The Company evaluates the performance of its operating segments based on segment operating income and management uses aggregate segment operating income as a measure of the overall performance of the operating businesses. The Company believes that information about aggregate segment operating income assists investors by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from factors other than business operations that affect net income. The following table reconciles segment operating income to income from continuing operations before income taxes and minority interests.

				% change	
(in millions)	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Segment operating income	**$8,456**	$7,811	$6,350	**8%**	23%
Corporate and unallocated shared expenses	**(471)**	(497)	(522)	**(5)%**	(5)%
Other (expense) / income	**(59)**	1,004	88	**nm**	>100%
Net interest expense	**(524)**	(593)	(592)	**(12)%**	—%
Income from continuing operations before income taxes and minority interests	**$7,402**	$7,725	$5,324	**(4)%**	45%

MEDIA NETWORKS

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

				% change	
(in millions)	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Revenues					
Cable Networks	**$10,041**	$ 9,167	$ 8,159	**10%**	12%
Broadcasting	**6,075**	5,937	6,027	**2%**	(1)%
	$16,116	$15,104	$14,186	**7%**	6%
Segment operating income					
Cable Networks	**$ 4,100**	$ 3,577	$ 3,001	**15%**	19%
Broadcasting	**655**	698	480	**(6)%**	45%
	$ 4,755	$ 4,275	$ 3,481	**11%**	23%

Revenues Media Networks revenues increased 7%, or $1.0 billion, to $16.1 billion, consisting of a 10% increase, or $874 million, at the Cable Networks and a 2% increase, or $138 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of $654 million from Cable Service Providers, $206 million from advertising revenues and $14 million from other revenues. Revenues from Cable Service Providers (Affiliate Fees) are generally derived from fees charged on a per-subscriber basis, and the increase in the current year was driven by increases at ESPN and, to a lesser extent, at the worldwide Disney Channels and ABC Family Channel. The increase at ESPN was primarily due to contractual rate increases and subscriber growth, the increase at the worldwide Disney Channels was driven by subscriber growth and the increase at the ABC Family was due to contractual rate increases. Higher advertising revenues at ESPN and ABC Family reflected improved rates and ratings. Higher other revenues were driven by DVD sales, primarily *High School Musical*, partially offset by the favorable settlement of a claim with an international distributor in the prior year.

Certain of the Company's contracts with cable and satellite operators include annual live programming commitments. In these cases, recognition of revenues subject to the commitments is deferred until the annual commitments are satisfied, which generally results in higher revenue recognition in the second half of the year.

Increased Broadcasting revenues reflected higher international sales of ABC Studios productions and increased revenues at the Internet Group, partially offset by decreased advertising revenues, largely at the owned television stations. Increased international sales of ABC Studios productions were driven by *Grey's Anatomy, Private Practice* and *Reaper*. The increase in revenues at the Internet Group reflected subscription revenue at Club Penguin, which was acquired in the fourth quarter of the prior year. Revenues at the ABC Television Network were comparable to the prior year as the impact of lower ratings was offset by higher advertising rates and digital media revenues.

Costs and Expenses Costs and expenses, which consist primarily of programming rights costs, production costs, participation costs, distribution and marketing expenses and general and administrative costs, increased 6%, or $641 million, to $12 billion, consisting of an 8% increase, or $463 million, at the Cable Networks and a 3% increase, or $178 million, at Broadcasting. The increase at Cable Networks was primarily due to increased costs at ESPN and to a lesser extent, the worldwide Disney Channels, driven by higher programming, administrative and marketing costs. These increases were partially offset by the absence of Major League Baseball programming costs at ABC Family. The increase at Broadcasting was due to higher production cost amortization related to international sales of our programs and higher costs at the Internet Group related to international mobile and online operations, Disney Online and Club Penguin, partially offset by the absence of costs related to the Disney-branded mobile phone service, which was shut down in the first quarter of the current year.

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

Segment Operating Income Segment operating income increased 11%, or $480 million, to $4.8 billion for the year due to an increase of $523 million at the Cable Networks partially offset by a decrease of $43 million at Broadcasting. The increase at the Cable Networks was primarily due to growth at ESPN, higher income at our cable equity investments, and increases at ABC Family and the domestic Disney Channels, partially offset by a favorable settlement of a claim with an international distributor in the prior year. The decrease at Broadcasting was primarily due to lower advertising revenues at the owned television stations, partially offset by an improvement at the Internet Group. The improvement at the Internet Group was driven by the absence of costs related to the Disney-branded mobile phone service, partially offset by higher costs for international mobile and online operations and Disney Online. The increase in income at our cable equity investments was primarily due to higher affiliate and advertising revenue at Lifetime and a gain on the sale of a European cable channel.

ABC Radio Transaction On June 12, 2007, the Company completed the spin-off of its wholly-owned subsidiary, ABC Radio Holdings, Inc., which was then merged into a subsidiary of Citadel Broadcasting Corporation (Citadel). Prior to the spin-off, the Company consolidated its ABC Radio business, consisting of 22 large-market radio stations and the ABC Radio Network businesses, under ABC Radio Holdings, Inc. The transaction did not include the Company's ESPN Radio or Radio Disney network and station businesses. The results of the ABC Radio business have been reported as discontinued operations for all periods presented. The Company now includes the ESPN Radio and Radio Disney network and stations businesses with Cable Networks in the Media Networks segment. Prior to the transaction, the Company's radio businesses were included with Broadcasting in the Media Networks segment. Previously reported results have been reclassified to reflect this presentation.

