
Net loss	**$(1,016,332)**	$ (59,256)	$ (71,070)
Net loss attributed to:			
Disney common stock	**$ (740,705)**	$ (59,256)	$ (71,070)
Internet Group common stock[1]	**$ (275,627)**	n/a	n/a

[1] Walt Disney Internet Group common stock is a class of common stock of The Walt Disney Company. Losses attributed to the Internet Group common stock should be reviewed in conjunction with the consolidated results of operations for The Walt Disney Company presented elsewhere herein.

See Notes to Combined Financial Statements

COMBINED BALANCE SHEETS

(In thousands)	September 30 2000	1999
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,938**	$ 5,530
Receivables (net of allowance for doubtful accounts of $9,535 and $4,791)	**38,765**	17,763
Inventories	**30,315**	43,521
Deferred income taxes	**46,357**	8,993
Prepaid and other assets	**17,987**	13,905
Total current assets	**135,362**	89,712
Loan receivable from Disney	**124,089**	—
Investments	**215,166**	505,210
Property and equipment, at cost	**195,016**	53,509
Accumulated depreciation	**(92,012)**	(18,928)
	103,004	34,581
Projects in progress	—	6,112
	103,004	40,693
Intangible assets, net	**1,369,145**	64,389
Deferred income taxes	**6,022**	—
Other assets	**2,459**	6,420
	$1,955,247	$706,424
Liabilities and Group Equity		
Current Liabilities		
Accounts payable and other accrued liabilities	**$ 143,475**	$ 90,997
Current portion of borrowings	—	28,313
Unearned revenue	**28,398**	6,312
Total current liabilities	**171,873**	125,622
Loan payable to Disney	**222,867**	19,000
Borrowings	—	90,350
Other long-term liabilities, unearned royalties and other advances	**9,737**	—
Deferred income taxes	—	58,396
Minority interests	—	42,041
Group equity	**1,550,770**	371,015
	$1,955,247	$706,424

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended September 30 2000	1999	1998
Net Loss	**$(1,016,332)**	$ (59,256)	$ (71,070)
Items Not Requiring Cash Outlays			
Depreciation	**34,134**	8,075	9,550
Amortization of intangibles	**790,774**	4,613	6,639
Charge for in-process research and development	**23,322**	—	—
Impairment charges	**67,341**	—	—
Gain on sale of Ultraseek	**(152,869)**	—	—
Gain on sale of Starwave	**—**	(345,048)	—
Realized gain on sale of investments	**(5,475)**	—	—
Equity in Infoseek loss	**40,575**	321,346	—
Losses from equity investments	**3,559**	8,952	—
Minority interests' share of net loss	**(20,012)**	(2,323)	(4,477)
Other	**1,607**	304	—
Changes In			
Receivables	**5,167**	(2,334)	(6,568)
Inventories	**8,250**	9,824	(22,308)
Prepaid and other assets	**(7,700)**	(4,886)	1,066
Accounts payable and other accrued liabilities	**72,354**	26,017	(1,799)
Deferred income taxes	**827**	4,504	(3,105)
	861,854	29,044	(21,002)
Cash used in operations	**(154,478)**	(30,212)	(92,072)
Investing Activities			
Investments in property and equipment	**(57,760)**	(16,930)	(26,592)
Funds loaned to Disney	**(124,089)**	—	—
Acquisitions (net of cash acquired)	**2,362**	(102,293)	—
Dispositions	**3,500**	—	—
Purchases of investments	**(75,545)**	(6,000)	—
Proceeds from sale of investments	**119,768**	—	—
Investments in affiliates	—	(11,327)	—
Cash used in investing activities	**(131,764)**	(136,550)	(26,592)
Financing Activities			
Capital contributions from Disney, net	**21,514**	166,458	95,781
Borrowings	**7,214**	—	—
Reduction of borrowings	**(2,594)**	(20,850)	—
Borrowings from Disney, net	**250,705**	19,000	—
Repurchases of common stock	**(11,364)**	—	—
Stock options exercised	**17,175**	—	—
Minority interests	**—**	—	8,219
Cash provided by financing activities	**282,650**	164,608	104,000
Decrease in Cash and Cash Equivalents	**(3,592)**	(2,154)	(14,664)
Cash and Cash Equivalents, Beginning of Year	**5,530**	7,684	22,348
Cash and Cash Equivalents, End of Year	**$ 1,938**	$ 5,530	$ 7,684
Supplemental disclosure of cash flow information:			
Interest paid	**$ 86**	$ 6,459	$ 41

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF GROUP EQUITY

(In thousands)	Total Group Equity	Comprehensive Loss
Balance at September 30, 1997	$ 96,368	
Capital contributions from Disney, net	237,219	
Unrealized holding losses, net	(191)	$ (191)
Net loss	(71,070)	(71,070)
Balance at September 30, 1998	262,326	$ (71,261)
Capital contributions from Disney, net	166,458	
Unrealized holding gains, net	1,487	$ 1,487
Net loss	(59,256)	(59,256)
Balance at September 30, 1999	371,015	$ (57,769)
Issuance of common stock in Infoseek merger	2,125,614	
Issuance of common stock for Soccernet acquisition	23,700	
Exercise of stock options, net	32,418	
Common stock repurchased, at cost	(11,364)	
Capital contributions from Disney, net	38,236	
Unrealized holding losses (net of tax benefit of $6.5 million)	(12,347)	$ (12,347)
Cumulative translation	(170)	(170)
Net loss	(1,016,332)	(1,016,332)
Balance at September 30, 2000	**$ 1,550,770**	**$(1,028,849)**

See Notes to Combined Financial Statements

(Tabular dollars in thousands, except per share amounts)

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

On November 17, 1999, The Walt Disney Company (the company) completed its acquisition of the remaining interest in Infoseek Corporation (Infoseek) that it did not already own via the creation and issuance of a new class of common stock called GO.com common stock (Note 2). Effective August 2, 2000, GO.com adopted a new name, Walt Disney Internet Group.

Walt Disney Internet Group common stock is a class of common stock of The Walt Disney Company. The accompanying combined financial statements reflect the combination of the company's Internet and direct marketing businesses including Infoseek (collectively, the Internet Group). The Internet Group has extensive transactions and relationships with affiliated businesses (Note 13).

Upon issuance of the Internet Group common stock, the company's existing common stock was reclassified as Disney common stock, which is intended to reflect the performance of the company's businesses other than the Internet Group, plus Internet Group losses attributed to Disney (collectively, Disney).

Holders of Internet Group common stock (Note 3) are common stockholders of the company and, as such, are subject to all risks associated with an investment in the company and all of its businesses, assets and liabilities. In any liquidation, holders of Disney common stock and Internet Group common stock will only have the rights specified in the company certificate of incorporation and will not have any legal rights related to specific assets of either group and in any liquidation will receive a fixed share of the net assets of the company, which may not reflect the actual trading prices of the respective groups at such time.

Financial impacts arising from Disney that affect the company's consolidated results of operations or financial position could affect the results of operations or financial condition of the Internet Group or the market price of the Internet Group common stock. In addition, any dividends or distributions on, or repurchases of, Disney common stock (Note 3) will reduce the assets of the company legally available for dividends on Internet Group common stock. Accordingly, financial information for the Internet Group should be read in conjunction with the company's consolidated financial information.

