

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 1, 2022

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-38842

dis-20221001_g1.jpg

Delaware

State or Other Jurisdiction of

Incorporation or Organization

83-0940635

I.R.S. Employer Identification

500 South Buena Vista Street

Burbank, California 91521

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was \$249.5 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 1,823,591,988 shares of common stock outstanding as of November 16, 2022.

Documents Incorporated by Reference

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2023 annual meeting of the Company's shareholders.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

TABLE OF CONTENTS

PART I

ITEM 1.	<u>Business</u>	<u>2</u>
ITEM 1A.	<u>Risk Factors</u>	<u>19</u>
ITEM 1B.	<u>Unresolved Staff Comments</u>	<u>28</u>
ITEM 2.	<u>Properties</u>	<u>28</u>
ITEM 3.	<u>Legal Proceedings</u>	<u>28</u>
ITEM 4.	<u>Mine Safety Disclosures</u>	<u>29</u>
	<u>Information About our Executive Officers</u>	<u>29</u>

PART II

ITEM 5.	<u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>30</u>
ITEM 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
ITEM 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
ITEM 8.	<u>Financial Statements and Supplementary Data</u>	<u>54</u>
ITEM 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>54</u>
ITEM 9A.	<u>Controls and Procedures</u>	<u>54</u>
ITEM 9B.	<u>Other Information</u>	<u>55</u>
ITEM 9C	<u>Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</u>	<u>55</u>

PART III

ITEM 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>56</u>
ITEM 11.	<u>Executive Compensation</u>	<u>56</u>
ITEM 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>56</u>
ITEM 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>56</u>
ITEM 14	<u>Principal Accounting Fees and</u>	

Cautionary Note on Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally relate to future events or our future financial or operating performance and may include statements concerning, among other things, financial results, business plans (including statements regarding new services and products and future expenditures, costs and investments), future liabilities, impairments and amortization, competition, and the impact of COVID-19 on our businesses and results of operations. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “would,” “should,” “expects,” “plans,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “anticipates,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements reflect our current views with respect to future events and are based on assumptions as of the date of this report. These statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments, asset acquisitions or dispositions, new or expanded business lines or cessation of certain operations), our execution of our business plans (including the content we create and IP we invest in, our pricing decisions and our cost structure) or other business decisions, as well as from developments beyond the Company’s control, including:

- further deterioration in domestic and global economic conditions;
- deterioration in or pressures from competitive conditions, including competition to create or acquire content;
- consumer preferences and acceptance of our content, offerings, pricing model and price increases and the market for advertising sales on our direct-to-consumer services and linear networks;
- health concerns and their impact on our businesses and productions;
- international, regulatory, legal, political, or military developments;
- technological developments;
- labor markets and activities;
- adverse weather conditions or natural disasters; and
- availability of content;

each such risk includes the current and future impacts of, and is amplified by, COVID-19 and related mitigation efforts.

Such developments may further affect entertainment, travel and leisure businesses generally and may, among other things, affect (or further affect, as applicable):

- our operations, business plans or profitability;
- demand for our products and services;
- the performance of the Company’s content;
- our ability to create or obtain desirable content at or under the value we assign the content;
- the advertising market for programming;
- income tax expense; and
- performance of some or all Company businesses either directly or through their impact on those who distribute our products.

Additional factors include those described in this Annual Report on Form 10-K, including under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business,” in our subsequent quarterly reports on Form 10-Q, including under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in our subsequent filings with the Securities and Exchange Commission.

A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances. You should not place undue reliance on the forward-looking statements. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made.

TABLE OF CONTENTS

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in two segments: Disney Media and Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP).

The terms “Company”, “we”, “our” and “us” are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

COVID-19 Pandemic

Since early 2020, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) and its variants. COVID-19 and measures to prevent its spread have impacted our segments in a number of ways, most significantly at DPEP where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. In addition, at DMED we delayed, or in some cases, shortened or cancelled theatrical releases and experienced disruptions in the production and availability of content. Operations have resumed at various points since May 2020, with certain theme park and resort operations and film and television productions resuming by the end of fiscal 2020 and throughout fiscal 2021. Although operations resumed, many of our businesses continue to experience impacts from COVID-19, such as incremental health and safety measures and related increased expenses, capacity restrictions and closures (including at some of our international parks and in theaters in certain markets), and disruption of content production activities.

The impact of COVID-19 related disruptions on our financial and operating results will be dictated by the currently unknowable duration and severity of COVID-19 and its variants, and among other things, governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent.

Human Capital

The Company’s key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company’s human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future; reward and support employees through competitive pay, benefit, and perquisite programs; enhance the Company’s culture through efforts aimed at making the workplace more engaging and inclusive; acquire talent and facilitate internal talent mobility to create a high-performing, diverse workforce; engage employees as brand ambassadors of the Company’s content, products and experiences; and evolve and invest in technology, tools, and resources to enable employees at work.

The Company employed approximately 220,000 people as of October 1, 2022, of which approximately 166,000 were employed in the U.S. and approximately 54,000 were employed internationally. Our global workforce is comprised of approximately 78% full time and 15% part time employees, with another 7% being seasonal employees. A significant number of employees in various parts of our businesses, including employees of our theme parks, and writers, directors, actors and production personnel for our productions are covered by collective bargaining agreements. In addition, some of our employees outside the U.S. are represented by works councils, trade unions or other employee associations.

Some of our key programs and initiatives to attract, develop and retain our diverse workforce include:

- **Diversity, Equity, and Inclusion (DE&I):** Our DE&I objectives are to build teams that reflect the life experiences of our audiences, while employing and supporting a diverse array of voices in our creative and production teams. Our DE&I initiatives and programs include:
 - The Company’s Reimagine Tomorrow efforts, which build on Disney’s longstanding commitment to diversity, equity and inclusion, and features a website, Disney’s first large-scale platform for amplifying underrepresented voices

- Executive Incubator, Creative Talent Development and Inclusion, and the Disney Launchpad: Shorts Incubator, which are designed to create a pipeline of next-generation creative executives from underrepresented backgrounds
- Development programs, which target underrepresented talent
- Innovative learning opportunities, which spark dialogue among employees, leaders, Disney talent and external experts
- Over 100 employee-led Business Employee Resource Groups (BERGs), which represent and support the diverse communities that make up our workforce
- The Disney Look appearance guidelines, which were updated to cultivate a more inclusive environment that encourages and celebrates authentic expressions of belonging among employees

TABLE OF CONTENTS

- **Health, wellness, family resources, and other benefits:** Disney's benefit offerings are designed to meet the varied and evolving needs of a diverse workforce across businesses and geographies while helping our employees care for themselves and their families. We provide:
 - Healthcare options aimed at improving quality of care while limiting out-of-pocket costs
 - Family care resources, such as childcare programs for employees, including access to onsite/community centers, enhanced back-up care choices to include personal caregivers, childcare referral assistance and center discounts, homework help, a variety of parenting educational resources and a family building benefit supporting fertility treatments, adoptions or surrogacy
 - Free mental and behavioral health resources, including on-demand access to the Employee Assistance Program for employees and their dependents
 - Two Centers for Living Well that offer convenient, on-demand access to board-certified physicians and counselors
 - A multi-layered response to COVID-19, including testing and treatment under all Company medical plans at no cost to employees and dependents
 - Global Well-Being Week (introduced in 2022), a dedicated week for employees around the world to celebrate, learn and engage in well-being through in-person and virtual events and activities focused on physical, emotional, financial, and social well-being
- **Disney Aspire:** We support the long-term career aspirations of our hourly employees and further our commitment to strengthening the communities in which we work through our education investment program, Disney Aspire. We pay 100% of the tuition costs upfront for participating employees at a variety of in-network learning providers and universities and reimburse employees for applicable books and fees. The program helps our employees achieve their goals professionally - whether at Disney or beyond - by equipping them with the skills they need to succeed in the rapidly changing 21st century career landscape. More than 16,000 current employees have enrolled in or graduated from a Disney Aspire program, and more than two-thirds of our program graduates have earned an Associate, Bachelor's or Master's degree.
- **Talent Development:** We prioritize and invest in creating opportunities to help employees grow and build their careers through a multitude of training and development programs. These include online, instructor-led and on-the-job learning formats as well as executive talent and succession planning paired with an individualized development approach.
- **Social Responsibility and Community:** The Company's longstanding commitment to Corporate Social Responsibility (CSR) helps differentiate the Company as an employer. In 2021, we refreshed our CSR strategy to connect it more closely with the Company's mission and commercial offerings and environmental and social opportunities relevant to our business and employees. Our CSR priorities include diversity, equity, and inclusion; environmental stewardship and conservation; giving back to our communities with a special focus on supporting children and families; human capital management; and operating responsibly. The strategy provides a path to embedding these CSR priorities into our offerings and operations in addition to our philanthropy. The Company also supports employees who give back to our communities with a generous matching gifts program and a unique employee volunteering program, Disney VoluntEARS, which rewards volunteer hours with the opportunity to direct not-for-profit donations by the Company.

Environmental and Sustainability

The Company has developed measurable environmental and sustainability goals for 2030, grounded in science and an assessment of where the Company's operations have the most significant impact on the environment, as well as the areas where it can most effectively mitigate that impact. These goals include, among others, achieving net zero Scope 1 and 2 greenhouse gas emissions for our direct operations, and zero waste to landfill at our wholly owned and operated parks and resorts by 2030.

DISNEY MEDIA AND ENTERTAINMENT DISTRIBUTION

DMED encompasses the Company's global film and episodic television content production and distribution activities. Content is distributed by a single organization across three significant lines of business: Linear Networks, Direct-to-Consumer and Content Sales/Licensing. Content is generally created/licensed by four groups: Studios, General Entertainment, Sports and International. The distribution organization has full accountability for the financial results of the entire media and entertainment business.

TABLE OF CONTENTS

The operations of DMED's significant lines of business are as follows:

- Linear Networks
 - Domestic Channels: ABC Television Network (ABC) and eight owned ABC television stations (Broadcasting), and Disney, ESPN, Freeform, FX and National Geographic branded domestic television networks (Cable)
 - International Channels: Disney, ESPN, Fox, National Geographic and Star branded television networks outside of the U.S.
 - A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable channels including A&E, HISTORY and Lifetime
- Direct-to-Consumer
 - Disney+, Disney+ Hotstar, ESPN+, Hulu and Star+ direct-to-consumer (DTC) video streaming services
- Content Sales/Licensing
 - Sale/licensing of film and television content to third-party television and subscription/advertising video-on-demand (TV/SVOD) services
 - Theatrical distribution
 - Home entertainment distribution (DVD, Blu-ray discs and electronic home video licenses)
 - Music distribution
 - Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)

DMED also includes the following activities that are reported with Content Sales/Licensing:

- Post-production services by Industrial Light & Magic and Skywalker Sound
- National Geographic magazine and online business
- A 30% ownership interest in Tata Play Limited (formerly Tata Sky Limited), which operates a direct-to-home satellite distribution platform in India

The significant revenues of DMED are as follows:

- Affiliate fees - Fees charged by our Linear Networks to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) and television stations affiliated with ABC for the right to deliver our programming to their customers
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- Advertising - Sales of advertising time/space at Linear Networks and Direct-to-Consumer
- TV/SVOD distribution - Licensing fees and other revenue for the right to use our film and television productions and revenue from fees charged to customers to view our sports programming ("pay-per-view") and fees for streaming access to films that are also playing in theaters ("Premier Access"). TV/SVOD distribution revenue is primarily reported in Content Sales/Licensing, except for pay-per-view and Premier Access revenues, which are reported in Direct-to-Consumer.
- Theatrical distribution - Rentals from licensing our film productions to theaters
- Home entertainment - Sales of our film and television content to retailers and distributors in home video formats
- Other content sales/licensing revenue - Revenues from licensing our music, ticket sales from stage play performances and fees from licensing our intellectual properties ("IP") for use in stage plays
- Other revenue - Fees from sub-licensing of sports programming rights (reported in Linear Networks) and sales of post-production services (reported with Content Sales/Licensing)

The significant expenses of DMED are as follows:

- Operating expenses consist primarily of programming and production costs, technical support costs, operating labor, distribution costs and costs of sales. Programming and production costs include amortization of licensed programming rights (including sports rights), amortization of capitalized production costs, subscriber-based fees for programming our Hulu services, production costs related to live programming such as news and sports and amortization of participations and residual obligations. Programming and production costs also include fees paid to Linear Networks from other DMED businesses for the right to air our linear networks and related services. These costs are largely incurred across four content creation/licensing groups, as follows:
 - Studios - Primarily capitalized production costs related to films produced under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners

TABLE OF CONTENTS

- General Entertainment - Primarily internal production of and acquisition of rights to episodic television programs and news content. Internal content is generally produced by the following television studios: ABC Signature; 20th Television; Disney Television Animation; FX Productions; and various studios for which we commission productions for our branded channels and DTC streaming services
- Sports - Primarily acquisition of professional and college sports programming rights and related production costs
- International - Primarily internal production of and acquisition of rights to local content outside the U.S. and Canada
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Media and Entertainment Distribution Strategy

The Company has significantly increased its focus on distribution of content via our own DTC streaming services relative to traditional distribution of content. In general, film content was traditionally distributed first in the theatrical market, followed by the home entertainment market and then in the TV/SVOD market. In general, episodic television content was traditionally launched on our domestic linear networks and licensed for use globally in other TV/SVOD windows. Although the Company continues to monetize a significant amount of its content in the traditional manner, our focus on our own DTC distribution has had a number of impacts including but not limited to:

- in some cases, we are producing exclusive content for our DTC streaming services;
- rather than selling our content in the TV/SVOD market, we generally distribute it on our DTC streaming services; and
- in part because of the impact of COVID-19 on theatrical markets around the world, we may alter our traditional theatrical distribution approach, for example by making a film available on our DTC streaming services at the same time it is in theaters or shortly thereafter (e.g. Premier Access).

Over time, all else being equal, these impacts will tend to increase revenue and costs at Direct-to-Consumer and reduce revenue and costs at Content Sales/Licensing and Linear Networks. Our distribution approach is based on flexibility in our windowing strategy, and we may change our original launch and distribution strategy for any particular piece of content. Distribution decisions may impact revenues and viewership, and the allocation of costs to our businesses/distribution platforms, particularly programming, production and marketing costs, depends on the distribution approach.

A more detailed discussion of our distribution businesses and production groups follows.

Linear Networks

The majority of Linear Networks revenue is derived from affiliate fees and advertising sales. The Company's linear networks businesses provide programming under multi-year licensing agreements with MVPDs and/or affiliated television stations that are generally based on contractually specified rates on a per subscriber basis. The amounts that we can charge to MVPDs for our networks is largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand.

Linear Networks consist of our domestic and international branded television channels.

Domestic Channels

Our domestic channels include Cable operations comprising Disney, ESPN, Freeform, FX and National Geographic branded channels and Broadcasting operations comprising ABC and eight owned ABC affiliated television stations.

Cable

Disney Channels

Branded television channels include: Disney Channel; Disney Junior; and Disney XD (collectively Disney Channels).

Disney Channel - the Disney Channel airs original series and movie programming 24 hours a day targeted to kids ages 2 to 14. The channel features live-action comedy series, animated programming and preschool series as well as original movies and theatrical films.

Disney Junior - the Disney Junior channel airs programming 24 hours a day targeted to kids ages 2 to 7 and their parents and caregivers. The channel features animated and live-action programming that blends Disney's storytelling and characters with learning. Disney Junior also airs as a programming block on the Disney Channel.

Disney XD - the Disney XD channel airs programming 24 hours a day targeted to kids ages 6 to 11. The channel features a mix of live-action and animated programming.

TABLE OF CONTENTS

ESPN

Branded television channels include eight 24-hour domestic television sports channels: ESPN and ESPN2 (both of which are dedicated to professional and college sports as well as sports news and original programming); ESPNU (which is dedicated to college sports); ESPNEWS (which re-airs select ESPN studio shows and airs a variety of other programming); SEC Network (which is dedicated to Southeastern Conference college athletics); Longhorn Network (which is dedicated to The University of Texas athletics); ESPN Deportes (which airs professional and college sports as well as studio shows in Spanish); and ACC Network (which is dedicated to Atlantic Coast Conference college athletics). In addition, ESPN programs the sports schedule on ABC, which is branded ESPN on ABC.

ESPN also includes the following:

- ESPN.com, which delivers sports news, information and video on internet-connected devices, with approximately 20 editions in five languages globally. In the U.S., ESPN.com also features live video streams of ESPN channels to authenticated MVPD subscribers. Non-subscribers have limited access to certain content.
- ESPN app, which is an all-in-one sports content platform, serving fans with a personalized digital destination on streaming devices. The app content includes news, highlights and real-time interactive features, including real-time scores, play-by-play and fantasy sports scores. ESPN+ subscribers can access the ESPN+ content from the app. In the U.S., the app also features live video streams of ESPN's linear channels and exclusive events to authenticated MVPD subscribers. Non-subscribers have limited access to certain content.
- ESPN Radio, which is the largest sports radio network in the U.S. In fiscal 2022, the Company sold its four owned radio stations for an amount that was not material.

In addition, ESPN owns and operates the following events: ESPYs (annual awards show); X Games (winter and summer action sports competitions), which were sold in October 2022 for an amount that was not material; and a portfolio of collegiate sporting events including: football bowl games, basketball games, softball games and post-season award shows.

ESPN is owned 80% by the Company and 20% by Hearst Corporation (Hearst).

Freeform

Freeform is a channel targeted to viewers ages 18 to 34 that airs original, Company owned ("library") and licensed television series, films and holiday programming events.

FX Channels

Branded general entertainment television channels include: FX; FXM; and FXX (collectively FX Channels), which air a mix of original, library and licensed television series and films.

National Geographic Channels

Branded television channels include: National Geographic; Nat Geo Wild; and Nat Geo Mundo (collectively National Geographic Channels). National Geographic Channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture.

National Geographic, including the magazine and online business reported in Content Sales/Licensing, is owned 73% by the Company and 27% by the National Geographic Society.

TABLE OF CONTENTS

The number of subscribers (in millions) for the Company's significant domestic cable channels are as follows:

	Subscribers⁽¹⁾
Disney	
Disney Channel	74
Disney Junior	54
Disney XD	53
ESPN	
ESPN	74
ESPN2	74
ESPNU	51
ESPNEWS ⁽²⁾	56
SEC Network ⁽²⁾	51
ACC Network ⁽²⁾	50
Freeform	73
FX Channels	
FX	74
FXX	71
FXM	46
National Geographic Channels	
National Geographic	73
National Geographic Wild	46

⁽¹⁾ Based on Nielsen Media Research estimates as of September 2022 (except where noted). Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

⁽²⁾ Because Nielsen Media Research does not measure this channel, estimated subscribers are according to SNL Kagan as of December 2021.

Broadcasting

ABC

As of October 1, 2022, ABC had affiliation agreements with approximately 240 local television stations reaching almost 100% of U.S. television households. ABC broadcasts programs in the primetime, daytime, late night, news and sports "dayparts". ABC is also available digitally through the ABC App and website to authenticated MVPD subscribers. Non-subscribers have more limited access to on-demand episodes.

ABC also produces a variety of primetime specials, news and daytime programming.

Domestic Television Stations

The Company owns eight television stations, six of which are located in the top ten television household markets in the U.S. All of our television stations are affiliated with ABC and collectively reach approximately 20% of the nation's television households.

TABLE OF CONTENTS

The stations we own are as follows:

TV Station	Market	Television Market Ranking⁽¹⁾
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KGO	San Francisco, CA	8
KTRK	Houston, TX	9
WTVD	Raleigh-Durham, NC	24
KFSN	Fresno, CA	55

⁽¹⁾ Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2022

International Channels

Our International Channels focus on General Entertainment, Sports and/or Family programming and operate under four significant brands: Disney; ESPN; Fox; and Star. Our international channels use content from the Company's various studios, including library titles, as well as content acquired from third parties.

The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our content from licensing of linear channels to distribution on our DTC platforms.

General Entertainment

The Company operates approximately 220 General Entertainment channels outside the U.S. primarily under the Fox, National Geographic and Star brands, which are broadcast in approximately 40 languages and 180 countries/territories.

Fox branded channels air a variety of scripted, reality and documentary programming. Channels are often thematically branded, focusing on such topics as comedy, cooking, crime and movies, and are broadcast in most regions internationally.

National Geographic branded channels air scripted and documentary programming on such topics as natural history, science, exploration and culture, and are broadcast in most regions internationally.

Star branded channels air a variety of scripted, reality and documentary programming primarily in India. Channels are also broadcast in other countries in Asia Pacific and Latin America.

In addition, the Company operates UTV and Bindass branded channels principally in India. UTV Action and UTV Movies offer Bollywood movies as well as Hollywood, Asian and Indian regional movies dubbed in Hindi. Bindass is a youth entertainment channel.

Sports

The Company operates approximately 55 Sports channels outside the U.S. under the ESPN, Fox and Star brands, which are broadcast in approximately 10 languages and 105 countries/territories.

ESPN branded channels primarily operate in Latin America, Asia Pacific and Europe. In the Netherlands, the ESPN branded channels are operated by Eredivisie Media & Marketing CV (EMM), which has the media and sponsorship rights of the Dutch Premier League for soccer. The Company owns 51% of EMM.

Fox branded sports channels primarily operate in Latin America, Asia Pacific and Europe. Fox Sports Premium, a pay television service in Argentina, airs the matches of the professional soccer league in Argentina.

Star branded sports channels primarily operate in India and certain other countries in Asia Pacific. Star has rights to various sports programming including cricket, soccer, tennis and field hockey.

Family

The Company operates approximately 75 Family channels outside the U.S. primarily under the Disney brand, which are broadcast in approximately 25 languages and 175 countries/territories.

TABLE OF CONTENTS

As of September 2022, the estimated number of subscribers (in millions) for the Company's significant international channels, based on internal management reports, are as follows:

	Subscribers
Disney	
Disney Channel	151
Disney Junior	141
ESPN⁽¹⁾	62
Fox⁽¹⁾	139
National Geographic⁽¹⁾	289
Star	
General Entertainment ⁽¹⁾	180
Sports ⁽¹⁾	83

⁽¹⁾ Reflects our estimate of each unique subscriber that has access to one or more of these branded channels.

Equity Investments

The Company has investments in media businesses that are accounted for under the equity method, the most significant of which are A+E and CTV Specialty Television, Inc. (CTV). The Company's share of the financial results for these investments is reported as "Equity in the income (loss) of investees, net" in the Company's Consolidated Statements of Operations.

A+E

A+E is owned 50% by the Company and 50% by Hearst. A+E operates a variety of cable channels:

- A&E – which offers entertainment programming including original reality and scripted series
- HISTORY – which offers original series and event-driven specials
- Lifetime and Lifetime Movie Network (LMN) – which offer female-focused programming
- FYI – which offers contemporary lifestyle programming

A+E programming is available in approximately 200 countries and territories. A+E's networks are distributed internationally under multi-year licensing agreements with MVPDs. A+E programming is also sold to international television broadcasters and SVOD services.

As of September 2022, the number of domestic subscribers (in millions) for A+E channels are as follows:

	Subscribers⁽¹⁾
A&E	69
HISTORY	70
Lifetime	69
LMN	52
FYI	42

⁽¹⁾ Based on Nielsen Media Research estimates as of September 2022. Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

CTV

ESPN holds a 30% equity interest in CTV, which owns television channels in Canada, including The Sports Networks (TSN) 1-5, Le Réseau des Sports (RDS), RDS2, RDS Info, ESPN Classic Canada, Discovery Canada and Animal Planet Canada.

Direct-to-Consumer

Our DTC businesses are subscription services that provide video streaming of general entertainment, family and sports programming (services are offered individually or in various bundles) that are offered to customers directly or through third-party distributors on mobile and internet connected devices.

Disney+ Services (includes Disney+ Hotstar and Star+)

Disney+ is a subscription-based DTC service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming, which are all top level selections or “tiles” within the Disney+ interface. Outside the U.S. and Latin America, Disney+ also includes a Star branded tile, which features general entertainment programming.

TABLE OF CONTENTS

Disney+ Hotstar is a subscription-based DTC service available in India, Indonesia, Malaysia and Thailand. Programming includes television shows, movies, sports and original series in approximately ten languages, in addition to gaming and social features. Disney+ Hotstar has exclusive streaming rights to cricket from the International Cricket Council (ICC) and the Board of Control for Cricket in India (BCCI), along with other cricket rights.

Star+ is a standalone DTC service in Latin America with a variety of general entertainment content and live sports programming.

Disney+ services use content from the Company's various studios, including library titles, as well as content acquired from third parties.

The majority of Disney+ revenue is derived from subscription fees. In addition, Disney+ Hotstar generates advertising revenue and Disney+ generates Premier Access fees. The Company plans to introduce an ad-supported Disney+ service in the U.S. in December 2022 and internationally starting in late 2023.

As of October 1, 2022, the estimated number of paid Disney+, Disney+ Hotstar and Star+ subscribers, based on internal management reports, was approximately 164 million.

ESPN+

ESPN+ is a subscription-based DTC service offering thousands of live sporting events, on-demand sports content and original programming. ESPN+ revenue is derived from subscription fees, pay-per-view fees and, to a lesser extent, advertising sales. Live events available through the service include mixed martial arts, soccer, hockey, boxing, baseball, college sports, golf, tennis and cricket. ESPN+ is currently the exclusive distributor for Ultimate Fighting Championship (UFC) pay-per-view events in the U.S. As of October 1, 2022, the estimated number of paid ESPN+ subscribers, based on internal management reports, was approximately 24 million.

Hearst has a 20% interest in the Company's DTC sports business.

Hulu

Hulu is a subscription-based DTC service with general entertainment content from the Company's various studios as well as content licensed from third parties. Hulu's revenue is primarily derived from subscription fees and advertising sales. Hulu offers SVOD services with or without advertising in addition to a digital OTT MVPD (Live TV) service that is available with either of Hulu's SVOD services and, since December 2021, includes the Disney+ and ESPN+ DTC services. Hulu's Live TV service includes live linear streams of cable networks and the major broadcast networks. In addition, Hulu offers subscriptions to premium services such as HBOMax, Cinemax, Starz and Showtime, which can be added to the Hulu service. Certain programming from ABC, Freeform and FX Channels is also available on the Hulu SVOD service one day after airing on these channels. As of October 1, 2022, the estimated number of paid Hulu subscribers, based on internal management reports, was approximately 47 million.

The Company has a 67% ownership interest in and full operational control of Hulu. NBC Universal (NBCU) owns the remaining 33% of Hulu. The Company has a put/call agreement with NBCU, which provides NBCU the option to require the Company to purchase NBCU's interest in Hulu and the Company the option to require NBCU to sell its interest in Hulu to the Company, in both cases, beginning in January 2024 (see Note 2 of the Consolidated Financial Statements for additional information).

Content Sales/Licensing and Other

The majority of Content Sales/Licensing revenue is derived from TV/SVOD, theatrical and home entertainment distribution. In addition, revenue is generated from music distribution and stage plays.

The Company also publishes National Geographic magazine and provides post-production services through Industrial Light & Magic and Skywalker Sound. These activities are reported with Content Sales/Licensing.

TV/SVOD Distribution

Although we generally intend to use our film and television content on our DTC services and linear networks in TV/SVOD windows, we also license our content to third-party television networks, television stations and other

video service providers for distribution to viewers on television or a variety of internet-connected devices, including through other DTC services.

Theatrical Distribution

The Company licenses full-length live-action and animated films from the Company's Studio production groups to theaters globally. Cumulatively through October 1, 2022, the Company has released approximately 1,100 full-length live-action films and 100 full-length animated films. In the domestic and most major international markets, we generally distribute and market our films directly. In certain international markets our films are distributed by independent companies. During fiscal

TABLE OF CONTENTS

2023, we expect to release approximately 20 films, although we may choose to distribute certain films exclusively on our DTC streaming services in certain territories.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred, which may result in a loss on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

Home Entertainment Distribution

We distribute the Company's film and episodic television content in home entertainment markets in physical (DVD and Blu-ray disc) and electronic formats globally.

Domestically, we distribute directly to retailers and wholesalers. Internationally, we distribute directly and through independent distribution companies. Physical formats of our film and episodic television content are generally sold to retailers, such as Walmart and Target, and electronic formats are sold through e-tailers, such as Apple and Amazon, and MVPDs, such as Comcast and DirecTV. The Company also operates Disney Movie Club, which sells DVD/Blu-ray discs directly to consumers in the U.S. and Canada.

Distribution of film content in the home entertainment window generally starts within three months after the theatrical release. Electronic formats may be released up to two weeks ahead of the physical release.

Distribution of episodic television content in the home entertainment window includes digital sales of season passes that can be purchased prior to, during and after the broadcast season with individual episodes typically available to season pass customers shortly after the initial airing of the show in each territory. Individual episodes are also available for digital purchase shortly after their initial airing in each territory.

As of October 1, 2022, we have approximately 2,200 produced and acquired film titles that are actively distributed in the home entertainment window, including approximately 1,900 live-action titles and approximately 300 animated titles.

Concurrently with physical home entertainment distribution, we license titles to video-on-demand services (such as Apple and Amazon) for electronic delivery to consumers for a specified rental period.

Disney Theatrical Group

Disney Theatrical Group develops, produces and licenses live entertainment events on Broadway and around the world. Productions include *The Lion King*, *Frozen*, *Aladdin* and *Beauty and the Beast*.

Disney Theatrical Group also licenses the Company's IP to Feld Entertainment, the producer of *Disney On Ice* and *Marvel Universe Live!*.

Music Distribution

The Disney Music Group (DMG) commissions new music for the Company's motion pictures and television programs and develops, produces, markets and distributes the Company's music worldwide either directly or through license agreements. DMG also licenses the songs and recording copyrights to third parties for printed music, records, audio-visual devices, public performances and digital distribution and produces live musical concerts. DMG labels include Walt Disney Records and Hollywood Records.

Equity Investment

The Company has a 30% effective interest in Tata Play Limited, which operates a direct-to-home satellite distribution platform in India.

Studios

The Studios produce motion pictures under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners. Costs to produce the films are generally capitalized and allocated to the distribution platform utilizing the content.

Marvel licensed rights to produce and distribute Spider-Man films to Sony Pictures Entertainment (Sony) prior to the Company's fiscal 2010 acquisition of Marvel. In general, Sony incurs the costs to produce and distribute Spider-Man films and the Company licenses the merchandise rights to third parties. The Company pays Sony a licensing fee based on each film's box office receipts, subject to specified limits. In general, the Company distributes other Marvel-produced films.

The Studios film library includes content from approximately 100 years of production history, as well as acquired film libraries and totals approximately 5,100 live-action titles and 400 animation titles. The library includes approximately 50 movies and approximately 30 series that the Studios group produced for initial distribution on our DTC platforms.

TABLE OF CONTENTS

In fiscal 2023, the Studios plan to produce approximately 40 titles, which include films and episodic television programs, for distribution theatrically and/or on our DTC platforms.

General Entertainment

Content produced by General Entertainment primarily consists of original episodic television programs, network news and daytime/nighttime content. General Entertainment also acquires episodic television programming rights. Original content is generally produced by the following Company owned television studios: ABC Signature; 20th Television; Disney Branded Television; FX Productions; and National Geographic Studios. Original content is also commissioned by General Entertainment and produced by various other third-party studios. Costs to produce original content are generally capitalized and allocated to the distribution platform utilizing the content. Program development is carried out in collaboration with writers, producers and creative teams.

General Entertainments television programming library includes content from approximately 70 years of production history. Series with four or more seasons include approximately 75 one-hour dramas, 55 half-hour comedies, 5 half-hour non-scripted series, 30 one-hour non-scripted series, 15 half-hour animated series and 10 half-hour live-action series. The library includes approximately 130 series that the General Entertainment group produced for initial distribution on our DTC platforms.

In fiscal 2023, General Entertainment plans to produce or commission more than 270 original programs, most of which will include multiple episodes. Productions generally include comedies, dramas, animations, documentaries, specials, made for TV movies, shorts and network news content. The vast majority of programming will be used on our Linear Networks and/or our DTC platforms. Programming is also produced for third-parties, many of which have domestic linear distribution rights, while the Company has SVOD and international distribution rights.

Sports

The Company has various professional and college sports programming rights, which the Sports group uses to produce content aired on our Linear Networks and distributed on our DTC platforms, including live events, sports news and original content. In the U.S., rights include college football (including bowl games and the College Football Playoff) and basketball, the National Basketball Association (NBA), the National Football League (NFL), MLB, US Open Tennis, the Professional Golfers' Association (PGA) Championship, the Women's National Basketball Association (WNBA), soccer, Top Rank Boxing, the Wimbledon Championships, the Masters golf tournament, mixed martial arts and the National Hockey League (NHL). Internationally, rights include various cricket events (for which the Company has the global distribution rights to certain events) and soccer (including English Premier League, LaLiga, Bundesliga and multiple UEFA leagues).

International

The International group focuses on the development and production of locally created and relevant entertainment and sports content to support growth across the Company's portfolio of streaming services. In addition, this group also oversees international media operations, including international linear channels, local advertising sales and local content sales and distribution. International has produced approximately 150 movies and series for initial distribution on the DTC platforms worldwide.

Competition and Seasonality

The Company's Linear Networks and DTC streaming services compete for viewers primarily with other television networks, independent television stations and other media, such as other DTC streaming services and video games. With respect to the sale of advertising time, we compete with other television networks, independent television stations, MVPDs and other advertising media such as digital content, newspapers, magazines, radio and billboards. Our television and radio stations primarily compete for audiences and advertisers in local market areas.

The Company's Linear Networks compete with other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution

industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

The Content Sales/Licensing businesses compete with all forms of entertainment. A significant number of companies produce and/or distribute theatrical and television content, distribute products in the home entertainment market, provide pay television and SVOD services, and produce music and live theater.

The operating results of Content Sales/Licensing fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

The Company's websites and digital products compete with other websites and entertainment products.

TABLE OF CONTENTS

We also compete with other media and entertainment companies, independent production companies and SVOD services for the acquisition of sports rights, creative and performing talent, story properties, show concepts, scripted and other programming, advertiser support and exhibition outlets that are essential to the success of our DMED businesses.

Advertising revenues at Linear Networks and Direct-to-Consumer are subject to seasonal advertising patterns, changes in viewership levels and the demand for sports programming. In general, domestic advertising revenues are typically somewhat higher during the fall and somewhat lower during the summer months. In addition, advertising revenues generated from sports programming are impacted by the timing of sports seasons and events, which varies throughout the year or may take place periodically (e.g. biannually, quadrennially). Affiliate revenues vary with the subscriber trends of MVPDs.

Federal Regulation

Television and radio broadcasting are subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary fines, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect DMED include the following:

- *Licensing of television and radio stations.* Each of the television and radio stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (and the acquiring entity in the case of a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.
- *Television and radio station ownership limits.* The FCC imposes limitations on the number of television stations and radio stations we can own in a specific market, on the combined number of television and radio stations we can own in a single market and on the aggregate percentage of the national audience that can be reached by television stations we own. Currently:
 - FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any market.
 - Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience. Pursuant to the most recent decision by the FCC as to how to calculate compliance with this limit, our eight stations reach approximately 20% of the national audience.
 - FCC regulations in some cases impose restrictions on our ability to acquire additional radio or television stations in the markets in which we own radio stations. We do not believe any such limitations are material to our current operating plans.
- *Dual networks.* FCC rules currently prohibit any of the four major broadcast television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.
- *Regulation of programming.* The FCC regulates broadcast programming by, among other things, banning “indecent” programming, regulating political advertising and imposing commercial time limits during children’s programming. Penalties for broadcasting indecent programming can be over \$400,000 per indecent utterance or image per station.

Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast stations are generally required to provide an average of three hours per week of programming that has as a “significant purpose” meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or

refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.

- *Cable and satellite carriage of broadcast television stations.* With respect to MVPDs operating within a television station's Designated Market Area, FCC rules require that every three years each television station elect either "must carry" status, pursuant to which MVPDs generally must carry a local television station in the station's market, or "retransmission consent" status, pursuant to which the MVPDs must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. The ABC owned television stations have historically elected retransmission consent.
- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations between programmers and distributors regarding the carriage of networks by cable and satellite distribution companies, and some cable and satellite distribution companies have sought regulation of additional aspects of the carriage of programming on their systems. New legislation, court action or regulation in this area could have an impact on the Company's operations.

TABLE OF CONTENTS

The foregoing is a brief summary of certain provisions of the Communications Act, other legislation and specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC's regulatory authority.