Summarized financial information for the discontinued operations is as follows (in millions, except per share data):

	2007	2006
Revenues	$ 372	$ 538
Income from discontinued operations before income taxes	45	123
Income from discontinued operations, net of tax	13	70
Diluted EPS, discontinued operations	0.01	0.03

Sale of E! Entertainment Television On November 21, 2006, in connection with the execution of new long-term agreements for the provision of programming to cable service provider Comcast Corporation (Comcast), the Company sold its 39.5% interest in E! Entertainment Television (E!) to Comcast (which owned the remainder of the interest in E!) for $1.23 billion, which resulted in a pre-tax gain of $780 million ($487 million after-tax) reported in "Other (expense) / income". Equity income from E! was included in Media Networks segment operating income through the date of the sale.

PARKS AND RESORTS

Revenues Parks and Resorts revenues increased 8%, or $878 million, to $11.5 billion due to increases of $439 million at our domestic resorts and $439 million at our international resorts.

Domestic Parks and Resorts At our domestic parks and resorts, revenue growth was primarily due to increases at the Walt Disney World Resort and Disney Vacation Club. Revenue growth at Walt Disney World Resort was primarily due to increased guest spending and theme park attendance. Increased guest spending was due to higher average ticket prices, increased food and beverage sales and higher average daily hotel room rates. At Disney Vacation Club, revenue growth reflected higher vacation club ownership sales, including extensions of the term of ownership on existing vacation home properties.

The following table presents attendance, per capita theme park guest spending, and hotel statistics for our domestic properties:

	East Coast		West Coast		Total Domestic	
	Fiscal Year 2008	Fiscal Year 2007	**Fiscal Year 2008**	Fiscal Year 2007	**Fiscal Year 2008**	Fiscal Year 2007
Parks						
Increase/(decrease)						
Attendance	**2%**	6%	**—%**	(1)%	**2%**	3%
Per Capita Guest Spending	**3%**	3%	**2%**	2%	**3%**	3%
Hotels[1]						
Occupancy	**90%**	89%	**88%**	92%	**89%**	89%
Available Room Nights (in thousands)	**8,566**	8,614	**801**	810	**9,367**	9,424
Per Room Guest Spending	**$223**	$217	**$339**	$309	**$233**	$225

[1]Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

International Parks and Resorts At our international parks and resorts, revenue growth resulted from an increase at Disneyland Resort Paris due to the favorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro, and increased guest spending and theme park attendance. Increased guest spending was due to higher average daily hotel room rates and average ticket prices.

Costs and Expenses Costs and expenses, which consist primarily of labor, depreciation, costs of merchandise, food and beverage sold, marketing and sales expense, repairs and maintenance and entertainment, increased 8%, or $691 million. The increase in costs and expenses was primarily due to increases at Disneyland Resort Paris, Walt Disney World Resort and Disney Vacation Club. The increase at Disneyland Resort Paris was due to the unfavorable impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro, labor cost inflation and higher volume-related costs. The increase at the Walt Disney World Resort was due to labor and other cost inflation, new guest offerings and volume-related costs. The increase at Disney Vacation Club was driven by higher ownership sales.

Segment Operating Income Segment operating income increased 11%, or $187 million, to $1.9 billion, primarily due to increases at Disneyland Resort Paris and the Walt Disney World Resort.

STUDIO ENTERTAINMENT

Revenues Revenues decreased 2%, or $143 million, to $7.3 billion primarily due to decreases of $117 million in worldwide television distribution, $112 million in domestic theatrical distribution, and $66 million in domestic home entertainment, partially offset by an increase of $147 million in international home entertainment.

The decrease in worldwide television distribution revenues was driven by the absence of the multi-season sale of *Home Improvement* which occurred in the prior year. Lower revenues in domestic theatrical distribution reflected the strong performance of prior-year titles, including *Pirates of the Caribbean: At World's End, Ratatouille*, and *Wild Hogs*, compared to the current year titles, which included *National Treasure 2: Book of Secrets* and *WALL•E*. Lower revenues in domestic home entertainment were primarily due to a decline in unit sales reflecting the performance of *Pirates of the Caribbean: At World's End* and *Ratatouille* in the current year compared to *Pirates of the Caribbean: Dead Man's Chest* and *Cars* in the prior year.

Revenue growth in international home entertainment was primarily due to a higher unit sales mix of television DVD box-sets, which have higher average unit sales prices.

Cost and Expenses Costs and expenses, which consist primarily of production cost amortization, distribution and marketing expenses, production costs and participation costs, were comparable to the prior year as decreases in worldwide television distribution and domestic theatrical distribution were largely offset by an increase in international home entertainment.

Lower costs and expenses in worldwide television distribution were primarily due to a decrease in amortization and participation costs driven by the absence of the *Home Improvement* sale.
The decrease in domestic theatrical distribution was primarily due to lower amortization expense reflecting decreased revenues for current year releases and lower film cost write-downs. The increase in international home entertainment was primarily due to higher distribution costs driven by extensive marketing campaigns to launch current year titles.