The Internet Group has operations in the following businesses:

INTERNET

The Internet media business develops, publishes and distributes content for online services intended to appeal to broad consumer interest in sports, news, family and entertainment. Internet media Web sites and products include ABC.com, ABCNEWS.com, ABCNEWS4KIDS.com, ABCSports.com, Disney.com, Disney's Blast, Enhanced TV, ESPN.com, Family.com, GO.com, Movies.com, Mr. Showbiz, NBA.com, NFL.com, Soccernet.com and Wall of Sound.

The Internet commerce business manages Web sites which include the DisneyStore.com, DisneyVacations.com, ABC.com Store, ESPN Store Online, NASCAR Store Online, and toysmart.com prior to its closure on May 19, 2000. Other commerce activities include Ultraseek's intranet search software, prior to the sale of Ultraseek on July 19, 2000, Web site development and Disney Auctions.

DIRECT MARKETING

The Direct Marketing business operates The Disney Catalog, which markets Disney-themed merchandise through the direct mail channel. Catalog offerings include merchandise developed exclusively for The Disney Catalog and DisneyStore.com, as well as products from The Disney Store, other internal Disney partners and Disney licensees. The Disney Catalog also operates its own retail outlet stores for the purpose of liquidating overstock merchandise.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination The combined financial statements include the accounts of the Internet Group, as defined above, after elimination of intercompany accounts and transactions.

For financial reporting purposes, outside investors' shares of net assets and results of operations have been recorded as minority interests in the Combined Balance Sheets and Combined Statements of Operations, respectively. At September 30, 2000, minority interests resulted from outside ownership interests in certain ESPN online operations. At September 30, 1999, minority interests resulted from outside ownership interests in certain ESPN online operations, toysmart.com and Soccernet.com.

On November 18, 1998, the Internet Group exchanged its ownership interest in Starwave plus $70.0 million in cash for a 43% equity interest in Infoseek (Note 2). This transaction resulted in a change in the manner of accounting for ESPN Internet Ventures (EIV) and ABC News Internet Ventures (AIV), which were joint ventures between the Internet Group and Starwave, from the consolidation method to the equity method. With the Infoseek acquisition on November 17, 1999 (Note 2), the Internet Group regained controlling ownership interests in the ventures. Accordingly, the transaction resulted in a change in the manner of accounting for the ventures from the equity method, back to the consolidation method, effective November 18, 1999.

As of September 30, 1999, the Internet Group's total equity investment in the ventures was approximately $1.3 million.

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 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 of the resulting receivable is probable. Certain advertising contracts include guarantees of a minimum number of impressions. To the extent the minimum guaranteed impressions are not met, revenue recognition is deferred until the guaranteed impression levels are achieved.

Advertising revenues also reflect the exchange of advertising space on the Internet Group's Web sites for reciprocal advertising space from other entities. Revenues from these exchange transactions are recorded at the estimated fair value of the services surrendered, if the fair value of the advertising surrendered is determinable based on the Internet Group's recent cash transactions with similar characteristics. Advertising revenues recognized under these trading activities totaled $8.7 million for 2000 and were immaterial for 1999 and 1998.

The Internet Group provides services, such as advertising and Web site development, in exchange for equity in certain of its customers. Revenue is recognized as the services are performed based on the fair value of the services provided or the equity received, whichever is more readily determinable. Such revenue was immaterial in 2000, 1999 and 1998.

Revenues from subscription-based fees and services are recognized ratably over the term of the related contracts. Unearned revenue represents advance payments received for online subscriptions and customer advertising.

Licensing revenues are generally recognized ratably over the life of the applicable contracts.

Direct Marketing and Internet-based merchandise commerce revenues are recognized upon shipment of product to customers.

Web site development revenues are recognized as services are performed and reflect costs incurred plus a 10% fee. These revenues are derived from entities affiliated with Disney (Note 13).

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements,* in December 1999. The SAB summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. During the fourth quarter of the current year, the Internet Group performed a comprehensive review of its revenue recognition policies and determined that they are in compliance with SAB 101.

Web Site Development Expenses Web site development expenses relate to the development of new online services and consist principally of employee compensation, as well as costs for content, facilities and equipment. In the fourth quarter of 2000, the Internet Group adopted the consensus in the Financial Accounting Standards Board Emerging Issues Task Force (EITF) Issue No. 00-2, *Accounting for Web Site Development Costs,* which requires that certain costs to develop Web sites be capitalized or expensed, depending on the nature of the costs. During 2000, development expenses of $2.6 million have been capitalized and are being amortized over a period of 18 months.

Research and Development Expenses Research and development costs are charged to expense as incurred. Research and development costs were $6.0 million in 2000 and were immaterial for 1999 and 1998.

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

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

Investments Marketable equity securities are classified as "available-for-sale" and are recorded at fair value with unrealized gains and losses included in Group Equity. All other equity securities are accounted for using either the cost method or the equity method. The Internet Group's share of earnings or losses in its equity investments accounted for under the equity method, other than Infoseek for 1999, is included in corporate and other activities in the Combined Statements of Operations.

The Internet Group continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Combined Statements of Operations.

For the period from November 18, 1998 to November 17, 1999, the Internet Group included an equity investment in Infoseek, a publicly held Internet search company (Note 2). Differences between the carrying amount of the investment and the underlying equity in the net assets were assigned to intangible assets, which are being amortized over periods ranging from two to five years. As of October 2, 1999, Infoseek's total assets were $991.6 million. As of September 30, 1999, the Internet Group owned approximately 42% of Infoseek's outstanding common stock with an approximate fair value of $815.2 million.

During 1999, EIV and AIV were accounted for under the equity method since the Internet Group did not control a majority voting interest in either venture. Under each of the respective joint venture agreements, required funding and losses were split 40%/60% between the Internet Group and Infoseek, respectively, for such periods.

Advertising Expenses The costs of advertising are expensed as incurred except for direct-response advertising which is capitalized and amortized over the expected period of future benefit. Direct-response advertising consists primarily of catalog production and mailing costs, which are capitalized and amortized over the expected future revenue stream, generally up to six months from the date catalogs are mailed. Catalog costs are accounted for in accordance with AICPA Statement of Position (SOP) 93-7, *Reporting on Advertising Costs* (SOP 93-7). SOP 93-7 requires that advertising costs be amortized based on the ratio of the current period's revenues for a catalog cost pool to estimated total revenues for that catalog cost pool.

As of September 30, 2000 and 1999, capitalized advertising costs totaled $6.4 million and $7.7 million, respectively. Advertising expense amounted to $139.2 million, $46.2 million and $54.9 million in 2000, 1999 and 1998, respectively.

Property and Equipment Property and equipment are carried at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Leasehold improvements are amortized over their estimated useful lives, or the life of the related lease, whichever is shorter, using the straight-line method.