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

DISNEY PARKS, EXPERIENCES AND PRODUCTS

The operations of DPEP's significant lines of business are as follows:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); and Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our IP to a third party to operate Tokyo Disney Resort.
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
 - Sale of branded merchandise through online, retail and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic magazine, which is reported in DMED)

The significant revenues of DPEP are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks and for premium access to certain attractions (e.g. Genie+ and Lightning Lane)
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
 - Retail - Sales of merchandise through internet shopping sites generally branded shopDisney and at The Disney Store, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales and royalties earned on Tokyo Disney Resort revenues

The significant expenses of DPEP are as follows:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include technology support costs, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

Significant capital investments:

- In recent years, the majority of the Company's capital spend has been at our parks and experiences business, which is principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The various investment plans discussed in the "Parks & Experiences" section are based on management's current expectations. Actual investment may differ.

Parks & Experiences

Walt Disney World Resort

The Walt Disney World Resort is located approximately 20 miles southwest of Orlando, Florida, on approximately 25,000 acres of land. The resort includes theme parks (the Magic Kingdom, EPCOT, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex (Disney Springs); a sports

TABLE OF CONTENTS

complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored or operated by other companies under multi-year agreements.

Magic Kingdom — The Magic Kingdom consists of six themed areas: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed attractions, restaurants, merchandise shops and entertainment experiences. Tomorrowland is currently undergoing an expansion including the Tron Lightcycle/Run, which is scheduled to open in Spring 2023.

EPCOT — EPCOT consists of four major themed areas: World Showcase, World Celebration, World Nature and World Discovery. All areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the U.S. EPCOT is undergoing a multi-year transformation, which includes the addition of Guardians of the Galaxy: Cosmic Rewind, which opened in the summer of 2022 and Journey of Water, inspired by Moana, which is scheduled to open late 2023.

Disney's Hollywood Studios — Disney's Hollywood Studios consists of eight themed areas: Animation Courtyard, Commissary Lane, Echo Lake, Grand Avenue, Hollywood Boulevard, *Star Wars*: Galaxy's Edge, Sunset Boulevard and Toy Story Land. The areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service, merchandise shops and entertainment experiences.

Disney's Animal Kingdom — Disney's Animal Kingdom consists of a 145-foot tall Tree of Life centerpiece surrounded by five themed areas: Africa, Asia, DinoLand USA, Discovery Island and Pandora - The World of Avatar. Each themed area contains attractions, restaurants, merchandise shops and entertainment experiences. The park features more than 300 species of live mammals, birds, reptiles and amphibians and 3,000 varieties of vegetation.

Hotels, Vacation Club Properties and Other Resort Facilities — As of October 1, 2022, the Company owned and operated 19 resort hotels and vacation club facilities at the Walt Disney World Resort, with approximately 23,000 rooms and 3,600 vacation club units. Resort facilities include 500,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites.

Disney Springs is an approximately 120-acre retail, dining and entertainment complex and consists of four areas: Marketplace, The Landing, Town Center and West Side. The areas are home to more than 150 venues including the 64,000-square-foot World of Disney retail store. Most of the Disney Springs facilities are operated by third parties that pay rent to the Company.

Ten independently-operated hotels with approximately 7,000 rooms are situated on property leased from the Company.

ESPN Wide World of Sports Complex is a 230-acre center that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes both amateur and professional athletes, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. It also includes a stadium, as well as two venues designed for cheerleading, dance competitions and other indoor sports.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, swimming, horseback riding and a number of other sports and leisure time activities. The resort also includes two water parks: Disney's Blizzard Beach and Disney's Typhoon Lagoon.

Disneyland Resort

The Company owns 489 acres and has rights under a long-term lease for use of an additional 52 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex (Downtown Disney).

The Disneyland Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of the attractions and restaurants in the theme parks are sponsored or operated by other companies under multi-year agreements.

Disneyland — Disneyland consists of nine themed areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square, *Star Wars*: Galaxy's Edge, and Tomorrowland. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. Mickey's Toontown is currently undergoing an expansion and transformation, including the addition of Mickey and Minnie's Runaway Railway, which is scheduled to open in early 2023.

TABLE OF CONTENTS

Disney California Adventure — Disney California Adventure is adjacent to Disneyland and includes eight themed areas: Avengers Campus, Buena Vista Street, Cars Land, Grizzly Peak, Hollywood Land, Pacific Wharf (which will be transformed into San Fransokyo from *Big Hero 6*), Paradise Gardens Park and Pixar Pier. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Hotels, Vacation Club Units and Other Resort Facilities — Disneyland Resort includes three Company owned and operated hotels and vacation club facilities with approximately 2,400 rooms, 50 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney is a themed 15-acre retail, entertainment and dining complex with approximately 30 venues located adjacent to both Disneyland and Disney California Adventure. Most of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

Aulani, a Disney Resort & Spa

Aulani, a Disney Resort & Spa, is a Company-operated family resort on a 21-acre oceanfront property on Oahu, Hawaii featuring approximately 350 hotel rooms, an 18,000-square-foot spa and 12,000 square feet of conference meeting space. The resort also has approximately 480 vacation club units.

Disneyland Paris

Disneyland Paris is located on approximately 5,200-acres in Marne-la-Vallée, approximately 20 miles east of Paris, France. The land is being developed pursuant to a master agreement with French governmental authorities. Disneyland Paris includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed resort hotels; two convention centers; a shopping, dining and entertainment complex (Disney Village); and a 27-hole golf facility. Of the 5,200 acres comprising the site, approximately half have been developed to date, including a planned community (Val d'Europe) and an eco-tourism destination (Villages Nature).

Disneyland Park — Disneyland Park consists of five themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street USA. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Walt Disney Studios Park — Walt Disney Studios Park includes five themed areas: Front Lot, Production Courtyard, Toon Studio, Worlds of Pixar and Avengers Campus, which opened in the summer of 2022. These areas each include themed attractions, restaurants, merchandise shops and entertainment experiences. Walt Disney Studios Park is undergoing a multi-year expansion that will include a new themed area based on Frozen.

Hotels and Other Facilities — Disneyland Paris operates seven resort hotels, with approximately 5,750 rooms and 250,000 square feet of conference meeting space. In addition, five on-site hotels that are owned and operated by third parties provide approximately 1,500 rooms.

Disney Village is an approximately 500,000-square-foot retail, dining and entertainment complex located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to the Company.

Val d'Europe is a planned community near Disneyland Paris that is being developed in phases. Val d'Europe currently includes a regional train station, hotels and a town center consisting of a shopping center as well as office, commercial and residential space. Third parties operate these developments on land leased or purchased from the Company.

Villages Nature is an eco-tourism resort that consists of recreational facilities, restaurants and 900 vacation units. The resort is a 50% joint venture between the Company and Pierre & Vacances-Center Parcs, which manages the venture.

Hong Kong Disneyland Resort

The Company owns a 48% interest in Hong Kong Disneyland Resort and the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 52% interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport and the Hong Kong-Zhuhai-Macau Bridge. Hong

Kong Disneyland Resort includes one theme park and three themed resort hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

Hong Kong Disneyland — Hong Kong Disneyland consists of seven themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, Tomorrowland and Toy Story Land. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. The park is in the midst of a multi-year expansion project that includes a Frozen-themed area, expected to open in 2023.

Hotels — Hong Kong Disneyland Resort includes three themed hotels with a total of 1,750 rooms and approximately 16,000 square feet of conference meeting space.

TABLE OF CONTENTS

Shanghai Disney Resort

The Company owns a 43% interest in Shanghai Disney Resort and Shanghai Shendi (Group) Co., Ltd (Shendi) owns a 57% interest. The resort is located in the Pudong district of Shanghai on approximately 1,000 acres of land, which includes the Shanghai Disneyland theme park; two themed resort hotels; a retail, dining and entertainment complex (Disneytown); and an outdoor recreation area. A management company, in which the Company has a 70% interest and Shendi has a 30% interest, is responsible for operating the resort and receives a management fee based on the operating performance of Shanghai Disney Resort. The Company is also entitled to royalties based on the resort's revenues.

Shanghai Disneyland — Shanghai Disneyland consists of seven themed areas: Adventure Isle, Fantasyland, Gardens of Imagination, Mickey Avenue, Tomorrowland, Toy Story Land and Treasure Cove. These areas feature themed attractions, shows, restaurants, merchandise shops and entertainment experiences. The Company is constructing an eighth themed area based on the animated film *Zootopia*.

Hotels and Other Facilities — Shanghai Disneyland Resort includes two themed hotels with a total of 1,220 rooms. Disneytown is an 11-acre outdoor complex of dining, shopping and entertainment venues located adjacent to Shanghai Disneyland. Most Disneytown facilities are operated by third parties that pay rent to Shanghai Disney Resort.

Tokyo Disney Resort

Tokyo Disney Resort is located on 494 acres of land, six miles east of downtown Tokyo, Japan. The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a third-party Japanese corporation. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea); five Disney-branded hotels; six other hotels (operated by third parties other than OLC); a retail, dining and entertainment complex (Ikspiari); and Bon Voyage, a Disney-themed merchandise location.

Tokyo Disneyland — Tokyo Disneyland consists of seven themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

Tokyo DisneySea — Tokyo DisneySea is divided into seven “ports of call,” including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery. OLC is expanding Tokyo DisneySea to include an eighth themed port, Fantasy Springs expected to open in spring 2024.

Hotels and Other Resort Facilities — Tokyo Disney Resort includes five Disney-branded hotels with a total of more than 3,000 rooms and a monorail, which links the theme parks and resort hotels with Ikspiari. OLC is currently constructing a 475-room Disney-branded hotel at Tokyo DisneySea that is expected to open in spring 2024.

Disney Vacation Club (DVC)

DVC offers ownership interests in 15 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Aulani; Vero Beach, Florida; and Hilton Head Island, South Carolina. Available units are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company's vacation club units range from deluxe studios to three-bedroom grand villas. Unit counts in this document are presented in terms of two-bedroom equivalents. DVC had approximately 4,400 vacation club units as of October 1, 2022 and is scheduled to open an additional 135 units at The Villas at Disneyland Hotel in 2023. The Company also plans to open additional units at Disney's Polynesian Village Resort in late 2024.

Storyliving by Disney

The Company is developing its first *Storyliving by Disney* residential community, *Cotino*, in Rancho Mirage, California.

Disney Cruise Line

Disney Cruise Line is a five-ship vacation cruise line, which operates out of ports in North America and Europe. The *Disney Magic* and the *Disney Wonder* are 85,000-ton 875-stateroom ships; the *Disney Dream* and the

Disney Fantasy are 130,000-ton 1,250-stateroom ships; and the *Disney Wish*, launched in July 2022, is a 140,000-ton 1,250-stateroom ship. The ships cater to families, children, teenagers and adults, with themed areas and activities for each group. Many cruise vacations include a visit to Disney's Castaway Cay, a 1,000-acre private Bahamian island.

Disney Cruise Line is adding the *Disney Treasure* and a seventh ship, which are to be delivered from the shipyard in fiscal 2025 and fiscal 2026, respectively. Both of these ships will be approximately 140,000 tons with 1,250 staterooms and will be powered by liquefied natural gas.

In November 2022, the Company purchased a partially completed ship for an amount that is not material. The ship will be approximately 200,000 tons. Disney Cruise Line will incur the cost to complete construction with total costs anticipated to be less than our recent fleet additions. This ship is expected to be delivered in 2025.

TABLE OF CONTENTS

The Company has approximately 550 acres of land at Lighthouse Point on the island of Eleuthera, which is scheduled to open as a Disney Cruise Line destination in 2024.

Adventures by Disney and National Geographic Expeditions

Adventures by Disney and National Geographic Expeditions offer guided tour packages predominantly at non-Disney sites around the world.

Walt Disney Imagineering

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and research and development for DPEP.

Consumer Products

Licensing

The Company's merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, games, home décor and furnishings, accessories, food, books, health and beauty, stationery, footwear, magazines and consumer electronics. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Friends, Star Wars, Spider-Man, Disney Princess, Avengers, Frozen, Toy Story, Winnie the Pooh and Cars.

Retail

The Company sells Disney-, Marvel-, Pixar- and Lucasfilm-branded products through shopDisney branded internet sites and Disney Store branded retail locations. At October 1, 2022, the Company owns and operates approximately 40 stores in Japan, 20 stores in North America, three stores in Europe and one store in China.

The Company creates, distributes and publishes a variety of products in multiple countries and languages based on the Company's branded franchises. The products include children's books and comic books.

Competition and Seasonality

The Company's theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, health concerns, the political environment, travel industry trends, amount of available leisure time, oil and transportation prices, weather patterns and natural disasters. The licensing and retail business competes with other licensors, retailers and publishers of character, brand and celebrity names, as well as other licensors, publishers and developers of game software, online video content, websites, other types of home entertainment and retailers of toys and kids merchandise.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, theme park attendance and resort occupancy fluctuate based on the seasonal nature of vacation travel and leisure activities, the opening of new guest offerings and pricing and promotional offers. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. The licensing, retail and wholesale businesses are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues during the Company's first and fourth fiscal quarter, and by the timing and performance of theatrical and game releases and cable programming broadcasts.

INTELLECTUAL PROPERTY PROTECTION

The Company's businesses throughout the world are affected by its ability to exploit and protect against infringement of its IP, including trademarks, trade names, copyrights, patents and trade secrets. Important IP includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines, and merchandise. Risks related to the protection and

exploitation of IP rights and information concerning the expiration of certain of our copyrights are set forth in Item 1A – Risk Factors.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, www.disney.com/investors, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

TABLE OF CONTENTS

ITEM 1A. Risk Factors

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in our filings with the SEC, the most significant factors affecting our business include the following:

BUSINESS, ECONOMIC, MARKET and OPERATING CONDITION RISKS

The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

Since early 2020, the world has been and continues to be impacted by COVID-19 and its variants. COVID-19 and measures to prevent its spread have impacted our segments in a number of ways, most significantly at DPEP where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. In addition, at DMED we delayed, or in some cases, shortened or canceled theatrical releases and experienced disruptions in the production and availability of content. Collectively, our impacted businesses have historically been the source of the majority of our revenue. Operations have resumed at various points since May 2020, with certain theme parks and resort operations and film and television productions resuming by the end of fiscal 2020 and throughout 2021. Although operations resumed, many of our businesses continue to experience impacts from COVID-19, such as incremental health and safety measures and related increased expenses, capacity restrictions and closures (including at some of our international parks and in theaters in certain markets), and disruptions of content production activities.

COVID-19 impacts and future health outbreaks and pandemics could hasten the erosion of historical sources of revenue at our Linear Networks businesses and change consumer preferences. For example, COVID-19 impacts have changed, and may continue to change, consumer behavior and consumption patterns, such as theater-going to watch movies. Some industries in which our customers operate, such as theatrical distribution, retail and travel, have experienced, and could continue to experience, contraction and financial distress, which could impact the profitability of our businesses going forward.

Our mitigation efforts in response to the impacts of COVID-19 on our businesses have had, or may continue to have, negative impacts. For example, in response to COVID-19 impacts, we incurred significant additional indebtedness and delayed or suspended certain projects in which we have invested, particularly at our parks and resorts and studio operations. In addition, we may take mitigation actions in the future to respond to the impacts of COVID-19 or other health outbreaks or pandemics on our businesses, such as raising additional financing; not declaring future dividends; further suspending or reducing capital spending; reducing film and television content investments; implementing furloughs or reductions in force or modifying our operating strategy. These and other of our mitigating actions may have an adverse impact on our businesses. Additionally, there are limitations on our ability to mitigate the adverse financial impact of COVID-19 and other health outbreaks or pandemics, including the fixed costs of our theme park business and the impact such events may have on capital markets and our cost of borrowing.

Geographic variation in government requirements and ongoing changes to restrictions have disrupted and could further disrupt our businesses, including our production operations. Our operations could be suspended, re-suspended or subjected to new or reinstated limitations by government action or otherwise in the future as a result of developments related to COVID-19, such as the expansion of the Omicron subvariants or other variants, and other future health outbreaks and pandemics. For example, our international parks have reopened and closed multiple times since the onset of COVID-19. Some of our employees who returned to work were later refurloughed. Our operations could be further negatively impacted and our reputation could be negatively impacted by a significant COVID-19 or other health outbreak impacting our employees, customers or others interacting with our businesses, including our supply chain.

The impacts of COVID-19 to our business have generally amplified, or reduced our ability to mitigate, the other risks discussed in our filings with the SEC and our remediation efforts may not be successful.

COVID-19 also makes it more challenging for management to estimate future performance of our businesses. COVID-19 has already adversely impacted our businesses and net cash flow, and we expect the ultimate magnitude of these disruptions on our financial and operational results will be dictated by the length of time that such disruptions continue which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact and duration of governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters going forward.

Changes in U.S., global, and regional economic conditions are expected to have an adverse effect on the profitability of our businesses.

A decline in economic conditions, such as recession, economic downturn, and/or inflationary conditions in the U.S. and other regions of the world in which we do business can adversely affect demand and/or expenses for any of our businesses, thus reducing our revenue and earnings. Past declines in economic conditions reduced spending at our parks and resorts, purchases

TABLE OF CONTENTS

of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected as such conditions recur. The current decline in economic conditions could also reduce attendance at our parks and resorts, prices that MVPDs pay for our cable programming, purchases of and prices for advertising on our DTC products or subscription levels for our cable programming or DTC products, while also increasing the prices we pay for goods, services and labor. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as current inflation in the domestic and global energy sector and other pronounced price increases generally and in certain other sectors, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. A decline in economic conditions could impact implementation of our business plans, such as our plans to realign our cost structure and for the new DTC ad-supported service, pricing structure and price increases. In addition, actions to reduce inflation, including raising interest rates, increase our cost of borrowing, which in turn could make it more difficult to obtain financing for our operations or investments on favorable terms. Further, global economic conditions may impact foreign currency exchange rates against the U.S. dollar. The current or continued strength in the value of the U.S. dollar has adversely impacted the U.S. dollar value of revenue we receive and expect to receive from other markets and may reduce international demand for our products and services. A decrease in the value of the U.S. dollar may increase our labor, supply or other costs in non-U.S. markets. Although we hedge exposure to certain foreign currency fluctuations, any such hedging activity may not substantially offset the negative financial impact of exchange rate fluctuations and is not expected to offset all such negative financial impact, particularly in periods of sustained U.S. dollar strength relative to multiple foreign currencies. Further, economic or political conditions in countries outside the U.S. also have reduced, and could continue to reduce, our ability to hedge exposure to currency fluctuations in those countries or our ability to repatriate revenue from those countries. Broader supply chain delays, such as those currently impacting global distribution may further exacerbate current inflationary pressures and impact our ability to sell and deliver goods or otherwise disrupt our operations. The adverse impact on our businesses of the decline in economic conditions will depend, in part, on its severity and duration and our ability to mitigate the impacts of this decline on our businesses will be limited.

Changes in technology and in consumer consumption patterns may affect demand for our entertainment products, the revenue we can generate from these products or the cost of producing or distributing products.

The media entertainment and internet businesses in which we participate increasingly depend on our ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources and nature of competing content offerings, the time and manner in which consumers acquire and view some of our entertainment products and the options available to advertisers for reaching their desired audiences. This trend has impacted the business model for certain traditional forms of distribution, as evidenced by the industry-wide decline in ratings for broadcast television, the reduction in demand for home entertainment sales of theatrical content, the development of alternative distribution channels for broadcast and cable programming and declines in subscriber levels for traditional cable channels, including for a number of our networks. In addition, theater-going to watch movies currently is, and may continue to be, below pre-COVID-19 levels. Declines in linear viewership have resulted in decreased advertising revenue. In order to respond to these developments, we regularly consider, and from time to time implement changes to our business models, most recently by developing, investing in and acquiring DTC products, initiating plans to again reorganize our media and entertainment businesses to advance our DTC strategies, and developing next generation storytelling offerings. There can be no assurance that our DTC offerings, next generation storytelling offerings and other efforts will successfully respond to these changes. In addition, declines in certain traditional forms of distribution may increase the cost of content allocable to our DTC offerings, negatively impacting the profitability of our DTC offerings. We expect to forgo revenue from traditional sources, particularly as we expand our DTC offerings. To date we have experienced significant losses in our DTC businesses. There can be no assurance that the DTC model and other business models we may develop will ultimately be profitable or as profitable as our existing or historic business models.

Misalignment with public and consumer tastes and preferences for entertainment, travel and consumer products could negatively impact demand for our entertainment offerings and products and adversely affect the profitability of any of our businesses.

Our businesses create entertainment, travel and consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create compelling content, which may be distributed, among other ways, through broadcast, cable, internet or cellular technology, theme park attractions, hotels and other resort facilities and travel experiences and consumer products. Such distribution must meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. The success of our theme parks, resorts, cruise ships and experiences, as well as our theatrical releases, depends on demand for public or out-of-home

TABLE OF CONTENTS

entertainment experiences. Demand for certain of our out-of-home entertainment experiences, such as theater-going to watch movies, has not returned to pre-pandemic levels, and COVID-19 may continue to impact consumer tastes and preferences. In addition, many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S. The success of our businesses therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in content production and acquisition, acquisition of sports rights, theme park attractions, cruise ships or hotels and other facilities or customer facing platforms before we know the extent to which these products will earn consumer acceptance, and these products may be introduced into a significantly different market or economic or social climate from the one we anticipated at the time of the investment decisions. If our entertainment offerings and products (including our content offerings, which have been impacted by COVID-19 and may in the future be impacted by COVID-19 developments or other health outbreaks or pandemics) as well as our methods to make our offerings and products available to consumers, do not achieve sufficient consumer acceptance, our revenue may decline, decline further or fail to grow to the extent we anticipate when making investment decisions and thereby further adversely affect the profitability of one or more of our businesses. Further, consumers' perceptions of our position on matters of public interest, including our efforts to achieve certain of our environmental and social goals, often differ widely and present risks to our reputation and brands. Consumer tastes and preferences impact, among other items, revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air), affiliate fees, subscription fees, theatrical film receipts, the license of rights to other distributors, theme park admissions, hotel room charges and merchandise, food and beverage sales, sales of licensed consumer products or sales of our other consumer products and services.

The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.

The value to us of our IP is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our IP may decrease, or the cost of obtaining and maintaining rights may increase. The terms of some copyrights for IP related to some of our products and services have expired and other copyrights will expire in the future. For example, in the United States and countries that look to the United States copyright term when shorter than their own, the copyright term for early works such as the short film *Steamboat Willie* (1928), and the specific early versions of characters depicted in those works, expires at the end of the 95th calendar year after the date the copyright was originally secured in the United States. Revenues generated from this intellectual property could be negatively impacted.

The unauthorized use of our IP may increase the cost of protecting rights in our IP or reduce our revenues. The convergence of computing, communication and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of IP rights more challenging. The unauthorized distribution and access to entertainment content generally continues to be a significant challenge for IP rights holders. Inadequate laws or weak enforcement mechanisms to protect entertainment industry IP in one country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its IP rights. COVID-19 and distribution innovation in response to COVID-19 has increased opportunities to access content in unauthorized ways. Additionally, negative economic conditions coupled with a shift in government priorities could lead to less enforcement. These developments require us to devote substantial resources to protecting our IP against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content and other commercial misuses of our IP.

With respect to IP developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in IP may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from or utilize the IP that is the subject of challenged rights. From time to time, the Company has been

notified that it may be infringing certain IP rights of third parties. Technological changes in industries in which the Company operates and extensive patent coverage in those areas may increase the risk of such claims being brought and prevailing.

Protection of electronically stored data and other cybersecurity is costly, and if our data or systems are materially compromised in spite of this protection, we may incur additional costs, lost opportunities, damage to our reputation, disruption of service or theft of our assets.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. We also use computer systems to deliver our products and services and operate our businesses. Data maintained in digital form is subject to the risk of unauthorized access, modification, exfiltration, destruction or denial of access and our computer systems are subject to cyberattacks that may result in disruptions in service. We use many third-party systems and software, which are also subject to supply chain and other

TABLE OF CONTENTS

cyberattacks. We develop and maintain an information security program to identify and mitigate cyber risks but the development and maintenance of this program is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Accordingly, despite our efforts, the risk of unauthorized access, modification, exfiltration, destruction or denial of access with respect to data or systems and other cybersecurity attacks cannot be eliminated entirely, and the risks associated with a potentially material incident remain. In addition, we provide some confidential, proprietary and personal information to third parties in certain cases, which may also be compromised.

If our information or cyber security systems or data are compromised in a material way, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be damaged resulting in loss of business or morale, and we may incur costs to remediate possible harm to our customers and employees or damages arising from litigation and/or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident. Insurance we obtain may not cover losses or damages associated with such attacks or events. Our systems and users and those of third parties with whom we engage are continually attacked, sometimes successfully.

A variety of uncontrollable events may reduce demand for or consumption of our products and services, impair our ability to provide our products and services or increase the cost or reduce the profitability of providing our products and services.

Demand for and consumption of our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for and consumption of other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: health concerns (including as it has been by COVID-19 and could be by future health outbreaks and pandemics); adverse weather conditions arising from short-term weather patterns or long-term climate change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, droughts, tsunamis and earthquakes); international, political or military developments (including social unrest); a decline in economic activity; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to some of these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents, including the costs of protecting against the spread of COVID-19, reduces the profitability of our operations.

For example, hurricanes, including Hurricane Ian in late September 2022, which caused Walt Disney World Resort parks in Florida to close for two days, have impacted the profitability of Walt Disney World Resort and may do so in the future. The Company has paused certain operations in certain regions and the profitability of certain operations has been impacted as a result of events in the corresponding regions.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties, the profitability of one or more of our businesses could be adversely affected. In specific geographic markets, we have experienced delayed and/or partial payments from certain affiliate partners due to liquidity issues.

We obtain insurance against the risk of losses relating to some of these events, generally including certain physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles,

exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance. For example, many losses related to impacts of COVID-19 have not been covered by insurance available to us.

Changes in our business strategy or restructuring of our businesses has increased and may continue to increase our costs and has otherwise affected and may continue to affect the profitability of our businesses or the value of our assets.

As changes in our business environment occur we have adjusted, continue to adjust and may further adjust our business strategies to meet these changes and we may otherwise decide to further restructure our operations or particular businesses or assets. For example, in November 2022, we announced plans to reorganize DMED to advance our DTC strategies and rationalize costs; in fiscal 2022, we announced plans to introduce an ad-supported Disney+ service, new pricing model and price increases and cost realignment; in March 2021, we announced the closure of a substantial number of our Disney-branded

TABLE OF CONTENTS

retail stores; and we have announced exploration of a number of new types of businesses. In addition, with the recent change in leadership, there may be additional adjustments to our business strategies. Our new organization and strategies are, among other things, subject to execution risk and may not produce the anticipated benefits, such as supporting our growth strategies and enhancing shareholder value. For example, notwithstanding our announced plans to rationalize costs, the costs of our DTC strategy, and associated losses, may continue to grow or be reduced more slowly than anticipated, which may impact our distribution strategy across businesses/distribution platforms, the types of content we distribute through various businesses/distribution platforms, and the timing and sequencing of content windows. Our new organization and strategies could be less successful than our previous organizational structure and strategies. In addition, external events including changing technology, changing consumer purchasing patterns, acceptance of content offerings and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we have incurred and may continue to incur costs to change our business strategy and have needed and may in the future need to write-down the value of assets. For example, current conditions, including COVID-19 and our business decisions, have reduced the value of some of our assets. We have impaired goodwill and intangible assets at our International Channels businesses and impaired the value of certain of our retail store assets. We may write-down other assets as our strategy evolves to account for the current business environment. We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. In recent years, such investments have included expansion and renovation of certain of our theme parks, expansion of our fleet of cruise ships, the acquisition of TFCF and investments related to DTC offerings. Some of these investments have returns that are negative or low, the ultimate business prospects of the businesses related to these investments are uncertain, these investments may impact the profitability of our other businesses, and these risks are exacerbated by COVID-19. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be negative or lower than prior to the change in strategy or restructuring. Even if our strategies are effective in the long term, our new offerings will generally not be profitable in the short term, growth of our new offerings is unlikely to be even quarter over quarter and we may not expand into new markets as or when anticipated. Our ability to forecast for new businesses may be impacted by our lack of experience operating in those new businesses, speed with which the competitive landscape changes, volatility beyond our control (such as the events beyond our control noted above) and our ability to obtain or develop the content and rights on which our projections are based. Accordingly, we may not achieve our forecasted outcomes.

Increased competitive pressures may reduce our revenues or increase our costs.

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. This includes, among other types, competition for human resources, content and other resources we require in operating our business. For example:

- Our programming and production operations compete to obtain creative, performing and business talent, sports and other programming, story properties, advertiser support and market share with other studio operators, television networks, SVOD providers and other new sources of broadband delivered content.
- Our television networks and stations and DTC offerings compete for the sale of advertising time with other television and SVOD services, as well as with newspapers, magazines, billboards and radio stations. In addition, we increasingly face competition for advertising sales from internet and mobile delivered content, which offer advertising delivery technologies that are more targeted than can be achieved through traditional means.
- Our television networks compete for carriage of their programming with other programming providers.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities.
- Our content sales/licensing operations compete for customers with all other forms of entertainment.
- Our consumer products business competes with other licensors and creators of IP.

- Our DTC businesses compete for customers with an increasing number of competitors' DTC offerings, all other forms of media and all other forms of entertainment, as well as for technology, creative, performing and business talent and for content.

Competition in each of these areas may further increase as a result of technological developments and changes in market structure, including consolidation of suppliers of resources and distribution channels. Increased competition may increase the cost of programming and other products and divert consumers from our creative or other products, or to other products or other forms of entertainment, which could reduce our revenue or increase our marketing costs.

Competition for the acquisition of resources can further increase the cost of producing our products and services, deprive us of talent necessary to produce high quality creative material or increase the cost of compensation for our employees. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks and DTC offerings, parks and resorts admissions and room rates and prices for consumer products from which we derive license revenues.

TABLE OF CONTENTS

Our results may be adversely affected if long-term programming or carriage contracts are not renewed on sufficiently favorable terms.

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to content distributors. As these contracts expire, we must renew or renegotiate the contracts, and if we are unable to renew them on acceptable terms, we may lose programming rights or distribution rights. As a result, our portfolio of programming rights and the distributors of our programming have changed and may continue to change over time. Even if these contracts are renewed, the cost of obtaining certain programming rights has increased and may continue to increase (or increase at faster rates than our historical experience) and programming distributors, facing pressures resulting from increased subscription fees and alternative distribution challenges, have demanded and may continue to demand terms (including pricing and the breadth of distribution) that reduce our revenue from distribution of programs (or increase revenue at slower rates than our historical experience). Moreover, our ability to renew these contracts on favorable terms may be affected by a number of factors, such as consolidation in the market for program distribution, the entrance of new participants in the market for distribution of content on digital platforms and the impacts of COVID-19. With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including the strength of advertising markets, subscription levels and rates for programming, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

Changes in regulations applicable to our businesses may impair the profitability of our businesses.

Our broadcast networks and television stations are highly regulated, and each of our other businesses is subject to a variety of U.S. and overseas regulations. Some of these regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks and our owned television stations. See Item 1 — Business — Disney Media and Entertainment Distribution, Federal Regulation.
- Federal, state and foreign privacy and data protection laws and regulations.
- Regulation of the safety and supply chain of consumer products and theme park operations, including potential regulation regarding the sourcing, importation and the sale of goods.
- Environmental protection regulations.
- U.S. and international anti-corruption laws, sanction programs and trade restrictions, restrictions on the manner in which content is currently licensed and distributed, ownership restrictions, currency exchange controls or film or television content requirements, investment obligations or quotas.
- Domestic and international labor laws, tax laws or currency controls.

New laws and regulations, as well as changes in any of these current laws and regulations or regulator activities in any of these areas, or others, may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services in ways that are profitable, and create an increasingly unpredictable regulatory landscape. For example, in 2019 India implemented regulation and tariffs impacting certain bundling of channels; in 2022 the U.S. and other countries implemented a series of sanctions against Russia in response to events in Russia and Ukraine; U.S. agencies have enhanced trade restrictions and legislation is currently under consideration that would prohibit importation of goods from certain regions; U.S. state governments have become more active in passing legislation targeted at specific sectors and companies; and in many countries/regions around the world (including but not limited to the EU) regulators are requiring us to broadcast on our linear (or display on our DTC streaming services) programming produced in specific countries as well as invest specified amounts of our revenues in local content productions.

Public health and other regional, national, state and local regulations and policies are impacting our ability to operate our businesses at all or in accordance with historic practice. In addition to the government requirements that have impacted most of our businesses as a result of COVID-19, government requirements may continue to be

extended and new government requirements may be imposed to address COVID-19 or future health outbreaks or pandemics.

Our operations outside the U.S. may be adversely affected by the operation of laws in those jurisdictions.

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than, or in addition to, U.S. law. Our risks of operating internationally have increased following the completion of the TFCF acquisition, which increased the importance of international operations to our future operations, growth and prospects. Laws in some jurisdictions differ in significant respects from those in the U.S. These differences can affect our ability to react to changes in our business, and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some international jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete

TABLE OF CONTENTS

successfully in those jurisdictions while remaining in compliance with local laws or U.S. anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law alone governed these operations.

Environmental, social and governance matters and any related reporting obligations may impact our businesses.

U.S. and international regulators, investors and other stakeholders are increasingly focused on environmental, social, and governance (ESG) matters. For example, new domestic and international laws and regulations relating to ESG matters, including human capital, diversity, sustainability, climate change and cybersecurity, are under consideration or being adopted, which may include specific, target-driven disclosure requirements or obligations. Our response will require additional investments and implementation of new practices and reporting processes, all entailing additional compliance risk. In addition, we have announced a number of ESG initiatives and goals, which will require ongoing investment, and there is no assurance that we will achieve any of these goals or that our initiatives will achieve their intended outcomes. Consumers' perceptions of our efforts to achieve these goals often differ widely and present risks to our reputation and brands. In addition, our ability to implement some initiatives or achieve some goals is dependent on external factors. For example, our ability to meet certain sustainability goals or initiatives may depend in part on third-party collaboration, mitigation innovations and/or the availability of economically feasible solutions at scale.

Damage to our reputation or brands may negatively impact our Company across businesses and regions.

Our reputation and globally recognizable brands are integral to the success of our businesses. Because our brands engage consumers across our businesses, damage to our reputation or brands in one business may have an impact on our other businesses. Because some of our brands are globally recognized, brand damage may not be locally contained. Maintenance of the reputation of our Company and brands depends on many factors including the quality of our offerings, maintenance of trust with our customers and our ability to successfully innovate. In addition, we may pursue brand or product integration combining previously separate brands or products targeting different audiences under one brand or pursue other business initiatives inconsistent with one or more of our brands, and there is no assurance that these initiatives will be accepted by our customers and not adversely impact one or more of our brands. Significant negative claims or publicity regarding the Company or its operations, products, management, employees, practices, business partners, business decisions, social responsibility and culture may materially damage our brands or reputation, even if such claims are untrue. Damage to our reputation or brands could impact our sales, business opportunities, profitability, recruiting and valuation of our securities.

Various risks may impact the success of our DTC business.

We may not successfully execute on our DTC strategy. The success of our DTC strategy and profitability of our DTC businesses will be impacted by the success of our efforts to reorganize DMED to advance our DTC strategies, drive subscriber additions and retention based on the attractiveness of our content, manage churn in reaction to price increases, achieve the desired financial impact of the Disney+ ad supported service, pricing model and price increases, our ability to execute on cost realignment and the effects of our determinations with regard to distribution for our creative content across windows. The initial costs of marketing campaigns are generally recognized in the DMED business/distribution platform of initial exploitation, and allocation of programming and production costs is driven by distribution of the relevant content across windows. Accordingly, our distribution determinations impact the costs of each business/distribution channel, including DTC. An increasing number of competitors have entered DTC businesses. Consumers may not be willing to pay for an expanding set of DTC streaming services at increasing prices, potentially exacerbated by an economic downturn. In addition, economic downturns negatively impact the purchase of and price for advertising on our DTC streaming services. We face competition for creative talent and may not be successful in recruiting and retaining talent, or may face increased costs to do so. Our content may not successfully attract and retain subscribers in the quantities that we expect. Our content is subject to cost pressures and may cost more than we expect. We may not successfully manage our costs to meet our profitability goals. Government regulation, including revised foreign content and ownership regulations, may impact the implementation of our DTC business plans. The highly competitive environment in which we operate puts pricing pressure on our

DTC offerings and may require us to lower our prices or not take price increases to attract or retain customers or experience higher churn rates. These and other risks may impact the profitability and success of our DTC businesses.

Potential credit ratings actions, increases in interest rates, or volatility in the U.S. and global financial markets could impede access to, or increase the cost of, financing our operations and investments.

Our borrowing costs have been, and can be affected by short- and long-term debt ratings assigned by independent ratings agencies that are based, in part, on the Company's performance as measured by credit metrics such as leverage and interest coverage ratios. As a result of the financial impact of COVID-19 on our businesses, Standard and Poor's downgraded our long-term debt ratings by two notches to BBB+ and downgraded our short-term debt ratings by one notch to A-2. Fitch downgraded our long- and short-term credit ratings by one notch to A- and F2, respectively. As of October 1, 2022 Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were BBB+ and A-2 (Positive), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. These ratings actions have increased, and any potential future

TABLE OF CONTENTS

downgrades could further increase, our cost of borrowing and/or make it more difficult for us to obtain financing on acceptable terms.