Segment Operating Income Segment operating income decreased 9%, or $109 million, to $1.1 billion primarily due to lower revenues in domestic home entertainment.

CONSUMER PRODUCTS

Revenues Revenues increased 26%, or $586 million, to $2.9 billion, due to increases of $231 million at the Disney Stores, $181 million at Merchandise Licensing and $162 million at Disney Interactive Studios.

The increase at the Disney Stores was due to the acquisition of the Disney Stores North America during the third quarter (see discussion of the Disney Stores acquisition below). The revenue growth at Merchandise Licensing was primarily due to higher earned royalties across multiple product categories, led by *Hannah Montana* and *High School Musical* merchandise, partially offset by lower recognition of minimum guarantee revenues. The increase in Disney Interactive Studios revenues was primarily due to the performance of new self-published titles including *High School Musical, Hannah Montana* and *Turok* in the current year compared to *Pirates of the Caribbean: At World's End, Spectrobes* and *Meet the Robinsons* in the prior year.

Costs and Expenses Costs and expenses, which consist primarily of cost of sales, salaries and benefits, marketing, video game development and occupancy, increased 30%, or $499 million, to $2.2 billion primarily due to higher operating costs at the Disney Stores due to the acquisition of the Disney Stores North America, higher cost of sales, video game development costs and marketing costs at Disney Interactive Studios and higher salaries and benefits and participation costs at Merchandise Licensing.

Segment Operating Income Segment operating income increased 14%, or $87 million, to $718 million due to growth at Merchandise Licensing, partially offset by a decrease at the Disney Stores due to the acquisition of the Disney Stores North America.

Disney Stores Acquisition On April 30, 2008, the Company acquired certain assets of the Disney Stores North America for approximately $64 million of cash and terminated its long-term licensing arrangement relating to the Disney Stores. The Company acquired the inventory, leasehold improvements, and certain fixed assets of, and assumed the leases on, 229 stores that it currently operates. The Company conducted the wind-down and closure of an additional 88 stores but did not assume the leases on these stores.

Sale of Us Weekly On October 2, 2006, the Company sold its 50% stake in Us Weekly for $300 million, which resulted in a pre-tax gain of $272 million ($170 million after-tax) reported in "Other (expense) / income". Equity income from Us Weekly was included in Consumer Products segment operating income through the date of the sale.

NON-SEGMENT ITEMS – 2008 vs. 2007

OTHER (EXPENSE) / INCOME
Other (expense) / income is as follows:

	2008	2007
Accounting gain related to the acquisition of the Disney Stores North America	**$ 18**	$ —
Gain on sale of movies.com	**14**	—
Bad debt charge for a receivable from Lehman Brothers	**(91)**	—
Gain on sale of equity investment in E!	—	780
Gain on sale of equity investment in Us Weekly	—	272
Equity-based compensation plan modification charge	—	(48)
Other (expense) / income	**$(59)**	$1,004

CORPORATE AND UNALLOCATED SHARED EXPENSES
Corporate and unallocated shared expense decreased 5%, from $497 million to $471 million, primarily due to an increase in allocation of costs to the business segments, partially offset by higher investments in new business initiatives.

NET INTEREST EXPENSE
Net interest expense is detailed below:

(in millions)	2008	2007	% change
Interest expense	**$(712)**	$(746)	(5)%
Interest and investment income	**188**	153	23%
Net interest expense	**$(524)**	$(593)	(12)%

Net interest expense decreased 12% for the year driven by lower effective interest rates and a gain on the sale of an investment, partially offset by higher average debt balances.

EFFECTIVE INCOME TAX RATE
The effective income tax rate decreased 1.1 percentage points from 37.2% in 2007 to 36.1% in 2008. The lower effective tax rate for the year was primarily due to increased benefits from Internal Revenue Code (IRC) Section 199 related to qualified domestic production activities.

MINORITY INTERESTS
Minority interest expense increased from $177 million to $302 million reflecting the impact of improved results at Disneyland Resort Paris, ESPN and Hong Kong Disneyland. The minority interest is determined on income after royalties, financing costs and income taxes.

PENSION AND POSTRETIREMENT MEDICAL BENEFIT COSTS

Pension and postretirement medical benefit plan costs affect results in all of our segments, with approximately one-half of these costs being borne by the Parks and Resorts segment. The Company recognized pension and postretirement medical benefit plan expenses of $255 million, $278 million and $462 million for fiscal years 2008, 2007, and 2006, respectively. The decrease in fiscal 2008 was primarily due to the improved funded status of the Company's pension plans as of the June 30, 2007 measurement date driven by Company contributions and the return on plan assets. The discount rate for the June 30, 2007 valuation was comparable to the June 30, 2006 valuation date. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed from a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

We expect pension and postretirement medical costs to decrease to approximately $200 million to $245 million in fiscal 2009 primarily due to an increase in the discount rate used to measure the present value of plan obligations. During fiscal 2008, the Company was not required to make contributions to its pension plans under funding regulations associated with the Pension Protection Act of 2006 (PPA) and contributed $29 million to pension and post-retirement medical plans not subject to PPA. The Company expects pension and post-retirement medical plan contributions in fiscal 2009 to range from $200 million to $300 million. Final funding requirements for fiscal 2009 will be determined based on our January 1, 2009 funding actuarial valuation. The Company may also make discretionary contributions above the minimum requirements. See "Item 1A – Risk Factors" for the impact of factors affecting pension and postretirement medical costs.