	Useful Lives (years)	**2000**	1999
Computer equipment	3	**$147,018**	$28,825
Machinery and equipment	3–10	**10,313**	10,863
Furniture and fixtures	5–10	**12,771**	8,135
Leasehold improvements	5–15	**24,914**	5,686
		$195,016	$53,509

Intangible/Other Assets Intangible assets are amortized over periods ranging from two to nine years. The Internet Group continually reviews the recoverability of the carrying value of these assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of.* The Internet Group also reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Upon the occurrence of such an event or change in circumstance, 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.

During 2000, the Internet Group recorded a $30.8 million non-cash impairment charge, which is reported in other operating expenses, related to goodwill and other intangible assets for an Internet business. Based upon a significant decrease in revenues relative to budget, the Internet Group performed an impairment assessment in accordance with SFAS No. 121, and accordingly wrote the assets, primarily intangibles, down to their fair value, which was determined based upon projected discounted future cash flows of that business.

Risk Management Contracts The company manages most treasury activities on a centralized basis, including interest rate and foreign currency risk management. 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 and foreign currency exchange rates, 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. Gains and losses on hedging instruments attributed to the Internet Group were not material.

Stock Options The Internet Group uses the intrinsic-value method of accounting for stock-based awards granted to employees and, accordingly, does not recognize compensation expense for its stock-based awards to employees in the Combined Statements of Operations. See Note 8 for supplemental information on the impact of the fair-value method of accounting for stock options.

Earnings Per Share Walt Disney Internet Group common stock is a class of common stock of The Walt Disney Company. Loss per share attributed to the Internet Group common stock is presented in the consolidated results of operations for The Walt Disney Company presented elsewhere herein.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

Starwave Acquisition In April 1997, the company acquired a 42% equity interest, and a majority voting interest, in Starwave for $82.0 million in cash. The acquisition was accounted for as a purchase. The excess of the purchase price over the fair market value of net assets acquired of $66.4 million was attributed to goodwill and is being amortized over five years. On May 1, 1998, the company acquired an additional 48% of Starwave in exchange for company common stock valued at approximately $141.2 million, increasing its equity ownership from 42% to 90%. The excess of the purchase price over the fair market value of net assets acquired of $141.2 million was attributed to goodwill and is being amortized over five years. The assets, liabilities and results of operations related to Starwave were included in the Combined Financial Statements from the date of acquisition through November 17, 1998. Starwave was acquired by Infoseek on November 18, 1998.

During May 1998, as part of the company's Internet strategy, management committed to a plan to dispose of its interest in Starwave. Accordingly, the Internet Group accounted for Starwave as held for sale effective in the third quarter of 1998, and ceased depreciation and amortization of Starwave's assets. At that time, the Internet Group's interest in Starwave's net assets was $201.0 million, and from that period through September 30, 1998, after elimination of intercompany revenues and expenses, Starwave had net revenues of $400,000 and operating losses of $3.1 million. From October 1, 1998 through November 17, 1998, Starwave's results of operations were not material.

Infoseek Acquisition/Starwave Disposition On June 18, 1998, the company reached an agreement for the acquisition of Starwave by Infoseek, the purchase of additional shares of Infoseek common stock for $70.0 million and the purchase of warrants for $139.0 million, enabling it, under certain circumstances, to achieve a majority stake in Infoseek. 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 $345.0 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 Internet Group recorded intangible assets of $460.2 million, including $420.8 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.

For the period from November 18, 1998 to November 17, 1999, the Internet Group accounted for the investment in Infoseek under the equity method of accounting. For the year ended September 30, 1999, the Internet Group recorded $228.4 million of amortization related to intangible assets, a charge of $43.6 million for acquired in-process research and development costs, and its portion of Infoseek's operating losses of $49.3 million. These amounts have been reflected in Equity in Infoseek loss in the Combined Statements of Operations. As of September 30, 1999, the Internet Group's recorded investment in Infoseek was $494.8 million.

The company agreed to provide promotional services to Infoseek pursuant to a promotion agreement entered into by the company and Infoseek effective November 18, 1998. The promotion agreement, which has been superseded by the promotion policy described in Note 13 after the issuance of Internet Group common stock discussed more fully below, provided that Infoseek pay the company $165.0 million over a five-year period. Annual charges under the agreement ranged from $25.0 million to $41.0 million, with specific amounts subject to each year's marketing plan to be agreed upon between the parties. For the year ended September 30, 1999, the company recorded revenues and Infoseek recorded expenses amounting to $19.4 million under the terms of the promotion agreement. Disney and the Internet Group also engaged in cross promotion of their respective brands, intellectual property and programming.

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 Internet Group common stock, in exchange for outstanding Infoseek shares, at an exchange rate of 1.15 shares of Internet Group common stock for each Infoseek share. Upon consummation of the acquisition, the company combined its Internet and direct marketing businesses with Infoseek to create a single Internet and direct marketing business called the Walt Disney Internet Group.

The acquisition has been accounted for as a purchase, and the acquisition cost of $2.1 billion has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. Assets acquired totaled $130 million and liabilities assumed were $46 million. A total of approximately $2.0 billion, representing the excess of acquisition cost over the fair value of Infoseek's net assets, has been allocated to identifiable intangible assets and goodwill of $1.9 billion, and is being amortized over two to nine years. The company determined the economic useful life of acquired goodwill by giving consideration to the useful lives of Infoseek's identifiable intangible assets, including developed technology, trademarks, user base, joint venture agreements and in-place workforce. In addition, the company considered the competitive environment and the rapid pace of technological change in the Internet industry. During the quarter ended December 31, 1999, the Internet Group recorded charges for purchased in-process research and development totaling $23.3 million, which are reported in other operating expenses in the Combined Statements of Operations.

As discussed above, $43.6 million and $23.3 million, respectively, of the November 18, 1998 and November 17, 1999 Infoseek purchase prices represent purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. Accordingly, upon consummation of the respective acquisitions, these amounts were immediately expensed in the Combined Statements of Operations. The values assigned to purchased in-process technology, based on valuations prepared by an independent third-party appraisal company, were determined by identifying research projects in areas for which technological feasibility had not been established. The in-process technology development included development efforts in Infoseek's core systems for its infrastructure, features and content. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows to their present value.

The Internet Group's combined results of operations have incorporated Infoseek's activity on a consolidated basis since November 18, 1999.

The unaudited pro forma information below presents combined results of operations of the Internet Group, as if the Infoseek acquisition had occurred at the beginning of 1999. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined group had the Infoseek acquisition occurred at the beginning of fiscal 1999, nor is it necessarily indicative of future results.

	Year Ended September 30,	
(Unaudited)	**2000**	1999
Revenues	**$ 391,982**	$ 348,081
Net loss	**(1,102,004)**	(1,021,739)
Net loss attributed to Internet Group common stock	**(316,671)**	(285,341)

The pro forma amounts for the year exclude charges for purchased in-process research and development costs of $23.3 million and $116.2 million in 2000 and 1999, respectively, and the Starwave gain in fiscal 1999.

Soccernet.com Acquisition On June 30, 1999, the Internet Group acquired a 60% interest in a partnership that owns Soccernet.com, a U.K. Web site, in exchange for Internet Group common stock valued at approximately $23.7 million. The purchase price was reflected as a liability in the Combined Balance Sheets until the Internet Group stock was issued in November 1999. The Internet Group agreed to guarantee the value of the stock for one year from the date of delivery. The acquisition was accounted for as a purchase, and the excess of the purchase price over the fair market value of net assets acquired of $39.5 million was attributed to goodwill and is being amortized over three years. The assets, liabilities and results of operations related to Soccernet have been included in the Combined Financial Statements from the date of this acquisition.