In addition, increases in interest rates have increased our cost of borrowing and volatility in U.S. and global financial markets could impact our access to, or further increase the cost of, financing. Past disruptions in the U.S. and global credit and equity markets made it more difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments.

Labor disputes may disrupt our operations and adversely affect the profitability of any of our businesses.

A significant number of employees in various parts of our businesses, including employees of our theme parks and writers, directors, actors, and production personnel for our productions are covered by collective bargaining agreements. In addition, some of our employees outside the U.S. are represented by works councils, trade unions or other employee associations. Further, the employees of licensees who manufacture and retailers who sell our consumer products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. In general, a labor dispute involving our employees or the employees of our licensees or retailers who sell our consumer products or providers of programming content may disrupt our operations and reduce our revenues. Resolution of disputes or negotiation of rate increases may increase our costs.

The seasonality of certain of our businesses and timing of certain of our product offerings could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations and variations in connection with the timing of our product offerings, including as follows:

- Revenues at DPEP fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarters. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts, many of which have been delayed, canceled or modified.
- Revenues from television networks and stations are subject to seasonal advertising patterns and changes in viewership levels. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months.
- Revenues from content sales/licensing fluctuate due to the timing of content releases across various distribution markets. Release dates and methods are determined by a number of factors, including, among others, competition, the timing of vacation and holiday periods and impacts of COVID-19 to various distribution markets.
- DTC revenues fluctuate based on changes in the number of subscribers and subscriber fee or revenue mix; viewership levels on our digital platforms; and the demand for sports and film and television content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons, content production schedules and league shut downs. Because our DTC business is relatively new, we have limited data on which to base our understanding of DTC seasonality.

Accordingly, negative impacts on our business occurring during a time of typical high seasonal demand such as our park closures due to COVID-19 restrictions or hurricane damage during the summer travel season or other high seasons, could have a disproportionate effect on the results of that business for the year.

Costs of employee health, welfare and pension benefits, including postretirement medical benefits for some employees and retirees, may reduce our profitability.

With approximately 220,000 employees, our profitability is substantially affected by costs of our health, welfare and pension benefits, including the costs of medical benefits for current employees and the costs of

postretirement medical benefits for some current employees and retirees. We may experience significant increases in these costs as a result of macroeconomic factors, which are beyond our control, including increases in the cost of health care. Impacts of COVID-19 or future health outbreaks and pandemics may lead to an increase in the cost of medical insurance and expenses. In addition, changes in investment returns and discount rates used to calculate pension and postretirement medical expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding requirements. There can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

TABLE OF CONTENTS

ACQUISITION RISKS

Our consolidated indebtedness increased substantially following completion of the TFCF acquisition and further increased as a result of the impacts of COVID-19. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.

As a result of the TFCF acquisition in fiscal 2019, the Company's net indebtedness increased substantially. The increased indebtedness could have the effect of, among other things, reducing our financial flexibility and reducing our flexibility to respond to changing business and economic conditions, such as those presented by COVID-19, among others. Increased levels of indebtedness could also reduce funds available for investments, capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. Our leverage ratios have increased as the result of COVID-19's impact on financial performance, which caused certain of the credit ratings agencies to downgrade their assessment of our credit ratings, and are expected to remain elevated at least in the near term. Our debt ratings may be further downgraded, which may negatively impact our cost of borrowings.

The TFCF acquisition and integration and Hulu put/call may result in additional costs and expenses.

We have incurred and may continue to incur significant costs, expenses and fees for professional services and other transaction and financing costs in connection with the TFCF acquisition and integration and the Hulu put/call agreement with NBCU. We may also incur accounting and other costs that were not anticipated at the time of the TFCF acquisition, including costs for which we have established reserves or which may lead to reserves in the future. Such costs, including the Company's obligations under the Hulu put/call agreement with NBCU, could negatively impact the Company's free cash flow and result in the Company incurring additional indebtedness.

GENERAL RISKS

The price of our common stock has been, and may continue to be, volatile.

The price of our common stock has experienced substantial volatility and may continue to be volatile. Various factors have impacted, and may continue to impact, the price of our common stock, including, among others, changes in management; variations in our operating results; variations between our actual results and expectations of securities analysts; changes in our estimates, guidance or business plans; changes in financial estimates and recommendations by securities analysts; the activities, operating results or stock price of our competitors or other industry participants in the industries in which we operate; the announcement or completion of significant transactions by us or a competitor; events affecting the stock market generally; and the economic and political conditions in the U.S. and internationally, as well as other factors described in this Item 1A. Some of these factors may adversely impact the price of our common stock, regardless of our operating performance. Further, volatility in the price of our common stock may negatively impact one or more of our businesses, including by increasing cash compensation or stock awards for our employees who participate in our stock incentive programs or limiting our financing options for acquisitions and other business expansion.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that the Court of Chancery of the State of Delaware will be the exclusive forum for certain legal actions between the Company and its stockholders, which could increase costs to bring a claim, discourage claims or limit the ability of the Company's stockholders to bring a claim in a judicial forum viewed by the stockholders as more favorable for disputes with the Company or the Company's directors, officers or other employees.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of the Company, (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or stockholder of the Company to the Company or the Company's stockholders, (iii) any action or proceeding asserting a claim arising pursuant to, or seeking to enforce any right, obligation or remedy under, any provision of the General Corporation Law of the State of Delaware (the "DGCL"), the Certificate of Incorporation or these Bylaws (as each may be amended from time to time), (iv) any action or proceeding as to which the General Corporation Law

of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware, (v) or any action or proceeding asserting a claim governed by the internal affairs doctrine. The choice of forum provision may increase costs to bring a claim, discourage claims or limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company or the Company's directors, officers or other employees, which may discourage such lawsuits against the Company or the Company's directors, officers and other employees.

Alternatively, if a court were to find the choice of forum provision contained in the Company's amended and restated bylaws to be inapplicable or unenforceable in an action, the Company may incur additional costs associated with resolving such action in other jurisdictions. The exclusive forum provision in the Company's amended and restated bylaws will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the federal securities laws including the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or the respective rules and regulations promulgated thereunder.

[TABLE OF CONTENTS](#)

ITEM 1B. Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of fiscal 2022 that remain unresolved.

ITEM 2. Properties

Our parks and resorts locations and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Disney Parks, Experiences and Products*. Film and television library properties and television stations owned by the Company are described in Item 1 under the caption *Disney Media and Entertainment Distribution*.

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business

segment.

Location	Property / Approximate Size	Use	Business Segment
Burbank, CA & surrounding cities ⁽¹⁾	Land (201 acres) & Buildings (4,695,000 ft ²)	Owned Office/Production/Warehouse (includes 240,000 ft ² sublet to third-party tenants)	Corporate/DMED/DPEP
Burbank, CA & surrounding cities ⁽¹⁾	Buildings (1,821,000 ft ²)	Leased Office/Warehouse	Corporate/DMED/DPEP
Los Angeles, CA	Land (22 acres) & Buildings (600,000 ft ²)	Owned Office/Production/Technical Warehouse	Corporate/DMED
Los Angeles, CA	Buildings (3,051,000 ft ²)	Leased Office/Production/Technical/Theater	Corporate/DMED/DPEP
New York, NY	Buildings (51,000 ft ²)	Owned Office	Corporate/DMED
New York, NY	Land (2 acres) & Buildings (2,186,000 ft ²)	Leased Office/Production/Theater/Warehouse (includes 679,000 ft ² sublet to third-party tenants)	Corporate/DMED/DPEP
Bristol, CT	Land (117 acres) & Buildings (1,174,000 ft ²)	Owned Office/Production/Technical	DMED
Bristol, CT	Buildings (512,000 ft ²)	Leased Office/Warehouse/Technical	DMED
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft ²)	Owned Office/Production/Technical	DMED
Emeryville, CA	Buildings (80,000 ft ²)	Leased Office/Storage	DMED
San Francisco, CA	Buildings (638,000 ft ²)	Leased Office/Production/Technical/Theater (includes 47,000 ft ² sublet to third-party tenants)	Corporate/DMED
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/Production/Transmitter/Theaters/Warehouse	Corporate/DMED/DPEP
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Warehouse/Retail/Residential	DMED/DPEP

⁽¹⁾ Surrounding cities include Glendale, CA, North Hollywood, CA and Sun Valley, CA

ITEM 3. Legal Proceedings

As disclosed in Note 14 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 14 relating to certain legal matters is incorporated herein by reference.

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

TABLE OF CONTENTS

ITEM 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below.

As of November 20, 2022, the following individuals have served as executive officers since the beginning of our last fiscal year:

Name	Age	Title	Executive Officer Since
Robert A. Iger	71	Chief Executive Officer ⁽¹⁾	11/20/2022
Robert A. Chapek	63	Chief Executive Officer ⁽²⁾	2020 - 11/20/2022
Christine M. McCarthy	67	Senior Executive Vice President and Chief Financial Officer ⁽³⁾	2005
Horacio E. Gutierrez	57	Senior Executive Vice President and General Counsel ⁽⁴⁾	2022
Paul J. Richardson	57	Senior Executive Vice President and Chief Human Resources Officer ⁽⁵⁾	2021
Kristina K. Schake	52	Senior Executive Vice President and Chief Communications Officer ⁽⁶⁾	2022

⁽¹⁾ Mr. Iger was appointed Chief Executive Officer effective November 20, 2022. He previously served as Executive Chairman of the Company from February 2020 through December 2021 and as Chief Executive Officer of the Company from September 2005 to February 2020.

⁽²⁾ Mr. Chapek was appointed Chief Executive Officer effective February 24, 2020 and served as Chief Executive Officer until November 20, 2022. He served as Chairman of Disney Parks, Experiences and Products since the segment's creation in 2018, and prior to that was the Chairman of Walt Disney Parks and Resorts from 2015.

⁽³⁾ Ms. McCarthy was appointed Senior Executive Vice President and Chief Financial Officer effective June 30, 2015. She was previously Executive Vice President, Corporate Real Estate, Alliances and Treasurer of the Company from 2000 to 2015.

⁽⁴⁾ Mr. Gutierrez was appointed Senior Executive Vice President and General Counsel effective February 1, 2022. Prior to joining the Company, he served as Head of Global Affairs and Chief Legal Officer for Spotify Technology S.A. (Spotify) from November 2019 to January 2022, where he led a global, multi-disciplinary team of business, corporate communications and public affairs, government relations, licensing, operations and legal professionals responsible for the company's work in areas including industry relations, content partnerships, public policy, and trust & safety. He was previously Spotify's General Counsel - Vice President, Business & Legal Affairs from April 2016 to November 2019.

⁽⁵⁾ Mr. Richardson was appointed Senior Executive Vice President and Chief Human Resources Officer effective July 1, 2021. He was previously Senior Vice President of Human Resources at ESPN from 2007.

⁽⁶⁾ Ms. Schake was appointed Senior Executive Vice President and Chief Communications Officer effective June 29, 2022. Previously, she served as Executive Vice President, Global Communications from April 2022. Prior to joining the Company, she was appointed by the President of the United States as Counselor for

Strategic Communications to the Secretary of the U.S. Department of Health and Human Services, leading a nationwide public education campaign from March 2021 to December 2021. Prior to that, she served as Global Communications Director for Instagram, a subsidiary of Meta Platforms, Inc., from March 2017 to March 2019, where she oversaw the communications teams in North America, Latin America, Europe, and Asia.

PART II

ITEM 5. Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the New York Stock Exchange under the ticker symbol “DIS”.

The Company paid a dividend of \$1.6 billion in fiscal year 2020 related to operations in the second half of fiscal 2019. The Company did not pay a dividend with respect to fiscal year 2020 nor fiscal year 2021 operations and has not declared or paid a dividend with respect to fiscal 2022 operations.

As of October 1, 2022, the approximate number of common shareholders of record was 793,000.

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended October 1, 2022:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 3, 2022 – July 31, 2022	30,343	\$ 100.81	—	n/a
August 1, 2022 – August 31, 2022	22,440	119.99	—	n/a
September 1, 2022 – October 1, 2022	23,058	107.38	—	n/a
Total	<u>75,841</u>	108.48	<u>—</u>	n/a

⁽¹⁾ 75,841 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan. These purchases were not made pursuant to a publicly announced repurchase plan or program.

⁽²⁾ Not applicable as the Company no longer has a stock repurchase plan or program.

ITEM 6. [Reserved]

[TABLE OF CONTENTS](#)

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CONSOLIDATED RESULTS

(in millions, except per share data)

	2022	2021	% Change Better (Worse)
Revenues:			
Services	\$ 74,200	\$ 61,768	20 %
Products	8,522	5,650	51 %
Total revenues	82,722	67,418	23 %
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(48,962)	(41,129)	(19) %
Cost of products (exclusive of depreciation and amortization)	(5,439)	(4,002)	(36) %
Selling, general, administrative and other	(16,388)	(13,517)	(21) %
Depreciation and amortization	(5,163)	(5,111)	(1) %
Total costs and expenses	(75,952)	(63,759)	(19) %
Restructuring and impairment charges	(237)	(654)	64 %
Other income (expense), net	(667)	201	nm
Interest expense, net	(1,397)	(1,406)	1 %
Equity in the income of investees, net	816	761	7 %
Income from continuing operations before income taxes	5,285	2,561	>100 %
Income taxes from continuing operations	(1,732)	(25)	>(100) %
Net income from continuing operations	3,553	2,536	40 %
Loss from discontinued operations, net of income tax benefit of \$14 and \$9, respectively	(48)	(29)	(66) %
Net income	3,505	2,507	40 %
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(360)	(512)	30 %
Net income attributable to Disney	\$ 3,145	\$ 1,995	58 %
Earnings (loss) per share attributable to Disney:			
Diluted ⁽¹⁾			
Continuing operations	\$ 1.75	\$ 1.11	58 %
Discontinued operations	(0.03)	(0.02)	(50) %
	\$ 1.72	\$ 1.09	58 %
Basic ⁽¹⁾			
Continuing operations	\$ 1.75	\$ 1.11	58 %
Discontinued operations	(0.03)	(0.02)	(50) %
	\$ 1.73	\$ 1.10	57 %
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,827	1,828	
Basic	1,822	1,816	

⁽¹⁾ Total may not equal the sum of the column due to rounding.

[TABLE OF CONTENTS](#)

Organization of Information

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Significant Developments
- Consolidated Results and Non-Segment Items
- Business Segment Results
- Corporate and Unallocated Shared Expenses
- Restructuring Activities
- Liquidity and Capital Resources
- Supplemental Guarantor Financial Information
- Critical Accounting Policies and Estimates

In Item 7, we discuss fiscal 2022 and 2021 results and comparisons of fiscal 2022 results to fiscal 2021 results. Discussions of fiscal 2020 results and comparisons of fiscal 2021 results to fiscal 2020 results can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in [Part II, Item 7 of the Company's Annual Report on Form 10-K](#) for the fiscal year ended October 2, 2021.

SIGNIFICANT DEVELOPMENTS

Leadership Change and Pending Restructuring

As previously announced, on November 20, 2022, Robert A. Iger returned to the Company as Chief Executive Officer ("CEO") and a director. Mr. Iger previously spent more than four decades at the Company, including 15 years as CEO. In announcing Mr. Iger's appointment, the Company noted he has agreed to serve as CEO for two years, with a mandate from the Company's Board of Directors "to set the strategic direction for renewed growth and to work closely with the Board in developing a successor to lead the Company at the completion of his term." Mr. Iger succeeded Robert A. Chapek, who had served as CEO since 2020.

As contemplated by the leadership change announcement, we anticipate that within the coming months Mr. Iger will initiate organizational and operating changes within the Company to address the Board's goals. While the plans are in early stages, changes in our structure and operations, including within DMED (and including possibly our distribution approach and the businesses/distribution platforms selected for the initial distribution of content), can be expected. The restructuring and change in business strategy, once determined, could result in impairment charges.

COVID-19 Pandemic

Since early 2020, the world has been, and continues to be, impacted by COVID-19 and its variants. COVID-19 and measures to prevent its spread have impacted our segments in a number of ways, most significantly at DPEP where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. In addition, at DMED we delayed, or in some cases, shortened or cancelled theatrical releases and experienced disruptions in the production and availability of content. Operations have resumed at various points since May 2020, with certain theme park and resort operations and film and television productions resuming by the end of fiscal 2020 and throughout fiscal 2021. Although operations resumed, many of our businesses continue to experience impacts from COVID-19, such as incremental health and safety measures and related increased expenses, capacity restrictions and closures (including at some of our international parks and in theaters in certain markets), and disruption of content production activities.

The impact of COVID-19 related disruptions on our financial and operational results will be dictated by the currently unknowable duration and severity of COVID-19 and its variants, and among other things, governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters

going forward. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent.

Additionally, see Part I., Item 1A. Risk Factors - The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Revenues for fiscal 2022 increased 23%, or \$15.3 billion, to \$82.7 billion; net income attributable to Disney increased \$1.2 billion, to income of \$3.1 billion; and diluted earnings per share from continuing operations attributable to Disney increased to income of \$1.75 compared to income of \$1.11 in the prior year. The EPS increase was due to higher segment

TABLE OF CONTENTS

operating results, partially offset by higher income tax expense in the current year compared to the prior year. Higher segment operating results reflecting growth at DPEP, partially offset by lower operating results at DMED.

Revenues

Service revenues for fiscal 2022 increased 20%, or \$12.4 billion, to \$74.2 billion, due to increased revenues at our theme parks and resorts, higher DTC subscription revenue and, to a lesser extent, higher theatrical distribution and advertising revenue. These increases were partially offset by a reduction in revenue for amounts to early terminate certain license agreements with a customer for film and television content, which was delivered in previous years, in order for the Company to use the content primarily on our DTC services (Content License Early Termination). The increase at theme parks and resorts was due to higher volumes, which generally reflected the impact of operating with capacity restrictions in the prior year as a result of COVID-19, and higher average per capita ticket revenue. The increase in DTC subscription revenue was due to subscriber growth and higher average rates.

Product revenues for fiscal 2022 increased 51%, or \$2.9 billion, to \$8.5 billion, due to higher sales volumes of merchandise, food and beverage at our theme parks and resorts.

Costs and expenses

Cost of services for fiscal 2022 increased 19%, or \$7.8 billion, to \$49.0 billion, due to higher programming and production costs, increased volumes at our theme parks and resorts and higher technical support costs at Direct-to-Consumer. The increase in programming and production costs was due to higher costs at Direct-to-Consumer, increased sports programming costs and an increase in production cost amortization due to theatrical revenue growth. These increases were partially offset by lower programming and production costs as a result of international channel closures.

Cost of products for fiscal 2022 increased 36%, or \$1.4 billion, to \$5.4 billion, due to higher merchandise, food and beverage sales at our theme parks and resorts.

Selling, general, administrative and other costs for fiscal 2022 increased 21%, or \$2.9 billion, to \$16.4 billion, primarily due to higher marketing costs at our DTC and, to a lesser extent, theatrical distribution and parks and experiences businesses.

Restructuring and Impairment Charges

Restructuring and impairment charges in fiscal 2022 were \$0.2 billion primarily due to the impairment of an intangible and other assets related to our businesses in Russia. We may incur additional charges to exit these businesses, which are not anticipated to be material.

Restructuring and impairment charges in fiscal 2021 were \$0.7 billion due to \$0.4 billion of asset impairments and severance costs related to the shut-down of an animation studio and the closure of a substantial number of Disney-branded retail stores in North America and Europe and \$0.3 billion of severance and other costs in connection with the integration of TFCF and workforce reductions at DPEP.

Other Income (expense), net

(in millions)	2022	2021	% Change Better (Worse)
fuboTV gain	\$ —	\$ 186	(100) %
German FTA gain	—	126	(100) %
DraftKings loss	(663)	(111)	>(100) %
Other, net	(4)	—	nm
Other income (expense), net	<u>\$ (667)</u>	<u>\$ 201</u>	nm

In fiscal 2022, the Company recognized a non-cash loss of \$663 million from the adjustment of its investment in DraftKings Inc. (DraftKings) to fair value (DraftKings loss).

In fiscal 2021, the Company recognized a \$186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain), a \$126 million gain on the sale of our 50% interest in a German free-to-air (FTA) television network (German FTA gain) and a \$111 million DraftKings loss.

[TABLE OF CONTENTS](#)

Interest Expense, net

(in millions)	2022	2021	% Change Better (Worse)
Interest expense	\$ (1,549)	\$ (1,546)	— %
Interest income, investment income and other	152	140	9 %
Interest expense, net	\$ (1,397)	\$ (1,406)	1 %

Interest expense was comparable to the prior year as higher average interest rates were offset by lower average debt balances.

The increase in interest income, investment income and other was due to a favorable comparison of pension and postretirement benefit costs, other than service cost, which was a net benefit in the current year and an expense in the prior year. This increase was partially offset by investment losses in the current year compared to investment gains in the prior year.

Equity in the Income of Investees

Equity in the income of investees increased \$55 million to \$816 million in the current year due to higher income from A+E Television Networks (A+E) and the comparison to investment impairments in the prior year.

Effective Income Tax Rate

	2022	2021
Income from continuing operations before income taxes	\$ 5,285	\$ 2,561
Income tax expense on continuing operations	1,732	25
Effective income tax rate - continuing operations	32.8%	1.0%

The effective income tax rate in the current year was higher than the U.S. statutory rate primarily due to higher effective tax rates on foreign earnings. The effective income tax rate in the prior year was lower than the U.S. statutory rate due to favorable adjustments related to prior years and excess tax benefits on employee share-based awards, partially offset by higher effective tax rates on foreign earnings. Higher effective tax rates on foreign earnings in both the current and prior year reflected the impact of foreign losses and, to a lesser extent, foreign tax credits for which we are unable to recognize a tax benefit.

Noncontrolling Interests

(in millions)	2022	2021	% Change Better (Worse)
Net income from continuing operations attributable to noncontrolling interests	\$ (360)	\$ (512)	30%

The decrease in net income from continuing operations attributable to noncontrolling interests was primarily due to higher losses at Shanghai Disney Resort and higher losses at our DTC sports business, partially offset by higher results for ESPN.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

Certain Items Impacting Results in the Year

Results for fiscal 2022 were impacted by the following:

- TFCF and Hulu acquisition amortization of \$2,353 million
- A \$1.0 billion reduction in revenue for the Content License Early Termination
- Other expense of \$667 million due to the DraftKings loss of \$663 million

- Restructuring and impairment charges of \$237 million

Results for fiscal 2021 were impacted by the following:

- TFCF and Hulu acquisition amortization of \$2,418 million
- Restructuring and impairment charges of \$654 million
- Other income of \$201 million due to the fuboTV gain of \$186 million and the German FTA gain of \$126 million, partially offset by the DraftKings loss of \$111 million

TABLE OF CONTENTS

A summary of the impact of these items on EPS is as follows:

(in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense) ⁽¹⁾	After-Tax Income (Loss)	EPS Favorable (Adverse) ⁽²⁾
Year Ended October 1, 2022:				
TFCF and Hulu acquisition amortization ⁽³⁾	\$ (2,353)	\$ 549	\$ (1,804)	\$ (0.97)
Contract License Early Termination	(1,023)	238	(785)	(0.43)
Other income (expense), net	(667)	156	(511)	(0.28)
Restructuring and impairment charges	(237)	55	(182)	(0.10)
Total	<u>\$ (4,280)</u>	<u>\$ 998</u>	<u>\$ (3,282)</u>	<u>\$ (1.78)</u>
Year Ended October 2, 2021:				
TFCF and Hulu acquisition amortization ⁽³⁾	\$ (2,418)	\$ 562	\$ (1,856)	\$ (1.00)
Restructuring and impairment charges	(654)	152	(502)	(0.27)
Other income (expense), net	201	(46)	155	0.08
Total	<u>\$ (2,871)</u>	<u>\$ 668</u>	<u>\$ (2,203)</u>	<u>\$ (1.18)</u>

⁽¹⁾ Tax benefit (expense) is determined using the tax rate applicable to the individual item.

⁽²⁾ EPS is net of noncontrolling interest, where applicable. Total may not equal the sum of the column due to rounding.

⁽³⁾ Includes amortization of intangibles related to TFCF equity investees.

BUSINESS SEGMENT RESULTS

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other costs, and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

DMED primarily generates revenue across three significant lines of business/distribution platforms: Linear Networks, Direct-to-Consumer and Content Sales/Licensing. Programming and production costs to support these businesses/distribution platforms are largely incurred across four content creation groups: Studios, General Entertainment, Sports and International. Programming and production costs include amortization of licensed programming rights (including sports rights), amortization of capitalized production costs, subscriber-based fees for programming our Hulu services, production costs related to live programming such as news and sports and amortization of participations and residual obligations. These costs are generally allocated across the DMED businesses based on the estimated relative value of the distribution windows. The initial costs of marketing campaigns are generally recognized in the DMED business/distribution platform of initial exploitation. We have taken an intentionally flexible approach to distribution. As we refine and adjust our plans, our decisions may impact the results of operations of the businesses within DMED, including cost allocation, revenue timing, viewership timing and patterns, the total mix of content on a business/distribution platform or other aspects relevant to the performance of each business/distribution platform. For example, a shift in the timing or planned business/platform of distribution impacts the timing and allocation of programming, production and marketing costs.

The Linear Networks business generates revenue from affiliate fees and advertising sales and from fees from sub-licensing of sports programming to third parties. Operating expenses include programming and production costs, technology support costs, operating labor and distribution costs.

The Direct-to-Consumer business generates revenue from subscription fees, advertising sales and pay-per-view and Premier Access fees. Operating expenses include programming and production costs, technology support costs, operating labor and distribution costs. Operating expenses also include fees paid to Linear Networks for the right to air the linear network feeds and other services.

The Content Sales/Licensing business generates revenue from the sale of film and episodic television content in the TV/SVOD and home entertainment markets, distribution of films in the theatrical market, licensing of our music rights, sales of tickets to stage play performances and licensing of our IP for use in stage plays. Operating expenses include programming and production costs, distribution expenses and costs of sales.

DPEP primarily generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise at our theme parks and resorts, charges for room nights at hotels, sales of cruise vacations, sales and rentals of vacation club properties, royalties from licensing our IP for use on consumer goods and the sale of branded merchandise. Revenues are also generated from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort.

TABLE OF CONTENTS

Significant expenses include operating labor, costs of goods sold, infrastructure costs, depreciation and other operating expenses. Infrastructure costs include technology support costs, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation. Other operating expenses include costs for such items as supplies, commissions and entertainment offerings.

The Company evaluates the performance of its operating segments based on segment operating income, and management uses total segment operating income as a measure of the overall performance of the operating businesses separate from non-operating factors. Total segment operating income is not a financial measure defined by GAAP, should be reviewed in conjunction with the relevant GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company believes that information about total segment operating income assists investors by allowing them to evaluate changes in the operating results of the Company's portfolio of businesses separate from non-operational factors that affect net income, thus providing separate insight into both operations and other factors that affect reported results.

The following table reconciles revenues to segment revenues:

(in millions)	2022	2021	% Change Better (Worse)
Revenues	\$ 82,722	\$ 67,418	23 %
Content License Early Termination	1,023	—	nm
Total segment revenues	\$ 83,745	\$ 67,418	24 %

The following table reconciles income from continuing operations before income taxes to total segment operating income:

(in millions)	2022	2021	% Change Better (Worse)
Income from continuing operations before income taxes	\$ 5,285	\$ 2,561	>100 %
Add (subtract):			
Content License Early Termination	1,023	—	nm
Corporate and unallocated shared expenses	1,159	928	(25) %
Restructuring and impairment charges	237	654	64 %
Other income (expense), net	667	(201)	nm
Interest expense, net	1,397	1,406	1 %
TFCF and Hulu acquisition amortization	2,353	2,418	3 %
Total segment operating income	\$ 12,121	\$ 7,766	56 %

The following is a summary of segment revenue and operating income:

(in millions)	2022	2021	% Change Better (Worse)
<i>Segment Revenues:</i>			
Disney Media and Entertainment Distribution	\$ 55,040	\$ 50,866	8 %
Disney Parks, Experiences and Products	28,705	16,552	73 %
Total segment revenues	<u>\$ 83,745</u>	<u>\$ 67,418</u>	24 %
<i>Segment operating income:</i>			
Disney Media and Entertainment Distribution	\$ 4,216	\$ 7,295	(42) %
Disney Parks, Experiences and Products	7,905	471	>100 %
Total segment operating income	<u>\$ 12,121</u>	<u>\$ 7,766</u>	56 %

TABLE OF CONTENTS

Disney Media and Entertainment Distribution

Revenue and operating results for DMED are as follows:

(in millions)	2022	2021	% Change Better (Worse)
<i>Revenues:</i>			
Linear Networks	\$ 28,346	\$ 28,093	1 %
Direct-to-Consumer	19,558	16,319	20 %
Content Sales/Licensing and Other	8,146	7,346	11 %
Elimination of Intrasegment Revenue ⁽¹⁾	(1,010)	(892)	(13) %
	<u>\$ 55,040</u>	<u>\$ 50,866</u>	8 %
<i>Segment operating income (loss):</i>			
Linear Networks	\$ 8,518	\$ 8,407	1 %
Direct-to-Consumer	(4,015)	(1,679)	>(100) %
Content Sales/Licensing and Other	(287)	567	nm
	<u>\$ 4,216</u>	<u>\$ 7,295</u>	(42) %

⁽¹⁾ Reflects fees received by the Linear Networks from other DMED businesses for the right to air our Linear Networks and related services.

Linear Networks

Operating results for Linear Networks are as follows:

(in millions)	2022	2021	% Change Better (Worse)
<i>Revenues</i>			
Affiliate fees	\$ 18,535	\$ 18,652	(1) %
Advertising	9,128	8,853	3 %
Other	683	588	16 %
Total revenues	28,346	28,093	1 %
Operating expenses	(16,902)	(16,808)	(1) %
Selling, general, administrative and other	(3,619)	(3,491)	(4) %
Depreciation and amortization	(145)	(168)	14 %
Equity in the income of investees	838	781	7 %
Operating Income	<u>\$ 8,518</u>	<u>\$ 8,407</u>	1 %

Revenues

Affiliate revenue is as follows:

(in millions)	2022	2021	% Change Better (Worse)
Domestic Channels	\$ 15,694	\$ 15,244	3 %
International Channels	2,841	3,408	(17) %
	<u>\$ 18,535</u>	<u>\$ 18,652</u>	(1) %

The increase in affiliate revenue at the Domestic Channels was due to an increase of 6% from higher contractual rates, partially offset by a decrease of 4% from fewer subscribers.

The decrease in affiliate revenue at the International Channels was due to decreases of 13% from fewer subscribers driven by channel closures, and 6% from an unfavorable foreign exchange impact. These decreases were partially offset by an increase of 2% from higher contractual rates.

TABLE OF CONTENTS

Advertising revenue is as follows:

(in millions)	2022	2021	% Change Better (Worse)
Cable	\$ 3,880	\$ 3,681	5 %
Broadcasting	3,141	3,239	(3) %
Domestic Channels	7,021	6,920	1 %
International Channels	2,107	1,933	9 %
	<u>\$ 9,128</u>	<u>\$ 8,853</u>	3 %

The increase in Cable advertising revenue was due to increases of 3% from higher impressions and 2% from higher rates. The increase in impressions reflected higher average viewership, partially offset by fewer units delivered.

The decrease in Broadcasting advertising revenue was due to a decrease of 12% from fewer impressions at ABC, reflecting lower average viewership, partially offset by an increase of 10% from higher rates at ABC.

The increase in International Channels advertising revenue was due to increases of 8% from higher impressions and 7% from higher rates, partially offset by 7% from an unfavorable foreign exchange impact. The increase in impressions reflected higher average viewership, partially offset by the impact of channel closures. The increase in average viewership benefited from airing more cricket matches in the current year. The current year included the International Cricket Council (ICC) T20 World Cup, more Board of Control for Cricket in India (BCCI) matches and the Asia Cricket Council (ACC) Asia Cup, partially offset by fewer Indian Premier League (IPL) matches in the current year compared to the prior year. The ICC T20 World Cup generally occurs every two years and was not held in the prior year due to COVID-19. The ACC Asia Cup was rescheduled from 2020 to the current year as a result of COVID-19. The increase in BCCI cricket matches aired in the current year was driven by COVID-19-related cancellations of certain BCCI matches in the prior year.

Other revenue increased \$95 million, to \$683 million from \$588 million, due to sub-licensing fees from ICC T20 World Cup matches and higher sub-licensing fees from BCCI cricket matches in the current year compared to the prior year.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Programming and production costs			
Cable	\$ (9,415)	\$ (9,353)	(1) %
Broadcasting	(2,773)	(2,767)	— %
Domestic Channels	(12,188)	(12,120)	(1) %
International Channels	(3,148)	(3,139)	— %
	<u>(15,336)</u>	<u>(15,259)</u>	(1) %
Other operating expenses	(1,566)	(1,549)	(1) %
	<u>\$ (16,902)</u>	<u>\$ (16,808)</u>	(1) %

The increase in programming and production costs at Cable was due to higher sports programming costs, largely offset by lower non-sports programming costs. The increase in sports programming costs was due to higher rights costs for NFL and College Football Playoffs (CFP) and an increase in sports production costs reflecting the return of ESPN-hosted events, which were canceled in the prior year due to COVID-19, partially offset by lower

rights costs for MLB and NBA programming. Higher NFL programming costs were due to airing four additional regular season games in the current year compared to the prior year and contractual rate increases. The increase in CFP rights costs was due to higher contractual rates. Lower MLB programming costs were due to airing 29 games of the 2022 regular season under our new contract and one 2021 season playoff game in the current year compared to 92 games of the 2021 regular season in the prior year. The decrease in NBA programming costs was due to the comparison to airing four games of the 2020 NBA Finals in the first quarter of fiscal 2021 due to COVID-19, partially offset by contractual rate increases. Fiscal 2021 also included the 2021 NBA Finals and fiscal 2022 included the 2022 NBA finals. Lower non-sports programming costs were due to a lower cost mix of programming at FX Channels.

Programming and production costs at Broadcasting were comparable to the prior year as higher costs for non-primetime programming were largely offset by lower costs for primetime programming. Increased costs for non-primetime programming were primarily due to higher costs for news programming and higher average costs and more hours of sports programming, while decreased costs for primetime programming were due to lower average costs for reality and scripted programming.

TABLE OF CONTENTS

Programming and production costs at the International Channels were comparable to the prior year as an increase in sports programming costs, reflecting more cricket matches in the current year and higher average costs per match for BCCI and IPL cricket matches, was largely offset by the impact of channel closures and a favorable foreign exchange impact.

Selling, general administrative and other costs increased \$128 million, to \$3,619 million from \$3,491 million, driven by higher labor-related costs.

Depreciation and amortization decreased \$23 million, to \$145 million from \$168 million, driven by fully depreciated assets.

Equity in the Income of Investees

Income from equity investees increased \$57 million, to \$838 million from \$781 million, due to higher income from A+E and the comparison to impairments in the prior year. The increase at A+E resulted from lower programming costs and higher program sales, partially offset by decreases in affiliate and advertising revenue and higher marketing costs.

Operating Income from Linear Networks

Operating income increased 1%, to \$8,518 million from \$8,407 million due to increases at Broadcasting and Cable and higher income from our equity investees, partially offset by a decrease at the International Channels.

The following table provides supplemental revenue and operating income detail for Linear Networks:

(in millions)	2022	2021	% Change Better (Worse)
<i>Supplemental revenue detail</i>			
Domestic Channels	\$ 22,957	\$ 22,463	2 %
International Channels	5,389	5,630	(4) %
	<u>\$ 28,346</u>	<u>\$ 28,093</u>	1 %
<i>Supplemental operating income detail</i>			
Domestic Channels	\$ 6,785	\$ 6,594	3 %
International Channels	895	1,032	(13) %
Equity in the income of investees	838	781	7 %
	<u>\$ 8,518</u>	<u>\$ 8,407</u>	1 %

Direct-to-Consumer

Operating results for Direct-to-Consumer are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Revenues			
Subscription fees	\$ 15,291	\$ 12,020	27 %
Advertising	3,733	3,366	11 %
TV/SVOD distribution and other	534	933	(43) %
Total revenues	<u>19,558</u>	<u>16,319</u>	20 %
Operating expenses	(17,440)	(13,234)	(32) %
Selling, general, administrative and other	(5,760)	(4,435)	(30) %
Depreciation and amortization	(373)	(329)	(13) %
Operating Loss	<u>\$ (4,015)</u>	<u>\$ (1,679)</u>	>(100) %

Revenues

The increase in subscription fees reflected increases of 20% from higher subscribers, due to growth at Disney+, Hulu and ESPN+, and 9% from higher average rates due to increases in retail pricing at Disney+ and Hulu, partially offset by a decrease of 2% from an unfavorable foreign exchange impact.