BUSINESS SEGMENT RESULTS – 2007 vs. 2006

MEDIA NETWORKS

Revenues Media Networks revenues increased 6%, or $918 million, to $15.1 billion, consisting of a 12% increase, or $1.0 billion, at the Cable Networks and a 1% decrease, or $90 million, at Broadcasting.

Increased Cable Networks revenues were primarily due to growth of $601 million from Cable Service Providers, $240 million from advertising revenues and $167 million from other revenues. Revenues from Cable Service Providers are generally derived from fees charged on a per-subscriber basis, and the increase in the current year was driven by contractual rate increases and subscriber growth primarily at ESPN and, to a lesser extent, at the worldwide Disney Channels and at ABC Family. Higher advertising revenues reflected the addition of NASCAR programming at ESPN and an increase at ABC Family primarily due to higher rates. Higher other revenues were driven by DVD sales, primarily *High School Musical*, and a favorable settlement of a claim with an international distributor.

Decreased Broadcasting revenues were primarily due to a decline in advertising revenue at the ABC Television Network partially offset by higher sales of ABC Studios productions. The decrease in advertising revenue at the ABC Television Network was primarily due to fewer hours of sports programming reflecting the absence of Monday Night Football, the Super Bowl and three College Bowl games, partially offset by an increase in primetime. In primetime, higher advertising rates and sold inventory were partially offset by lower ratings. Increased sales of ABC Studios productions reflected higher international and DVD sales of the hit dramas *Desperate Housewives*, *Grey's Anatomy*, and *Ugly Betty*.

Costs and Expenses Costs and expenses increased 1%, or $164 million, to $11.3 billion, consisting of an 8% increase, or $463 million, at the Cable Networks partially offset by a 5% decrease, or $299 million, at Broadcasting. The increase at Cable Networks was primarily due to increased costs at ESPN primarily due to higher programming and production costs for the addition of NASCAR and for Monday Night Football compared to Sunday Night Football in the prior year and higher programming marketing and administrative costs at the worldwide Disney Channels. These increases were partially offset by lower costs due to the transition of ESPN's mobile phone operations to a licensing model. The decrease at Broadcasting was due to lower sports programming costs, partially offset by higher costs of Disney-branded mobile phone service, including costs associated with its shutdown, as well as higher production cost amortization due to increased sales of ABC Studios productions.

Segment Operating Income Segment operating income increased 23%, or $794 million, to $4.3 billion for the year due to increases of $576 million at the Cable Networks and $218 million at Broadcasting. The increase at the Cable Networks was due primarily to growth at ESPN, the international Disney Channels and at ABC Family. The increase at Broadcasting was due to strong sales of ABC Studios productions, fewer hours of sports programming and higher primetime advertising revenues at the ABC Television Network, partially offset by higher costs associated with the Disney mobile phone service. Segment operating income includes income from equity investees of $484 million for fiscal 2007, compared to $444 million in fiscal 2006.

PARKS AND RESORTS

Revenues Revenues at Parks and Resorts increased 7%, or $701 million, to $10.6 billion due to increases of $483 million at our domestic resorts and $218 million at our international resorts.

Domestic Parks and Resorts At our domestic parks and resorts, revenue growth was due to increases at the Walt Disney World Resort, Disney Vacation Club and Disneyland Resort. At the Walt Disney World Resort, revenue growth was driven by increased guest spending and theme park attendance. Higher guest spending at the Walt Disney World Resort reflected increased food, beverage and merchandise spending, higher average ticket prices and a higher average daily hotel room rate. Revenue growth at Disney Vacation Club was primarily due to higher vacation club ownership sales. At Disneyland Resort, revenue growth was due to increased guest spending, primarily due to higher average ticket prices.

The following table presents attendance, per capita theme park guest spending, and hotel statistics for our domestic properties:

	East Coast		West Coast		Total Domestic	
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006
Parks						
Increase/(decrease)						
Attendance	6%	5%	(1)%	6%	3%	5%
Per Capita Guest Spending	3%	1%	2%	8%	3%	3%
Hotels[1]						
Occupancy	89%	86%	92%	93%	89%	87%
Available Room Nights (in thousands)	8,614	8,834	810	810	9,424	9,644
Per Room Guest Spending	$217	$211	$309	$287	$225	$218

[1]Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

International Parks and Resorts At our international parks and resorts, revenue growth was due to an increase at Disneyland Resort Paris partially offset by a decrease at Hong Kong Disneyland Resort reflecting lower theme park attendance. At Disneyland Resort Paris, revenue growth was driven by the favorable impact of foreign currency translation, as a result of the weakening of the U.S. dollar against the Euro, and higher theme park attendance, guest spending, and hotel occupancy. Increased guest spending was primarily due to a higher average daily hotel room rate.