On June 30, 2000, the Internet Group acquired the remaining 40% interest in Soccernet.com that it did not already own for $15.2 million in cash. The acquisition has been accounted for as a purchase. The excess of the purchase price over the fair value of the net assets acquired was $15.2 million and has been recorded as goodwill, which is being amortized over its estimated useful life of two years.

Toysmart.com Acquisition On August 12, 1999, the Internet Group acquired a 61% interest in toysmart.com, an online commerce business, in exchange for a commitment to provide $25.0 million in cash and $20.0 million in promotional services through December 2000. The Internet Group contributed $14.9 million and $19.0 million in cash and $14.5 million and $1.2 million in promotional services pursuant to the agreement, during 2000 and 1999, respectively.

The acquisition was accounted for as a purchase, and the excess of the purchase price over the fair market value of net assets acquired of $29.5 million was attributed to goodwill with an estimated life of three years. In addition, $9.0 million was capitalized with respect to deferred compensation resulting from the acquisition with an estimated useful life of four years.

The assets, liabilities and results of operations related to toysmart.com have been included in the combined financial statements from the date of acquisition. As a result of toysmart.com's bankruptcy filing on June 9, 2000, the Internet Group changed its method of accounting for toysmart.com from the consolidation method to the cost method, effective June 9, 2000. The Internet Group's investment in toysmart.com as of September 30, 2000 was not significant.

Ultraseek Disposition In July 2000, the Internet Group sold Ultraseek Corporation, a subsidiary that provides intranet search software, which it had acquired as part of its acquisitions of Infoseek. Proceeds from the sale consisted of shares of common stock of the purchaser, Inktomi Corporation, a publicly held company, and approximately $4 million in cash. As of the acquisition date, the Inktomi stock was valued at $309.2 million. The sale resulted in a pre-tax gain of $152.9 million ($39.3 million after tax). The Internet Group has sold 929,000 shares of Inktomi common stock generating cash proceeds of $119.8 million and a realized gain of $5.4 million. Since October 2000, the stock price of Inktomi shares has declined, like those of many technology companies, resulting in an unrealized loss of $153.6 million as of November 30, 2000 on the remaining shares held by the Internet Group.

NOTE 3. REORGANIZATION

On July 10, 1999, the company entered into an Agreement and Plan of Reorganization (the Reorganization Agreement) with Infoseek. Pursuant to the Reorganization Agreement, the company proposed to acquire the remaining 58% of Infoseek that it did not already own by issuing 1.15 shares of a new class of common stock (Internet Group common stock) for each outstanding share of Infoseek common stock.

The Infoseek merger and issuance of Internet Group common stock required approvals by Infoseek and company stockholders, respectively. Once approvals were obtained, the company combined its Internet and direct marketing operations with Infoseek to establish a new reporting entity, the Internet Group, and issued approximately 42.2 million shares of Internet Group common stock, which trade under the ticker symbol "DIG," to track the performance of the Internet Group. The company also converted outstanding Infoseek stock options into options exercisable for shares of Internet Group common stock.

As of November 18, 1999, the effective date of the Infoseek merger, Disney retained an initial equity interest of approximately 72% in the Internet Group and former Infoseek stockholders owned the remaining 28%. Shares of the company's existing common stock were renamed Disney common stock, and reflect the performance of the company's businesses other than the Internet Group, plus Internet Group losses attributed to Disney.

Pursuant to the Reorganization Agreement, the company has the right to acquire an additional 18 million shares of Internet Group common stock, representing an approximately 3% increase in Disney's initial retained interest, at a 20% premium to market value, subject to a maximum price of $43.48 per share.

In addition, the company's Board of Directors may at any time after the first anniversary of the effective date of the merger convert each outstanding share of Internet Group common stock into Disney common stock at a rate equal to the applicable percentage on the conversion dates below, of the market value ratio, as defined, of Internet Group common stock to Disney common stock prior to the notice of such conversion:

Any conversion date occurring after the following anniversary of the effective date of the merger and on or prior to the next such anniversary:	Percentage of market value ratio of Internet Group common stock to Disney common stock:
First	120%
Second	115%
Third through ninth	110%
Tenth and thereafter	105%

NOTE 4. BORROWINGS

On November 18, 1998, the Internet Group purchased warrants from Infoseek (Note 2) in exchange for a note payable over five years bearing interest at 6.5% annually, with principal and interest payable in 20 quarterly installments, beginning February 18, 1999. At September 30, 1999, borrowings under the Infoseek note payable totaled $118.2 million, of which $27.8 million has been included in the current portion of borrowings in the Combined Balance Sheets. Effective November 18, 1999, the Internet Group acquired the remaining 58% of Infoseek that it did not already own (Note 2), and as a result the Infoseek note payable is no longer outstanding.

NOTE 5. INCOME TAXES

	2000	1999	1998
Loss Before Income Taxes and Minority Interests	**$(1,124,783)**	$(98,166)	$(111,180)
Income Tax (Benefit) Provision			
Current			
Federal	**$ (115,891)**	$(41,523)	$ (30,449)
State	**(7,139)**	(4,549)	(2,080)
	(123,030)	(46,072)	(32,529)
Deferred			
Federal	**34,551**	8,548	(2,905)
State	**40**	937	(199)
	34,591	9,485	(3,104)
	$ (88,439)	$(36,587)	$ (35,633)

Components of Deferred Tax Assets and Liabilities	**2000**	1999
Deferred tax assets		
Net operating loss carryforward	**$(40,807)**	$ —
Unearned revenue	**(2,057)**	(2,057)
Accrued liabilities	**(12,141)**	(6,936)
Investments	**(20,046)**	—
Total deferred tax assets	**(75,051)**	(8,993)
Deferred tax liabilities		
Depreciable, amortizable and other property	**18,810**	2,905
Investments	**—**	55,491
Total deferred tax liabilities	**18,810**	58,396
Net deferred tax (asset) liability before valuation allowance	**(56,241)**	49,403
Valuation allowance	**3,862**	—
Net deferred tax (asset) liability	**$(52,379)**	$49,403

Reconciliation of Effective Income Tax Rate	**2000**	1999	1998
Federal income tax rate	**(35.0%)**	(35.0%)	(35.0%)
Nondeductible amortization of intangible assets	**22.7**	—	2.2
State taxes, net of federal income tax benefit	**(0.4)**	(2.4)	(2.4)
Effect of valuation allowance	**—**	—	3.1
Dispositions	**4.7**	—	—
Other, net	**0.1**	0.1	0.1
	(7.9%)	(37.3%)	(32.0%)

Deferred tax assets at September 30, 2000, were reduced by a valuation allowance relating to a portion of the tax benefits attributable to certain net operating losses (NOLs) reflected on state tax returns of Infoseek and its subsidiaries for periods prior to the acquisition of Infoseek by the Internet Group on November 17, 1999 (Note 2), where applicable state tax laws limit the utilization of such NOLs. Since this valuation allowance relates to acquired deferred tax assets, the subsequent realization of these tax benefits would result in the application of the allowance amount as a reduction to goodwill. Deferred tax assets at September 30, 1999, do not include the NOLs of Infoseek and its subsidiaries, as the Internet Group's investment in Infoseek was accounted for under the equity method prior to the November 17, 1999 acquisition.