Advertising revenue growth reflected increases of 7% from higher rates due to an increase at Hulu, and to a lesser extent, at Disney+, and 4% from higher impressions due to increases at Disney+, ESPN+ and Hulu. The increase in impressions at Disney+ was primarily due to airing the ICC T20 World Cup and ACC Asia Cup in the current year, neither of which were aired in the prior year.

TABLE OF CONTENTS

The decrease in TV/SVOD distribution and other revenue was due to the absence of Disney+ Premier Access revenues in the current year compared to revenues for *Black Widow*, *Raya and the Last Dragon*, *Jungle Cruise* and *Cruella* in the prior year. To a lesser extent, the decrease also reflected lower UFC pay-per-view fees due to lower average buys per event.

The following table presents additional information about our Disney+, ESPN+ and Hulu product offerings⁽¹⁾.

Paid subscribers⁽²⁾ as of:

(in millions)	October 1, 2022	October 2, 2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	46.4	38.8	20 %
International (excluding Disney+ Hotstar) ⁽³⁾	56.5	36.0	57 %
Disney+ Core ⁽⁴⁾	102.9	74.8	38 %
Disney+ Hotstar	61.3	43.3	42 %
Total Disney+ ⁽⁴⁾	164.2	118.1	39 %
ESPN+	24.3	17.1	42 %
Hulu			
SVOD Only	42.8	39.7	8 %
Live TV + SVOD	4.4	4.0	10 %
Total Hulu ⁽⁴⁾	47.2	43.8	8 %

Average Monthly Revenue Per Paid Subscriber⁽⁵⁾ for the fiscal year ended:

	2022	2021	% Change Better (Worse)
Disney+			
Domestic (U.S. and Canada)	\$ 6.34	\$ 6.33	— %
International (excluding Disney+ Hotstar) ⁽³⁾	6.10	5.31	15 %
Disney+ Core	6.22	5.87	6 %
Disney+ Hotstar	0.88	0.68	29 %
Global Disney+	4.24	4.08	4 %
ESPN+	4.80	4.57	5 %
Hulu			
SVOD Only	12.72	12.86	(1) %
Live TV + SVOD	87.62	81.35	8 %

⁽¹⁾ In the U.S., Disney+, ESPN+ and Hulu SVOD Only are each offered as a standalone service or as a package that includes all three services (the SVOD Bundle). Effective December 21, 2021, Hulu Live TV + SVOD includes Disney+ and ESPN+ (the new Hulu Live TV + SVOD offering), whereas previously, Hulu Live TV + SVOD was offered as a standalone service or with Disney+ and ESPN+ as optional additions (the old Hulu Live TV + SVOD offering). Effective March 15, 2022, Hulu SVOD Only is also offered with Disney+ as an optional add-on. Disney+ is available in more than 150 countries and territories outside the U.S. and Canada. In India and certain other Southeast Asian countries, the service is branded Disney+ Hotstar. In certain Latin American countries, we offer Disney+ as well as Star+, a general entertainment SVOD service,

which is available on a standalone basis or together with Disney+ (Combo+). Depending on the market, our services can be purchased on our websites, through third-party platforms/apps or via wholesale arrangements.

- ⁽²⁾ Reflects subscribers for which we recognized subscription revenue. Subscribers cease to be a paid subscriber as of their effective cancellation date or as a result of a failed payment method. Subscribers to the SVOD Bundle are counted as a paid subscriber for each service included in the SVOD Bundle and subscribers to the Hulu Live TV + SVOD offerings are counted as one paid subscriber for each of the Hulu Live TV + SVOD, Disney+ and ESPN+ offerings. A Hulu SVOD Only subscriber that adds Disney+ is counted as one paid subscriber for each of the Hulu SVOD Only and Disney+ offerings. In Latin America, if a subscriber has either the standalone Disney+ or Star+ service or subscribes to Combo+, the subscriber is counted as one Disney+ paid subscriber. Subscribers include those

TABLE OF CONTENTS

who receive a service through wholesale arrangements including those for which we receive a fee for the distribution of the service to each subscriber of an existing content distribution tier. When we aggregate the total number of paid subscribers across our DTC streaming services, we refer to them as paid subscriptions.

- (3) Includes the Disney+ service outside the U.S. and Canada and the Star+ service in Latin America.
- (4) Total may not equal the sum of the column due to rounding.
- (5) Average monthly revenue per paid subscriber is calculated based on the average of the monthly average paid subscribers for each month in the period. The monthly average paid subscribers is calculated as the sum of the beginning of the month and end of the month paid subscriber count, divided by two. Disney+ average monthly revenue per paid subscriber is calculated using a daily average of paid subscribers for the period. Revenue includes subscription fees, advertising (excluding revenue earned from selling advertising spots to other Company businesses) and premium and feature add-on revenue but excludes Premier Access and Pay-Per-View revenue. The average revenue per paid subscriber is net of discounts on offerings that carry more than one service. Revenue is allocated to each service based on the relative retail price of each service on a standalone basis. Revenue for the new Hulu Live TV + SVOD offering is allocated to the SVOD services based on the wholesale price of the SVOD Bundle. In general, wholesale arrangements have a lower average monthly revenue per paid subscriber than subscribers that we acquire directly or through third-party platforms.

The average monthly revenue per paid subscriber for domestic Disney+ was comparable to the prior year, as an increase in retail pricing and a lower mix of wholesale subscribers was essentially offset by a higher mix of subscribers to multi-product offerings.

The average monthly revenue per paid subscriber for international Disney+ (excluding Disney+ Hotstar) increased from \$5.31 to \$6.10 due to increases in retail pricing, partially offset by an unfavorable foreign exchange impact.

The average monthly revenue per paid subscriber for Disney+ Hotstar increased from \$0.68 to \$0.88 driven by higher per-subscriber advertising revenue and increases in retail pricing, partially offset by a higher mix of wholesale subscribers.

The average monthly revenue per paid subscriber for ESPN+ increased from \$4.57 to \$4.80 primarily due to an increase in retail pricing, a lower mix of annual subscribers and higher per-subscriber advertising revenue, partially offset by a higher mix of subscribers to multi-product offerings.

The average monthly revenue per paid subscriber for the Hulu SVOD Only service decreased from \$12.86 to \$12.72 driven by lower per-subscriber advertising revenue, a higher mix of subscribers to multi-product offerings and, to a lesser extent, to promotional offerings, partially offset by an increase in retail pricing.

The average monthly revenue per paid subscriber for the Hulu Live TV + SVOD service increased from \$81.35 to \$87.62 driven by an increase in retail pricing and higher per-subscriber advertising revenue, partially offset by a higher mix of subscribers to multi-product offerings.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Programming and production costs			
Disney+	\$ (5,027)	\$ (2,915)	(72) %
Hulu	(7,564)	(6,680)	(13) %
ESPN+ and other	(1,564)	(1,121)	(40) %
Total programming and production costs	(14,155)	(10,716)	(32) %
Other operating expense	(3,285)	(2,518)	(30) %
	<u>\$ (17,440)</u>	<u>\$ (13,234)</u>	(32) %

The increase in programming and production costs at Disney+ was due to more content provided on the service and, to a lesser extent, higher average cost programming, which reflected an increased mix of original content.

The increase in programming and production costs at Hulu was due to more content provided on the service and higher subscriber-based fees for programming the Live TV service, which reflected rate increases and an increase in the number of subscribers.

The increase in programming and production costs at ESPN+ and other was due to new NHL programming and higher rights costs for soccer and golf programming.

[TABLE OF CONTENTS](#)

Other operating expenses increased due to higher technology and distribution costs at Disney+ reflecting growth in existing markets and, to a lesser extent, expansion to new markets.

Selling, general, administrative and other costs increased \$1,325 million, to \$5,760 million from \$4,435 million, due to higher marketing costs at Disney+ and Hulu.

Depreciation and amortization increased \$44 million, to \$373 million from \$329 million, primarily due to increased investment in technology assets at Disney+.

Operating Loss from Direct-to-Consumer

Operating loss from Direct-to-Consumer increased \$2,336 million, to \$4,015 million from \$1,679 million due to a higher loss at Disney+ and, to a lesser extent, lower operating income at Hulu and a higher loss at ESPN+.

Content Sales/Licensing and Other

Operating results for Content Sales/Licensing and Other are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Revenues			
TV/SVOD distribution	\$ 3,781	\$ 4,206	(10) %
Theatrical distribution	1,875	920	>100 %
Home entertainment	820	1,014	(19) %
Other	1,670	1,206	38 %
Total revenues	8,146	7,346	11 %
Operating expenses	(5,499)	(4,536)	(21) %
Selling, general, administrative and other	(2,638)	(1,963)	(34) %
Depreciation and amortization	(296)	(294)	(1) %
Equity in the income of investees	—	14	— %
Operating Income (Loss)	\$ (287)	\$ 567	nm

Revenues

The decrease in TV/SVOD distribution revenue reflected lower sales volumes, which included the impact from the shift from licensing our content to third parties to distributing it on our DTC streaming services.

The increase in theatrical distribution revenue was due to more titles released in the current year compared to the prior year and revenue in the current year from the co-production of Marvel's *Spider-Man: No Way Home*. Although COVID-19 continues to impact our theatrical distribution business in certain markets, the impact in fiscal 2021 was more significant due to theater closures and capacity restrictions in many territories in which we operate. Titles released in the current year included *Doctor Strange In The Multiverse of Madness*, *Thor: Love and Thunder*, *Eternals*, *Encanto* and *Lightyear*. Titles released in the prior year included *Shang-Chi & The Legend of The Ten Rings*, *Black Widow* and *Free Guy*.

The decrease in home entertainment revenue was due to lower unit sales despite the benefit of more new release titles in the current year. Net effective pricing was comparable to the prior year as lower unit pricing was offset by a higher mix of new release titles, which have a higher sales price than catalog titles.

The increase in other revenue was due to more stage play performances in the current year as productions were generally shut down in the prior year due to COVID-19.

Operating expenses are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Programming and production costs	\$ (4,215)	\$ (3,611)	(17) %
Distribution costs and cost of goods sold	(1,284)	(925)	(39) %
	<u>\$ (5,499)</u>	<u>\$ (4,536)</u>	(21) %

The increase in programming and production costs was due to higher production cost amortization, driven by more theatrical releases, and, to a lesser extent, higher film cost impairments.

Higher cost of goods sold and distribution costs were due to the increased number of stage play performances in the current year.

TABLE OF CONTENTS

Selling, general, administrative and other costs increased \$675 million, to \$2,638 million from \$1,963 million, due to higher theatrical marketing costs as more titles were released in the current year compared to the prior year.

Operating Income from Content Sales/Licensing and Other

Operating income from Content Sales/Licensing and Other decreased \$854 million, to a loss of \$287 million from income of \$567 million, primarily due to lower TV/SVOD distribution results, higher film cost impairments and decreases in home entertainment and theatrical distribution results, partially offset by higher stage play results.

Items Excluded from Segment Operating Income Related to Disney Media and Entertainment Distribution

The following table presents supplemental information for items related to DMED that are excluded from segment operating income:

(in millions)	2022	2021	% Change Better (Worse)
TFCF and Hulu acquisition amortization ⁽¹⁾	\$ (2,345)	\$ (2,410)	3 %
Content License Early Termination	(1,023)	—	nm
Restructuring and impairment charges ⁽²⁾	(229)	(315)	27 %
German FTA gain	—	126	(100) %

⁽¹⁾ In the current year, amortization of step-up on film and television costs was \$634 million and amortization of intangible assets was \$1,699 million. In the prior year, amortization of step-up on film and television costs was \$646 million and amortization of intangible assets was \$1,749 million.

⁽²⁾ The current year includes impairments of assets related to our Russian businesses. The prior year includes impairments and severance costs related to the closure of an animation studio and severance costs and contract termination charges in connection with the integration of TFCF.

Disney Parks, Experiences and Products

Operating results for DPEP are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Revenues			
Theme park admissions	\$ 8,602	\$ 3,848	>100 %
Parks & Experiences merchandise, food and beverage	6,579	3,299	99 %
Resorts and vacations	6,410	2,701	>100 %
Merchandise licensing and retail	5,229	5,241	— %
Parks licensing and other	1,885	1,463	29 %
Total revenues	28,705	16,552	73 %
Operating expenses	(14,936)	(10,799)	(38) %
Selling, general, administrative and other	(3,403)	(2,886)	(18) %
Depreciation and amortization	(2,451)	(2,377)	(3) %
Equity in the loss of investees	(10)	(19)	47 %
Operating Income	\$ 7,905	\$ 471	>100 %

[TABLE OF CONTENTS](#)

COVID-19

Revenues at DPEP benefited from fewer closures and operating capacity restrictions in fiscal 2022 compared to fiscal 2021 as a result of COVID-19. The following table summarizes the approximate number of weeks of operations in the current and prior year:

	Weeks of Operation	
	2022	2021
Walt Disney World Resort	52	52
Disneyland Resort	52	22
Disneyland Paris	52	19
Hong Kong Disneyland Resort	37	40
Shanghai Disney Resort	37	52

Revenues

The increase in theme park admissions revenue was due to attendance growth and higher average per capita ticket revenue. Higher attendance reflected increases at Disneyland Resort, Walt Disney World Resort and, to a lesser extent, Disneyland Paris, partially offset by a decrease at Shanghai Disney Resort. Growth in average per capita ticket revenue was due to the introduction of Genie+ and Lightning Lane at our domestic parks in the first quarter of the current fiscal year and higher average ticket prices at Walt Disney World Resort and Disneyland Paris, partially offset by lower average ticket prices at Disneyland Resort and Shanghai Disney Resort.

Parks & Experiences merchandise, food and beverage revenue growth was due to increases of 82% from higher volumes and 9% from higher average guest spending.

Growth in resorts and vacations revenue was primarily due to increases of 51% from higher occupied hotel room nights, 32% from an increase in passenger cruise days and 17% from higher average daily hotel room rates.

Merchandise licensing and retail revenue was comparable to the prior year, as a decrease of 7% from retail was offset by an increase of 7% from merchandise licensing. The decrease in retail revenues was due to the closure of a substantial number of Disney-branded retail stores in North America and Europe in the second half of fiscal 2021. The revenue growth at merchandise licensing was primarily due to higher sales of merchandise based on Mickey and Friends, Star Wars, *Encanto*, Spider-Man and Disney Princesses, partially offset by a decrease in revenues from merchandise based on Frozen.

The increase in parks licensing and other revenue was primarily due to higher sponsorship revenues and an increase in royalties from Tokyo Disney Resort.

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽¹⁾		Total	
	2022	2021	2022	2021	2022	2021
Parks						
Increase (decrease)						
Attendance ⁽²⁾	nm	(17)%	54 %	(4)%	87 %	(14)%
Per Capita Guest Spending ⁽³⁾	13 %	17 %	21 %	(3)%	18 %	11 %
Hotels						
Occupancy ⁽⁴⁾	82 %	42 %	56 %	21 %	76 %	37 %
Available Room Nights (in thousands) ⁽⁵⁾	10,073	10,451	3,179	3,179	13,252	13,630
Increase (decrease)						
Per Room Guest Spending ⁽⁶⁾	19 %	1 %	— %	22 %	16 %	4 %

⁽¹⁾ Per capita guest spending growth rate and per room guest spending growth rate exclude the impact of changes in foreign currency exchange rates.

⁽²⁾ Attendance is used to analyze volume trends at our theme parks and is based on the number of unique daily entries, i.e. a person visiting multiple theme parks in a single day is counted only once. Our attendance count includes complimentary entries but excludes entries by children under the age of three.

TABLE OF CONTENTS

- (3) Per capita guest spending is used to analyze guest spending trends and is defined as total revenue from ticket sales and sales of food, beverage and merchandise in our theme parks, divided by total theme park attendance.
- (4) Occupancy is used to analyze the usage of available capacity at hotels and is defined as the number of room nights occupied by guests as a percentage of available hotel room nights.
- (5) Available hotel room nights are defined as the total number of room nights that are available at our hotels and at DVC properties located at our theme parks and resorts that are not utilized by DVC members. Available hotel room nights include rooms temporarily taken out of service.
- (6) Per room guest spending is used to analyze guest spending at our hotels and is defined as total revenue from room rentals and sales of food, beverage and merchandise at our hotels, divided by total occupied hotel room nights.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Operating labor	\$ (6,577)	\$ (4,711)	(40) %
Infrastructure costs	(2,766)	(2,308)	(20) %
Cost of goods sold and distribution costs	(2,938)	(2,086)	(41) %
Other operating expenses	(2,655)	(1,694)	(57) %
	<u>\$ (14,936)</u>	<u>\$ (10,799)</u>	(38) %

The increases in operating labor, cost of goods sold and distribution costs and other operating expenses were due to higher volumes, while the increase in infrastructure costs was due to higher volumes and increased technology spending.

Selling, general, administrative and other costs increased \$517 million from \$2,886 million to \$3,403 million due to higher marketing spend and inflation.

Depreciation and amortization increased \$74 million from \$2,377 million to \$2,451 million, primarily due to new attractions at our domestic parks and resorts.

Segment Operating Income

Segment operating income increased \$7,434 million, to \$7,905 million due to growth at our domestic parks and experiences and, to a lesser extent, at our international parks and resorts and consumer products business.

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment:

(in millions)	2022	2021	% Change Better (Worse)
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 20,131	\$ 9,353	>100 %
International	3,297	1,859	77 %
Consumer Products	5,277	5,340	(1) %
	<u>\$ 28,705</u>	<u>\$ 16,552</u>	73 %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ 5,332	\$ (1,139)	nm
International	(237)	(1,074)	78 %
Consumer Products	2,810	2,684	5 %
	<u>\$ 7,905</u>	<u>\$ 471</u>	>100 %

[TABLE OF CONTENTS](#)

Items Excluded from Segment Operating Income Related to Parks, Experiences and Products

The following table presents supplemental information for items related to DPEP that are excluded from segment operating income:

(in millions)	2022	2021	% Change Better (Worse)
Restructuring and impairment charges ⁽¹⁾	\$ —	\$ (327)	100 %
Amortization of TFCF intangible assets	(8)	(8)	— %

⁽¹⁾ The prior year includes asset impairments and severance costs related to the closure of a substantial number of our Disney-branded retail stores in North America and Europe and severance costs related to other workforce reductions.

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses are as follows:

(in millions)	2022	2021	% Change Better (Worse)
Corporate and unallocated shared expenses	\$ (1,159)	\$ (928)	(25) %

The increase in corporate and unallocated shared expenses was driven by higher compensation and human resource-related costs.

RESTRUCTURING ACTIVITIES

See Note 18 to the Consolidated Financial Statements for information regarding the Company's restructuring activities.

LIQUIDITY AND CAPITAL RESOURCES

The change in cash, cash equivalents and restricted cash is as follows:

(in millions)	2022	2021
Cash provided by operations - continuing operations	\$ 6,002	\$ 5,566
Cash used in investing activities - continuing operations	(5,008)	(3,171)
Cash used in financing activities - continuing operations	(4,729)	(4,385)
Cash (used in) provided by discontinued operations	(4)	9
Impact of exchange rates on cash, cash equivalents and restricted cash	(603)	30
Change in cash, cash equivalents and restricted cash	\$ (4,342)	\$ (1,951)

Operating Activities

Continuing operations

Cash provided by operating activities of \$6.0 billion for fiscal 2022 increased 8% or \$436 million compared to \$5.6 billion in fiscal 2021 due to higher operating cash flow at DPEP and, to a lesser extent, lower income tax payments and pension contributions, partially offset by lower operating cash flow at DMED and, to a lesser extent, a partial payment for the Content License Early Termination. The increase in operating cash flow at DPEP was due to higher operating cash receipts driven by higher revenue, partially offset by an increase in operating cash disbursements due to higher operating expenses. The decrease in operating cash flow at DMED was due to higher operating cash disbursements and higher spending on film and television productions, partially offset by higher

operating cash receipts. Higher operating cash disbursements were driven by increased operating expenses while higher operating cash receipts were due to revenue growth.

TABLE OF CONTENTS

Depreciation expense is as follows:

(in millions)	2022	2021
Disney Media and Entertainment Distribution	\$ 650	\$ 613
Disney Parks, Experiences and Products		
Domestic	1,680	1,551
International	662	718
Total Disney Parks, Experiences and Products	2,342	2,269
Corporate	191	186
Total depreciation expense	\$ 3,183	\$ 3,068

Amortization of intangible assets is as follows:

(in millions)	2022	2021
Disney Media and Entertainment Distribution	\$ 164	\$ 178
Disney Parks, Experiences and Products	109	108
TFCF and Hulu	1,707	1,757
Total amortization of intangible assets	\$ 1,980	\$ 2,043

Produced and licensed content costs

DMED incurs costs to produce and license film, episodic television and other content. Production costs include spend on content internally produced at our studios such as live-action and animated films, episodic series, specials, shorts and theatrical stage plays. Production costs also include original content commissioned from third-party studios. Programming costs include content rights licensed from third parties for use on the Company's Linear Networks and DTC streaming services. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities.

The Company's production and programming activity for fiscal 2022 and 2021 are as follows:

(in millions)	2022	2021
Beginning balances:		
Production and programming assets	\$ 31,732	\$ 27,193
Programming liabilities	(4,113)	(4,099)
	27,619	23,094
Spending:		
Licensed programming and rights	13,316	12,412
Produced content	16,611	12,848
	29,927	25,260
Amortization:		
Licensed programming and rights	(13,432)	(12,784)
Produced content	(10,224)	(8,175)
	(23,656)	(20,959)
Change in production and programming costs	6,271	4,301
Other non-cash activity	(163)	224
Ending balances:		
Production and programming assets	37,667	31,732
Programming liabilities	(3,940)	(4,113)
	\$ 33,727	\$ 27,619

The Company currently expects its fiscal 2023 spend on produced and licensed content, including sports rights, to be in the low \$30 billion range. See Note 14 to the Consolidated Financial Statements for information regarding the Company's contractual commitments to acquire sports and broadcast programming.

TABLE OF CONTENTS

Commitments and guarantees

The Company has various commitments and guarantees, such as long-term leases, purchase commitments and other executory contracts, that are disclosed in the footnotes to the financial statements. See Notes 14 and 15 to the Consolidated Financial Statements for further information regarding these commitments.

Legal and Tax Matters

As disclosed in Notes 9 and 14 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal matters.

Investing Activities

Continuing operations

Investing activities 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 for fiscal 2022 and 2021 are as follows:

(in millions)	2022	2021
Disney Media and Entertainment Distribution	\$ 810	\$ 862
Disney Parks, Experiences and Products		
Domestic	2,680	1,597
International	767	675
Total Disney Parks, Experiences and Products	3,447	2,272
Corporate	686	444
	<u>\$ 4,943</u>	<u>\$ 3,578</u>

Capital expenditures at DMED primarily reflect investments in technology and in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

Capital expenditures at DPEP are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The increase in capital expenditures at our domestic parks and resorts in fiscal 2022 compared to fiscal 2021 was due to cruise ship fleet expansion.

Capital expenditures at Corporate primarily reflect investments in facilities, information technology infrastructure and equipment. The increase in fiscal 2022 compared to fiscal 2021 was due to higher spending on facilities.

The Company currently expects its fiscal 2023 capital expenditures will be up to approximately \$6.7 billion compared to fiscal 2022 capital expenditures of \$4.9 billion. The increase in capital expenditures is due to higher spending across the enterprise.

Other Investing Activities

Cash provided by other investing activities of \$407 million in fiscal 2021 reflects proceeds from the sales of investments.

Financing Activities

Continuing operations

Cash used in financing activities was \$4.7 billion in fiscal 2022 compared to \$4.4 billion in fiscal 2021. Cash used in financing activities in fiscal 2022 was due to a reduction in borrowings. The increase in cash used in financing activities in fiscal 2022 compared to fiscal 2021 reflected a higher reduction in net borrowings (\$4.0 billion in fiscal 2022 compared to \$3.7 billion in fiscal 2021) and lower proceeds from the exercise of stock options (\$0.1 billion in fiscal 2022 compared to \$0.4 billion in fiscal 2021). In addition, cash used in financing activities in fiscal 2021 included a \$0.4 billion purchase of a redeemable noncontrolling interest.

TABLE OF CONTENTS

Borrowings activities and other

During the year ended October 1, 2022, the Company's borrowing activity was as follows:

(in millions)	October 2, 2021	Borrowings	Payments	Other Activity	October 1, 2022
Commercial paper with original maturities less than three months ⁽¹⁾	\$ —	\$ 50	\$ —	\$ —	\$ 50
Commercial paper with original maturities greater than three months	1,992	2,417	(2,801)	4	1,612
U.S. dollar denominated notes ⁽²⁾	49,090	—	(3,857)	(142)	45,091
Asia Theme Parks borrowings ⁽³⁾	1,331	333	(159)	(80)	1,425
Foreign currency denominated debt and other ⁽⁴⁾	1,993	—	—	(1,802)	191
	<u>\$ 54,406</u>	<u>\$ 2,800</u>	<u>\$ (6,817)</u>	<u>\$ (2,020)</u>	<u>\$ 48,369</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

⁽²⁾ The other activity is primarily due to the amortization of purchase accounting adjustments and debt issuance fees.

⁽³⁾ See Note 6 to the Consolidated Financial Statements for information regarding commitments to fund the Asia Theme Parks.

⁽⁴⁾ The other activity is due to market value adjustments for debt with qualifying hedges.

See Note 8 to the Consolidated Financial Statements for information regarding the Company's bank facilities and debt maturities. The Company may use operating cash flows, commercial paper borrowings up to the amount of its unused \$12.25 billion bank facilities and incremental term debt issuances to retire or refinance other borrowings before or as they come due.

See Note 2 to the Consolidated Financial Statements for a summary of the Company's put/call agreement with NBCU.

The Company did not declare or pay a dividend or repurchase any of its shares in fiscal 2022 or 2021.

The Company's operating cash flow and access to the capital markets can be impacted by factors outside of its control, including COVID-19, which had an adverse impact on the Company's operating cash flows in fiscal 2021 and, to a lesser extent, fiscal 2022. 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 under current bank facilities, taken together, provide adequate resources to fund ongoing operating requirements and upcoming debt maturities as well as future capital expenditures related to the expansion of existing businesses and development of new projects. In addition, the Company could undertake other measures to ensure sufficient liquidity, such as continuing to not declare dividends (the Company did not pay a dividend with respect to fiscal 2021 operations and has not declared or paid a dividend with respect to fiscal 2022 operations); raising financing; suspending or reducing capital spending; reducing film and television content investments; or implementing furloughs or reductions in force.

The Company's borrowing costs can also be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as leverage and interest coverage ratios. As of October 1, 2022, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were BBB+ and A-2 (Positive), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. The Company's bank facilities contain only one financial covenant, relating to interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On October 1, 2022, the Company met this covenant by a significant

margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On March 20, 2019, as part of the acquisition of TFCF, The Walt Disney Company ("TWDC") became the ultimate parent of TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company) ("Legacy Disney"). Legacy Disney and TWDC are collectively referred to as "Obligor Group", and individually, as a "Guarantor". Concurrent with the close of the TFCF acquisition, \$16.8 billion of TFCF's assumed public debt (which then constituted 96% of such debt) was exchanged for senior notes of TWDC (the "exchange notes") issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to an Indenture, dated as of March 20, 2019, between TWDC, Legacy Disney, as guarantor, and Citibank, N.A., as trustee (the "TWDC Indenture") and guaranteed by Legacy Disney. On November 26, 2019, \$14.0 billion of the outstanding exchange notes were exchanged for new senior notes of TWDC registered under the Securities Act, issued pursuant to the TWDC Indenture and guaranteed by Legacy Disney. In addition, contemporaneously with

TABLE OF CONTENTS

the closing of the March 20, 2019 exchange offer, TWDC entered into a guarantee of the registered debt securities issued by Legacy Disney under the Indenture dated as of September 24, 2001 between Legacy Disney and Wells Fargo Bank, National Association, as trustee (the “2001 Trustee”) (as amended by the first supplemental indenture among Legacy Disney, as issuer, TWDC, as guarantor, and the 2001 Trustee, as trustee).

Other subsidiaries of the Company do not guarantee the registered debt securities of either TWDC or Legacy Disney (such subsidiaries are referred to as the “non-Guarantors”). The par value and carrying value of total outstanding and guaranteed registered debt securities of the Obligor Group at October 1, 2022 was as follows:

(in millions)	TWDC		Legacy Disney	
	Par Value	Carrying Value	Par Value	Carrying Value
Registered debt with unconditional guarantee	\$ 35,343	\$ 35,736	\$ 9,105	\$ 8,851

The guarantees by TWDC and Legacy Disney are full and unconditional and cover all payment obligations arising under the guaranteed registered debt securities. The guarantees may be released and discharged upon (i) as a general matter, the indebtedness for borrowed money of the consolidated subsidiaries of TWDC in aggregate constituting no more than 10% of all consolidated indebtedness for borrowed money of TWDC and its subsidiaries (subject to certain exclusions), (ii) upon the sale, transfer or disposition of all or substantially all of the equity interests or all or substantially all, or substantially as an entirety, the assets of Legacy Disney to a third party, and (iii) other customary events constituting a discharge of a guarantor’s obligations. In addition, in the case of Legacy Disney’s guarantee of registered debt securities issued by TWDC, Legacy Disney may be released and discharged from its guarantee at any time Legacy Disney is not a borrower, issuer or guarantor under certain material bank facilities or any debt securities.

Operations are conducted almost entirely through the Company’s subsidiaries. Accordingly, the Obligor Group’s cash flow and ability to service its debt, including the public debt, are dependent upon the earnings of the Company’s subsidiaries and the distribution of those earnings to the Obligor Group, whether by dividends, loans or otherwise. Holders of the guaranteed registered debt securities have a direct claim only against the Obligor Group.

Set forth below are summarized financial information for the Obligor Group on a combined basis after elimination of (i) intercompany transactions and balances between TWDC and Legacy Disney and (ii) equity in the earnings from and investments in any subsidiary that is a non-Guarantor. This summarized financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 13-01, “Financial Disclosures about Guarantors and Issuers of Guaranteed Securities” and is not intended to present the financial position or results of operations of the Obligor Group in accordance with U.S. GAAP.

Results of operations (in millions)	2022	
Revenues	\$	—
Costs and expenses		—
Net income (loss) from continuing operations		(742)
Net income (loss)		(742)
Net income (loss) attributable to TWDC shareholders		(742)
Balance Sheet (in millions)	October 1, 2022	October 2, 2021
Current assets	\$ 5,665	\$ 9,506
Noncurrent assets	1,948	1,689
Current liabilities	3,741	6,878
Noncurrent liabilities (excluding intercompany to non-Guarantors)	46,218	51,439
Intercompany payables to non-Guarantors	148,958	147,629

CRITICAL 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.

Produced and Acquired/Licensed Content Costs

We amortize and test for impairment capitalized film and television production costs based on whether the content is predominantly monetized individually or as a group. See Note 2 to the Consolidated Financial Statements for further discussion.

TABLE OF CONTENTS

Production costs that are classified as individual are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues).

With respect to produced films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues is theatrical performance. Revenues derived from other markets subsequent to the theatrical release are generally highly correlated with theatrical performance. Theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film's release and determination of the theatrical performance, the Company's estimates of revenues from succeeding windows and markets, which may include imputed license fees for content that is used on our DTC streaming services, are revised based on historical relationships and an analysis of current market trends.

With respect to capitalized television production costs that are classified as individual, the most sensitive factors affecting estimates of Ultimate Revenues are program ratings of the content on our licensees' platforms. Program ratings, which are an indication of market acceptance, directly affect the program's ability to generate advertising and subscriber revenues and are correlated with the license fees we can charge for the content in subsequent windows and for subsequent seasons.

Ultimate Revenues are reassessed each reporting period and the impact of any changes on amortization of production cost is accounted for as if the change occurred at the beginning of the current fiscal year. If our estimate of Ultimate Revenues decreases, amortization of costs may be accelerated or result in an impairment. Conversely, if our estimate of Ultimate Revenues increases, cost amortization may be slowed.

Produced content costs that are part of a group and acquired/licensed content costs are amortized based on projected usage typically resulting in an accelerated or straight-line amortization pattern. The determination of projected usage requires judgment and is reviewed on a regular basis for changes. Adjustments to projected usage are applied prospectively in the period of the change. For example, beginning in the fourth quarter of fiscal 2022, for certain content, we are accelerating the rate of amortization in early periods, slowing the rate in later periods and have adjusted the useful life based on historical and projected usage patterns. The most sensitive factors affecting projected usage are historical and estimated viewing patterns. If projected usage changes we may need to accelerate or slow the recognition of amortization expense.

For content that is predominantly monetized as a group, the aggregate unamortized costs of the group are compared to the present value of the discounted cash flows using the lowest level for which identifiable cash flows are independent of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written-off immediately. Licensed content is included as part of the group within which it is monetized for purposes of assessing recoverability.

The amortization of multi-year sports rights is based on projections of revenues for each season relative to projections of total revenues over the contract period (estimated relative value). Projected revenues include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. If estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. Refer to Note 2 to the Consolidated Financial Statements for our revenue recognition policies.

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, which we evaluate 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. A lower discount rate increases the present value of benefit obligations and increases pension and postretirement medical expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. We increased our discount rate to 5.44% at the end of fiscal 2022 from 2.88% at the end of fiscal 2021 to reflect market interest rate conditions at our fiscal 2022 year-end measurement date. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2023 by approximately \$242 million and would increase the projected benefit obligation at October 1, 2022 by approximately \$2.3 billion. A one percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by approximately \$59 million and \$2.0 billion, respectively.

TABLE OF CONTENTS

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. Our expected return on plan assets is 7.00%. A lower expected rate of return on plan assets will increase pension and postretirement medical expense. A one percentage point change in the long-term asset return assumption would impact fiscal 2023 annual expense by approximately \$172 million.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2022, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we apply what we believe to be the most appropriate valuation methodology for each of our reporting units. We generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the discount rates used to calculate the present value of future cash flows. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison

of the estimated undiscounted future cash flows expected to be generated over the useful life of the significant assets of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows and the discount rate used to determine fair values.

TABLE OF CONTENTS

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

The Company recorded non-cash impairment charges of \$0.2 billion and \$0.3 billion in fiscal 2022 and 2021, respectively. The fiscal 2022 charges primarily related to our businesses in Russia. The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies with which we do business, current market conditions, and reasonable and supportable forecasts of future economic conditions. In times of economic turmoil, including COVID-19, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods. See Note 2 to the Consolidated Financial Statements for additional discussion.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we are also involved in other contingent matters for which we accrue estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 14 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

New Accounting Pronouncements

See Note 19 to the Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest

rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow 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 U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-

TABLE OF CONTENTS

currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts are intended to offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in certain countries have reduced and in the future could further reduce our ability to hedge exposure to currency fluctuations in, or repatriate cash from, those countries.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel oil and gasoline.

Our objectives in managing exposures to market-based fluctuations in certain retirement liabilities are to use total return swap contracts to reduce the volatility of earnings arising from changes in these retirement liabilities. The amounts hedged using total return swap contracts are based on estimated liability balances.

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

Value at Risk (VAR)

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

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

VAR on a combined basis increased to \$395 million at October 1, 2022 from \$364 million at October 2, 2021.

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

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Commodity Sensitive Financial Instruments	Combined Portfolio
Fiscal 2022					
Year end fiscal 2022 VAR	\$ 376	\$ 71	\$ 20	\$ 4	\$ 395
Average VAR	415	62	25	4	426
Highest VAR	455	72	32	7	479
Lowest VAR	376	46	20	2	394
Year end fiscal 2021 VAR	357	44	37	1	364

The VAR for Hong Kong Disneyland Resort and Shanghai Disney Resort is immaterial as of October 1, 2022 and has been excluded from the above table.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page [63](#).

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

[TABLE OF CONTENTS](#)

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of October 1, 2022, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report set forth on page [64](#) is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended October 1, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Delinquent Section 16(a) Reports," "The Board of Directors," "Committees," "Governing Documents," "Director Selection Process" and "Election of Directors" in the Company's Proxy Statement for the 2023 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions "Director Compensation," and "Executive Compensation" (other than the "Compensation Committee Report," which is deemed furnished herein by reference, and the "Letter from the Compensation Committee") in the 2023 Proxy Statement is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information appearing under the caption "Equity Compensation Plans" in the 2023 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2023 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2023 Proxy Statement is hereby incorporated by reference.

[TABLE OF CONTENTS](#)

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

- (1) Financial Statements and Schedules

See Index to Financial Statements and Supplemental Data on page [63](#).

