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)		As Reported		
	2000	1999	**2000**	1999	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

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	2000	1999	1998
	Year Ended September 30		
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		Common Stock		Retained Earnings	Other Accumulated Comprehensive Income	Treasury Stock	TWDC Stock Compensation Fund		Stockholders' Equity Total
	DIS	DIG	DIS	DIG				DIS	DIG	
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	93	—	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 obli-

gations 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.

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:

	Pro Forma 2000	Pro Forma 1999		As Reported 2000	As Reported 1999	As Reported 1998
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	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		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	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.

QUARTERLY FINANCIAL SUMMARY

(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.

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.

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Vice Chairman of the Board

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