Costs and Expenses Costs and expenses increased 6%, or $524 million. The increase in costs and expenses was due to increases at the Walt Disney World Resort and Disneyland Resort Paris. The increase at the Walt Disney World Resort was primarily due to volume-related costs, labor cost inflation, and new guest offerings, partially offset by lower pension and postretirement medical expense. The increase at Disneyland Resort Paris reflected the unfavorable impact of foreign currency translation, as a result of the weakening of the U.S. dollar against the Euro, higher volume-related costs, and labor cost inflation.

Segment Operating Income Segment operating income increased 11%, or $176 million, to $1.7 billion primarily due to strength at both domestic resorts and Disneyland Resort Paris, partially offset by a decrease at Hong Kong Disneyland Resort.

STUDIO ENTERTAINMENT

Revenues Revenues for fiscal 2007 were essentially flat at $7.5 billion compared to fiscal 2006 as a decrease of $470 million in worldwide theatrical distribution was largely offset by an increase of $234 million in domestic home entertainment and an increase of $139 million in music distribution.

Lower worldwide theatrical revenues were primarily due to the strong box-office performance of *Pirates of the Caribbean: Dead Man's Chest* in fiscal 2006. Other significant titles in fiscal 2006 included *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe*, Disney/Pixar's *Cars* and *Chicken Little* while fiscal 2007 included *Pirates of the Caribbean: At World's End*, *Ratatouille* and *Wild Hogs*. The increase in domestic home entertainment revenues was primarily due to higher DVD unit sales reflecting the strong performance of *Pirates of the Caribbean: Dead Man's Chest*, *Cars* and the *Little Mermaid* Platinum Release in fiscal 2007. The revenue growth in music distribution was driven by the strong performance of the *Hannah Montana* and *High School Musical* soundtracks.

Costs and Expenses Costs and expenses decreased 7%, or $505 million, primarily due to decreases in worldwide theatrical distribution and worldwide home entertainment, partially offset by an increase in music distribution.

Lower costs in worldwide theatrical distribution were primarily due to lower distribution expenses, participation costs and film cost write-downs. Lower distribution expenses were driven by a decrease in international markets as fiscal 2006 included more high profile films that had extensive marketing campaigns. The decrease in participation costs were driven by the strong performance of *Pirates of the Caribbean: Dead Man's Chest* and *The Chronicles of Narnia: The Lion, The Witch and The Wardrobe* in fiscal 2006.

Segment Operating Income Segment operating income increased 64%, or $467 million to $1.2 billion primarily due to an improvement in domestic home entertainment.

CONSUMER PRODUCTS

Revenues Revenues increased 9%, or $182 million, to $2.3 billion, primarily due to increases of $102 million at Merchandise Licensing and $61 million at Disney Interactive Studios. Growth at Merchandise Licensing was due to higher earned royalties across multiple product categories led by the strong performance of *Cars* merchandise. Growth at Disney Interactive Studios was due to the performance of fiscal 2007 titles driven by *Pirates of the Caribbean: At World's End, Spectrobes* and *Meet the Robinsons* compared to fiscal 2006 titles, which included *The Chronicles of Narnia* and *Chicken Little*. These gains were partially offset by lower contractual minimum guarantee revenues.

Costs and Expenses Costs and expenses increased 9%, or $130 million, primarily due to an increase at Disney Interactive Studios due to higher cost of sales, video game development costs and marketing costs and higher salaries and benefits at Merchandise Licensing.

Segment Operating Income Segment operating income increased 4%, or $24 million, to $631 million, driven by higher earned royalties at Merchandise Licensing, partially offset by the increased investment in video game development at Disney Interactive Studios.

NON-SEGMENT ITEMS – 2007 vs. 2006

OTHER (EXPENSE) / INCOME

Other (expense) / income was as follows:

	2007	2006
Gain on sale of equity investment in E!	$ 780	$ —
Gain on sale of equity investment in Us Weekly	272	—
Equity-based compensation plan modification charge	(48)	—
Gain on sales of a cable television station equity investment in Spain and Discover Magazine business	—	70
Accounting gain related to the acquisition of Pixar	—	48
Impairment of Pixar related sequel titles	—	(30)
Other (expense) / income	$1,004	$ 88

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses decreased 5%, from $522 million to $497 million, primarily due to lower information technology costs including the absence of transition costs incurred in the prior year related to the transfer of certain information technology functions and services to third-party service providers.

NET INTEREST EXPENSE

Net interest expense is detailed below:

(in millions)	2007	2006	% change
Interest expense	$(746)	$(706)	6%
Interest and investment income	153	114	34%
Net interest expense	$(593)	$(592)	—%

Net interest expense was relatively flat as an increase in interest expense, primarily due to higher effective interest rates at Hong Kong Disneyland, was offset by higher interest and investment income reflecting higher average cash balances.

EFFECTIVE INCOME TAX RATE

The effective income tax rate increased 2.7 percentage points from 34.5% in fiscal 2006 to 37.2% in fiscal 2007. The higher effective tax rate was primarily due to a reduction in the tax benefits realized from an exclusion of certain foreign source income. The exclusion of certain foreign source income was repealed on a phase-out basis as part of the *American Jobs Creation Act of 2004*. No exclusion is available for transactions originating after the first quarter of fiscal 2007.