- (2) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

	Exhibit	Location
3.1	Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 19, 2019	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.3	Amended and Restated Bylaws of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.3 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.4	Amended and Restated Certificate of Incorporation of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.5	Amended and Restated Bylaws of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.6	Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed November 30, 2018
4.1	Senior Debt Securities Indenture, dated as of September 24, 2001, between TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed September 24, 2001
4.2	First Supplemental Indenture, dated as of March 20, 2019, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
4.3	Indenture, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, and TWDC Enterprises 18 Corp., as guarantor, and Citibank, N.A., as trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.4	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	
4.5	Description of Registrant's Securities	Exhibit 4.6 to the Form 10-K of the Company for the fiscal year ended September 28, 2019
10.1	Employment Agreement dated as of February 24, 2020 between the Company and Robert Chapek †	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.2	Amendment dated July 15, 2022 to the Employment Agreement dated February 24, 2020, between the Company and Robert Chapek †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.3	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Form 10-K of Legacy Disney for the fiscal year ended October 1, 2011
10.4	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed July 1, 2013
10.5	Amendment dated October 2, 2014 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 3, 2014
10.6	Amendment dated March 22, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 23, 2017

[TABLE OF CONTENTS](#)

Exhibit		Location
10.7	Amendment dated December 13, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 14, 2017
10.8	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.9	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated March 4, 2019 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 4, 2019
10.10	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011 and as previously amended, between the Company and Robert A. Iger, dated February 24, 2020 †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.11	Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 30, 2015
10.12	Amendment dated August 15, 2017 to the Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.4 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.13	Amendment dated December 2, 2020 to Amended Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 7, 2020
10.14	Amendment dated December 21, 2021 to Amended Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed December 21, 2021
10.15	Assignment of Employment Agreement dated January 19, 2022 between the Company and Christine M. McCarthy †	Exhibit 10.3 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.16	Employment Agreement, dated as of July 1, 2021 between the Company and Paul J. Richardson †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 3, 2021
10.17	Employment Agreement, dated as of December 21, 2021 between the Company and Horacio E. Gutierrez †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.18	Assignment of Employment Agreement dated January 31, 2022 between the Company and Horacio E. Gutierrez †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.19	Amendment dated July 21, 2022 to the Employment Agreement dated December 21, 2021, between Disney Corporate Services Co., LLC and Horacio E. Gutierrez and to the Indemnification Agreement dated December 21, 2021, between the Company and Horacio E. Gutierrez †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.20	Employment Agreement, dated as of January 24, 2022 between the Company and Geoffrey S. Morrell †	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.21	Amended and Restated General Release, dated Jan 23, 2022 between the Company and Geoffrey S. Morrell †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended July 2, 2022

[TABLE OF CONTENTS](#)

	Exhibit	Location
10.27	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended June 29, 2019
10.28	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.29	Amended and Restated 2002 Executive Performance Plan †	Annex A to the Proxy Statement for the 2013 Annual Meeting of Legacy Disney
10.30	Management Incentive Bonus Program †	The portions of the tables labeled “Performance-based Bonus” in the sections of the Proxy Statement for the 2022 annual meeting titled “Executive Compensation Program Structure - Objectives and Methods - Objectives and Key Features” and “Compensation Process” and the section of the Proxy Statement titled “Performance Goals”
10.31	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of Legacy Disney
10.32	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 1, 2006
10.33	Amended and Restated 2011 Stock Incentive Plan †	Annex B to Proxy Statement of registrant filed January 17, 2020
10.34	Disney Key Employees Retirement Savings Plan †	Exhibit 10.1 to the Form 10-Q of Legacy Disney for the quarter ended July 2, 2011
10.35	Amendments dated April 30, 2015 to the Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan, Amended and Restated Benefit Equalization Plan of ABC, Inc. and Disney Key Employees Retirement Savings Plan †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.36	Second Amendment to the Disney Key Employees Retirement Savings Plan †	Exhibit 10.33 to the Form 10-K of the Company for the fiscal year ended October 2, 2021
10.37	Third Amendment to the Disney Key Employees Retirement Savings Plan †	Exhibit 10.9 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.38	Group Personal Excess Liability Insurance Plan †	Exhibit 10.8 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.39	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.40	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.41	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) †	Exhibit 10.7 to the Form 10-Q of the Company for the quarter ended July 2, 2022
10.42	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement) †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.43	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.44	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Filed herewith
10.45	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended January 2, 2021

[TABLE OF CONTENTS](#)

	Exhibit	Location
10.48	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests/ Section 162(m) Vesting Requirement) †	Exhibit 10.11 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.49	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests) †	Exhibit 10.10 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.50	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.12 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.51	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test/ Section 162(m) Vesting Requirements) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.52	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test) as Amended and Restated November 30, 2018 by and between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.53	Performance-Based Stock Unit Award (Section 162(m) Vesting Requirement) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.54	Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC tests) for Robert A. Iger dated as of December 14, 2021 †	Exhibit 10.11 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.55	Non-Qualified Stock Option Award Agreement for Robert A. Iger dated as of December 14, 2021 †	Exhibit 10.12 to the Form 10-Q of the Company for the quarter ended January 1, 2022
10.56	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended December 28, 2019
10.57	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Filed herewith
10.58	Form of Stock Option Awards Agreement †	Filed herewith
10.59	Form of Stock Option Awards Agreement †	Filed herewith
10.60	Form of Stock Option Awards Agreement †	Filed herewith
10.61	Form of Stock Option Awards Agreement †	Filed herewith
10.62	Form of Stock Option Awards Agreement †	Filed herewith
10.63	Twenty-First Century Fox, Inc. 2013 Long-Term Incentive Plan †	Exhibit 10.1 to the Form 8-K of TFCF filed October 18, 2013
10.64	Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 11, 2020
10.65	First Amendment dated as of March 4, 2022 to the Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.3 to the Current Report on Form 8-K of the Company filed March 9, 2022
10.66	Five-Year Credit Agreement dated as of March 4, 2022	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 9, 2022
10.67	364-Day Credit Agreement dated as of March 4, 2022	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 9, 2022
10.68	Support Agreement, dated as of September 30, 2022, by and among Third Point LLC and certain of its affiliates and The Walt Disney Company	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed September 30, 2022
21	Subsidiaries of the Company	Filed herewith

TABLE OF CONTENTS

	Exhibit	Location
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
101	The following materials from the Company's Annual Report on Form 10-K for the year ended October 1, 2022 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	Filed herewith

*	Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.
**	A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.
†	Management contract or compensatory plan or arrangement.

ITEM 16. Form 10-K Summary

None.

[TABLE OF CONTENTS](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WALT DISNEY COMPANY

(Registrant)

Date: November 29, 2022

By: _____ /s/ ROBERT A. IGER

(Robert A. Iger

Chief Executive Officer and Director)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>Principal Executive Officer</i>		
/s/ ROBERT A. IGER (Robert A. Iger)	Chief Executive Officer and Director	November 29, 2022
<i>Principal Financial and Accounting Officers</i>		
/s/ CHRISTINE M. MCCARTHY (Christine M. McCarthy)	Senior Executive Vice President and Chief Financial Officer	November 29, 2022
/s/ BRENT A. WOODFORD (Brent A. Woodford)	Executive Vice President- Controllershship, Financial Planning and Tax	November 29, 2022
<i>Directors</i>		
/s/ SUSAN E. ARNOLD (Susan E. Arnold)	Chairman of the Board and Director	November 29, 2022
/s/ MARY T. BARRA (Mary T. Barra)	Director	November 29, 2022
/s/ SAFRA A. CATZ (Safra A. Catz)	Director	November 29, 2022
/s/ AMY L. CHANG (Amy L. Chang)	Director	November 29, 2022
/s/ FRANCIS A. DESOUZA (Francis A. deSouza)	Director	November 29, 2022
/s/ CAROLYN N. EVERSON (Carolyn N. Everson)	Director	November 29, 2022
/s/ MICHAEL B.G. FROMAN (Michael B.G. Froman)	Director	November 29, 2022
/s/ MARIA ELENA LAGOMASINO (Maria Elena Lagomasino)	Director	November 29, 2022
/s/ CALVIN R. MCDONALD (Calvin R. McDonald)	Director	November 29, 2022
/s/ MARK G. PARKER (Mark G. Parker)	Director	November 29, 2022
/s/ DERICA W. RICE (Derica W. Rice)	Director	November 29, 2022

[TABLE OF CONTENTS](#)

THE WALT DISNEY COMPANY AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

	Page
Management's Report on Internal Control Over Financial Reporting	64
Report of Independent Registered Public Accounting Firm (PCAOB ID: 238)	65
Consolidated Financial Statements of The Walt Disney Company and Subsidiaries	
Consolidated Statements of Operations for the Years Ended October 1, 2022, October 2, 2021 and October 3, 2020	67
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended October 1, 2022, October 2, 2021 and October 3, 2020	68
Consolidated Balance Sheets as of October 1, 2022 and October 2, 2021	69
Consolidated Statements of Cash Flows for the Years Ended October 1, 2022, October 2, 2021 and October 3, 2020	70
Consolidated Statements of Shareholders' Equity for the Years Ended October 1, 2022, October 2, 2021 and October 3, 2020	71
Notes to Consolidated Financial Statements	72

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of October 1, 2022.

The effectiveness of our internal control over financial reporting as of October 1, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

[TABLE OF CONTENTS](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Walt Disney Company and its subsidiaries (the “Company”) as of October 1, 2022 and October 2, 2021, and the related consolidated statements of operations, of comprehensive income (loss), of shareholders’ equity and of cash flows for each of the three years in the period ended October 1, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of October 1, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 1, 2022 and October 2, 2021, and the results of its operations and its cash flows for each of the three years in the period ended October 1, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 1, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As disclosed in the consolidated statements of shareholders’ equity, the Company changed the manner in which it accounts for leases in fiscal year 2020.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TABLE OF CONTENTS

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Amortization of Production Costs

As described in Note 2 and 7 to the consolidated financial statements and disclosed by management, capitalized film and television production costs are amortized based on whether the content is predominantly monetized individually or as a group. Production costs for content that is predominantly monetized individually is amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include imputed license fees for content that is used by the Company's DTC streaming services, that will be earned within ten years from the date of the initial release for theatrical films. For episodic television series, Ultimate Revenues include revenues that will be earned within ten years, including imputed license fees for content that is used on the Company's DTC streaming services, from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Production costs that are predominantly monetized as a group are amortized based on projected usage (which may be, for example, derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern. For the year ended October 1, 2022, the Company recognized \$10,224 million of amortization of produced content costs, which is primarily included in "Cost of services" in the consolidated statements of operations.

The principal considerations for our determination that performing procedures relating to amortization of production costs is a critical audit matter are the significant auditor effort in performing procedures and evaluating audit evidence used in the amortization calculation for production costs monetized individually and as a group, and management's estimates of Ultimate Revenues and projected usage.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to amortization of production costs, including controls over the estimation of Ultimate Revenues and projected usage. These procedures also included, among others, (i) testing management's process for determining the amortization of production costs, (ii) evaluating whether ultimate revenues for certain content titles were reasonable considering information such as past performance of comparable titles, future firm commitments to license programs, and current market trends, (iii) evaluating the accelerated amortization pattern for content predominately monetized as a group, and (iv) testing the completeness and accuracy of the underlying data used in the amortization calculation for certain titles and for historical viewership data used to calculate the estimate of projected usage for certain groups.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

November 29, 2022

We have served as the Company's auditor since 1938.

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	2022	2021	2020
Revenues:			
Services	\$ 74,200	\$ 61,768	\$ 59,265
Products	8,522	5,650	6,123
Total revenues	82,722	67,418	65,388
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(48,962)	(41,129)	(39,406)
Cost of products (exclusive of depreciation and amortization)	(5,439)	(4,002)	(4,474)
Selling, general, administrative and other	(16,388)	(13,517)	(12,369)
Depreciation and amortization	(5,163)	(5,111)	(5,345)
Total costs and expenses	(75,952)	(63,759)	(61,594)
Restructuring and impairment charges	(237)	(654)	(5,735)
Other income (expense), net	(667)	201	1,038
Interest expense, net	(1,397)	(1,406)	(1,491)
Equity in the income of investees	816	761	651
Income (loss) from continuing operations before income taxes	5,285	2,561	(1,743)
Income taxes on continuing operations	(1,732)	(25)	(699)
Net income (loss) from continuing operations	3,553	2,536	(2,442)
Loss from discontinued operations, net of income tax benefit of \$14, \$9 and \$10, respectively	(48)	(29)	(32)
Net income (loss)	3,505	2,507	(2,474)
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(360)	(512)	(390)
Net income (loss) attributable to The Walt Disney Company (Disney)	\$ 3,145	\$ 1,995	\$ (2,864)
Earnings (loss) per share attributable to Disney ⁽¹⁾ :			
Diluted			
Continuing operations	\$ 1.75	\$ 1.11	\$ (1.57)
Discontinued operations	(0.03)	(0.02)	(0.02)
	\$ 1.72	\$ 1.09	\$ (1.58)
Basic			
Continuing operations	\$ 1.75	\$ 1.11	\$ (1.57)
Discontinued operations	(0.03)	(0.02)	(0.02)
	\$ 1.73	\$ 1.10	\$ (1.58)
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,827	1,828	1,808
Basic	1,822	1,816	1,808

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	2022	2021	2020
Net income (loss)	\$ 3,505	\$ 2,507	\$ (2,474)
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	735	41	(251)
Pension and postretirement medical plan adjustments	2,503	1,850	(1,476)
Foreign currency translation and other	(1,060)	77	115
Other comprehensive income (loss)	2,178	1,968	(1,612)
Comprehensive income (loss)	5,683	4,475	(4,086)
Net income from continuing operations attributable to noncontrolling interests	(360)	(512)	(390)
Other comprehensive income (loss) attributable to noncontrolling interests	143	(86)	(93)
Comprehensive income (loss) attributable to Disney	\$ 5,466	\$ 3,877	\$ (4,569)

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	October 1, 2022	October 2, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,615	\$ 15,959
Receivables, net	12,652	13,367
Inventories	1,742	1,331
Content advances	1,890	2,183
Other current assets	1,199	817
Total current assets	29,098	33,657
Produced and licensed content costs	35,777	29,549
Investments	3,218	3,935
Parks, resorts and other property		
Attractions, buildings and equipment	66,998	64,892
Accumulated depreciation	(39,356)	(37,920)
	27,642	26,972
Projects in progress	4,814	4,521
Land	1,140	1,131
	33,596	32,624
Intangible assets, net	14,837	17,115
Goodwill	77,897	78,071
Other assets	9,208	8,658
Total assets	\$ 203,631	\$ 203,609
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 20,213	\$ 20,894
Current portion of borrowings	3,070	5,866
Deferred revenue and other	5,790	4,317
Total current liabilities	29,073	31,077
Borrowings	45,299	48,540
Deferred income taxes	8,363	7,246
Other long-term liabilities	12,518	14,522
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests	9,499	9,213
Equity		
Preferred stock	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	56,398	55,471
Retained earnings	43,636	40,429
Accumulated other comprehensive loss	(4,119)	(6,440)
Treasury stock, at cost, 19 million shares	(907)	(907)
Total Disney Shareholders' equity	95,008	88,553
Noncontrolling interests	3,871	4,458
Total equity	98,879	93,011
Total liabilities and equity	\$ 203,631	\$ 203,609

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2022	2021	2020
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	\$ 3,553	\$ 2,536	\$ (2,442)
Depreciation and amortization	5,163	5,111	5,345
Goodwill and intangible asset impairments	—	—	4,953
Net (gain) loss on investments	714	(332)	(920)
Deferred income taxes	200	(1,241)	(392)
Equity in the income of investees	(816)	(761)	(651)
Cash distributions received from equity investees	779	754	774
Net change in produced and licensed content costs and advances	(6,271)	(4,301)	397
Equity-based compensation	977	600	525
Pension and postretirement medical cost amortization	620	816	547
Other, net	595	190	125
Changes in operating assets and liabilities			
Receivables	605	(357)	1,943
Inventories	(420)	252	14
Other assets	(707)	171	(157)
Accounts payable and other liabilities	964	2,410	(2,293)
Income taxes	46	(282)	(152)
Cash provided by operations - continuing operations	6,002	5,566	7,616
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	(4,943)	(3,578)	(4,022)
Other, net	(65)	407	172
Cash used in investing activities - continuing operations	(5,008)	(3,171)	(3,850)
FINANCING ACTIVITIES			
Commercial paper payments, net	(334)	(26)	(3,354)
Borrowings	333	64	18,120
Reduction of borrowings	(4,016)	(3,737)	(3,533)
Dividends	—	—	(1,587)
Proceeds from exercise of stock options	127	435	305
Acquisition of redeemable noncontrolling interests	—	(350)	—
Other, net	(839)	(771)	(1,471)
Cash provided by (used in) financing activities - continuing operations	(4,729)	(4,385)	8,480
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Cash provided by operations - discontinued operations	8	1	2
Cash provided by investing activities - discontinued operations	—	8	213
Cash used in financing activities - discontinued operations	(12)	—	—
Cash (used in) provided by discontinued operations	(4)	9	215
Impact of exchange rates on cash, cash equivalents and restricted cash	(603)	30	38
Change in cash, cash equivalents and restricted cash	(4,342)	(1,951)	12,499
Cash, cash equivalents and restricted cash, beginning of year	16,003	17,954	5,455
Cash, cash equivalents and restricted cash, end of year	\$ 11,661	\$ 16,003	\$ 17,954
Supplemental disclosure of cash flow information:			
Interest paid	\$ 1,685	\$ 1,892	\$ 1,559
Income taxes paid	\$ 1,097	\$ 1,638	\$ 738

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests ⁽¹⁾	Total Equity
Balance at September 28, 2019	1,802	\$ 53,907	\$ 42,494	\$ (6,617)	\$ (907)	\$ 88,877	\$ 5,012	\$ 93,889
Comprehensive income (loss)	—	—	(2,864)	(1,705)	—	(4,569)	198	(4,371)
Equity compensation activity	8	590	—	—	—	590	—	590
Dividends	—	9	(1,596)	—	—	(1,587)	—	(1,587)
Contributions	—	—	—	—	—	—	94	94
Adoption of new lease accounting guidance	—	—	197	—	—	197	—	197
Distributions and other	—	(9)	84	—	—	75	(624)	(549)
Balance at October 3, 2020	1,810	\$ 54,497	\$ 38,315	\$ (8,322)	\$ (907)	\$ 83,583	\$ 4,680	\$ 88,263
Comprehensive income	—	—	1,995	1,882	—	3,877	284	4,161
Equity compensation activity	8	904	—	—	—	904	—	904
Contributions	—	—	—	—	—	—	89	89
Cumulative effect of accounting change	—	—	109	—	—	109	—	109
Distributions and other	—	70	10	—	—	80	(595)	(515)
Balance at October 2, 2021	1,818	\$ 55,471	\$ 40,429	\$ (6,440)	\$ (907)	\$ 88,553	\$ 4,458	\$ 93,011
Comprehensive income (loss)	—	—	3,145	2,321	—	5,466	(68)	5,398
Equity compensation activity	6	925	—	—	—	925	—	925
Contributions	—	—	—	—	—	—	74	74
Distributions and other	—	2	62	—	—	64	(593)	(529)
Balance at October 1, 2022	1,824	\$ 56,398	\$ 43,636	\$ (4,119)	\$ (907)	\$ 95,008	\$ 3,871	\$ 98,879

⁽¹⁾ Excludes redeemable noncontrolling interest.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions, except where noted and per share amounts)

1 Description of the Business and Segment Information

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the Disney Media and Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP) segments.

The terms “Company”, “we”, “our” and “us” are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

Impact of COVID-19

Since early 2020, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) and its variants. COVID-19 and measures to prevent its spread have impacted our segments in a number of ways, most significantly at DPEP where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. In addition, at DMED we delayed, or in some cases, shortened or cancelled theatrical releases and experienced disruptions in the production and availability of content. Operations have resumed at various points since May 2020, with certain theme park and resort operations and film and television productions resuming by the end of fiscal 2020 and throughout fiscal 2021. Although operations resumed, many of our businesses continue to experience impacts from COVID-19, such as incremental health and safety measures and related increased expenses, capacity restrictions and closures (including at some of our international parks and in theaters in certain markets), and disruption of content production activities.

The impact of COVID-19 related disruptions on our financial and operating results will be dictated by the currently unknowable duration and severity of COVID-19 and its variants, and among other things, governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent.

In fiscal 2020, the Company recorded goodwill and intangible asset impairments totaling \$5.0 billion, in part due to the negative impact COVID-19 has had on the International Channels business (see Note 18).

DESCRIPTION OF THE BUSINESS

Disney Media and Entertainment Distribution

DMED encompasses the Company’s global film and episodic television content production and distribution activities. Content is distributed by a single organization across three significant lines of business: Linear Networks, Direct-to-Consumer and Content Sales/Licensing. Content is generally created/licensed by four groups: Studios, General Entertainment, Sports and International. The distribution organization has full accountability for the financial results of the entire media and entertainment business.

The operations of DMED’s significant lines of business are as follows:

- Linear Networks
 - Domestic Channels: ABC Television Network and eight owned ABC television stations (Broadcasting), and Disney, ESPN (80% interest), Freeform, FX and National Geographic (73% interest) branded domestic television networks (Cable)
 - International Channels: Disney, ESPN, Fox, National Geographic and Star branded television networks outside the U.S.
 - A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable channels including A&E, HISTORY and Lifetime

- Direct-to-Consumer
 - Disney+, Disney+ Hotstar, ESPN+ (68% effective interest), Hulu and Star+ direct-to-consumer (DTC) video streaming services
- Content Sales/Licensing
 - Sale/licensing of film and television content to third-party television and subscription/advertising video-on-demand (TV/SVOD) services
 - Theatrical distribution
 - Home entertainment distribution (DVD, Blu-ray discs and electronic home video licenses)
 - Music distribution

TABLE OF CONTENTS

- Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)

DMED also includes the following activities that are reported with Content Sales/Licensing:

- Post-production services by Industrial Light & Magic and Skywalker Sound
- National Geographic magazine and online business
- A 30% ownership interest in Tata Play Limited (formerly Tata Sky Limited), which operates a direct-to-home satellite distribution platform in India

The significant revenues of DMED are as follows:

- Affiliate fees - Fees charged by our Linear Networks to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) and television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- Advertising - Sales of advertising time/space on our Linear Networks and Direct-to-Consumer
- TV/SVOD distribution - Licensing fees and other revenue for the right to use our film and television productions and revenue from fees charged to customers to view our sports programming (“pay-per-view”) and fees for streaming access to films that are also playing in theaters (“Premier Access”). TV/SVOD distribution revenue is primarily reported in Content Sales/Licensing, except for pay-per-view and Premier Access revenues, which are reported in Direct-to-Consumer.
- Theatrical distribution - Rentals from licensing our film productions to theaters
- Home entertainment - Sale of our film and television content to retailers and distributors in home video formats
- Other content sales/licensing revenue - Revenues from licensing our music, ticket sales from stage play performances and fees from licensing our intellectual properties (“IP”) for use in stage plays
- Other revenue - Fees from sub-licensing of sports programming rights (reported in Linear Networks) and sales of post-production services (reported with Content Sales/Licensing)

The significant expenses of DMED are as follows:

- Operating expenses consist primarily of programming and production costs, technical support costs, operating labor, distribution costs and costs of sales. Programming and production costs include amortization of licensed programming rights (including sports rights), amortization of capitalized production costs, subscriber-based fees for programming our Hulu services, production costs related to live programming such as news and sports and amortization of participations and residual obligations. Programming and production costs also include fees paid to Linear Networks from other DMED businesses for the right to air our linear networks and related services. These costs are largely incurred across four content creation/licensing groups, as follows:
 - Studios - Primarily capitalized production costs related to films produced under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners
 - General Entertainment - Primarily internal production of and acquisition of rights to episodic television programs and news content. Internal content is generally produced by the following television studios: ABC Signature; 20th Television; Disney Television Animation, FX Productions and various studios for which we commission productions for our branded channels and DTC streaming services.
 - Sports - Primarily acquisition of professional and college sports programming rights and related production costs
 - International - Primarily internal production of and acquisition of rights to local content outside the U.S. and Canada.
- Selling, general and administrative costs, including marketing costs

- Depreciation and amortization

Disney Parks, Experiences and Products

The operations of DPEP's significant lines of business are as follows:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); and Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our IP to a third party to operate Tokyo Disney Resort
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii

TABLE OF CONTENTS

- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
 - Sale of branded merchandise through online, retail and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in DMED)

The significant revenues of DPEP are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks and for premium access to certain attractions (e.g. Genie+ and Lightning Lane)
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
 - Retail - Sales of merchandise through internet shopping sites generally branded shopDisney and at The Disney Store, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales and royalties earned on Tokyo Disney Resort revenues

The significant expenses of DPEP are as follows:

- Operating expenses consist primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include technology support costs, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs, including marketing costs
- Depreciation and amortization

SEGMENT INFORMATION

Our operating segments report separate financial information, which is evaluated regularly by the Chief Executive Officer in order to decide how to allocate resources and to assess performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and acquisition accounting amortization of TFCF Corporation (TFCF) and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the TFCF acquisition in fiscal 2019 (TFCF and Hulu acquisition amortization). Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption.

TABLE OF CONTENTS

Segment revenues and segment operating income are as follows:

	2022	2021	2020
<i>Revenues</i>			
Disney Media and Entertainment Distribution	\$ 55,040	\$ 50,866	\$ 48,350
Disney Parks, Experiences and Products	28,705	16,552	17,038
Total segment revenues	<u>\$ 83,745</u>	<u>\$ 67,418</u>	<u>\$ 65,388</u>
<i>Segment operating income</i>			
Disney Media and Entertainment Distribution	\$ 4,216	\$ 7,295	\$ 7,653
Disney Parks, Experiences and Products	7,905	471	455
Total segment operating income ⁽¹⁾	<u>\$ 12,121</u>	<u>\$ 7,766</u>	<u>\$ 8,108</u>

⁽¹⁾ Equity in the income of investees is included in segment operating income as follows:

	2022	2021	2020
Disney Media and Entertainment Distribution	\$ 838	\$ 795	\$ 696
Disney Parks, Experiences and Products	(10)	(19)	(19)
Equity in the income of investees included in segment operating income	828	776	677
Amortization of TFCF intangible assets related to equity investees	(12)	(15)	(26)
Equity in the income of investees	<u>\$ 816</u>	<u>\$ 761</u>	<u>\$ 651</u>

A reconciliation of segment revenues to total revenues is as follows:

	2022	2021	2020
Segment revenues	\$ 83,745	\$ 67,418	\$ 65,388
Content License Early Termination ⁽¹⁾	(1,023)	—	—
Total revenues	<u>\$ 82,722</u>	<u>\$ 67,418</u>	<u>\$ 65,388</u>

⁽¹⁾ In fiscal 2022, the Company recognized a reduction in revenue for amounts to early terminate certain license agreements with a customer for film and television content, which was delivered in previous years, in order for the Company to use the content primarily on our direct-to-consumer services (Content License Early Termination). Because the content is functional IP, we recognized substantially all of the consideration to be paid by the customer under the licenses as revenue in prior years when the content was made available under the agreements. Consequently, we have recorded the amounts to terminate the license agreements, net of remaining amounts of deferred revenue, as a reduction of revenue in the current year.

A reconciliation of segment operating income to income from continuing operations before income taxes is as follows:

	2022	2021	2020
Segment operating income	\$ 12,121	\$ 7,766	\$ 8,108
Content License Early Termination	(1,023)	—	—
Corporate and unallocated shared expenses	(1,159)	(928)	(817)
Restructuring and impairment charges	(237)	(654)	(5,735)
Other income, net	(667)	201	1,038
Interest expense, net	(1,397)	(1,406)	(1,491)
TFCF and Hulu acquisition amortization ⁽¹⁾	(2,353)	(2,418)	(2,846)
Income (loss) from continuing operations before income taxes	\$ 5,285	\$ 2,561	\$ (1,743)

⁽¹⁾ For fiscal 2022, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,707 million, \$634 million and \$12 million, respectively. For fiscal 2021, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,757 million, \$646 million and \$15 million, respectively. For fiscal 2020, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,921 million, \$899 million and \$26 million, respectively.

TABLE OF CONTENTS

Capital expenditures, depreciation expense and amortization expense are as follows:

<i>Capital expenditures</i>	2022	2021	2020
Disney Media and Entertainment Distribution	\$ 810	\$ 862	\$ 783
Disney Parks, Experiences and Products			
Domestic	2,680	1,597	2,145
International	767	675	759
Corporate	686	444	335
Total capital expenditures	<u>\$ 4,943</u>	<u>\$ 3,578</u>	<u>\$ 4,022</u>
<i>Depreciation expense</i>			
Disney Media and Entertainment Distribution	\$ 650	\$ 613	\$ 638
Disney Parks, Experiences and Products			
Domestic	1,680	1,551	1,634
International	662	718	694
Amounts included in segment operating income	2,342	2,269	2,328
Corporate	191	186	174
Total depreciation expense	<u>\$ 3,183</u>	<u>\$ 3,068</u>	<u>\$ 3,140</u>
<i>Amortization of intangible assets</i>			
Disney Media and Entertainment Distribution	\$ 164	\$ 178	\$ 175
Disney Parks, Experiences and Products	109	108	109
Amounts included in segment operating income	273	286	284
TFCF and Hulu	1,707	1,757	1,921
Total amortization of intangible assets	<u>\$ 1,980</u>	<u>\$ 2,043</u>	<u>\$ 2,205</u>

Identifiable assets, including equity method investments and intangible assets,⁽¹⁾ are as follows:

	October 1, 2022	October 2, 2021
Disney Media and Entertainment Distribution	\$ 148,129	\$ 144,675
Disney Parks, Experiences and Products	43,027	41,763
Corporate (primarily fixed asset and cash and cash equivalents)	12,475	17,171
Total consolidated assets	<u>\$ 203,631</u>	<u>203,609</u>

⁽¹⁾ Equity method investments included in identifiable assets by segment are as follows:

	October 1, 2022	October 2, 2021
Disney Media and Entertainment Distribution	\$ 2,633	\$ 2,578
Disney Parks, Experiences and Products	2	2
Corporate	43	58
	<u>\$ 2,678</u>	<u>\$ 2,638</u>

Intangible assets, which include character/franchise intangibles, copyrights, trademarks, MVPD agreements and FCC licenses (see Note 13), included in identifiable assets by segment are as follows:

	October 1, 2022	October 2, 2021
Disney Media and Entertainment Distribution	\$ 11,981	\$ 14,143
Disney Parks, Experiences and Products	2,836	2,952
Corporate	20	20
	<u>\$ 14,837</u>	<u>\$ 17,115</u>

TABLE OF CONTENTS

The following table presents our revenues and segment operating income by geographical markets:

	2022	2021	2020
<i>Revenues</i>			
Americas	\$ 68,218	\$ 54,157	\$ 51,992
Europe	8,680	6,690	7,333
Asia Pacific	6,847	6,571	6,063
	<u>83,745</u>	<u>\$ 67,418</u>	<u>\$ 65,388</u>
Content License Early Termination	(1,023)		
	<u>\$ 82,722</u>		
<i>Segment operating income (loss)</i>			
Americas	\$ 11,099	\$ 6,314	\$ 5,819
Europe	586	800	1,273
Asia Pacific	436	652	1,016
	<u>\$ 12,121</u>	<u>\$ 7,766</u>	<u>\$ 8,108</u>

Long-lived assets⁽¹⁾ by geographical markets are as follows:

	October 1, 2022	October 2, 2021
Americas	\$ 150,786	\$ 144,788
Europe	8,739	8,215
Asia Pacific	10,976	12,012
	<u>\$ 170,501</u>	<u>\$ 165,015</u>

⁽¹⁾ Long-lived assets are total assets less: current assets, long-term receivables, deferred taxes, financial investments and the fair value of derivative instruments.

The changes in the carrying amount of goodwill are as follows:

	DMED	DPEP	Total
Balance at Oct. 3, 2020	\$ 72,139	\$ 5,550	\$ 77,689
Currency translation adjustments and other, net	382	—	382
Balance at Oct. 2, 2021	\$ 72,521	\$ 5,550	\$ 78,071
Currency translation adjustments and other, net	(174)	—	(174)
Balance at Oct. 1, 2022	<u>\$ 72,347</u>	<u>\$ 5,550</u>	<u>\$ 77,897</u>

2 *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships with or makes investments in other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that

most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together, the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia Theme Parks in its financial statements.

TABLE OF CONTENTS

Reporting Period

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year occurs, the Company reports the additional week in the fourth quarter. Fiscal 2022 and 2021 were fifty-two week years. Fiscal 2020 was a fifty-three week year, which began on September 29, 2019 and ended on October 3, 2020.

Reclassifications

Certain reclassifications have been made in the fiscal 2021 and fiscal 2020 financial statements and notes to conform to the fiscal 2022 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Revenues and Costs from Services and Products

The Company generates revenue from the sale of both services and tangible products and revenues and operating costs are classified under these two categories in the Consolidated Statements of Operations. Certain costs related to both the sale of services and tangible products are not specifically allocated between the service or tangible product revenue streams but are instead attributed to the principal revenue stream. The cost of services and tangible products exclude depreciation and amortization.

Significant service revenues include:

- Affiliate fees
- Subscription fees to our DTC streaming services
- Advertising revenues
- Admissions to our theme parks, charges for room nights at hotels and sales of cruise vacation packages
- Revenue from the licensing and distribution of film and television properties
- Royalties from licensing our IP for use on consumer goods, published materials and in multi-platform games

Significant operating costs related to the sale of services include:

- Programming and production costs
- Distribution costs
- Operating labor
- Facilities and infrastructure costs

Significant tangible product revenues include:

- The sale of food, beverage and merchandise at our retail locations
- The sale of DVDs and Blu-ray discs
- The sale of books, comic books and magazines

Significant operating costs related to the sale of tangible products include:

- Costs of goods sold
- Operating labor
- Programming and production costs
- Distribution costs
- Retail occupancy costs

Revenue Recognition

The Company's revenue recognition policies are as follows:

- Affiliate fees are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming. For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term. If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded. Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

TABLE OF CONTENTS

- Subscription fees are recognized ratably over the term of the subscription.
- Advertising sales are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the guaranteed number of impressions is not met (“ratings shortfall”), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.
- Theme park admissions are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- Resorts and vacations sales are recognized as revenue as the services are provided to the guest. Sales of vacation club properties are recognized as revenue upon the later of when title transfers to the customer or when construction activity is deemed complete.
- Merchandise, food and beverage sales are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- Merchandise licensing fees are recognized as revenue as earned based on the contractual royalty rate applied to the licensee’s underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual royalties earned (“shortfall”) is recognized straight-line over the remaining license period once an expected shortfall is probable.
- TV/SVOD distribution fixed license fees are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue as earned based on the contractual royalty rate applied to the licensee sales.

For TV/SVOD licenses that include multiple titles with a fixed license fee across all titles, each title is considered a separate performance obligation. The fixed license fee is allocated to each title at contract inception and the allocated license fee is recognized as revenue when the title is available for use by the licensee.

When the license contains a minimum guaranteed license fee across all titles, the license fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee is exceeded, revenue is recognized as earned based on the licensee’s underlying sales.

TV/SVOD distribution contracts may limit the licensee’s use of a title to certain defined periods of time during the contract term. In these instances, each period of availability is generally considered a separate performance obligation. For these contracts, the fixed license fee is allocated to each period of availability at contract inception based on relative standalone selling price using management’s best estimate. Revenue is recognized at the start of each availability period when the content is made available for use by the licensee.

When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.

- Theatrical distribution licensing fees are recognized as revenue based on the contractual royalty rate applied to the distributor’s underlying sales from exhibition of the film.
- Home entertainment sales in physical formats are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our films in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling fees collected from customers are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of current and non-current accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies with which we do business, current market conditions and reasonable supportable forecasts of future economic conditions.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2022, 2021 and 2020 was \$7.2 billion, \$5.5 billion and \$4.7 billion, respectively. The increase in advertising expense for fiscal 2022 compared to fiscal 2021 was due to higher spend for our DTC streaming services and an increase in theatrical marketing costs. The increase in advertising expense for fiscal 2021 compared to fiscal 2020 was due to higher spend for our DTC streaming services.

TABLE OF CONTENTS

Cash and Cash Equivalents

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

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. The Company's restricted cash balances are primarily made up of cash posted as collateral for certain derivative instruments.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statements of Cash Flows.

	October 1, 2022	October 2, 2021	October 3, 2020
Cash and cash equivalents	\$ 11,615	\$ 15,959	\$ 17,914
Restricted cash included in:			
Other current assets	3	3	3
Other assets	43	41	37
Total cash, cash equivalents and restricted cash in the statement of cash flows	<u>\$ 11,661</u>	<u>\$ 16,003</u>	<u>\$ 17,954</u>

Investments

Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at that value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value.

Translation Policy

Generally, the U.S. dollar is the functional currency for our international film and television distribution and licensing businesses and the branded International Channels and DTC streaming services. Generally, the local currency is the functional currency for the Asia Theme Parks, Disneyland Paris, the Star branded channels in India, international sports channels and international locations of The Disney Store.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) (AOCI).