At September 30, 2000, approximately $121.0 million of NOL carryforwards is available to offset taxable income of both Disney and the Internet Group through the year 2019. While the acquisition of Infoseek by the Internet Group constituted a change in ownership as defined under Section 382 of the Internal Revenue Code, the resulting annual limitation on the use of Infoseek's pre-change NOLs exceeds the remaining amount of NOL carryforwards and will not limit their utilization.

The company files a consolidated federal income tax return and certain state income tax returns that include Internet Group and Disney results. Income tax benefits have been allocated to the Internet Group in amounts equal to the Federal and state tax effects that its operations have had on the company's consolidated income tax provisions.

If the Internet Group were required to prepare its federal and state income tax returns on a separate return basis, the tax benefits attributed to the Internet Group by Disney would not be realizable in the current periods, as presented in the Combined Statements of Operations. In addition, on a separate return basis, the deferred tax assets presented above and in the Combined Balance Sheets would be fully reserved.

In 2000, income tax benefits of $15.3 million attributable to employee stock option transactions were credited to group equity.

NOTE 6. PENSION AND OTHER BENEFIT PROGRAMS

The company maintains pension 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 Securities Act of 1974. Pension benefits are generally based on years of service and/or compensation. Obligations and costs related to the Internet Group's postretirement medical benefit plans are not material to the Internet Group's financial condition or results of operations.

The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension plans for the Internet Group.

	Pension Plans 2000	Pension Plans 1999
Reconciliation of funded status of the plans and the amounts included in the Combined Balance Sheets:		
Projected benefit obligations		
Beginning obligations	**$(2,021)**	$(2,176)
Service cost	**(457)**	(501)
Interest cost	**(151)**	(147)
Actuarial gains	**514**	803
Curtailment gain	**195**	—
Ending obligations	**(1,920)**	(2,021)
Fair value of plans' assets		
Beginning fair value	**1,510**	1,356
Actual return on plans' assets	**461**	167
Expenses	**(27)**	(13)
Ending fair value	**1,944**	1,510
Funded status of the plans	**24**	(511)
Unrecognized net (gain) loss	**(658)**	147
Net balance sheet liability	**$ (634)**	$ (364)
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	**$ 86**	$ 144
Accrued benefit liability	**(914)**	(689)
Accumulated other comprehensive income	**194**	181
	$ (634)	$ (364)
Rate Assumptions:		
Discount rate	**8.0%**	7.5%
Rate of return on plans' assets	**10.0%**	10.5%
Salary increases	**5.5%**	5.1%
Annual increase in cost of benefits	**n/a**	n/a

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 $1.6 million, $1.6 million and $0.9 million for 2000, respectively, and $1.4 million, $1.3 million and $0.7 million for 1999, respectively.

The Internet Group's accumulated pension benefit obligations at September 30, 2000 and 1999 were $1.9 million and $1.8 million, of which 69.5% and 60.0% were vested, respectively.

Pension plan expense for 2000, 1999 and 1998 totaled $0.5 million, $0.6 million and $0.1 million, respectively. The discount rate, rate of return on plan assets and salary increase assumptions for the pension plans were 6.8%, 10.5% and 4.4%, respectively, in 1998.

After July 1, 2000, Internet Group employees were no longer eligible to participate in the pension plans. As a result, the Internet Group recorded a $0.2 million curtailment gain in 2000.

On April 1, 2000, the company established the GO.com Savings and Investment Plan, which allows eligible employees to allocate up to 15% of their salary to the plan through payroll deductions. The company matches 50% of the employee's pre-tax contributions up to plan limits. Total plan expense was $0.8 million for 2000.

NOTE 7. GROUP EQUITY

As described more fully in Note 2, effective November 17, 1999, the company completed its acquisition of Infoseek via the creation and issuance of a new class of common stock, called Internet Group common stock. Upon issuance of the Internet Group common stock, shares of the company's existing common stock were reclassified as Disney common stock, to track the financial performance of the company's businesses other than the Internet Group, plus Internet Group losses attributed to Disney.

In April 2000, the company's Board of Directors approved a share repurchase program for up to five million shares of Internet Group common stock in the open market. During 2000, the Internet Group repurchased 908,533 shares at a cost of $11.4 million under this program. The company was authorized to repurchase approximately 4.1 million additional Internet Group shares as of September 30, 2000.

NOTE 8. STOCK INCENTIVE PLANS

Eligible employees of the Internet Group participate in various company stock option plans. Under the 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 for Disney common stock become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. Options for Internet Group common stock become exercisable over a four-year period from the grant date and expire 10 years after the date of grant. Internet Group shares available for future option grants at September 30, 2000 totaled 5.1 million.

The following table summarizes information about Disney stock option transactions related to Internet Group employees (shares in thousands):

	2000 Shares	2000 Weighted Average Exercise Price	1999 Shares	1999 Weighted Average Exercise Price	1998 Shares	1998 Weighted Average Exercise Price
Outstanding at beginning of year	**4,872**	**$28.60**	2,920	$27.58	1,164	$21.58
Transfers, net[1]	**485**	**22.91**	1,566	26.38	–	
Awards canceled	**(1,462)**	**30.16**	(678)	26.90	(509)	27.87
Awards granted	**1,481**	**30.22**	1,127	32.93	2,407	30.16
Awards exercised	**(521)**	**24.04**	(63)	21.57	(142)	21.03
Outstanding at September 30	**4,855**	**$28.55**	4,872	$28.60	2,920	$27.58
Exercisable at September 30	**1,704**	**$24.90**	1,319	$22.93	611	$22.60

[1] Primarily represents options for Disney shares that employees received prior to their transfer to the Internet Group.

The following table summarizes information about Internet Group stock option transactions (shares in thousands):

	2000	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	—	
Options converted[1]	**11,661**	**$24.54**
Awards canceled	**(8,749)**	**28.79**
Awards granted	**27,632**	**20.48**
Awards exercised	**(2,366)**	**7.20**
Outstanding at September 30	**28,178**	**$20.70**
Exercisable at September 30	**1,834**	**$26.43**

[1] Represents options held by Infoseek shareholders that were converted into options to purchase Internet Group common stock on November 17, 1999, when the company acquired the remaining interest in Infoseek (Note 2).