MINORITY INTERESTS

Minority interest expense decreased from $183 million to $177 million reflecting the impact of increased losses at Hong Kong Disneyland, partially offset by the impacts of increased profits at ESPN and decreased losses at Disneyland Resort Paris. The minority interest impact is determined on income after royalties, financing costs and income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The change in cash and cash equivalents is as follows:

(in millions)	2008	2007	2006
Cash provided by continuing operations	**$ 5,446**	$ 5,398	$ 5,960
Cash used by continuing investing activities	**(2,162)**	(618)	(220)
Cash used by continuing financing activities	**(3,953)**	(3,619)	(5,166)
Cash flows from discontinued operations	**—**	98	114
(Decrease)/increase in cash and cash equivalents	**$ (669)**	$ 1,259	$ 688

OPERATING ACTIVITIES

Cash provided by continuing operating activities for fiscal 2008 increased 1% or $48 million to $5.4 billion as higher operating performance at Media Networks, Parks and Resorts and Consumer Products and lower pension contributions were partially offset by increased film and television spending and higher net investment in accounts receivable and Disney Vacation Club properties.

Cash provided by continuing operating activities for fiscal 2007 decreased 9% or $0.6 billion to $5.4 billion as higher operating performance at Media Networks, Studio Entertainment and Parks and Resorts was more than offset by higher income tax payments, including taxes paid on the E! Entertainment and Us Weekly gains, and timing of film and television spending and accounts receivable collections.

Depreciation expense from continuing operations is as follows:

(in millions)	2008	2007	2006
Media Networks			
Cable Networks	**$ 89**	$ 89	$ 86
Broadcasting	**107**	95	93
Total Media Networks	**196**	184	179
Parks and Resorts			
Domestic	**803**	790	780
International	**342**	304	279
Total Parks and Resorts	**1,145**	1,094	1,059
Studio Entertainment	**41**	31	30
Consumer Products	**22**	18	23
Corporate	**123**	132	126
Total depreciation expense from continuing operations	**$1,527**	$1,459	$1,417

The Company's Studio Entertainment and Media Networks segments incur costs to acquire and produce television and feature film programming. Film and television production costs include all internally produced content such as live action and animated feature films, animated direct-to-video programming, television series, television specials, theatrical stage plays or other similar product. Programming costs include film or television product licensed for a specific period from third parties for airing on the Company's broadcast, cable networks, and television stations. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

The Company's film and television production and programming activity for fiscal years 2008, 2007 and 2006 are as follows:

(in millions)	2008	2007	2006
Beginning balances:			
Production and programming assets	**$ 5,682**	$ 5,650	$ 5,937
Programming liabilities	**(1,210)**	(1,118)	(1,083)
	4,472	4,532	4,854
Spending:			
Film and television production	**3,237**	2,906	2,901
Broadcast programming	**3,812**	3,898	3,694
	7,049	6,804	6,595
Amortization:			
Film and television production	**(3,076)**	(3,223)	(3,526)
Broadcast programming	**(3,672)**	(3,696)	(3,929)
	(6,748)	(6,919)	(7,455)
Change in film and television production and programming costs	**301**	(115)	(860)
Pixar film costs acquired	**—**	—	538
Other non-cash activity	**54**	55	—
Ending balances:			
Production and programming assets	**5,935**	5,682	5,650
Programming liabilities	**(1,108)**	(1,210)	(1,118)
	$ 4,827	$ 4,472	$ 4,532

INVESTING ACTIVITIES

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

(in millions)	2008	2007	2006
Media Networks	**$ 367**	$ 265	$ 220
Parks and Resorts:			
Domestic	**793**	816	667
International	**140**	256	248
Studio Entertainment	**126**	85	41
Consumer Products	**62**	36	16
Corporate	**90**	108	100
	$1,578	$1,566	$1,292

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions, cruise ships, recurring capital and capital improvements. The decrease in capital expenditures at Parks and Resorts reflected lower expenditures at Disneyland Resort Paris as a result of completion of projects related to a multi-year investment program established with the 2005 Financial Restructuring, which is discussed in more detail in Note 5 to the Consolidated Financial Statements. As of September 27, 2008, Disneyland Resort Paris had spent $333 million out of a total of $351 million for the program (based on September 27, 2008 exchange rates).

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities, and television station facilities. The increase in fiscal 2008 was driven by the construction of new production and television station facilities.

Capital expenditures at Corporate primarily reflect investments in information technology and other equipment and corporate facilities.

Other Investing Activities During fiscal 2008, the Company invested $660 million in acquisitions which included the acquisition of UTV Software Communications Limited, an Indian media company (see Note 3 to the Consolidated Financial Statements).

During fiscal 2007, the Company received $1.5 billion in proceeds from the sales of our interests in E! Entertainment Television and Us Weekly. We also invested $608 million driven by the acquisitions of Club Penguin Entertainment, Inc. and NASN Limited.

During fiscal 2006 we received $1.1 billion from financial investments that were liquidated.