Inventories

Inventory primarily includes vacation timeshare units, merchandise, food, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, food, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or net realizable value.

Film and Television Content Costs

The Company classifies its capitalized produced and acquired/licensed content costs as long-term assets (“Produced and licensed content costs” in the Consolidated Balance Sheet) and classifies advances for live programming rights made prior to the live event as short-term assets (“Content advances” in the Consolidated Balance Sheet). For produced content, we capitalize all direct costs incurred in the physical production of a film, as well as allocations of production overhead and capitalized interest. For licensed and acquired content, we capitalize the license fee or acquisition cost, respectively. For purposes of amortization and impairment, the capitalized content costs are classified based on their predominant monetization strategy as follows:

- Individual - lifetime value is predominantly derived from third-party revenues that are directly attributable to the specific film or television title (e.g. theatrical revenues or sales to third-party television programmers)

TABLE OF CONTENTS

- Group - lifetime value is predominantly derived from third-party revenues that are attributable only to a bundle of titles (e.g. subscription revenue for a DTC service or affiliate fees for a cable television network)

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which we derive third-party revenues from use of the content. Imputed title by title license fees that may be necessary for other purposes are established as required for those purposes.

We generally classify content that is initially intended for use on our DTC streaming services or Linear Networks as group assets. We generally classify content initially intended for theatrical release or for sale to third-party licensees as individual assets. The predominant monetization strategy for content released prior to the beginning of fiscal 2020 (the date the Company adopted accounting guidance that was applied prospectively) was determined based on the expected means of monetization over the remaining life of the content. Thus for example, film titles that were released theatrically and in home entertainment prior to fiscal year 2020 and are now distributed on Disney+ are generally considered group content.

The classification of content as individual or group only changes if there is a significant change to the title's monetization strategy relative to its initial assessment (e.g. content that was initially intended for license to a third party is instead used on an owned DTC service). When there is a significant change in monetization strategy, the title's capitalized content costs are tested for impairment.

Production costs for content that is predominantly monetized individually are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include imputed license fees for content that is used on our DTC streaming services, that will be earned within ten years from the date of the initial release for theatrical films. For episodic television series that are classified as individual, Ultimate Revenues include revenues that will be earned within ten years, including imputed license fees for content that is used on our DTC streaming services, from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Participations and residuals are expensed over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues for each production.

Production costs that are predominantly monetized as a group are amortized based on projected usage, generally resulting in an accelerated or straight-line amortization pattern. Adjustments to projected usage are applied prospectively in the period of the change. Participations and residuals are generally expensed in line with the pattern of usage.

Licensed rights to film and television content and other programs for broadcast on our Linear Networks or DTC streaming services are expensed on an accelerated or straight-line basis over their useful life or over the number of times the program is expected to be aired, as appropriate. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. If annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season.

Acquired film and television libraries are generally amortized on a straight-line basis over 20 years from the date of acquisition. Acquired film and television libraries include content that was initially released three years prior to its acquisition, except it excludes the prior seasons of episodic television programming still in production at the date of its acquisition.

Amortization of capitalized costs for produced and acquired content begins in the month the content is first released, while amortization of capitalized costs for licensed content commences when the license period begins and the content is first aired or available for use on our DTC services. Amortization of content assets is primarily included in "Cost of services" in the Consolidated Statements of Operations.

The costs of produced and licensed film and television content are subject to regular recoverability assessments. For content that is predominantly monetized individually, the unamortized costs are compared to the estimated fair

value. The fair value is determined based on a discounted cash flow analysis of the cash flows directly attributable to the title. To the extent the unamortized costs exceed the fair value, an impairment charge is recorded for the excess. For content that is predominantly monetized as a group, the aggregate unamortized costs of the group are compared to the present value of the discounted cash flows using the lowest level for which identifiable cash flows are independent of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written-off immediately. Licensed content is included as part of the group within which it is monetized for purposes of assessing recoverability.

TABLE OF CONTENTS

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of October 1, 2022 and October 2, 2021, capitalized software costs, net of accumulated amortization, totaled \$1.1 billion and \$1.2 billion, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software up to 7 years.

Parks, Resorts and Other Property

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method, generally over estimated useful lives as follows:

Attractions, buildings and improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Land improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less

Leases

The Company determines whether a contract is a lease at contract inception or for a modified contract at the modification date. At inception or modification, the Company calculates the present value of operating lease payments using the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. Our leases may require us to make fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use asset and lease liability. Fixed non-lease costs, for example common-area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2022, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the

reporting units. To determine the fair value of our reporting units, we apply what we believe to be the most appropriate valuation methodology for each of our reporting units. We generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the discount rates used to calculate the present value of future cash flows. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair

TABLE OF CONTENTS

value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks, which are our most significant indefinite-lived intangible assets.

Finite-lived intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the useful life of the significant assets of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

The Company recorded non-cash impairment charges of \$0.2 billion, \$0.3 billion, and \$5.2 billion in fiscal 2022, 2021 and 2020, respectively.

The fiscal 2022 charges primarily related to our businesses in Russia.

The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

The fiscal 2020 impairment charges primarily related to impairments of MVPD agreement intangibles assets (\$1.9 billion) and goodwill (\$3.1 billion) at the International Channels business. See Note 18 to the Consolidated Financial Statements for additional discussion of these impairment charges.

The Company expects its aggregate annual amortization expense for finite-lived intangible assets for fiscal 2023 through 2027 to be as follows:

2023	\$ 1,808
2024	1,570
2025	1,459
2026	966
2027	888

Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedges and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company primarily enters into

two types of derivatives: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating-rate debt).

The Company designates and assigns the derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged occur or are no longer expected to occur, the Company recognizes the gain or loss on the designated derivatives.

TABLE OF CONTENTS

The Company's hedge positions are measured at fair value on the balance sheet. 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 swaps to be paid or received under the agreements as interest rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

The Company enters into derivatives that are not designated as hedges and do not qualify for hedge accounting. These derivatives are intended to offset certain economic exposures of the Company and are carried at fair value with changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 8 and 17).

Income Taxes

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Redeemable Noncontrolling Interests

The Company consolidates the results of certain subsidiaries that are less than 100% owned and for which the noncontrolling interest shareholders have the rights to require the Company to purchase their interests in these subsidiaries. The most significant of these are Hulu LLC (Hulu) and BAMTech LLC (BAMTech).

Hulu provides DTC streaming services and is owned 67% by the Company and 33% by NBC Universal (NBCU). In May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU's interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu to the Company, in either case at a redemption value based on NBCU's equity ownership percentage of the greater of Hulu's then equity fair value or a guaranteed floor value of \$27.5 billion.

NBCU's interest will generally not be allocated its portion of Hulu's losses, if any, as the redeemable noncontrolling interest is required to be carried at a minimum value. The minimum value is equal to the fair value as of the May 2019 agreement date accreted to the January 2024 estimated redemption value. At October 1, 2022, NBCU's interest in Hulu is recorded in the Company's financial statements at \$8.7 billion.

BAMTech provides streaming technology services and is owned 85% by the Company and 15% by Major League Baseball (MLB).

MLB has the right to sell its interest to the Company and the Company has the right to buy MLB's interest starting five years from and ending ten years after the Company's September 25, 2017 acquisition date of BAMTech, in either case at a redemption value based on MLB's equity ownership percentage of the greater of BAMTech's then equity fair value or a guaranteed floor value (\$563 million accreting at 8% annually for eight years from the date of acquisition).

The MLB interest is required to be carried at a minimum value equal to its acquisition date fair value accreted to its estimated redemption value through the applicable redemption date. Therefore, the MLB interest is generally not allocated its portion of BAMTech losses, if any. As of October 1, 2022, the MLB interest was recorded in the

Company's financial statements at \$828 million. In November 2022, the Company purchased MLB's 15% interest for \$900 million.

Our estimate of the redemption value of noncontrolling interests requires management to make significant judgments with respect to the future value of the noncontrolling interests. We are accreting the noncontrolling interests of Hulu to its guaranteed floor value. If our estimate of the future redemption value increased above the guaranteed floor value, we would change our rate of accretion, which would generally increase the amount recorded in "Net income from continuing operations attributable to noncontrolling interests and redeemable noncontrolling interests" and thus reduce "Net income (loss) attributable to The Walt Disney Company (Disney)" on the Consolidated Statements of Operations.

TABLE OF CONTENTS

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2022	2021	2020
Weighted average number of common and common equivalent shares outstanding (basic)	1,822	1,816	1,808
Weighted average dilutive impact of Awards ⁽¹⁾	5	12	—
Weighted average number of common and common equivalent shares outstanding (diluted)	1,827	1,828	1,808
Awards excluded from diluted earnings per share	15	4	35

⁽¹⁾ Amounts exclude all potential common and common equivalent shares for periods when there is a net loss from continuing operations.

3 *Revenues*

The following table presents our revenues by segment and major source:

	2022				2021			2020		
	Content License Early									
	DMED	DPEP	Termination	Total	DMED	DPEP	Total	DMED	DPEP	Total
Affiliate fees	\$17,525	\$ —	\$ —	\$17,525	\$17,760	\$ —	\$17,760	\$17,929	\$ —	\$17,929
Subscription fees	15,291	—	—	15,291	12,020	—	12,020	7,645	—	7,645
Advertising	13,044	4	—	13,048	12,425	4	12,429	10,851	4	10,855
Theme park admissions	—	8,602	—	8,602	—	3,848	3,848	—	4,038	4,038
Resort and vacations	—	6,410	—	6,410	—	2,701	2,701	—	3,402	3,402
Retail and wholesale sales of merchandise, food and beverage	—	7,838	—	7,838	—	4,957	4,957	—	4,952	4,952
Merchandise licensing	—	3,969	—	3,969	12	3,586	3,598	32	3,210	3,242
TV/SVOD distribution licensing	4,452	—	(1,023)	3,429	5,266	—	5,266	6,253	—	6,253
Theatrical distribution licensing	1,875	—	—	1,875	920	—	920	2,134	—	2,134
Home entertainment	820	—	—	820	1,014	—	1,014	1,802	—	1,802
Other	2,033	1,882	—	3,915	1,449	1,456	2,905	1,704	1,432	3,136
	\$55,040	\$28,705	\$(1,023)	\$82,722	\$50,866	\$16,552	\$67,418	\$48,350	\$17,038	\$65,388

The following table presents our revenues by segment and primary geographical markets:

	2022			2021			2020		
	DMED	DPEP	Total	DMED	DPEP	Total	DMED	DPEP	Total
Americas	\$ 45,018	\$ 23,200	\$ 68,218	\$ 41,754	\$ 12,403	\$ 54,157	39,163	\$ 12,829	\$ 51,992
Europe	5,328	3,352	8,680	5,022	1,668	6,690	5,240	2,093	7,333
Asia Pacific	4,694	2,153	6,847	4,090	2,481	6,571	3,947	2,116	6,063
	<u>\$ 55,040</u>	<u>\$ 28,705</u>	<u>\$ 83,745</u>	<u>\$ 50,866</u>	<u>\$ 16,552</u>	<u>\$ 67,418</u>	<u>\$ 48,350</u>	<u>\$ 17,038</u>	<u>\$ 65,388</u>
Content License Early Termination			(1,023)						
			<u>\$ 82,722</u>						

Revenues recognized in the current and prior year from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/SVOD licenses for titles made available to the licensee in previous reporting periods. For fiscal 2022, \$1.1 billion was recognized related to performance obligations satisfied prior to

TABLE OF CONTENTS

October 2, 2021. For fiscal 2021, \$1.3 billion was recognized related to performance obligations satisfied prior to October 3, 2020. For fiscal 2020, \$1.4 billion was recognized related to performance obligations satisfied prior to September 30, 2019.

As of October 1, 2022, revenue for unsatisfied performance obligations expected to be recognized in the future is \$15 billion, which primarily relates to content and other IP to be delivered in the future under existing agreements with merchandise and co-branding licensees and sponsors, television station affiliates, sports sublicensees, advertisers, and DTC wholesalers. Of this amount, we expect to recognize approximately \$6 billion in fiscal 2023, \$4 billion in fiscal 2024, \$2 billion in fiscal 2025 and \$3 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

When the timing of the Company's revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears is recognized as accounts receivable. Deferred revenues are recognized as (or when) the Company performs under the contract.

Contract assets, accounts receivable and deferred revenues from contracts with customers are as follows:

	October 1, 2022	October 2, 2021
Contract assets	\$ 32	\$ 155
Accounts Receivable		
Current	10,886	11,190
Non-current	1,226	1,359
Allowance for credit losses	(179)	(194)
Deferred revenues		
Current	5,531	4,067
Non-current	927	581

Contract assets primarily relate to certain multi-season TV/SVOD licensing contracts. Activity for fiscal 2022 and 2021 related to contract assets was not material.

For fiscal 2022, 2021 and 2020, the Company recognized revenues of \$3.6 billion, \$2.9 billion and \$3.4 billion, respectively, that was included in the deferred revenue balance at October 2, 2021, October 3, 2020 and September 28, 2019, respectively. Amounts deferred generally relate to DTC subscriptions, advances from merchandise licensees and TV/SVOD licenses. In fiscal 2020, as a result of COVID-19, the Company had paid refunds for certain non-refundable deposits that were reported as deferred revenue prior to fiscal 2020, the most significant of which related to park admission tickets and deposits for vacation packages. The balance at October 2, 2021 related to these deposits was classified in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet. In fiscal 2022, the Company is no longer refunding these deposits and approximately \$1.5 billion is now classified as "Deferred revenue and other" in the Consolidated Balance Sheet.

The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights (TV/SVOD) and vacation club properties. These receivables are discounted to present value at contract inception, and the related revenues are recognized at the discounted amount. The balance of TV/SVOD licensing receivables recorded in other non-current assets was \$0.6 billion and \$0.8 billion at October 1, 2022 and October 2, 2021, respectively. The balance of vacation club receivables recorded in other non-current assets was

\$0.6 billion at both October 1, 2022 and October 2, 2021, respectively. The allowance for credit losses and activity for fiscal 2022 and 2021 was not material.

TABLE OF CONTENTS

4 *Other Income (Expense), Net*

Other income (expense), net is as follows:

	2022	2021	2020
DraftKings gain (loss)	\$ (663)	\$ (111)	\$ 973
fuboTV gain	—	186	—
German FTA gain	—	126	—
Endemol Shine gain	—	—	65
Other, net	(4)	—	—
Other income (expense), net	<u>\$ (667)</u>	<u>\$ 201</u>	<u>\$ 1,038</u>

In fiscal 2022 and 2021, the Company recognized a non-cash loss of \$663 million and \$111 million, respectively, from the adjustment of its investment in DraftKings, Inc. (DraftKings) to fair value (DraftKings gain (loss)). In fiscal 2020, the Company recognized a \$973 million DraftKings gain.

In fiscal 2021, the Company recognized a \$186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain) and a \$126 million gain on the sale of its 50% interest in a German free-to-air (FTA) television network (German FTA gain).

In fiscal 2020, the Company recognized a \$65 million gain on the sale of its 50% interest in Endemol Shine Group (Endemol Shine gain).

5 *Investments*

Investments consist of the following:

	October 1, 2022	October 2, 2021
Investments, equity basis	\$ 2,678	\$ 2,638
Investments, other	540	1,297
	<u>\$ 3,218</u>	<u>\$ 3,935</u>

Investments, Equity Basis

The Company's significant equity investments primarily consist of media investments and include A+E (50% ownership), CTV Specialty Television, Inc. (30% ownership) and Tata Play Limited (30% ownership). As of October 1, 2022, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately \$0.8 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

Investments, Other

As of October 1, 2022 and October 2, 2021, the Company had securities recorded at fair value of \$0.3 billion and \$1.0 billion, respectively. As of October 1, 2022 and October 2, 2021, the Company had securities recorded at book value related to non-publicly traded securities without a readily determinable fair value of \$0.2 billion and \$0.3 billion, respectively.

Gains, losses and impairments on securities are generally recorded in "Interest expense, net" in the Consolidated Statements of Operations; these amounts were not material for fiscal 2022, 2021 and 2020. See Note 4

for realized and unrealized gains and losses on securities recorded in “Other income (expense), net” in the Consolidated Statements of Operations.

6 *International Theme Parks*

The Company has a 48% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (together, the Asia Theme Parks), which are both VIEs consolidated in the Company’s financial statements. See Note 2 for the Company’s policy on consolidating VIEs. In addition, the Company has 100% ownership of Disneyland Paris. The Asia Theme Parks together with Disneyland Paris are collectively referred to as the International Theme Parks.

TABLE OF CONTENTS

The following table summarizes the carrying amounts of the Asia Theme Parks' assets and liabilities included in the Company's Consolidated Balance Sheet:

	October 1, 2022	October 2, 2021
Cash and cash equivalents	\$ 280	\$ 287
Other current assets	137	95
Total current assets	417	382
Parks, resorts and other property	6,356	6,928
Other assets	161	176
Total assets	<u>\$ 6,934</u>	<u>\$ 7,486</u>
Current liabilities	\$ 468	\$ 473
Long-term borrowings	1,426	1,331
Other long-term liabilities	395	422
Total liabilities	<u>\$ 2,289</u>	<u>\$ 2,226</u>

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Consolidated Statements of Operations for fiscal 2022:

Revenues	\$ 3,026
Costs and expenses	(3,459)
Equity in the loss of investees	(10)

Asia Theme Parks' royalty and management fees of \$71 million for fiscal 2022 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's fiscal 2022 Consolidated Statements of Cash Flows were \$407 million provided by operating activities, \$752 million used in investing activities and \$240 million provided by financing activities.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 52% and a 48% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have provided loans to Hong Kong Disneyland Resort with outstanding balances of \$152 million and \$102 million, respectively. The interest rate on both loans is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$268 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. The outstanding balance under the line of credit at October 1, 2022 was \$231 million. The Company's line of credit is eliminated in consolidation.

Hong Kong Disneyland Resort is undergoing a multi-year expansion estimated to cost HK \$10.9 billion (\$1.4 billion). The Company and HKSAR have agreed to fund the expansion on an equal basis through equity contributions, which totaled \$148 million and \$42 million in fiscal 2022 and 2021, respectively. To date, the Company and HKSAR have funded a total of \$716 million.

HKSAR has the right to receive additional shares over time to the extent Hong Kong Disneyland Resort exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on an annual basis and could decrease the Company's equity interest by up to an additional 6 percentage points over

a period no shorter than 10 years. Assuming HK \$10.9 billion is contributed in the expansion, the impact to the Company's equity interest would be limited to 5 percentage points.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

TABLE OF CONTENTS

The Company has provided Shanghai Disney Resort with loans totaling \$930 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. The Company has also provided Shanghai Disney Resort with a 1.9 billion yuan (approximately \$0.3 billion) line of credit bearing interest at 8%. As of October 1, 2022, the total amount outstanding under the line of credit was 0.9 billion yuan (approximately \$123 million). These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 8.3 billion yuan (approximately \$1.2 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 2.6 billion yuan (approximately \$0.4 billion) line of credit bearing interest at 8%. As of October 1, 2022, the total amount outstanding under the line of credit was 1.2 billion yuan (approximately \$162 million).

7 Produced and Acquired/Licensed Content Costs and Advances

Total capitalized produced and licensed content by predominant monetization strategy is as follows:

	As of October 1, 2022			As of October 2, 2021		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content						
Released, less amortization	\$ 4,639	\$ 12,688	\$ 17,327	\$ 4,944	\$ 9,779	\$ 14,723
Completed, not released	214	2,019	2,233	630	762	1,392
In-process	5,041	6,793	11,834	4,371	4,623	8,994
In development or pre-production	372	254	626	351	162	513
	<u>\$ 10,266</u>	<u>\$ 21,754</u>	<u>32,020</u>	<u>\$ 10,296</u>	<u>\$ 15,326</u>	<u>25,622</u>
Licensed content - Television						
Programming rights and advances			5,647			6,110
Total produced and licensed content			<u>\$ 37,667</u>			<u>\$ 31,732</u>
Current portion			\$ 1,890			\$ 2,183
Non-current portion			\$ 35,777			\$ 29,549

Amortization of produced and licensed content is as follows:

	2022	2021	2020
Produced content			
Predominantly monetized individually	\$ 3,448	\$ 2,947	\$ 4,305
Predominantly monetized as a group	6,776	5,228	5,032
	<u>10,224</u>	<u>8,175</u>	<u>9,337</u>
Licensed programming rights and advances	13,432	12,784	11,241
Total produced and licensed content costs ⁽¹⁾	<u>\$ 23,656</u>	<u>\$ 20,959</u>	<u>\$ 20,578</u>

⁽¹⁾ Primarily included in "Costs of services" in the Consolidated Statements of Operations.

TABLE OF CONTENTS

Total expected amortization by fiscal year of completed (released and not released) produced, licensed and acquired film and television library content on the balance sheet as of October 1, 2022 is as follows:

	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content			
Released			
2023	\$ 1,158	\$ 2,906	\$ 4,064
2024	674	2,002	2,676
2025	524	1,636	2,160
Completed, not released			
2023	91	778	869
Licensed content - Programming rights and advances			
2023			\$ 3,228
2024			1,069
2025			534

Approximately \$2.2 billion of accrued participations and residual liabilities will be paid in fiscal 2023.

At October 1, 2022, acquired film and television library content has remaining unamortized costs of \$3.3 billion, which are generally being amortized straight-line over a weighted-average remaining period of approximately 16 years.

8 *Borrowings*

The Company's borrowings, including the impact of interest rate and cross-currency swaps, are summarized as follows:

	October 1, 2022					
	Oct. 1, 2022	Oct. 2, 2021	Stated Interest Rate ⁽¹⁾	Pay Floating Interest rate and Cross- Currency Swaps ⁽²⁾	Effective Interest Rate ⁽³⁾	Swap Maturities
Commercial paper	\$ 1,662	\$ 1,992	—	\$ —	3.31%	
U.S. dollar denominated notes ⁽⁴⁾	45,091	49,090	4.03%	12,625	4.07%	2023-2031
Foreign currency denominated debt	1,844	2,011	2.92%	1,847	3.42%	2025-2027
Other ⁽⁵⁾	(1,653)	(18)		—		
	46,944	53,075	3.85%	14,472	4.02%	
Asia Theme Parks borrowings	1,425	1,331	2.35%	—	6.11%	
Total borrowings	48,369	54,406	3.94%	14,472	4.08%	
Less current portion	3,070	5,866	3.65%	1,000	3.85%	
Total long-term borrowings	\$ 45,299	\$ 48,540		\$ 13,472		

- (1) The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating-rate borrowings, interest rates are the rates in effect at October 1, 2022; these rates are not necessarily an indication of future interest rates.
- (2) Amounts represent notional values of interest rate and cross-currency swaps outstanding as of October 1, 2022.
- (3) The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance premiums, discounts and costs.
- (4) Includes net debt issuance discounts, costs and purchase accounting adjustments totaling a net premium of \$1.9 billion and \$2.1 billion at October 1, 2022 and October 2, 2021, respectively.
- (5) Includes market value adjustments for debt with qualifying hedges, which reduces borrowings by \$1.7 billion and \$0.1 billion at October 1, 2022 and October 2, 2021, respectively.

TABLE OF CONTENTS

Commercial Paper

At October 1, 2022, the Company's bank facilities, which are with a syndicate of lenders and support our commercial paper borrowings, were as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2023	\$ 5,250	\$ —	\$ 5,250
Facility expiring March 2025	3,000	—	3,000
Facility expiring March 2027	4,000	—	4,000
Total	<u>\$ 12,250</u>	<u>\$ —</u>	<u>\$ 12,250</u>

These facilities allow for borrowings at SOFR-based rates plus a fixed spread that varies with the Company's debt ratings assigned by Moody's Investors Service and Standard & Poor's ranging from 0.755% to 1.225%. The bank facilities contain only one financial covenant, relating to interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On October 1, 2022, the Company met this covenant by a significant margin. The bank facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2027, which if utilized, reduces available borrowings under this facility. As of October 1, 2022, the Company has \$1.9 billion of outstanding letters of credit, of which none were issued under this facility.

Commercial paper activity is as follows:

	Commercial paper with original maturities less than three months, net ⁽¹⁾	Commercial paper with original maturities greater than three months	Total
Balance at Oct. 3, 2020	\$ —	\$ 2,023	\$ 2,023
Additions	—	2,221	2,221
Payments	—	(2,247)	(2,247)
Other Activity	—	(5)	(5)
Balance at Oct. 2, 2021	\$ —	\$ 1,992	\$ 1,992
Additions	50	2,417	2,467
Payments	—	(2,801)	(2,801)
Other Activity	—	4	4
Balance at Oct. 1, 2022	<u>\$ 50</u>	<u>\$ 1,612</u>	<u>\$ 1,662</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

U.S. Dollar Denominated Notes

At October 1, 2022, the Company had \$45.1 billion of fixed rate U.S. dollar denominated notes with maturities ranging from 1 to 74 years and stated interest rates that range from 1.75% to 9.50%.

Foreign Currency Denominated Debt

Prior to fiscal 2020, the Company issued Canadian \$1.3 billion (\$0.9 billion) of fixed rate senior notes, which bear interest at 2.76% and mature in October 2024. The Company also entered into pay-floating interest rate and

cross currency swaps that effectively convert the borrowing to a variable-rate U.S. dollar denominated borrowing indexed to LIBOR.

In fiscal 2020, the Company issued Canadian \$1.3 billion (\$0.9 billion) of fixed rate senior notes, which bear interest at 3.057% and mature in March 2027. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable-rate U.S. dollar denominated borrowing indexed to LIBOR.

Cruise Ship Credit Facilities

The Company has credit facilities to finance up to 80% of the contract price of two new cruise ships, which are scheduled to be delivered in fiscal 2025 and fiscal 2026. Under the facilities, \$1.1 billion is available beginning in August 2023 and \$1.1 billion is available beginning in August 2024. Each tranche of financing may be utilized for a period of 18 months from the initial availability date. If utilized, the interest rates will be fixed at 3.80% and 3.74%, respectively, and the loan and interest

TABLE OF CONTENTS

will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

Asia Theme Parks Borrowings

HKSAR provided Hong Kong Disneyland Resort with loans totaling HK \$0.8 billion (\$102 million). The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025.

Shendi has provided Shanghai Disney Resort with loans totaling 8.3 billion yuan (approximately \$1.2 billion) bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 2.6 billion yuan (approximately \$0.4 billion) line of credit bearing interest at 8%. As of October 1, 2022 the total amount outstanding under the line of credit was 1.2 billion yuan (approximately \$162 million).

Maturities

The following table provides total borrowings, excluding market value adjustments and debt issuance premiums, discounts and costs, by scheduled maturity date as of October 1, 2022. The table also provides the estimated interest payments on these borrowings as of October 1, 2022 although actual future payments will differ for floating-rate borrowings:

Fiscal Year:	Borrowings				Total Borrowings and Interest
	Before Asia Theme Parks Consolidation	Asia Theme Parks	Total Borrowings	Interest ⁽¹⁾	
2023	\$ 2,918	\$ 162	\$ 3,080	\$ 1,811	\$ 4,891
2024	2,872	—	2,872	1,748	4,620
2025	3,604	102	3,706	1,631	5,337
2026	4,578	—	4,578	1,533	6,111
2027	2,905	—	2,905	1,428	4,333
Thereafter	29,881	1,161	31,042	19,738	50,780
	<u>\$ 46,758</u>	<u>\$ 1,425</u>	<u>\$ 48,183</u>	<u>\$ 27,889</u>	<u>\$ 76,072</u>

⁽¹⁾ In 2023, the Company has the ability to call a debt instrument prior to its scheduled maturity, which if exercised by the Company would reduce future interest payments by \$1.1 billion.

Interest

The Company capitalizes interest on assets constructed for its parks and resorts and on certain film and television productions. In fiscal 2022, 2021 and 2020, total interest capitalized was \$261 million, \$187 million and \$157 million, respectively. Interest expense, net of capitalized interest, for fiscal 2022, 2021 and 2020 was \$1,549 million, \$1,546 million and \$1,647 million, respectively.

9 Income Taxes

Income (Loss) Before Income Taxes by Domestic and Foreign Subsidiaries

	2022	2021	2020
Income (Loss) Before Income Taxes			
Domestic subsidiaries (including U.S. exports)	\$ 5,955	\$ 5,241	\$ 4,706
Foreign subsidiaries ⁽¹⁾	(670)	(2,680)	(6,449)
Total income (loss) from continuing operations	5,285	2,561	(1,743)
Loss from discontinued operations	(62)	(38)	(42)
	<u>\$ 5,223</u>	<u>\$ 2,523</u>	<u>\$ (1,785)</u>

⁽¹⁾ Includes goodwill and intangible asset impairment in fiscal 2020.

TABLE OF CONTENTS

Provision for Income Taxes: Current and Deferred

Income Tax Expense (Benefit)

Current	2022	2021	2020
Federal	\$ 436	\$ 594	\$ 95
State	282	129	148
Foreign ⁽¹⁾	846	554	731
	<u>1,564</u>	<u>1,277</u>	<u>974</u>
Deferred			
Federal	407	(526)	279
State	26	(220)	(29)
Foreign	(265)	(506)	(525)
	<u>168</u>	<u>(1,252)</u>	<u>(275)</u>
Income tax expense from continuing operations	1,732	25	699
Income tax expense from discontinued operations	(14)	(9)	(10)
	<u>\$ 1,718</u>	<u>\$ 16</u>	<u>\$ 689</u>

⁽¹⁾ Includes foreign withholding taxes.

Deferred Tax Assets and Liabilities

	October 1, 2022	October 2, 2021
Components of Deferred Tax (Assets) and Liabilities		
Deferred tax assets		
Net operating losses and tax credit carryforwards ⁽¹⁾	\$ (3,527)	\$ (3,944)
Accrued liabilities	(1,570)	(2,544)
Lease liabilities	(748)	(764)
Licensing revenues	(124)	(80)
Other	(819)	(725)
Total deferred tax assets	<u>(6,788)</u>	<u>(8,057)</u>
Deferred tax liabilities		
Depreciable, amortizable and other property	8,575	7,916
Investment in U.S. entities	1,798	2,653
Right-of-use assets	676	697
Investment in foreign entities	543	392
Other	64	164
Total deferred tax liabilities	<u>11,656</u>	<u>11,822</u>
Net deferred tax liability before valuation allowance	4,868	3,765
Valuation allowance	2,859	2,795
Net deferred tax liability	<u>\$ 7,727</u>	<u>\$ 6,560</u>

⁽¹⁾ Balances as of October 1, 2022 and October 2, 2021 include approximately \$1.5 billion and \$1.6 billion, respectively, of International Theme Park net operating losses and approximately \$1.0 billion at both

October 1, 2022 and October 2, 2021 of foreign tax credits in the U.S. The International Theme Park net operating losses are primarily in France and, to a lesser extent, Hong Kong and China. Losses in France and Hong Kong have an indefinite carryforward period and losses in China have a five-year carryforward period. China theme park net operating losses of \$0.2 billion may expire between fiscal 2023 and fiscal 2028. Foreign tax credits in the U.S. have a ten-year carryforward period. Foreign tax credits of \$1.0 billion may expire beginning fiscal 2026.

TABLE OF CONTENTS

The following table details the change in valuation allowance for fiscal 2022, 2021 and 2020 (in billions):

	Balance at Beginning of Period	Charges to Tax Expense	Other Changes	Balance at End of Period
Year ended October 1, 2022	\$ 2.8	\$ 0.4	\$ (0.3)	\$ 2.9
Year ended October 2, 2021	2.4	0.4	—	2.8
Year ended October 3, 2020	1.9	0.6	(0.1)	2.4

Reconciliation of the effective income tax rate for continuing operations to the federal rate

	2022	2021	2020 ⁽¹⁾
Federal income tax rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	3.1	1.9	4.3
Tax rate differential on foreign income	4.3	12.0	(16.5)
Foreign derived intangible income	(3.4)	(6.4)	—
Excess tax benefits from equity awards	—	(5.3)	3.7
Legislative changes	1.7	(12.2)	4.4
Income tax audits and reserves	2.7	(4.8)	(6.1)
Goodwill impairment	—	—	(41.1)
Valuation allowance	4.5	2.6	(14.6)
Other	(1.1)	(7.8)	4.8
	32.8 %	1.0 %	(40.1 %)

⁽¹⁾ In fiscal 2020, the Company had a pre-tax loss. Positive amounts reflect tax benefits, whereas negative amounts reflect tax expense.

The effective income tax rate in fiscal 2022 was higher than the U.S. statutory rate primarily due to higher effective tax rates on foreign earnings. The effective income tax rate in fiscal 2021 was lower than the U.S. statutory rate due to favorable adjustments related to prior years and excess tax benefits on employee share-based awards, partially offset by higher effective tax rates on foreign earnings. The effective income tax rate in fiscal 2020 included an unfavorable impact of the goodwill impairment, which was not tax deductible, and the impact of higher effective tax rates on foreign earnings than the U.S. statutory rate. Higher effective tax rates on foreign earnings in fiscal 2022, 2021 and 2020 reflected the impact of foreign losses and, to a lesser extent, foreign tax credits for which we are unable to recognize a tax benefit.

Unrecognized tax benefits

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

	2022	2021	2020
Balance at the beginning of the year	\$ 2,641	\$ 2,740	\$ 2,952
Increases for current year tax positions	48	51	26
Increases for prior year tax positions	103	556	168
Decreases in prior year tax positions	(108)	(174)	(99)
Settlements with taxing authorities	(235)	(532)	(307)
Balance at the end of the year	\$ 2,449	\$ 2,641	\$ 2,740

The fiscal year-end 2022, 2021 and 2020 balances include \$1.9 billion, \$2.0 billion and \$2.1 billion, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

At October 1, 2022, October 2, 2021 and October 3, 2020, the Company had \$1.0 billion, \$1.0 billion and \$1.1 billion, respectively, in accrued interest and penalties related to unrecognized tax benefits. During fiscal 2022, 2021 and 2020, the Company recorded additional interest and penalties of \$157 million, \$191 million and \$211 million, respectively, and recorded reductions in accrued interest and penalties of \$119 million, \$256 million and \$101 million, respectively, as a result of audit settlements and other prior-year adjustments. The Company's policy is to report interest and penalties as a component of income tax expense.

TABLE OF CONTENTS

The Company is generally no longer subject to U.S. federal examination for years prior to 2018. The Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2008.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of open tax matters, which would reduce our unrecognized tax benefits by \$0.1 billion.

Other

In fiscal 2022, 2021 and 2020, the Company recognized income tax benefits of \$2 million, \$135 million and \$64 million, respectively for the excess of equity-based compensation deductions over amounts recorded based on the grant date fair value.

10 Pension and Other Benefit Programs

The Company maintains pension and postretirement medical benefit plans covering certain of its employees not covered by union or industry-wide plans. The Company has defined benefit pension plans that cover employees hired prior to January 1, 2012. For employees hired after this date, the Company has a defined contribution plan. Benefits under these pension plans are generally based on years of service and/or compensation and generally require 3 years of vesting service. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits. In addition, the Company has a defined benefit plan for TFCF employees for which benefits stopped accruing in June 2017.

Defined Benefit Plans

The Company measures the actuarial value of its benefit obligations and plan assets for its defined benefit pension and postretirement medical benefit plans at September 30 and adjusts for any plan contributions or significant events between September 30 and our fiscal year end.

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the defined benefit pension and postretirement medical benefit plans:

	Pension Plans		Postretirement Medical Plans	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Projected benefit obligations				
Beginning obligations	\$ (20,955)	\$ (20,760)	\$ (2,121)	\$ (2,104)
Service cost	(400)	(434)	(9)	(10)
Interest cost	(500)	(457)	(51)	(47)
Actuarial gain (loss) ⁽¹⁾	6,159	15	595	(13)
Plan amendments and other	39	20	(16)	(14)
Benefits paid	629	661	63	67
Ending obligations	<u>\$ (15,028)</u>	<u>\$ (20,955)</u>	<u>\$ (1,539)</u>	<u>\$ (2,121)</u>
Fair value of plans' assets				
Beginning fair value	\$ 18,076	\$ 15,598	\$ 889	\$ 771
Actual return on plan assets	(2,715)	2,653	(134)	137
Contributions	96	565	61	47
Benefits paid	(629)	(661)	(63)	(67)
Expenses and other	(107)	(79)	(4)	1
Ending fair value	<u>\$ 14,721</u>	<u>\$ 18,076</u>	<u>\$ 749</u>	<u>\$ 889</u>
Underfunded status of the plans	<u>\$ (307)</u>	<u>\$ (2,879)</u>	<u>\$ (790)</u>	<u>\$ (1,232)</u>
Amounts recognized in the balance sheet				
Non-current assets	\$ 913	\$ 88	\$ —	\$ —
Current liabilities	(66)	(63)	(4)	(4)
Non-current liabilities	(1,154)	(2,904)	(786)	(1,228)
	<u>\$ (307)</u>	<u>\$ (2,879)</u>	<u>\$ (790)</u>	<u>\$ (1,232)</u>

⁽¹⁾ The actuarial gain for fiscal 2022 was due to an increase in the discount rate used to determine the fiscal year-end benefit obligation from the rate that was used in the preceding fiscal year.