The following table summarizes information about Disney stock options outstanding at September 30, 2000 related to Internet Group employees (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 5–$ 9	**44**	**0.2**	**$ 8.15**	**44**	**$ 8.15**
$10–$14	**191**	**3.7**	**13.41**	**173**	**13.34**
$15–$19	**298**	**3.4**	**16.90**	**120**	**17.86**
$20–$24	**773**	**5.5**	**21.46**	**616**	**21.45**
$25–$29	**1,445**	**8.5**	**26.71**	**312**	**26.69**
$30–$34	**811**	**8.7**	**33.75**	**107**	**33.95**
$35–$39	**1,147**	**7.2**	**36.79**	**332**	**37.34**
$40–$44	**146**	**9.7**	**40.37**	**–**	**–**
	4,855			**1,704**	

The following table summarizes information about Internet Group stock options outstanding at September 30, 2000 (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0–$ 4	**291**	**5.4**	**$ 1.16**	**265**	**$ 0.87**
$ 5–$ 9	**288**	**6.7**	**8.32**	**206**	**8.08**
$10–$ 14	**14,306**	**9.7**	**12.14**	**38**	**14.36**
$15–$ 19	**212**	**7.4**	**17.11**	**112**	**17.09**
$20–$ 24	**1,471**	**9.3**	**21.97**	**36**	**23.28**
$25–$ 29	**5,450**	**9.2**	**25.94**	**393**	**26.56**
$30–$ 34	**120**	**8.3**	**31.90**	**32**	**32.48**
$35–$ 39	**5,360**	**9.0**	**35.70**	**463**	**37.13**
$40–$ 44	**403**	**8.3**	**43.47**	**165**	**43.51**
$45–$100	**277**	**7.8**	**60.86**	**124**	**60.09**
	28,178			**1,834**	

The following table reflects pro forma net loss attributed to the Internet Group had the Internet Group elected to adopt the fair value approach of SFAS 123:

	2000	1999	1998
Net loss:			
As reported	**$(1,016,332)**	$(59,256)	$(71,070)
Pro forma	**(1,052,966)**	(64,558)	(74,369)
Net loss attributed to Internet Group common stock:			
As reported	**$(275,627)**		
Pro forma	**(286,153)**		

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 Disney options at their grant date during 2000, 1999 and 1998, where the exercise price equaled the market price on the grant date, were $12.49, $11.11 and $10.82, 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 2000 and 1999. The estimated fair value of each Disney option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

Disney Shares	2000	1999	1998
Risk-free interest rate	**6.5%**	5.3%	5.4%
Expected years until exercise	**6.0**	6.0	6.0
Expected stock volatility	**26%**	25%	23%
Dividend yield	**.59%**	.69%	.71%

The weighted average fair values of the Internet Group options at their grant date during 2000, where the exercise price equaled the market price on the grant date, was $15.00. The estimated fair value of each Internet Group option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

Internet Group Shares	2000
Risk-free interest rate	**6.4%**
Expected years until exercise	**6.0**
Expected stock volatility	**80.0%**
Dividend yield	**0.0%**

NOTE 9. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	2000	1999
Prepaid and other assets		
Prepaid costs	**$ 15,507**	$10,408
Other	**2,480**	3,497
	$ 17,987	$13,905
Intangible assets, net		
Costs in excess of net assets acquired	**$2,106,114**	$69,002
Accumulated amortization	**(736,969)**	(4,613)
	$1,369,145	$64,389
Accounts payable and other accrued liabilities		
Accounts payable	**$ 38,595**	$21,391
Payroll and employee benefits	**31,410**	4,473
Accrued liabilities	**73,470**	35,662
Liability related to acquisition of Soccernet (Note 2)	**—**	23,700
Other	**—**	5,771
	$ 143,475	$90,997

NOTE 10. SEGMENTS

The operating segments reported below are the segments of the Internet Group for which separate financial information is available and for which operating income or loss 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 (Note 1).

Operating income (loss) amounts evaluated include earnings (loss) before amortization of intangible assets, corporate and other activities, equity in Infoseek loss, net interest expense or income, income taxes and minority interests. Corporate and other activities principally consists of executive management, certain unallocated administrative support functions, and income or loss from equity investments, excluding Infoseek.

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, all significant intersegment transactions have been eliminated.

Business Segments	2000	1999	1998
Revenues			
Direct Marketing	**$ 114,766**	$148,127	$ 191,808
Internet	**253,747**	58,286	67,764
Total Combined Revenues	**$ 368,513**	$206,413	$ 259,572
Operating (loss) income			
Direct Marketing	**$ (29,942)**	$ (23,359)	$ (18,580)
Internet[1]	**(371,321)**	(70,133)	(75,373)
	(401,263)	(93,492)	(93,953)
Gain on sale of Ultraseek	**152,869**	—	—
Gain on sale of Starwave	**—**	345,048	—
	(248,394)	251,556	(93,953)
Amortization of intangible assets	**790,774**	4,613	6,639
Total Combined Operating (Loss) Income	**$(1,039,168)**	$246,943	$(100,592)
Capital expenditures			
Direct Marketing	**$ 3,720**	$ 7,698	$ 16,973
Internet	**54,040**	9,232	9,619
Total Combined Capital Expenditures	**$ 57,760**	$ 16,930	$ 26,592
Depreciation expense			
Direct Marketing	**$ 3,644**	$ 3,098	$ 1,632
Internet	**30,490**	4,977	7,918
Total Combined Depreciation Expense	**$ 34,134**	$ 8,075	$ 9,550
Amortization expense			
Direct Marketing	**$ —**	$ —	$ —
Internet	**790,744**	4,613	6,639
Total Combined Amortization Expense	**$ 790,744**	$ 4,613	$ 6,639
Identifiable assets			
Direct Marketing	**$ 67,790**	$ 81,705	$ 91,723
Internet[2]	**1,887,457**	624,719	244,222
Total Combined Assets	**$ 1,955,247**	$706,424	$ 335,945
Supplemental revenue data			
Internet			
Media	**$ 179,069**	$ 34,828	$ 51,604
Commerce – Third Parties	**47,468**	12,649	7,560
Commerce – Affiliates	**27,210**	10,809	8,600
Total Internet Revenues	**$ 253,747**	$ 58,286	$ 67,764

Geographic Segments	**2000**	1999	1998
Revenues			
United States	**$ 344,466**	$203,844	$ 259,572
Europe	**11,709**	2,514	—
Asia Pacific	**10,894**	55	—
Latin America, Canada and Other	**1,444**	—	—
	$ 368,513	$206,413	$ 259,572
Operating (loss) income			
United States[(1)]	**$(1,005,610)**	$254,536	$(100,592)
Europe	**(19,952)**	(6,741)	—
Asia Pacific	**(15,082)**	(856)	—
Latin America, Canada and Other	**1,476**	4	—
	$(1,039,168)	$246,943	$(100,592)
Identifiable assets			
United States[(2)]	**$ 1,915,491**	$668,488	$ 335,945
Europe	**33,314**	37,936	—
Asia Pacific	**6,442**	—	—
	$ 1,955,247	$706,424	$ 335,945

[(1)] The 2000 balance includes an impairment charge of $30.8 million related to goodwill and other intangible assets.
[(2)] Included in amounts are equity investments totaling $21.4 million, $497.5 million and $0.7 million for 2000, 1999 and 1998, respectively.