FINANCING ACTIVITIES

Cash used in continuing financing activities during fiscal 2008, 2007 and 2006 of $4.0 billion, $3.6 billion, and $5.2 billion, respectively, consisted of share repurchases and dividends, partially offset by borrowings and the proceeds from stock option exercises. Borrowings during fiscal 2007 included $1.35 billion of pre-spin-off borrowings of ABC Radio Holdings, Inc. that were removed from the Company's balance sheet in connection with the spin-off.

During the year ended September 27, 2008, the Company's borrowing activity was as follows:

(in millions)	September 29, 2007	Additions	Payments	Other Activity	September 27, 2008
Commercial paper borrowings	$ 2,686	$ —	$ (701)	$ —	**$ 1,985**
U.S. medium-term notes	6,340	750	(85)	—	**7,005**
Convertible senior notes[1]	1,323	—	(3)	(1,320)	**—**
European medium-term notes	163	157	—	(2)	**318**
Capital Cities / ABC debt	181	—	—	(3)	**178**
Film financing	355	182	(293)	4	**248**
Other[2]	541	527	(40)	171	**1,199**
Euro Disney borrowings[3]	2,476	—	(93)	74	**2,457**
Hong Kong Disneyland borrowings	1,107	90	—	52	**1,249**
Total	$15,172	$1,706	$(1,215)	$(1,024)	**$14,639**

[1]In April 2008, the Company redeemed its convertible senior notes (the Notes). Pursuant to the redemption, substantially all of the Notes were converted into 45 million shares of the Company's common stock.

[2]The other activity is primarily the purchase of land for a Disney Vacation Club resort in Hawaii and market value adjustments for debt with qualifying hedges.

[3]The other activity is primarily the impact of foreign currency translation as a result of the weakening of the U.S. dollar against the Euro.

The Company's bank facilities are as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring 2010	$2,225	$ —	$2,225
Bank facilities expiring 2011	2,225	240	1,985
Total	$4,450	$240	$4,210

These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company's public debt rating and can range from 0.175% to 0.75%. As of September 27, 2008, the Company had not borrowed under these bank facilities. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in 2011, which if utilized, reduces available borrowing under this facility. As of September 27, 2008, $368 million of letters of credit had been issued, of which $240 million was issued under this facility.

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

As of the filing date of this report, the Board of Directors had not yet declared a dividend related to fiscal 2008. The Company paid a $664 million dividend ($0.35 per share) during the second quarter of fiscal 2008 related to fiscal 2007. The Company paid a $637 million dividend ($0.31 per share) during the second quarter of fiscal 2007 related to fiscal 2006; and paid a $519 million dividend ($0.27 per share) during the second quarter of fiscal 2006 related to fiscal 2005.

During fiscal 2008, the Company repurchased 139 million shares of Disney common stock for $4.5 billion. During fiscal 2007, the Company repurchased 202 million shares of Disney common stock for $6.9 billion. During fiscal 2006, the Company repurchased 243 million shares of Disney common stock for $6.9 billion. On May 1, 2007, the Board of Directors of the Company increased the share repurchase authorization to a total of 400 million shares. As of September 27, 2008, the Company had remaining authorization in place to repurchase 184 million additional shares. The repurchase program does not have an expiration date.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. See "Item 1A – Risk Factors". In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of September 27, 2008, Moody's Investors Service's long and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; and Standard & Poor's long and short-term debt ratings for the Company were A and A-1, respectively, with stable outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 27, 2008, by a significant margin. The Company's bank facilities also specifically exclude certain entities, such as Euro Disney and Hong Kong Disneyland, from any representations, covenants or events of default.

Hong Kong Disneyland's borrowings include a commercial term loan and revolving credit facility, which had a maturity date of September 30, 2008. Subsequent to the end of fiscal 2008, on September 29, 2008, the Company entered into a term loan and revolving credit facility agreement with Hong Kong Disneyland pursuant to which Hong Kong Disneyland borrowed HK$2.3 billion (approximately $292 million) under a term loan and HK$700 million (approximately $90 million) under a HK$1.0 billion ($129 million) revolving credit facility. These funds were used to repay Hong Kong Disneyland's commercial term loan and revolving credit facility. Both the term loan and revolving credit facility have an effective maturity date of September 2013.

To support Hong Kong Disneyland's near-term operating needs, the Company has agreed to waive management fees for fiscal 2008 and fiscal 2009 and defer royalties for those years, with payment of the deferred royalties dependent upon the future operating performance of Hong Kong Disneyland. The Company may provide additional investment to meet Hong Kong Disneyland's longer-term financial and development needs.

Euro Disney has covenants under its debt agreements that limit its investment and financing activities and require it to meet certain annual financial performance covenants. Subject to final third-party review as provided in its debt agreements, Euro Disney believes that it has complied with its financial performance covenants for fiscal year 2008.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF BALANCE SHEET ARRANGEMENTS

The Company has various contractual obligations which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our consolidated financial statements but are required to be disclosed in the footnotes to the financial statements. For example, the Company is contractually committed to acquire broadcast programming and make certain minimum lease payments for the use of property under operating lease agreements.