TABLE OF CONTENTS

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2022	2021	2020	2022	2021	2020
Service cost	\$ 400	\$ 434	\$ 410	\$ 9	\$ 10	\$ 10
Other costs (benefits):						
Interest cost	500	457	527	51	47	56
Expected return on plan assets	(1,174)	(1,100)	(1,084)	(59)	(55)	(57)
Amortization of prior-year service costs	7	11	13	—	—	—
Recognized net actuarial loss	585	777	544	28	30	14
Total other costs (benefits)	(82)	145	—	20	22	13
Net periodic benefit cost	\$ 318	\$ 579	\$ 410	\$ 29	\$ 32	\$ 23

In fiscal 2023, we expect pension and postretirement medical costs to decrease by \$428 million to a net benefit of \$81 million primarily due to lower amortization of previously deferred losses, partially offset by higher interest costs.

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2022	2021	2020	2022	2021	2020
Discount rate used to determine the fiscal year-end benefit obligation	5.44 %	2.88 %	2.82 %	5.47 %	2.89 %	2.80 %
Discount rate used to determine the interest cost component of net periodic benefit cost	2.45 %	2.28 %	2.94 %	2.47 %	2.28 %	2.95 %
Rate of return on plan assets	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %
Weighted average rate of compensation increase to determine the fiscal year-end benefit obligation	3.10 %	3.10 %	3.20 %	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	7.00 %	7.00 %	7.00 %
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	4.00 %	4.00 %	4.25 %
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2041	2040	2034

AOCI, before tax, as of October 1, 2022 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Prior service cost	\$ 26	\$ —	\$ 26
Net actuarial loss	3,838	(93)	3,745
Total amounts included in AOCI	3,864	(93)	3,771
Prepaid (accrued) pension cost	(3,557)	883	(2,674)
Net balance sheet liability	<u>\$ 307</u>	<u>\$ 790</u>	<u>\$ 1,097</u>

Plan Funded Status

As of October 1, 2022, the projected benefit obligation and accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets were \$1.2 billion and \$1.1 billion, respectively, and the aggregate fair value of plan assets were not material. As of October 2, 2021, the projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$9.0 billion, \$8.5 billion and \$6.9 billion, respectively.

As of October 1, 2022, the projected benefit obligation for pension plans with projected benefit obligations in excess of plan assets was \$1.2 billion and the aggregate fair value of plan assets was not material. As of October 2, 2021, the projected

TABLE OF CONTENTS

benefit obligation and aggregate fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$19.9 billion and \$16.9 billion respectively.

The Company's total accumulated pension benefit obligations at October 1, 2022 and October 2, 2021 were \$14.1 billion and \$19.4 billion, respectively. Approximately 98% was vested as of both October 1, 2022 and October 2, 2021.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$1.5 billion and \$0.7 billion, respectively, at October 1, 2022 and \$2.1 billion and \$0.9 billion, respectively, at October 2, 2021.

Plan Assets

A significant portion of the assets of the Company's defined benefit plans are managed in a third-party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments	30%	60%
Fixed income investments	20%	40%
Alternative investments	10%	30%
Cash & money market funds	—%	10%

The primary investment objective for the assets within the master trust is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Investments are monitored to assess whether returns are commensurate with risks taken.

The long-term asset allocation policy for the master trust was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trust are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers pursuant to investment management agreements that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts.

Fair Value Measurements of Plan Assets

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories of the fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Investments that are valued using the net asset value (NAV) (or its equivalent) practical expedient are excluded from the fair value hierarchy disclosure.

The following is a description of the valuation methodologies used for assets reported at fair value. The methodologies used at October 1, 2022 and October 2, 2021 are the same.

Level 1 investments are valued based on reported market prices on the last trading day of the fiscal year. Investments in common and preferred stocks and mutual funds are valued based on the securities' exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in government and federal agency bonds and notes (excluding U.S. Treasury securities), corporate bonds, mortgage-backed securities (MBS) and asset-backed securities are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates or foreign currency exchange rates.

TABLE OF CONTENTS

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of October 1, 2022			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	\$ 177	\$ —	\$ 177	1%
Common and preferred stocks ⁽¹⁾	3,118	—	3,118	20%
Mutual funds	1,044	—	1,044	7%
Government and federal agency bonds, notes and MBS	2,061	293	2,354	15%
Corporate bonds	—	751	751	5%
Other mortgage- and asset-backed securities	—	84	84	1%
Derivatives and other, net	2	13	15	—%
Total investments in the fair value hierarchy	<u>\$ 6,402</u>	<u>\$ 1,141</u>	<u>\$ 7,543</u>	
Assets valued at NAV as a practical expedient:				
Common collective funds			3,479	22%
Alternative investments			4,208	27%
Money market funds and other			240	2%
Total investments at fair value			<u>\$ 15,470</u>	100%

Description	As of October 2, 2021			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	\$ 77	\$ —	\$ 77	—%
Common and preferred stocks ⁽¹⁾	4,407	—	4,407	23%
Mutual funds	1,326	—	1,326	7%
Government and federal agency bonds, notes and MBS	2,437	349	2,786	15%
Corporate bonds	—	1,098	1,098	6%
Other mortgage- and asset-backed securities	—	96	96	1%
Derivatives and other, net	8	21	29	—%
Total investments in the fair value hierarchy	<u>\$ 8,255</u>	<u>\$ 1,564</u>	<u>\$ 9,819</u>	
Assets valued at NAV as a practical expedient:				
Common collective funds			4,550	24%
Alternative investments			4,342	23%
Money market funds and other			254	1%
Total investments at fair value			<u>\$ 18,965</u>	100%

- ⁽¹⁾ Includes 2.9 million shares of Company common stock valued at \$273 million (2% of total plan assets) and 2.9 million shares valued at \$489 million (3% of total plan assets) at October 1, 2022 and October 2, 2021, respectively.

Uncalled Capital Commitments

Alternative investments held by the master trust include interests in funds that have rights to make capital calls to the investors. In such cases, the master trust would be contractually obligated to make a cash contribution at the time of the capital call. At October 1, 2022, the total committed capital still uncalled and unpaid was \$1.5 billion.

Plan Contributions

During fiscal 2022, the Company made \$157 million of contributions to its pension and postretirement medical plans. The Company currently does not expect to make material pension and postretirement medical plan contributions in fiscal 2023. Final minimum funding requirements for fiscal 2023 will be determined based on a January 1, 2023 funding actuarial valuation, which is expected to be received during the fourth quarter of fiscal 2023.

[TABLE OF CONTENTS](#)

Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans ⁽¹⁾
2023	\$ 720	\$ 65
2024	727	69
2025	771	73
2026	815	78
2027	858	83
2028 – 2032	4,874	479

⁽¹⁾ Estimated future benefit payments are net of expected Medicare subsidy receipts of \$81 million.

Assumptions

Assumptions, such as discount rates, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

Discount Rate — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. The Company measures service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows.

Long-term rate of return on plan assets — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	6 % to 10 %
Debt Securities	2 % to 5 %
Alternative Investments	6 % to 11 %

Healthcare cost trend rate — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. The 2022 actuarial valuation assumed a 7.00% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over nineteen years until reaching 4.00%.

Sensitivity — A one percentage point change in the discount rate and expected long-term rate of return on plan assets would have the following effects on the projected benefit obligations for pension and postretirement medical plans as of October 1, 2022 and on cost for fiscal 2023:

	Discount Rate		Expected Long-Term Rate of Return On Assets
Increase (decrease)	Benefit Expense	Projected Benefit Obligations	Benefit Expense
1 percentage point decrease	\$ 242	\$ 2,342	\$ 172
1 percentage point increase	(59)	(2,045)	(172)

Multiemployer Benefit Plans

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

TABLE OF CONTENTS

- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.
- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our contributions to multiemployer pension and health and welfare benefit plans:

	2022	2021	2020
Pension plans	\$ 402	\$ 289	\$ 221
Health & welfare plans	401	272	217
Total contributions	\$ 803	\$ 561	\$ 438

Defined Contribution Plans

The Company has defined contribution retirement plans for domestic employees who began service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 4% to 10% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. The Company has savings and investment plans that allow eligible employees to contribute up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's contribution up to plan limits. The Company also has defined contribution retirement plans for employees in our international operations. In fiscal 2022, 2021 and 2020, the costs of our domestic and international defined contribution plans were \$325 million, \$254 million and \$242 million, respectively.

11 *Equity*

The Company paid the following dividend in fiscal 2020:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Second Quarter of Fiscal 2020	Second Half 2019

The Company did not pay a dividend with respect to fiscal year 2021 and 2020 operations and has not declared or paid a dividend with respect to fiscal 2022 operations.

The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, before tax</u>				
Balance at September 28, 2019	\$ 129	\$ (7,502)	\$ (1,086)	\$ (8,459)
Unrealized gains (losses) arising during the period	(57)	(2,468)	(2)	(2,527)
Reclassifications of net (gains) losses to net income	(263)	547	—	284
Balance at October 3, 2020	\$ (191)	\$ (9,423)	\$ (1,088)	\$ (10,702)
Unrealized gains (losses) arising during the period	70	1,582	41	1,693
Reclassifications of net (gains) losses to net income	(31)	816	—	785
Balance at October 2, 2021	\$ (152)	\$ (7,025)	\$ (1,047)	\$ (8,224)
Unrealized gains (losses) arising during the period	1,098	2,635	(967)	2,766
Reclassifications of net (gains) losses to net income	(142)	620	—	478
Balance at October 1, 2022	\$ 804	\$ (3,770)	\$ (2,014)	\$ (4,980)

[TABLE OF CONTENTS](#)

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>Tax on AOCI</u>				
Balance at September 28, 2019	\$ (29)	\$ 1,756	\$ 115	\$ 1,842
Unrealized gains (losses) arising during the period	8	572	24	604
Reclassifications of net (gains) losses to net income	61	(127)	—	(66)
Balance at October 3, 2020	\$ 40	\$ 2,201	\$ 139	\$ 2,380
Unrealized gains (losses) arising during the period	(8)	(358)	(50)	(416)
Reclassifications of net (gains) losses to net income	10	(190)	—	(180)
Balance at October 2, 2021	\$ 42	\$ 1,653	\$ 89	\$ 1,784
Unrealized gains (losses) arising during the period	(254)	(608)	50	(812)
Reclassifications of net (gains) losses to net income	33	(144)	—	(111)
Balance at October 1, 2022	\$ (179)	\$ 901	\$ 139	\$ 861

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, after tax</u>				
Balance at September 28, 2019	\$ 100	\$ (5,746)	\$ (971)	\$ (6,617)
Unrealized gains (losses) arising during the period	(49)	(1,896)	22	(1,923)
Reclassifications of net (gains) losses to net income	(202)	420	—	218
Balance at October 3, 2020	\$ (151)	\$ (7,222)	\$ (949)	\$ (8,322)
Unrealized gains (losses) arising during the period	62	1,224	(9)	1,277
Reclassifications of net (gains) losses to net income	(21)	626	—	605
Balance at October 2, 2021	\$ (110)	\$ (5,372)	\$ (958)	\$ (6,440)
Unrealized gains (losses) arising during the period	844	2,027	(917)	1,954
Reclassifications of net (gains) losses to net income	(109)	476	—	367
Balance at October 1, 2022	\$ 625	\$ (2,869)	\$ (1,875)	\$ (4,119)

Details about AOCI components reclassified to net income are as follows:

Gains (losses) in net income:	Affected line item in the Consolidated Statements of Operations:	2022	2021	2020
Market value adjustments, primarily cash flow hedges	Primarily revenue	\$ 142	\$ 31	\$ 263
Estimated tax	Income taxes	(33)	(10)	(61)
		109	21	202
Pension and postretirement medical expense	Interest expense, net	(620)	(816)	(547)
Estimated tax	Income taxes	144	190	127
		(476)	(626)	(420)
Total reclassifications for the period		\$ (367)	\$ (605)	\$ (218)

12 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and

TABLE OF CONTENTS

restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market or performance conditions (Performance RSUs).

Stock options are generally granted with a 10 year term at exercise prices equal to or exceeding the market price at the date of grant and become exercisable ratably over a three-year period from the grant date (exercisable ratably over four-year period from the grant date for awards granted prior to fiscal 2021). At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. RSUs generally vest ratably over three years (four years for grants awarded prior to fiscal 2021) and Performance RSUs generally fully vest after three years, subject to achieving market or performance conditions. Equity-based award grants generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

Each share granted subject to a stock option award reduces the number of shares available under the Company's stock incentive plans by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. As of October 1, 2022, the maximum number of shares available for issuance under the Company's stock incentive plans (assuming all the awards are in the form of stock options) was approximately 124 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 60 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the first half of the year, the Company awards stock options and restricted stock units to a broad-based group of management, technology and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being canceled due to the termination of the option holder) in computing the value of the option.

The weighted average assumptions used in the option-valuation model were as follows:

	2022	2021	2020
Risk-free interest rate	1.6%	1.2%	1.8%
Expected volatility	28%	30%	23%
Dividend yield	—%	0.03%	1.36%
Termination rate	5.8%	5.8%	5.8%
Exercise multiple	1.98	1.83	1.83

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively. The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market or performance conditions will be met.

Compensation expense related to stock options and RSUs is as follows:

	2022	2021	2020
Stock option	\$ 88	\$ 95	\$ 101
RSUs	889	505	424
Total equity-based compensation expense ⁽¹⁾	977	600	525
Tax impact	(221)	(136)	(118)
Reduction in net income	\$ 756	\$ 464	\$ 407
Equity-based compensation expense capitalized during the period	\$ 148	\$ 112	\$ 87

⁽¹⁾ Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

[TABLE OF CONTENTS](#)

The following table summarizes information about stock option transactions in fiscal 2022 (shares in millions):

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	18	\$ 113.99
Awards forfeited	—	143.27
Awards granted	2	146.15
Awards exercised	(2)	69.05
Outstanding at end of year	18	\$ 121.28
Exercisable at end of year	13	\$ 111.01

The following tables summarize information about stock options vested and expected to vest at October 1, 2022 (shares in millions):

Vested			
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0 — \$ 55	1	\$ 51.28	0.3
\$ 56 — \$ 110	4	95.59	3.1
\$ 111 — \$ 165	7	120.61	5.7
\$ 166 — \$ 225	1	177.74	8.4
	13		
Expected to Vest			
Range of Exercise Prices	Number of Options ⁽¹⁾	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 95 — \$ 125	1	\$ 109.61	6.7
\$ 126 — \$ 155	3	148.36	8.1
\$ 156 — \$ 185	1	173.44	8.4
	5		

⁽¹⁾ Number of options expected to vest is total unvested options less estimated forfeitures.

The following table summarizes information about RSU transactions in fiscal 2022 (shares in millions):

	Units ⁽³⁾	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	13	\$ 151.61
Granted ⁽¹⁾	13	136.36
Vested	(7)	144.39
Forfeited	(1)	155.88
Unvested at end of year ⁽²⁾	18	\$ 144.00

⁽¹⁾ Includes 0.3 million Performance RSUs

⁽²⁾ Includes 0.6 million Performance RSUs

⁽³⁾ Excludes Performance RSUs for which vesting is subject to service conditions and the number of units vesting is subject to the discretion of the CEO. At October 1, 2022, the maximum number of these Performance RSUs that could be issued upon vesting is 0.1 million.

The weighted average grant-date fair values of options granted during fiscal 2022, 2021 and 2020 were \$46.76, \$57.05 and \$36.19, respectively, and for RSUs were \$136.36, \$178.70 and \$145.27, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during fiscal 2022, 2021 and 2020 totaled \$982 million, \$1,175 million and \$989 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at October 1, 2022 were \$50 million and \$0 million, respectively.

TABLE OF CONTENTS

As of October 1, 2022, unrecognized compensation cost related to unvested stock options and RSUs was \$89 million and \$1,707 million, respectively. That cost is expected to be recognized over a weighted-average period of 1.2 years for stock options and 1.3 years for RSUs.

Cash received from option exercises for fiscal 2022, 2021 and 2020 was \$127 million, \$435 million and \$305 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSU vestings for fiscal 2022, 2021 and 2020 were approximately \$219 million, \$256 million and \$220 million, respectively.

13 *Detail of Certain Balance Sheet Accounts*

	October 1, 2022	October 2, 2021
<i>Current receivables</i>		
Accounts receivable	\$ 10,811	\$ 11,177
Other	1,999	2,360
Allowance for credit losses	(158)	(170)
	<u>\$ 12,652</u>	<u>\$ 13,367</u>
<i>Parks, resorts and other property</i>		
Attractions, buildings and improvements	\$ 33,795	\$ 32,765
Furniture, fixtures and equipment	24,409	24,008
Land improvements	7,757	7,061
Leasehold improvements	1,037	1,058
	<u>66,998</u>	<u>64,892</u>
Accumulated depreciation	(39,356)	(37,920)
Projects in progress	4,814	4,521
Land	1,140	1,131
	<u>\$ 33,596</u>	<u>\$ 32,624</u>
<i>Intangible assets</i>		
Character/franchise intangibles, copyrights and trademarks	\$ 10,572	\$ 10,572
MVPD agreements	8,058	8,089
Other amortizable intangible assets	4,045	4,303
Accumulated amortization	(9,630)	(7,641)
Net amortizable intangible assets	<u>13,045</u>	<u>15,323</u>
Indefinite lived intangible assets ⁽¹⁾	1,792	1,792
	<u>\$ 14,837</u>	<u>\$ 17,115</u>
<i>Accounts payable and other accrued liabilities</i>		
Accounts and accrued payables	\$ 16,205	\$ 16,357
Payroll and employee benefits	3,447	3,482
Other	561	1,055
	<u>\$ 20,213</u>	<u>\$ 20,894</u>

⁽¹⁾ Indefinite lived intangible assets consist of ESPN, Pixar and Marvel trademarks and television FCC licenses.

Other long-term liabilities

Pension and postretirement medical plan liabilities	\$ 1,940	\$ 4,132
Operating and financing lease liabilities	3,239	3,229
Other	7,339	7,161
	<u>\$ 12,518</u>	<u>\$ 14,522</u>

14 *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for rights to sports, films and other programming, totaling approximately \$75.7 billion, including approximately \$2.6 billion for available programming as of October 1, 2022. The Company also has 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, television and radio personalities and executives. Contractual commitments for sports programming rights, other programming rights and other commitments including cruise ships and creative talent are as follows:

Fiscal Year:	Sports Programming ⁽¹⁾	Other Programming	Other	Total
2023	\$ 10,783	\$ 3,815	\$ 2,891	\$ 17,489
2024	9,906	1,469	2,735	14,110
2025	10,222	977	1,747	12,946
2026	7,420	738	379	8,537
2027	6,528	554	153	7,235
Thereafter	22,745	585	2,628	25,958
	<u>\$ 67,604</u>	<u>\$ 8,138</u>	<u>\$ 10,533</u>	<u>\$ 86,275</u>

- ⁽¹⁾ Primarily relates to rights for NFL, college football (including bowl games and the College Football Playoff) and basketball, cricket, NBA, NHL, soccer, UFC, MLB, tennis, golf and Top Rank Boxing. Certain sports programming rights have payments that are variable based primarily on revenues and are not included in the table above. The Company has multi-year agreements to sublicense less than 5% of our sports right.

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

15 *Leases*

The Company's operating leases primarily consist of real estate and equipment, including office space for general and administrative purposes, production facilities, land, cruise terminals, retail outlets and distribution centers for consumer products. The Company also has finance leases, primarily for broadcast equipment and land.

Some of our leases include renewal and/or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease. As of October 1, 2022, our operating leases have a weighted-average remaining lease term of approximately 11 years, and our finance leases have a weighted-average remaining lease term of approximately 29 years. The weighted-average incremental borrowing rate is 2.7% and 6.5%, for our operating leases and finance leases, respectively. At October 1, 2022 total estimated future lease payments for non-cancelable leases agreements that have not commenced of approximately \$832 million are excluded from the measurement of the right-of-use asset and lease liability.

TABLE OF CONTENTS

The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	October 1, 2022	October 2, 2021
Right-of-use assets ⁽¹⁾		
Operating leases	\$ 3,966	\$ 3,895
Finance leases	303	336
Total right-of-use assets	4,269	4,231
Short-term lease liabilities ⁽²⁾		
Operating leases	614	637
Finance leases	37	41
	651	678
Long-term lease liabilities ⁽³⁾		
Operating leases	3,020	2,983
Finance leases	219	246
	3,239	3,229
Total lease liabilities	\$ 3,890	\$ 3,907

⁽¹⁾ Included in "Other assets" in the Consolidated Balance Sheet

⁽²⁾ Included in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet

⁽³⁾ Included in "Other long-term liabilities" in the Consolidated Balance Sheet

The components of lease costs are as follows:

	2022	2021	2020
Finance lease cost			
Amortization of right-of-use assets	\$ 39	\$ 42	\$ 37
Interest on lease liabilities	15	20	16
Operating lease cost	796	853	899
Variable fees and other ⁽¹⁾	363	414	491
Total lease cost	\$ 1,213	\$ 1,329	\$ 1,443

⁽¹⁾ Includes variable lease payments related to our operating and finance leases and costs of leases with initial terms of less than one year, net of sublease income

Cash paid during the year for amounts included in the measurement of lease liabilities is as follows:

	2022	2021	2020
Operating cash flows for operating leases	\$ 736	\$ 925	\$ 879
Operating cash flows for finance leases	15	20	16
Financing cash flows for finance leases	48	25	37
Total	\$ 799	\$ 970	\$ 932

TABLE OF CONTENTS

Future minimum lease payments, as of October 1, 2022, are as follows:

	Operating	Financing
Fiscal Year:		
2023	\$ 704	\$ 52
2024	590	43
2025	523	38
2026	384	33
2027	272	27
Thereafter	2,072	423
Total undiscounted future lease payments	4,545	616
Less: Imputed interest	(910)	(360)
Total reported lease liability	<u>\$ 3,635</u>	<u>\$ 256</u>

16 *Fair Value Measurement*

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 10 for definitions of fair value measures and the Levels within the fair value hierarchy.

Description	Fair Value Measurement at October 1, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 308	\$ —	\$ —	\$ 308
Derivatives				
Interest rate	—	1	—	1
Foreign exchange	—	2,223	—	2,223
Other	—	10	—	10
Liabilities				
Derivatives				
Interest rate	—	(1,783)	—	(1,783)
Foreign exchange	—	(1,239)	—	(1,239)
Other	—	(31)	—	(31)
Other	—	(354)	—	(354)
Total recorded at fair value	<u>\$ 308</u>	<u>\$ (1,173)</u>	<u>\$ —</u>	<u>\$ (865)</u>
Fair value of borrowings	<u>\$ —</u>	<u>\$ 42,509</u>	<u>\$ 1,510</u>	<u>\$ 44,019</u>

TABLE OF CONTENTS

Description	Fair Value Measurement at October 2, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 950	\$ —	\$ —	\$ 950
Derivatives				
Interest rate	—	186	—	186
Foreign exchange	—	707	—	707
Other	—	10	—	10
Liabilities				
Derivatives				
Interest rate	—	(287)	—	(287)
Foreign exchange	—	(618)	—	(618)
Other	—	(8)	—	(8)
Other	—	(375)	—	(375)
Total recorded at fair value	950	(385)	—	565
Fair value of borrowings	\$ —	\$ 58,913	\$ 1,411	\$ 60,324

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, had an impact on derivative fair value estimates that was not material.

Level 2 other liabilities are primarily arrangements that are valued based on the fair value of underlying investments, which are generally measured using Level 1 and Level 2 fair value techniques.

Level 2 borrowings, which include commercial paper, U.S. dollar denominated notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

The Company also has assets that are required to be recorded at fair value on a non-recurring basis. These assets are evaluated when certain triggering events occur (including a decrease in estimated future cash flows) that indicate the asset should be evaluated for impairment. In fiscal 2020, the Company recorded impairment charges for goodwill and intangible assets as disclosed in Note 18. The fair value of these assets was determined using estimated discounted future cash flows, which is a Level 3 valuation technique.

Credit Concentrations

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of October 1, 2022, in the event of nonperformance by any single derivative counterparty. The Company generally enters into derivative transactions only with counterparties that have a credit rating of A- or

better and requires collateral in the event credit ratings fall below A- or aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have below investment grade credit ratings and maintains short-term liquidity needs in high quality money market funds. At October 1, 2022, the Company did not have balances (excluding money market funds) with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents.

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at October 1, 2022 due to the wide variety of customers and markets in which the Company's products are sold, the dispersion of our customers across geographic areas and the diversification of the Company's portfolio among financial institutions.

17 *Derivative Instruments*

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The Company's derivative positions measured at fair value are summarized in the following tables:

As of October 1, 2022				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 864	\$ 786	\$ (228)	\$ (350)
Interest rate	—	1	(1,783)	—
Other	10	—	(4)	—
Derivatives not designated as hedges				
Foreign exchange	336	247	(374)	(287)
Other	—	—	(27)	—
Gross fair value of derivatives	1,210	1,034	(2,416)	(637)
Counterparty netting	(831)	(715)	1,070	476
Cash collateral (received) paid	(341)	(151)	1,282	96
Net derivative positions	<u>\$ 38</u>	<u>\$ 168</u>	<u>\$ (64)</u>	<u>\$ (65)</u>
As of October 2, 2021				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 165	\$ 240	\$ (122)	\$ (83)
Interest rate	—	186	(287)	—
Other	10	—	—	—
Derivatives not designated as hedges				
Foreign exchange	183	119	(208)	(205)
Other	(8)	—	—	—
Gross fair value of derivatives	350	545	(617)	(288)
Counterparty netting	(301)	(360)	460	201
Cash collateral (received) paid	(3)	(51)	157	73
Net derivative positions	<u>\$ 46</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ (14)</u>

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its

net debt between a minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable-rate borrowings indexed to LIBOR. As of October 1, 2022 and October 2, 2021, the total notional amount of the Company's pay-floating interest rate swaps was \$14.5 billion and \$15.1 billion, respectively.

[TABLE OF CONTENTS](#)

The following table summarizes fair value hedge adjustments to hedged borrowings:

	Carrying Amount of Hedged Borrowings		Fair Value Adjustments Included in Hedged Borrowings	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Borrowings:				
Current	\$ 997	\$ 505	\$ (3)	\$ 5
Long-term	12,358	15,136	(1,733)	(103)
	<u>\$ 13,355</u>	<u>\$ 15,641</u>	<u>\$ (1,736)</u>	<u>\$ (98)</u>

The following amounts are included in “Interest expense, net” in the Consolidated Statements of Operations:

	2022	2021	2020
Gain (loss) on:			
Pay-floating swaps	\$ (1,635)	\$ (603)	\$ 479
Borrowings hedged with pay-floating swaps	1,635	603	(479)
Benefit associated with interest accruals on pay-floating swaps	31	143	28

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed interest rate swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at October 1, 2022 or at October 2, 2021, and gains and losses related to pay-fixed swaps recognized in earnings for fiscal 2022, 2021 and 2020 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company’s objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of October 1, 2022 and October 2, 2021, the notional amounts of the Company’s net foreign exchange cash flow hedges were \$7.4 billion and \$6.9 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months total \$704 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI:

	2022	2021	2020
Gain (loss) recognized in Other Comprehensive Income	\$ 1,093	\$ 61	\$ (63)
Gain (loss) reclassified from AOCI into the Statement of Operations ⁽¹⁾	116	24	269

⁽¹⁾ Primarily recorded in revenue.

The Company designates cross currency swaps as fair value hedges of foreign currency denominated borrowings. The impact of the cross currency swaps is recorded to “Interest expense, net” to offset the foreign currency impact of the foreign currency denominated borrowing. As of October 1, 2022 and October 2, 2021, the total notional amounts of the Company’s designated cross currency swaps were Canadian \$1.3 billion (\$0.9 billion) and Canadian \$1.3 billion (\$1.0 billion), respectively.

TABLE OF CONTENTS

The following amounts are included in “Interest expense, net” in the Consolidated Statements of Operations:

	2022	2021	2020
Gain (loss) on:			
Cross currency swaps	\$ (84)	\$ 47	\$ 53
Borrowings hedged with cross currency swaps	84	(47)	(53)

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at October 1, 2022 and October 2, 2021 were \$3.8 billion and \$3.5 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities by the corresponding line item in which they are recorded in the Consolidated Statements of Operations:

	Costs and Expenses			Interest expense, net			Income Tax Expense		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
Net gains (losses) on foreign currency denominated assets and liabilities	\$ (685)	\$ (30)	\$ 10	\$ 82	\$ (47)	\$ 1	\$ 212	\$ (7)	\$ (35)
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	547	(83)	(56)	(82)	47	—	(208)	2	33
Net gains (losses)	<u>\$ (138)</u>	<u>\$ (113)</u>	<u>\$ (46)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ (5)</u>	<u>\$ (2)</u>

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices, and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at October 1, 2022 and October 2, 2021 and related gains or losses recognized in earnings were not material for fiscal 2022, 2021 and 2020.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain total return swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount of these contracts at both October 1, 2022 and October 2, 2021 was \$0.4 billion, respectively. The related gains or losses recognized in earnings were not material for fiscal 2022, 2021 and 2020.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company’s credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty’s credit rating. If the Company’s or the counterparty’s credit ratings were to fall below investment grade, such counterparties or the Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair values

of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were \$1,507 million and \$244 million at October 1, 2022 and October 2, 2021, respectively.

18 *Restructuring and Impairment Charges*

Goodwill and Intangible Asset Impairment

Prior to a reorganization of the Company's operations in October 2020, a former segment, Direct-to-Consumer & International, included the International Channels reporting unit, which comprised the Company's international television networks. In fiscal 2020, the Company tested this former reporting unit's goodwill and long-lived assets (including intangible assets) for impairment. This resulted in non-cash impairment charges of \$1.9 billion relating primarily to our MVPD agreement

TABLE OF CONTENTS

intangible assets and \$3.1 billion to fully impair the reporting unit's goodwill. These charges were recorded in "Restructuring and impairment charges" in the Consolidated Statements of Operations in fiscal 2020.

As of October 1, 2022, the remaining balance of our international MVPD agreement intangible assets was \$1.6 billion, primarily related to our channel businesses in Latin America and India.

TFCF Integration

The Company's restructuring plan implemented in connection with the 2019 acquisition of TFCF to realize cost synergies was completed in fiscal 2021. To date, we have recorded restructuring charges primarily related to DMED of \$1.8 billion including \$1.4 billion related to severance (including employee contract terminations) and \$0.3 billion of equity based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the acquisition.

The changes in restructuring reserves related to the TFCF integration, including amounts recorded in "Restructuring and impairment charges" in the Consolidated Statements of Operations in fiscal 2021 and 2020, are as follows (activity in fiscal 2022 and the balance at October 1, 2022 were not material):

Balance at September 28, 2019	\$	676
Additions in fiscal 2020		453
Payments in fiscal 2020		(772)
Balance at October 3, 2020		357
Additions in fiscal 2021		44
Payments in fiscal 2021		(351)
Balance at October 2, 2021	\$	50

Other

In fiscal 2022, the Company recorded charges of \$0.2 billion, primarily due to asset impairments related to our businesses in Russia. In fiscal 2021, the Company recorded restructuring and impairment charges of \$0.6 billion, primarily related to the planned closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe as well as severance at our parks and experiences businesses. In fiscal 2020, the Company recorded restructuring and impairment charges of \$0.3 billion, primarily for severance at our parks and experiences businesses. These charges are reported in "Restructuring and impairment charges" in the Consolidated Statements of Operations.

19 New Accounting Pronouncements

Accounting Pronouncements Adopted in Fiscal 2022

Simplifying the Accounting for Income Taxes

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance which simplifies the accounting for income taxes. The guidance amends the rules for recognizing deferred taxes for investments, performing intraperiod tax allocations and calculating income taxes in interim periods. It also reduces complexity in certain areas, including the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating taxes to members of a consolidated group. The Company adopted the new guidance in the first quarter of fiscal 2022. The adoption did not have a material impact on our financial statements.

Facilitation of the Effects of Reference Rate Reform

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships, and other transactions affected by the transition from the use of LIBOR to an alternative reference rate. The guidance is applicable to contracts entered into before January 1, 2023.

The Company adopted the new guidance in the first quarter of fiscal 2022. The adoption did not have a material impact on our financial statements.

Accounting Pronouncements Not Yet Adopted

Disclosures by Business Entities about Government Assistance

In November 2021, the FASB issued guidance requiring annual disclosures about transactions with a government that are accounted for by analogizing to a grant or contribution accounting model. The new guidance requires the disclosure of the nature of the transactions, the accounting for the transactions, and the effect of the transactions on the financial statements. The guidance is effective for annual periods beginning with the Company's 2023 fiscal year. While the guidance will not have an effect on the Company's Consolidated Statements of Operations or Consolidated Balance Sheets upon adoption, the Company may need to disclose the effects on the financial statements of incentives related to the production of content, which is the most significant type of government assistance we receive.

112

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 2, 2021

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-38842

dis-20211002_g1.jpg

Delaware

State or Other Jurisdiction of
Incorporation or Organization

83-0940635

I.R.S. Employer Identification

500 South Buena Vista Street
Burbank, California 91521

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant’s most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was \$343.0 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant’s common stock have been deemed, solely for the purpose of the foregoing calculation, to be “affiliates” of the registrant.

There were 1,817,655,948 shares of common stock outstanding as of November 17, 2021.

Documents Incorporated by Reference

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2022 annual meeting of the Company’s shareholders.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

TABLE OF CONTENTS

PART I

ITEM 1.	<u>Business</u>	<u>1</u>
ITEM 1A.	<u>Risk Factors</u>	<u>18</u>
ITEM 1B.	<u>Unresolved Staff Comments</u>	<u>27</u>
ITEM 2.	<u>Properties</u>	<u>27</u>
ITEM 3.	<u>Legal Proceedings</u>	<u>28</u>
ITEM 4.	<u>Mine Safety Disclosures</u>	<u>28</u>
	<u>Information About our Executive Officers</u>	<u>28</u>

PART II

ITEM 5.	<u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>30</u>
ITEM 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
ITEM 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
ITEM 8.	<u>Financial Statements and Supplementary Data</u>	<u>55</u>
ITEM 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>55</u>
ITEM 9A.	<u>Controls and Procedures</u>	<u>55</u>
ITEM 9B.	<u>Other Information</u>	<u>55</u>

PART III

ITEM 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>56</u>
ITEM 11.	<u>Executive Compensation</u>	<u>56</u>
ITEM 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>56</u>
ITEM 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>56</u>
ITEM 14.	<u>Principal Accounting Fees and Services</u>	<u>56</u>

PART IV

TABLE OF CONTENTS

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in two segments: Disney Media and Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP).

The terms “Company”, “we”, “our” and “us” are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

COVID-19 Pandemic

Since early 2020, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) and its variants. COVID-19 and measures to prevent its spread has impacted our segments in a number of ways, most significantly at the DPEP segment where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. These operations resumed, generally at reduced capacity, at various points since May 2020. We have delayed, or in some cases, shortened or cancelled theatrical releases, and stage play performances were suspended as of March 2020. Stage play operations resumed, generally at reduced capacity, in the first quarter of fiscal 2021. Theaters have been subject to capacity limitations and shifting government mandates or guidance regarding COVID-19 restrictions. We experienced significant disruptions in the production and availability of content, including the delay of key live sports programming during fiscal 2020 and fiscal 2021, as well as the suspension of most film and television production in March 2020. Although film and television production generally resumed beginning in the fourth quarter of fiscal 2020, we continue to see disruption of production activities depending on local circumstances. Fewer theatrical releases and production delays have limited the availability of film content to be sold in distribution windows subsequent to the theatrical release.

The impact of these disruptions and the extent of their adverse impact on our financial and operating results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19 and its variants, and among other things, the impact of governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent.

Human Capital

The Company’s key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company’s human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future; reward and support employees through competitive pay, benefit, and perquisite programs; enhance the Company’s culture through efforts aimed at making the workplace more engaging and inclusive; acquire talent and facilitate internal talent mobility to create a high-performing, diverse workforce; engage employees as brand ambassadors of the Company’s content, products and experiences; and evolve and invest in technology, tools, and resources to enable employees at work.

The Company employed approximately 190,000 people as of October 2, 2021. Our global workforce is comprised of approximately 80% full time and 15% part time employees, with another 5% being seasonal employees.