NOTE 11. FINANCIAL INSTRUMENTS

Investments As of September 30, 2000 and 1999, the aggregate fair values of securities classified as available-for-sale were $196 million and $7.7 million, respectively. Realized gains and losses are determined principally on an average cost basis. Total proceeds from sales of available-for-sale securities were $119.8 million in 2000. In 2000, the Internet Group recognized $5.4 million in gains on sales of securities. The Internet Group has assessed the recoverability of certain investments and has determined that it will be unable to recover a portion of the carrying amount of such investments as of September 30, 2000. Accordingly, the Internet Group has recorded a charge of $36.5 million to reflect impairments as of September 30, 2000 in the values of these investments. In 2000, gross unrealized losses on available-for-sale securities were $18.8 million. In 1999, gross unrealized gains on available-for-sale securities were $1.5 million.

Fair Value of Financial Instruments At September 30, 2000 and 1999, the Internet Group's financial instruments included cash, cash equivalents, receivables and accounts payable. The fair values of these financial instruments approximated carrying values because of the short-term nature of these instruments. The estimated fair values of the Internet Group's investments subject to fair value disclosures, determined based on broker quotes or quoted market prices, were equal to the carrying values at September 30, 2000 and 1999.

Credit Concentrations The company manages most treasury activities on a centralized basis. 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. In addition, the company limits its exposure to any one financial institution and has policies requiring collateral under certain circumstances to mitigate default risk. Consequently, the Internet Group would not realize a material loss as of September 30, 2000 in the event of nonperformance by any company counterparty.

The Internet Group's trade receivables do not represent a significant concentration of credit risk at September 30, 2000 due to its diverse customer base. The Internet Group generally does not require collateral and its trade receivables are unsecured.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The company has various real estate operating leases, including leases for the Internet Group's office space for general and administrative purposes. Costs for facilities and related services have been allocated to the Internet Group based upon anticipated usage, and such amounts have been reported as rent expense. However, the Internet Group is not obligated to the company under any formal lease agreements. In addition, the Internet Group occupies facilities under terms of non-cancelable operating leases, subject to extensions in certain cases at the Internet Group's option. The company's future minimum lease payments on the Internet Group occupied facilities and the Internet Group's future minimum lease payments for its warehouses and other facilities under non-cancelable operating leases totaled $89.1 million at September 30, 2000, payable as follows:

2001	$16,437
2002	15,478
2003	13,109
2004	10,855
2005	9,526
Thereafter	23,682

Rental expense during 2000, 1999 and 1998, was $16.2 million, $2.6 million and $1.0 million respectively.

During 2000, the company, along with the Internet Group, committed to funding a joint venture investment vehicle. The Internet Group's share of the committed funding is approximately $35 million, plus additional amounts for funding of the joint venture's operations.

In November 2000, the Internet Group entered into an agreement to purchase approximately $40.0 million in computer equipment and services over a three-year period.

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 or the Internet Group 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 or the Internet Group's liquidity or operating results.

NOTE 13. RELATED PARTY TRANSACTIONS

The terms of all material transactions, relationships and other matters between Disney and the Internet Group, including those as to which Disney and the Internet Group may have potentially divergent interests, are determined on a basis that the company's Board of Directors, or management following guidelines or principles established by the company's Board of Directors, considers to be in the best interests of the company and its stockholders as a whole. It is not a requirement that any such material transaction, relationship or other matter be on terms that would be considered commercially reasonable in the context of a transaction between unrelated parties, or that would be considered comparable to terms that could be obtained through arm's-length negotiations between unrelated parties, or that would be considered satisfactory under any other similar standard of review.

Disney has provided all necessary funding for the operations and investments of the Internet Group from the time of its inception until the Infoseek merger on November 17, 1999 (Note 2). Such funding, with the exception of $19.0 million, was accounted for as capital contributions from Disney. Capital contributions during 2000, 1999 and 1998 were $38.2 million, $166.5 million and $237.2 million, respectively.

Through a separate agreement dated August 18, 1999, Disney and Infoseek agreed that the funding provided for the Internet Group's investment in toysmart (Note 2) of $19.0 million would be treated as a loan from Disney. During 1999, interest charges related to the loan totaled $0.2 million.

The company will account for all cash transfers from the Internet Group to Disney or vice versa (other than transfers in return for assets or services rendered or transfers in respect to dividends attributable to Disney paid on Internet Group common stock) as inter-group short-term loans unless the company's Board of Directors determines that a given transfer (or type of transfer) should be accounted for (1) as a long-term loan, (2) as a capital contribution increasing Disney's retained interest in the Internet Group or (3) as a return of capital reducing Disney's retained interest in the Internet Group. There are no specific criteria to determine when the company will account for a cash transfer as a long-term loan, a capital contribution or a return of capital, rather than an inter-group short-term loan. However, cash advances from Disney to the Internet Group on or after November 18, 1999 up to $250.0 million on a cumulative basis, will be accounted for as short-term or long-term loans at interest rates at which the company could borrow such funds and will not be accounted for as capital contributions. At September 30, 2000, the Internet Group had a loan payable to Disney of $222.9 million bearing interest at a weighted average interest rate of 6.6% for 2000. During 2000, interest charges related to the loan totaled $1.9 million.

Cash proceeds generated from the Internet Group's sale of Inktomi shares acquired in the Ultraseek sale (Note 2) were loaned to Disney. The loan receivable balance, which includes principal and interest, was $124.1 million as of September 30, 2000. The loan receivable bears interest at a rate equal to the Euro currency Rate plus the Euro currency Rate Margin (7.1% at September 30, 2000) and is due on July 31, 2005. During 2000, interest income related to the loan totaled $0.8 million.

The Internet Group derived revenues from the development of Web sites for Disney business units totaling $20.7 million, $8.7 million and $8.4 million during 2000, 1999 and 1998, respectively.

In 1998, the Internet Group began selling tickets and travel packages online for Disney's theme parks and resorts. The Internet Group received commissions from Disney of 5% of ticket and 10% of travel package revenues, amounting to $6.5 million, $2.0 million and $0.2 million in the aggregate during 2000, 1999 and 1998, respectively.

The Direct Marketing operations acquire Disney-themed merchandise for resale directly from other Disney businesses and through Disney units acting as brokers in sourcing merchandise from diverse manufacturers. The Internet Group's direct purchases amounted to $3.8 million, $5.1 million and $10.8 million in 2000, 1999 and 1998, respectively. For the same periods, the Internet Group's purchases through Disney sourcing entities amounted to $29.5 million, $30.0 million and $50.2 million, respectively.

During 1998, the Internet Group paid Disney $1.0 million for the use of the Internet Zone site within the Innoventions attraction at the Epcot theme park.

Promotional services are provided by Disney for the Internet Group. The form, amount and cost allocations are determined by or under the supervision of the company's Board of Directors. Cost allocations are on terms and rates no less favorable to the Internet Group than those that would apply to comparable services provided to unaffiliated third parties and may be on substantially more favorable terms. Total promotional service charges amounted to $1.0 million during 2000 and were immaterial in 1999 and 1998.

The company allocates the cost of corporate general and administrative (G&A) services and facilities to the Internet Group generally based on utilization. Where determinations based on utilization alone are impracticable, the company uses other methods and criteria that management believes to be equitable and to provide a reasonable estimate of costs attributable to the Internet Group.