The following table summarizes our significant contractual obligations and commitments on an undiscounted basis at September 27, 2008 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal and interest payments on outstanding borrowings. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements, as referenced in the table:

	Payments Due by Period				
(in millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 7)[1]	$20,457	$ 4,158	$ 3,344	$ 4,059	$ 8,896
Operating lease commitments (Note 14)	2,130	392	656	463	619
Capital lease obligations (Note 14)	782	37	71	69	605
Sports programming commitments (Note 14)	19,299	2,643	5,476	5,470	5,710
Broadcast programming commitments (Note 14)	3,466	2,122	791	378	175
Total sports and other broadcast programming commitments	22,765	4,765	6,267	5,848	5,885
Other[2]	4,955	1,195	1,979	1,086	695
Total contractual obligations[3]	$51,089	$10,547	$12,317	$11,525	$16,700

[1]Amounts exclude market value adjustments totaling $202 million, which are recorded in the balance sheet. Amounts include interest payments based on contractual terms for fixed rate debt and current interest rates for variable rate debt.

[2]Other commitments primarily comprise contractual commitments for the construction of two new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports personnel, television and radio personalities and executives.

[3]Contractual commitments include the following:

Liabilities recorded on the balance sheet	$16,534
Commitments not recorded on the balance sheet	34,555
	$51,089

The Company also has obligations with respect to its pension and postretirement medical benefit plans. See Note 9 to the Consolidated Financial Statements.

Contingent Commitments and Contractual Guarantees The Company also has certain contractual arrangements that would require the Company to make payments or provide funding if certain circumstances occur. The Company does not currently expect that these arrangements will result in any significant amounts being paid by the Company. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contingent commitments and contractual guarantees.

Legal and Tax Matters As disclosed in Notes 8 and 14 to the Consolidated Financial Statements, the Company has exposure for certain legal and tax matters.

ACCOUNTING POLICIES AND ESTIMATES

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements.

Film and Television Revenues and Costs We expense film and television production and participation costs over the applicable product life cycle based upon the ratio of the current period's gross revenues to the estimated remaining total gross revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if estimates of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years of the date of the initial theatrical release. For television series, we include revenues that will be earned within ten years of the delivery of the first episode, or if still in production, five years from the date of delivery of the most recent episode, if later.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting future film cost amortization and/or impairment) is domestic theatrical performance. Revenues derived from other markets subsequent to the domestic theatrical release (e.g. the home video or international theatrical markets) have historically been highly correlated with domestic theatrical performance. Domestic theatrical performance varies primarily based upon the public interest and demand for a particular film, the quality of competing films at the time of release, as well as the level of marketing effort. Upon a film's release and determination of domestic theatrical performance, the Company's estimates of revenues from succeeding windows and markets are revised based on historical relationships and an analysis of current market trends. The most sensitive factor affecting our estimate of Ultimate Revenues for released films is the extent of home entertainment sales achieved. Home entertainment sales vary based on the volume and quality of competing home video products as well as the manner in which retailers market and price our products.

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program's rating. Program ratings, which are an indication of market acceptance, directly affect the Company's ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require the immediate write-off of any unamortized production costs.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program's ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. Rights costs for multi-year sports programming arrangements are amortized based upon the ratio of the current period's gross revenues to Ultimate Revenues (the Projected Revenue Method) or on a straight-line basis over the contract period, as appropriate. Gross revenues include both advertising revenues and an allocation of affiliate fees. If the annual contractual payments related to each season over the term of a multi-year sports programming arrangement approximate each season's rights cost based on the Projected Revenue Method, we expense the related annual payments during the applicable season. If Ultimate Revenues change significantly from projections, amortization of the rights costs may be accelerated or slowed.

Costs of film and television productions are subject to regular recoverability assessments which compare the estimated fair values with the unamortized costs. The net realizable value of the television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company's dayparts are: early morning, daytime, late night, primetime, news, children, and sports (includes network and cable). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. Individual programs are written-off when there are no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

Revenue Recognition The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements for a summary of these revenue recognition policies.

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

Revenues from advance theme park ticket sales are recognized when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a three-year time period based on estimated usage patterns, which are derived from historical usage patterns. A change in these estimated usage patterns could have an impact on the timing of revenue recognition.

Pension and Postretirement Medical Plan Actuarial Assumptions The Company's pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these critical assumptions annually. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. We increased our discount rate to 7.00% at the end of fiscal 2008 from 6.35% at the end of fiscal 2007 to reflect market interest rate conditions at our June 30, 2008 measurement date. This increase in the discount rate will affect net periodic pension and postretirement medical expense in fiscal 2009. The assumed discount rate reflects market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total net periodic pension and postretirement medical expense for fiscal 2009 by $120 million and would increase the projected benefit obligation at September 27, 2008 by $968 million, respectively. A one percentage point increase in the assumed discount rate would decrease these amounts by $74 million and $834 million, respectively.

To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense. Our long-term expected return on plan assets was 7.50% in both 2008 and 2007, respectively. A one percentage point change in the long-term return on pension plan asset assumption would impact fiscal 2009 annual pension and postretirement medical expense by approximately $53 million.

See Note 9 to the Consolidated Financial Statements for more information on our pension and postretirement medical plans.

Goodwill, Intangible Assets and Investments SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that goodwill and other indefinite-lived intangible assets be tested for impairment on an annual basis. In assessing the recoverability of goodwill and other indefinite-lived intangible assets, market values and projections regarding estimated future cash flows and other