Corporate G&A allocations included in the Combined Statements of Operations include charges for legal, accounting (tax and financial), treasury, tax planning and strategic planning services; risk management; employee benefit plans and administration thereof; information and telecommunications services; purchasing and material procurement; public and investor relations; corporate travel; and corporate offices, warehouses and other facilities. G&A allocations include, without limitation, all costs and expenses of personnel employed in connection with such services and facilities, including payroll, payroll taxes and fringe benefit costs; all overhead costs and expenses directly related to such personnel and the services or facilities provided by them; and all materials used in connection with such services or facilities. The company believes that the costs allocated are comparable to the costs that would be incurred if the Internet Group would have been operating on a stand-alone basis.

The Internet Group incurred direct charges from Disney, primarily related to facilities, legal, sourcing and information system services, totaling $9.2 million, $7.7 million and $5.8 million during 2000, 1999 and 1998, respectively.

Corporate and other activities includes charges from Disney for indirect corporate G&A expenses. Total indirect charges amounted to $7.5 million, $7.5 million and $12.5 million during 2000, 1999 and 1998, respectively.

Disney has licensed to the Internet Group the nonexclusive right to use Disney's intellectual property in the conduct of its business, as defined, in exchange for a royalty equal to 1.25% of defined net revenues, excluding revenues derived from the operation of DisneyStore.com. Royalties will not be deemed earned by Disney until the first full year in which the Internet Group generates positive earnings before interest, taxes and amortization (EBITA). Royalties in any year may not exceed 25% of the Internet Group's EBITA. No royalties were payable in 2000, 1999 or 1998.

Royalties equal to 8% of actual costs, as defined, for Disney-branded merchandise purchased by DisneyStore.com are earned by and payable to Disney at the completion of the first full year in which the Internet Group generates positive EBITA. Such royalties may not exceed 30% of DisneyStore.com's EBITA in any year. No royalties were payable in 2000, 1999 or 1998.

NOTE 14. SUBSEQUENT EVENT

In November 2000, the Internet Group entered into an agreement to sell Infoseek Japan K.K., a Japanese subsidiary that operates a search portal business in Japan, for total cash consideration of 9.0 billion yen or approximately $81 million. The transaction is expected to close in the first quarter of fiscal 2001.

(In thousands) (Unaudited)	December 31	March 31	June 30	September 30
2000				
Revenues	**$ 102,143**	**$ 97,576**	**$ 86,346**	**$ 82,448**
Operating loss[1]	**(203,428)**	**(359,838)**	**(313,936)**	**(161,966)**
Net loss[2]	**(202,466)**	**(292,203)**	**(272,168)**	**(249,495)**
1999				
Revenues	$ 76,586	$ 41,567	$ 41,645	$ 46,615
Operating income (loss)[3]	341,378	(18,130)	(20,930)	(55,375)
Net income (loss)[4]	151,905	(64,238)	(63,434)	(83,489)

[1] Reflects a $152.9 million gain on sale of Ultraseek in the fourth quarter of 2000. See Note 2 to the Combined Financial Statements.

[2] Reflects equity in Infoseek loss of $40.6 million in the first quarter of 2000. See Note 2 to the Combined Financial Statements.

[3] Reflects $345.0 million gain on the sale of Starwave in the first quarter of 1999. See Note 2 to the Combined Financial Statements.

[4] Reflects equity in Infoseek loss of $95.3 million, $76.8 million, $73.5 million and $75.8 million for each of the four quarters in 1999, respectively. See Note 2 to the Combined Financial Statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The independent accountants audit the combined 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 Walt Disney Company has an Audit 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 applicable to the Walt Disney Internet Group.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, based on our audits and the report of other auditors, the accompanying combined balance sheets and the related combined statements of operations, cash flows and group equity, present fairly, in all material respects, the financial position of the Walt Disney Internet Group (the Internet Group), as defined in Note 1, at September 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Walt Disney Company's (the company's) management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Infoseek Corporation (Infoseek), an investment of the Internet Group accounted for under the equity method, which statements reflect shareholders' equity of $841.3 million and net loss of $265.2 million as of October 2, 1999 and for the year then ended, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Infoseek, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit 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 and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Internet Group is a division of the company; accordingly, the financial statements of the Internet Group should be read in conjunction with the audited financial statements of the company.

PricewaterhouseCoopers LLP

Los Angeles, California
November 30, 2000

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Infoseek Corporation

We have audited the consolidated balance sheets of Infoseek Corporation as of October 2, 1999 and October 3, 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended October 2, 1999, for the nine months ended October 3, 1998 and for the year ended December 31, 1997 (not presented separately herein). 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infoseek Corporation at October 2, 1999 and October 3, 1998, and the consolidated results of its operations and its cash flows for the year ended October 2, 1999, for the nine months ended October 3, 1998 and for the year ended December 31, 1997, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

San Jose, California
October 28, 1999

Board of Directors

Reveta F. Bowers[1,3,5]
Head of School
Center for Early Education

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

Roy E. Disney[4]
Vice Chairman
The Walt Disney Company

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

Judith L. Estrin[1]
President and Chief Executive Officer
Packet Design, Inc.

Stanley P. Gold[3,5,6]
President and Chief Executive Officer
Shamrock Holdings, Inc.

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

Sanford M. Litvack[2]
Vice Chairman
The Walt Disney Company

Ignacio E. Lozano, Jr.[1,3,5]
Chairman
Lozano Communications

Monica C. Lozano
President and Chief Operating Officer
La Opinión

George J. Mitchell[2,6]
Special Counsel
Verner, Liipfert, Bernard, McPherson and Hand

Thomas S. Murphy[1,3,4]
Former Chairman
Capital Cities/ABC, Inc.

Leo J. O'Donovan, S.J.[1,2]
President
Georgetown University

Sidney Poitier[3,5]
Chief Executive Officer
Verdon-Cedric Productions, Ltd.

Irwin E. Russell[4]
Attorney at Law

Robert A.M. Stern
Senior Partner
Robert A.M. Stern Architects

Andrea L. Van de Kamp[1,3,6]
Chairman, Sotheby's West Coast

Raymond L. Watson[1,3,4]
Vice Chairman
The Irvine Company

Gary L. Wilson[2,6]
Chairman
Northwest Airlines Corporation

[1] Member of Audit Committee
[2] Member of Capital Stock Committee
[3] Member of Compensation Committee
[4] Member of Executive Committee
[5] Member of Executive Performance Subcommittee of the Compensation Committee
[6] Member of Nominating Committee

Directors Emeritus

Caroline Leonetti Ahmanson
Chairman Emeritus
Federal Reserve Bank of San Francisco

Richard A. Nunis
Former Chairman
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

Robert A. Iger
President and Chief Operating Officer

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

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

Louis M. Meisinger
Executive Vice President and General Counsel

Principal Businesses

ABC Broadcast Group
George Bodenheimer, President, ESPN, Inc.
Robert F. Callahan, Jr., President, ABC Broadcast Group
Anne M. Sweeney, President, ABC Cable Networks Group and President, Disney Channel Worldwide

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

Disneyland Paris
James A. Rasulo, Chairman

Walt Disney Internet Group
Steven M. Bornstein, Chairman
Stephen H. Wadsworth, President

Walt Disney Parks and Resorts
Paul S. Pressler, Chairman

The Walt Disney Studios
Peter Schneider, Chairman

Walt Disney International
Michael O. Johnson