Some examples of key programs and initiatives that are focused to attract, develop and retain our diverse workforce include:

- **Diversity, Equity, and Inclusion (DE&I):** Our DE&I objectives are to build teams that reflect the life experiences of our audiences, while employing and supporting a diverse array of voices in our creative and production teams.
 - Announced the Company’s Reimagine Tomorrow endeavor, which builds on Disney’s longstanding commitment to diversity, equity and inclusion. Launched the Reimagine Tomorrow digital destination, Disney’s first large-scale platform for amplifying underrepresented voices

- Created a pipeline of next-generation creative executives from underrepresented backgrounds through programs such as the Executive Incubator, Creative Talent Development and Inclusion, and the Disney Launchpad: Shorts Incubator
- Championed targeted development programs for underrepresented talent
- Hosted a series of innovative learning opportunities to spark dialogue among employees, leaders, Disney talent and external experts
- Sponsored over 75 employee-led Business Employee Resource Groups (BERGs) that represent and support the diverse communities that make up our workforce. The BERGs facilitate networking and connections with peers, outreach and mentoring, leadership and skill development and cross-cultural business innovation

TABLE OF CONTENTS

- Added an Inclusion Key to the core set of values to serve as a catalyst for culture change and strengthen DPEP's traditional Four Keys, Safety, Courtesy, Show and Efficiency
- Reimagined The Disney Look appearance guidelines to cultivate a more inclusive environment that encourages and celebrates authentic expressions of belonging among employees
- **Health, wellness, family resources, and other benefits:** Disney's benefit offerings are designed to meet the varied and evolving needs of a diverse workforce across businesses and geographies while helping our employees care for themselves and their families. We provide:
 - Healthcare options aimed at improving quality of care while reducing out-of-pocket costs
 - Child care programs for employees, including access to onsite/community centers, enhanced back-up care choices to include personal caregivers, child care referral assistance and center discounts, homework help and a variety of parenting educational resources
 - Free mental and behavioral health resources, including on-demand access to the Employee Assistance Program (EAP) for employees and their dependents
 - Two Centers for Living Well that offer convenient, on-demand access to board-certified physicians and counselors
- **Continued response to COVID-19:** Our deliberate, phased, and multi-layered approach to respond to COVID-19 continued, and Disney was one of the first companies outside of the healthcare industry to institute a vaccination mandate for its employees, announced in July 2021. We:
 - Provided the ability for our employees to get vaccinated by offering on-site distribution in California, Florida, and Connecticut. Our Florida distribution center distributed approximately 1,000 doses weekly
 - Covered all COVID-19 testing and treatment under all Company medical plans at no cost to the employees and dependents
 - Introduced a process for those with medical or religious accommodation needs
 - Partnered with TrustAssure™ to help verify employee vaccination status
 - Provided employees with 24/7 access to a variety of educational resources about the pandemic, including ways to help stop the spread of the virus and to learn more about vaccination options. Due to increasing demand, a number of these resources were available to the public through a partnership with the Health Alliance, so employees could share them with friends and family
- **Disney Aspire:** We support the long-term career aspirations of our hourly employees and further our commitment to strengthening the communities in which we work through our education investment program, Disney Aspire. The program helps our employees achieve their goals professionally - whether at Disney or beyond - by equipping them with the skills they need to succeed in the rapidly changing 21st century career landscape. More than 12,000 employees are currently enrolled in Disney Aspire, and more than half of our program graduates have earned an Associate, Bachelor or Master's degree. Through Disney Aspire, we:
 - Pay 100% of tuition costs upfront at a variety of in-network learning providers and universities and reimburse employees for applicable books and fees
 - Provide access to a wide variety of degree, certificate, high school completion, college start, language learning and skilled trades programs
 - Offer employees flexibility to explore growth opportunities both internally and externally
 - Enable employees to choose the field they're most passionate about - fields of study do not have to be related to an employee's current position, nor do they have to stay at the Company upon completion of their studies
 - Offer exclusive access to the Disney Aspire Alumni Association, a support and networking group that connects graduates with leaders in their field of interest

- **Talent Development:** We prioritize and invest in creating opportunities to help employees grow and build their careers through a multitude of training and development programs. These include online, instructor-led and on-the-job learning formats as well as executive talent and succession planning paired with an individualized development approach
- **Social Responsibility and Community:** The Walt Disney Company's longstanding commitment to Corporate Social Responsibility (CSR) helps differentiate the Company as an employer that supports talent acquisition and retention. This year, we refreshed our CSR strategy to connect it more closely with the Company's mission and environmental and social issues relevant to our business and employees. Our CSR priorities include diversity, equity, and inclusion; environmental stewardship and conservation; human capital management; operating responsibly; and giving back to our communities with a special focus on supporting children and families. The refreshed strategy provides employees

TABLE OF CONTENTS

with a path to embedding these CSR priorities into our offerings and operations in addition to our philanthropy. For example, employees on our creative teams are embracing inclusive storytelling while employees in our operational areas are embracing sustainable design. The Company also supports employees who give back to our communities with a generous matching gifts program and a unique employee volunteering program, Disney VoluntEARS, which rewards volunteer hours with the opportunity to direct not-for-profit donations by the Company.

Environmental and Sustainability

The Company has developed measurable environmental and sustainability goals for 2030, grounded in science and an assessment of where the Company's operations have the most significant impact on the environment, as well as the areas where it can most effectively mitigate that impact. These include goals to reach net zero Scope 1 and 2 greenhouse gas emissions for our direct operations and zero waste to landfill at our wholly owned and operated parks and resorts by 2030.

DISNEY MEDIA AND ENTERTAINMENT DISTRIBUTION

The DMED segment encompasses the Company's global film and episodic television content production and distribution activities. Content is distributed by a single organization across three significant lines of business: Linear Networks, Direct-to-Consumer and Content Sales/Licensing and content is generally created by three production/content licensing groups: Studios, General Entertainment and Sports. The distribution organization has full accountability for the financial results of the entire media and entertainment business.

The operations of DMED's significant lines of business are as follows:

- Linear Networks
 - Domestic Channels: ABC Television Network (ABC) and eight owned ABC television stations (Broadcasting), and Disney, ESPN, Freeform, FX and National Geographic branded domestic television networks (Cable)
 - International Channels: Disney, ESPN, Fox, National Geographic and Star branded television networks outside of the U.S.
 - A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable channels including A&E, HISTORY and Lifetime
- Direct-to-Consumer
 - Disney+, Disney+ Hotstar, ESPN+, Hulu and Star+ direct-to-consumer (DTC) streaming services
- Content Sales/Licensing
 - Sale/licensing of film and television content to third-party television and subscription video-on-demand (TV/SVOD) services
 - Theatrical distribution
 - Home entertainment distribution (DVD, Blu-ray discs and electronic home video licenses)
 - Music distribution
 - Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)

DMED also includes the following activities that are reported with Content Sales/Licensing:

- Post-production services by Industrial Light & Magic and Skywalker Sound
- A 30% ownership interest in Tata Sky Limited, which operates a direct-to-home satellite distribution platform in India

The significant revenues of DMED are as follows:

- Affiliate fees - Fees charged by our Linear Networks to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) and television stations affiliated with ABC for the right to deliver our programming to their customers

- Advertising - Sales of advertising time/space at Linear Networks and Direct-to-Consumer
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- TV/SVOD distribution - Licensing fees and other revenue for the right to use our film and television productions and revenue from fees charged to customers to view our sports programming (“pay-per-view”) and streaming access to films that are also playing in theaters (“Premier Access”). TV/SVOD distribution revenue is primarily reported in Content Sales/Licensing, except for pay-per-view and Premier Access revenue, which is reported in Direct-to-Consumer
- Theatrical distribution - Rentals from licensing our film productions to theaters
- Home entertainment - Sale of our film and television content to retailers and distributors in home video formats

TABLE OF CONTENTS

- Other content sales/licensing revenue - Revenues from licensing our music, ticket sales from stage play performances and fees from licensing our intellectual properties (“IP”) for use in stage plays
- Other revenue - Fees from sub-licensing of sports programming rights (reported in Linear Networks) and sales of post-production services (reported with Content Sales/Licensing)

The significant expenses of DMED are as follows:

- Operating expenses consist primarily of programming and production costs, technical support costs, operating labor, distribution costs and costs of sales. Operating expenses also includes fees paid to Linear Networks from other DMED businesses for the right to air our linear networks and related services. Programming and production costs include amortization of acquired licensed programming rights (including sports rights), amortization of capitalized production costs (including participations and residuals) and production costs related to live programming such as news and sports. Programming and production costs are generally allocated across the DMED businesses based on the estimated relative value of the distribution windows. These costs are largely incurred across three content creation groups, as follows:
 - Studios - Primarily capitalized production costs related to films produced under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners
 - General Entertainment - Primarily acquisition of rights to and internal production of episodic television programs and news content. Internal content is generally produced by the following television studios: ABC Signature; 20th Television; Disney Television Animation; FX Productions; and various studios for which we commission productions for our branded channels and DTC streaming services
 - Sports - Primarily acquisition of professional and college sports programming rights and related production costs
- Selling, general and administrative costs
- Depreciation and amortization

Media and Entertainment Distribution Strategy

Shifting consumer preferences for consumption of video content, and in particular the increasingly widespread adoption of video streaming technology, has significantly disrupted the traditional means and patterns of distribution for film and television content. In general, film content was traditionally distributed first in the theatrical market, followed by the home entertainment market and then in the TV/SVOD market. Episodic television content was traditionally distributed at linear networks and then in the TV/SVOD market.

In response to these changes, the Company has significantly increased its focus on distribution of content via our own DTC streaming services relative to distribution along traditional patterns. Although the Company continues to monetize a significant amount of its content in the traditional manner, our focus on our own DTC distribution has had a number of impacts including but not limited to:

- in some cases, we are producing exclusive content for our DTC streaming services;
- rather than selling our content in the TV/SVOD market, we may choose to distribute it on our DTC streaming services;
- in part because of the impact of COVID-19 on theatrical markets around the world, we may alter our traditional theatrical distribution approach, for example by making a film available on our DTC streaming services at the same time it is in theaters; and
- we may choose to offer our content in pay-per-view format on our own DTC streaming services (e.g. Premier Access) in addition to distributing it in traditional home entertainment markets.

Over time, all else being equal, these impacts will tend to increase revenue at Direct-to-Consumer and reduce revenue at Linear Networks and Content Sales/Licensing.

A more detailed discussion of our distribution businesses and production groups follows.

Linear Networks

The majority of Linear Networks revenue is derived from affiliate fees and advertising sales. Generally, the Company's networks provide programming under multi-year licensing agreements with MVPDs that include contractually specified rates on a per subscriber basis. The amounts that we can charge to MVPDs for our networks is largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand.

Linear Networks consist of our domestic and international branded television channels.

TABLE OF CONTENTS

Domestic Channels

Our domestic channels include Cable operations comprising Disney, ESPN, Freeform, FX and National Geographic branded channels and Broadcasting operations comprising ABC and eight owned ABC affiliated television stations.

Cable

Disney Channels

Branded television channels include: Disney Channel; Disney Junior; and Disney XD (collectively Disney Channels). Disney Channels also includes the DisneyNOW App and website.

Disney Channel - the Disney Channel airs original series and movie programming 24 hours a day targeted to kids ages 2 to 14. The channel features live-action comedy series, animated programming and preschool series as well as original movies and theatrical films.

Disney Junior - the Disney Junior channel airs programming 24 hours a day targeted to kids ages 2 to 7 and their parents and caregivers. The channel features animated and live-action programming that blends Disney's storytelling and characters with learning. Disney Junior also airs as a programming block on the Disney Channel.

Disney XD - the Disney XD channel airs programming 24 hours a day targeted to kids ages 6 to 11. The channel features a mix of live-action and animated programming.

ESPN

Branded television channels include nine 24-hour domestic television sports channels: ESPN and ESPN2 (both of which are dedicated to professional and college sports as well as sports news and original programming); ESPNU (which is devoted to college sports); ESPNEWS (which simulcasts weekday ESPN Radio programming, re-airs select ESPN studio shows and airs a variety of other programming); SEC Network (which is dedicated to Southeastern Conference college athletics); ESPN Classic (which airs rebroadcasts of famous sporting events, sports documentaries and sports-themed movies); Longhorn Network (which is dedicated to The University of Texas athletics); ESPN Deportes (which airs professional and college sports as well as studio shows in Spanish); and ACC Network (which is dedicated to Atlantic Coast Conference college athletics). In addition, ESPN programs the sports schedule on ABC, which is branded ESPN on ABC.

ESPN also includes the following:

- ESPN.com, which delivers sports news, information and video on internet-connected devices, with approximately 20 editions in five languages across six countries globally. In the U.S., ESPN.com also features live video streams of ESPN channels to authenticated MVPD subscribers. Non-subscribers have limited access to certain content.
- ESPN App, which delivers scores, news, stories, highlights, short form video, podcasts and live audio, with fourteen editions in three languages globally. In the U.S., the ESPN App also features live video streams of ESPN's linear channels and exclusive events to authenticated MVPD subscribers. Non-subscribers have limited access to certain content. The ESPN App is available for download on various internet-connected devices.
- ESPN Radio, which is the largest sports radio network in the U.S. and includes four ESPN owned stations in New York, Los Angeles, Chicago and Dallas.

In addition, ESPN owns and operates the following events: ESPYs (annual awards show); X Games (winter and summer action sports competitions); and a portfolio of collegiate sporting events including: bowl games, basketball games, softball games and post-season award shows.

ESPN is owned 80% by the Company and 20% by Hearst Corporation (Hearst).

Freeform

Freeform is a channel targeted to viewers ages 18 to 34 that airs original, Company owned (“library”) and licensed television series, films and holiday programming events. Freeform also includes the Freeform App and website.

FX Channels

Branded general entertainment television channels include: FX; FXM; and FXX (collectively FX Channels), which air a mix of original, library and licensed television series and films.

National Geographic Channels

Branded television channels include: National Geographic; Nat Geo Wild; and Nat Geo Mundo (collectively National Geographic Channels). National Geographic Channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture.

National Geographic, including the magazine and online business reported in Content Sales/licensing, is owned 73% by the Company and 27% by the National Geographic Society.

TABLE OF CONTENTS

The number of domestic subscribers (in millions) for the Company's significant cable channels as estimated by Nielsen Media Research⁽¹⁾ as of September 2021 (except where noted) are as follows:

	Subscribers⁽²⁾
Disney	
Disney Channel	76
Disney Junior	57
Disney XD	56
ESPN	
ESPN	76
ESPN2	76
ESPNU	51
ESPNEWS ⁽³⁾	59
SEC Network ⁽³⁾	55
ACC Network ⁽³⁾	42
Freeform	76
FX Channels	
FX	77
FXX	72
FXM	47
National Geographic Channels	
National Geographic	76
National Geographic Wild	51

⁽¹⁾ As a result of COVID-19, we understand there have been disruptions in Nielsen Media Research's ability to collect in-home data, which may have had an impact on the estimated subscriber counts at September 2020 and September 2021. We believe these disruptions were more significant at September 2020 than at September 2021.

⁽²⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

⁽³⁾ Because Nielsen Media Research does not measure this channel, estimated subscribers are according to SNL Kagan as of December 2020.

Broadcasting

ABC

As of October 2, 2021, ABC had affiliation agreements with approximately 240 local television stations reaching almost 100% of U.S. television households. ABC broadcasts programs in the primetime, daytime, late night, news and sports "dayparts". ABC is also available digitally through the ABC App and website to authenticated MVPD subscribers. Non-subscribers have more limited access to on-demand episodes.

ABC also produces a variety of primetime specials, national news and daytime programming.

ABC provides online access to in-depth worldwide news and certain other programming through various Company operated and third party distribution platforms.

Domestic Television Stations

The Company owns eight television stations, six of which are located in the top ten television household markets in the U.S. All of our television stations are affiliated with ABC and collectively reach approximately 20% of the nation's television households.

TABLE OF CONTENTS

The stations we own are as follows:

TV Station	Market	Television Market Ranking⁽¹⁾
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KGO	San Francisco, CA	6
KTRK	Houston, TX	8
WTVD	Raleigh-Durham, NC	24
KFSN	Fresno, CA	55

⁽¹⁾ Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2021.

International Channels

Our International Channels focus on General Entertainment, Sports and/or Family programming and operate under four significant brands: Disney; ESPN; Fox; and Star. The channels air programming from the Company's content production groups, locally produced content and licensed programming.

The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our content from licensing of linear channels to distribution on our DTC platforms.

General Entertainment

The Company operates approximately 245 General Entertainment channels outside the U.S. primarily under the Fox, National Geographic and Star brands, which are broadcast in approximately 45 languages and 180 countries/territories.

Fox branded channels air a variety of scripted, reality and documentary programming. Channels are often thematically branded, focusing on such topics as comedy, cooking, crime, movies and travel, and are broadcast in most regions internationally.

National Geographic branded channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture, and are broadcast in most regions internationally.

Star branded channels air a variety of scripted, reality and documentary programming primarily in India. Channels are also broadcast in other countries in Asia Pacific.

In addition, the Company operates UTV and Bindass branded channels principally in India. UTV Action and UTV Movies offer Bollywood movies as well as Hollywood, Asian and Indian regional movies dubbed in Hindi. Bindass is a youth entertainment channel.

Sports

The Company operates approximately 55 Sports channels outside the U.S. under the ESPN, Fox and Star brands, which are broadcast in approximately 10 languages and 100 countries/territories.

ESPN branded channels primarily operate in Latin America, Asia Pacific and Europe. In the Netherlands, the ESPN branded channels are operated by Eredivisie Media & Marketing CV (EMM), which has the media and sponsorship rights of the Dutch Premier League for soccer. The Company owns 51% of EMM.

Fox branded sports channels primarily operate in Latin America, Asia Pacific and Europe. Fox Sports Premium, a pay television service in Argentina, airs the matches of the professional soccer league in Argentina.

Star branded sports channels primarily operate in India and certain other countries in Asia Pacific. Star has rights to various sports programming including cricket, soccer, tennis and field hockey.

Family

The Company operates approximately 85 Family channels outside the U.S. primarily under the Disney brand, which are broadcast in approximately 30 languages and 180 countries/territories.

Disney branded television channels include Disney Channel, Disney Junior, Disney XD and Disney International HD.

TABLE OF CONTENTS

As of September 2021, the estimated number of international subscribers (in millions) for the Company's significant channels, based on internal management reports, are as follows:

	Subscribers
Disney	
Disney Channel	162
Disney Junior	154
Disney XD	83
ESPN⁽¹⁾	64
Fox⁽¹⁾	184
National Geographic⁽¹⁾	320
Star	
General Entertainment ⁽¹⁾	132
Sports ⁽¹⁾	84

⁽¹⁾ Reflects our estimate of each unique subscriber that has access to one or more of these branded channels.

Equity Investments

The Company has investments in media businesses that are accounted for under the equity method, the most significant of which are A+E and CTV. The Company's share of the financial results for these investments is reported as "Equity in the income (loss) of investees, net" in the Company's Consolidated Statements of Operations.

A+E

A+E is owned 50% by the Company and 50% by Hearst. A+E operates a variety of cable channels:

- A&E – which offers entertainment programming including original reality and scripted series
- HISTORY – which offers original series and event-driven specials
- Lifetime and Lifetime Real Women – which offer female-focused programming
- Lifetime Movie Network (LMN) – which offers female-focused movies
- FYI – which offers contemporary lifestyle programming

A+E also has a 50% ownership interest in Viceland, a channel offering lifestyle-oriented documentaries and reality series aimed at millennial audiences.

A+E programming is available in approximately 200 countries and territories. A+E's networks are distributed internationally under multi-year licensing agreements with MVPDs. A+E programming is also sold to international television broadcasters and SVOD services.

As of September 2021, the number of domestic subscribers (in millions) for A+E channels as estimated by

A&E

HISTORY

Lifetime

LMN

FYI

Nielsen Media Research⁽¹⁾ are as follows:

- ⁽¹⁾ As a result of COVID-19, we understand there have been disruptions in Nielsen Media Research's ability to collect in-home data, which may have had an impact on the estimated subscriber counts at September 2020 and September 2021. We believe these disruptions were more significant at September 2020 than at September 2021.

⁽²⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

CTV

ESPN holds a 30% equity interest in CTV Specialty Television, Inc., which owns television channels in Canada, including The Sports Networks (TSN) 1-5, Le Réseau des Sports (RDS), RDS2, RDS Info, ESPN Classic Canada, Discovery Canada and Animal Planet Canada.

TABLE OF CONTENTS

Direct-to-Consumer

Our DTC businesses consist of subscription services that provide video streaming of general entertainment, family and sports programming (services are offered individually or in a bundle) and digital content distribution services. The subscription services are offered to customers directly or through third-party distributors on mobile and internet connected devices.

Disney+ Services (includes Disney+ Hotstar and Star+)

Disney+ is a subscription based DTC video streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming, which are all top level selections or “tiles” within the Disney+ interface. Programming includes approximately 33,000 episodes and 1,850 movies from the Company’s produced and acquired television and film library and approximately 75 exclusive original series and 40 exclusive original movies and specials. Disney+ launched in November 2019 in the U.S. and four other countries and launched in other Western European countries in the Spring of 2020. In April 2020, paid subscribers of the Hotstar streaming service in India were converted to Disney+ Hotstar subscribers, and in June 2020, current subscribers of the Disney Deluxe service in Japan were converted to Disney+ subscribers. In September 2020, Disney+ was launched in additional European countries and Disney+ Hotstar was launched in Indonesia. In November 2020, Disney+ was launched in Latin America. Additional launches are planned for various Asia Pacific territories by the end of calendar 2021.

Disney+ Hotstar is a subscription based DTC video streaming service with television shows, movies, sports, news and original series in approximately ten languages. The service incorporates gaming and social features. Disney+ Hotstar has exclusive streaming rights to Home Box Office, Inc.’s original programming in India and also carries content from Showtime. Disney+ Hotstar is available in India, Indonesia, Malaysia and Thailand.

In February 2021, Disney+ expanded its general entertainment content offerings outside of the U.S. and Latin America with the launch of a STAR tile. In August 2021, STAR+ launched as a standalone DTC streaming service in Latin America.

STAR and STAR+ programming includes a variety of general entertainment content from Disney’s various studios as well as content licensed from third parties. STAR+ also includes live sports.

The majority of Disney+ revenue is derived from subscription fees. In addition, Disney+ Hotstar generates advertising revenue and Disney+ generates Premier Access fees.

As of October 2, 2021, the estimated number of paid Disney+, Disney+ Hotstar and STAR+ subscribers, based on internal management reports, was approximately 118 million.

ESPN+

ESPN+ is a subscription based DTC video streaming service offering thousands of live sporting events, on-demand sports content and original programming. ESPN+ revenue is derived from subscription fees, pay-per-view fees and, to a lesser extent, advertising sales. Live events available through the service include mixed martial arts, soccer, hockey, boxing, baseball, college sports, tennis and cricket. ESPN+ is currently the exclusive distributor for UFC pay-per-view events in the U.S. As of October 2, 2021, the estimated number of paid ESPN+ subscribers, based on internal management reports, was approximately 17 million.

Hulu

Hulu is a subscription based DTC video streaming service with content that is internally produced, commissioned or licensed. Hulu’s revenue is primarily derived from subscription fees and advertising sales. Hulu offers two SVOD services with either limited commercial announcements or with no commercial announcements, and offers a digital OTT MVPD (Live TV) service that can be combined with either of the SVOD services. Hulu’s Live TV service includes live linear streams of cable networks and the major broadcast networks. In addition, Hulu offers subscriptions to premium services such as HBOMax, Cinemax, Starz and Showtime, which can be added to the Hulu service. Certain programming from ABC, Freeform and FX Channels is also available on the Hulu SVOD service one day after airing on these channels. As of October 2, 2021, the estimated number of paid Hulu subscribers, based on internal management reports, was approximately 44 million.

The Company has a 67% ownership interest in and full operational control of Hulu. NBC Universal (NBCU) owns the remaining 33% of Hulu. The Company has a put/call agreement with NBCU, which provides NBCU the option to require the Company to purchase NBCU's interest in Hulu and the Company the option to require NBCU to sell its interest in Hulu to the Company, in both cases, beginning in January 2024 (see Note 4 of the Consolidated Financial Statements for additional information).

Digital Content Distribution Services

BAMTech LLC (BAMTech) operates the Company's DTC sports business, which includes ESPN+. BAMTech also provides streaming technology services to third parties. BAMTech is owned 85% by the Company and 15% by Major League

TABLE OF CONTENTS

Baseball (MLB), which has the right to sell its shares to the Company in the future (see Note 2 of the Consolidated Financial Statements for additional information). Hearst has a 20% interest in the Company's DTC sports business.

Content Sales/Licensing and Other

The majority of Content Sales/Licensing revenue is derived from TV/SVOD, theatrical and home entertainment distribution. In addition, revenue is generated from music distribution and stage plays.

The Company also publishes National Geographic magazine and provides post-production services through Industrial Light & Magic and Skywalker Sound. These activities are reported with Content Sales/Licensing.

TV/SVOD Distribution

Our film and television content is licensed to third-party television networks, television stations and other video service providers for distribution to viewers on television or a variety of internet-connected devices, including through SVOD services (such as Netflix and Amazon). For films released theatrically, the television distribution market generally comprises multiple pay and free TV windows, which have license periods of various lengths, generally following the home entertainment distribution window.

The Company's film library includes content from approximately 100 years of production history, as well as acquired film libraries and totals approximately 4,900 live-action titles and 400 animation titles.

The Company's television programming library includes content from approximately 70 years of production history. Series with four or more seasons include approximately 75 one-hour dramas, 50 half-hour comedies, 5 half-hour non-scripted series, 25 one-hour non-scripted series, 15 half-hour animated series and 10 half-hour live-action series.

Theatrical Distribution

The Company licenses full-length live-action and animated films from the Company's Studio production group to theaters globally. Cumulatively through October 2, 2021, the Company has released approximately 1,100 full-length live-action films and 100 full-length animated films. In the domestic and most major international markets, we generally distribute and market our films directly. In certain international markets our films are distributed by independent companies. During fiscal 2022, we expect to release approximately 20 films, although the timing and number of these releases could be impacted by COVID-19, and certain films intended for theatrical release may be made available on our DTC streaming services in certain territories.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred, which may result in a loss on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

Home Entertainment Distribution

We distribute the Company's film and episodic television content in home entertainment markets in physical (DVD and Blu-ray disc) and electronic formats globally.

Domestically, films and episodic television content are distributed directly to retailers, wholesalers and consumers. Internationally, films and episodic television content are distributed directly and through independent distribution companies. Physical formats of our films and episodic television content are generally sold to retailers, such as Walmart and Target, and electronic formats are sold through e-tailers, such as Apple and Amazon, and MVPDs, such as Comcast and DirectTV. The Company also operates Disney Movie Club, which sells DVD/Blu-ray discs directly to consumers in the U.S. and Canada.

Distribution of film content in the home entertainment window generally starts two to four months after the theatrical release. Electronic formats may be released up to four weeks ahead of the physical release.

Distribution of episodic television content in the home entertainment window includes sales of season passes that can be purchased prior to, during and after the broadcast season with individual episodes typically available to

season pass customers shortly after the initial airing of the show in each territory. Individual episodes are also available for purchase shortly after their initial airing in each territory.

As of October 2, 2021, we have approximately 2,500 produced and acquired film titles that are actively distributed in the home entertainment window, including approximately 2,200 live-action titles and approximately 300 animated titles.

Concurrently with physical home entertainment distribution, we license titles to video-on-demand (VOD) services for electronic delivery to consumers for a specified rental period.

TABLE OF CONTENTS

Disney Theatrical Group

Disney Theatrical Group develops, produces and licenses live entertainment events on Broadway and around the world. Productions include *The Lion King*, *Aladdin*, *Frozen*, *The Little Mermaid*, *Beauty and the Beast*, *The Hunchback of Notre Dame*, *Mary Poppins* (a co-production with Cameron Mackintosh Ltd), *Newsies*, *Aida* and *TARZAN*[®].

Disney Theatrical Group also licenses the Company's IP to Feld Entertainment, the producer of *Disney On Ice* and *Marvel Universe Live!*.

Music Distribution

The Disney Music Group (DMG) commissions new music for the Company's motion pictures and television programs and develops, produces, markets and distributes the Company's music worldwide either directly or through license agreements. DMG also licenses the songs and recording copyrights to third parties for printed music, records, audio-visual devices, public performances and digital distribution and produces live musical concerts. DMG includes Walt Disney Records, Hollywood Records, Disney Music Publishing and Disney Concerts.

Equity Investment

The Company has a 30% effective interest in Tata Sky Limited, which operates a direct-to-home satellite distribution platform in India.

Studios

The Studios produce motion pictures under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners. Costs to produce the films are generally capitalized and allocated to the distribution platform utilizing the content.

Marvel licensed rights to produce and distribute Spider-Man films to Sony Pictures Entertainment (Sony) prior to the Company's fiscal 2010 acquisition of Marvel. In general, Sony incurs the costs to produce and distribute Spider-Man films and the Company licenses the merchandise rights to third parties. The Company pays Sony a licensing fee based on each film's box office receipts, subject to specified limits. In general, the Company distributes all other Marvel-produced films.

In fiscal 2022, the Studios plan to produce approximately 50 titles, which include films and episodic television programs, for distribution theatrically and/or on our DTC platforms. The timing and number of productions could be impacted by COVID-19.

General Entertainment

Content produced by General Entertainment primarily consists of original episodic television programs and network news content. General Entertainment also acquires episodic television programming rights. Original content is generally produced by the following Company owned television studios: ABC Signature; 20th Television; Disney Branded Television; FX Productions; and National Geographic Studios. Original content is also commissioned by General Entertainment and produced by various other third-party studios. Costs to produce original content are generally capitalized and allocated to the distribution platform utilizing the content. Program development is carried out in collaboration with writers, producers and creative teams.

We estimate the number of original programs that will be produced or commissioned by General Entertainment for use by the Company's various distribution platforms in fiscal 2022 is as follows, although the timing and number of productions could be impacted by COVID-19:

- 60 unscripted series
- 30 comedy series
- 25 drama series
- 15 docuseries/limited series
- 10 animated series

- 5 made for TV movies
- Numerous specials and shorts

Programming produced by our television studios for third-party platforms include eight returning and three new one-hour dramas; seven returning and one new half-hour comedies; and two new limited series. For many of these productions, the third parties have domestic linear distribution rights, and the Company has SVOD and international distribution rights.

Sports

The Company has various professional and college sports programming rights, which the Sports group uses to produce content aired on our Linear Networks and distributed on our DTC platforms including live events, sports news and original content. In the U.S., rights include college football (including bowl games and the College Football Playoff) and basketball, the

[TABLE OF CONTENTS](#)

National Basketball Association (NBA), the National Football League (NFL), MLB, US Open Tennis, the Professional Golfers' Association (PGA) Championship, the Women's National Basketball Association (WNBA), soccer, Top Rank Boxing, the Wimbledon Championships, the Masters golf tournament, mixed martial arts and the National Hockey League (NHL) (beginning with the 2021-2022 season). Internationally, rights include various cricket events (for which the Company has the global distribution rights to certain events), soccer (including English Premier League, La Liga, Bundesliga and multiple UEFA leagues), motorsports, tennis, combat sports, the NFL and MLB.

Competition and Seasonality

The Company's Linear Networks and DTC streaming services compete for viewers primarily with other television networks, independent television stations and other media, such as other DTC streaming services and video games. With respect to the sale of advertising time, we compete with other television networks, independent television stations, MVPDs and other advertising media such as digital content, newspapers, magazines, radio and billboards. Our television and radio stations primarily compete for audiences and advertisers in local market areas.

The Company's Linear Networks compete with other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

The Content Sales/Licensing businesses compete with all forms of entertainment. A significant number of companies produce and/or distribute theatrical and television content, distribute products in the home entertainment market, provide pay television and SVOD services, and produce music and live theater.

The operating results of Content Sales/Licensing fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

The Company's websites and digital products compete with other websites and entertainment products.

We also compete with other media and entertainment companies, independent production companies, SVOD providers and DTC streaming services for the acquisition of sports rights, creative and performing talent, story properties, show concepts, scripted and other programming, advertiser support and exhibition outlets that are essential to the success of our DMED businesses.

Advertising revenues at Linear Networks and Direct-to-Consumer are subject to seasonal advertising patterns, changes in viewership levels and the demand for sports programming. In general, domestic advertising revenues are typically somewhat higher during the fall and somewhat lower during the summer months. In addition, advertising revenues generated from sports programming are impacted by the timing of sports seasons and events, which varies throughout the year or may take place periodically (e.g. biannually, quadrennially). Affiliate revenues vary with the subscriber trends of MVPDs.

In addition, operating results at all of our businesses may fluctuate in response to business closures or disruptions, such as those described under *COVID-19 Pandemic*.

Federal Regulation

Television and radio broadcasting are subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary fines, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect our DMED segment include the following:

- *Licensing of television and radio stations.* Each of the television and radio stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (and the acquiring entity in the case of

a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.

- *Television and radio station ownership limits.* The FCC imposes limitations on the number of television stations and radio stations we can own in a specific market, on the combined number of television and radio stations we can own in

TABLE OF CONTENTS

a single market and on the aggregate percentage of the national audience that can be reached by television stations we own. Currently:

- FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any market.
- Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience. Pursuant to the most recent decision by the FCC as to how to calculate compliance with this limit, our eight stations reach approximately 20% of the national audience.
- FCC regulations in some cases impose restrictions on our ability to acquire additional radio or television stations in the markets in which we own radio stations. We do not believe any such limitations are material to our current operating plans.
- *Dual networks.* FCC rules currently prohibit any of the four major broadcast television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.
- *Regulation of programming.* The FCC regulates broadcast programming by, among other things, banning “indecent” programming, regulating political advertising and imposing commercial time limits during children’s programming. Penalties for broadcasting indecent programming can be over \$400,000 per indecent utterance or image per station.

Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast stations are generally required to provide an average of three hours per week of programming that has as a “significant purpose” meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.

- *Cable and satellite carriage of broadcast television stations.* With respect to MVPDs operating within a television station’s Designated Market Area, FCC rules require that every three years each television station elect either “must carry” status, pursuant to which MVPDs generally must carry a local television station in the station’s market, or “retransmission consent” status, pursuant to which the MVPDs must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. The ABC owned television stations have historically elected retransmission consent.
- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations regarding cable and satellite retransmission consent, and some cable and satellite distribution companies have sought regulation of additional aspects of the carriage of programming on cable and satellite systems. New legislation, court action or regulation in this area could have an impact on the Company’s operations.

The foregoing is a brief summary of certain provisions of the Communications Act, other legislation and specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC’s regulatory authority.

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

DISNEY PARKS, EXPERIENCES AND PRODUCTS

The operations of DPEP’s significant lines of business are as follows:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); and Shanghai

Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our IP to a third party to operate Tokyo Disney Resort.

- Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic magazine, which is reported in DMED)

TABLE OF CONTENTS

The significant revenues of DPEP are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
 - Retail - Sales of merchandise at The Disney Store and through internet shopping sites generally branded shopDisney, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships, real estate rent and sales and royalties earned on Tokyo Disney Resort revenues.

The significant expenses of DPEP are as follows:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

Significant capital investments:

- In recent years, the majority of the Company's capital spend has been at our parks and experiences business, which is principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The various investment plans discussed in the "Parks & Experiences" section are based on management's current expectations. Actual investment may differ.

Parks & Experiences

Walt Disney World Resort

The Walt Disney World Resort is located approximately 20 miles southwest of Orlando, Florida, on approximately 25,000 acres of land. The resort includes theme parks (the Magic Kingdom, EPCOT, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex (Disney Springs); a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored or operated by other corporations under multi-year agreements.

Magic Kingdom — The Magic Kingdom consists of six themed areas: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed attractions, restaurants, merchandise shops and entertainment experiences.

EPCOT — EPCOT consists of four major themed areas: World Showcase, World Celebration, World Nature and World Discovery. All areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the U.S. EPCOT is undergoing a multi-year transformation, which includes the addition of Remy's Ratatouille Adventure attraction and the *Harmonious* nighttime spectacular, which both opened in October 2021, and Guardians of the Galaxy: Cosmic Rewind, which is expected to open in summer 2022.

Disney's Hollywood Studios — Disney's Hollywood Studios consists of eight themed areas: Animation Courtyard, Commissary Lane, Echo Lake, Grand Avenue, Hollywood Boulevard, *Star Wars*: Galaxy's Edge, Sunset Boulevard and Toy Story Land. The areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service, merchandise shops and entertainment experiences.

Disney's Animal Kingdom — Disney's Animal Kingdom consists of a 145-foot tall Tree of Life centerpiece surrounded by five themed areas: Africa, Asia, DinoLand USA, Discovery Island and Pandora - The World of Avatar. Each themed area contains attractions, restaurants, merchandise shops and entertainment experiences. The park features more than 300 species of live mammals, birds, reptiles and amphibians and 3,000 varieties of vegetation.

TABLE OF CONTENTS

Hotels, Vacation Club Properties and Other Resort Facilities — As of October 2, 2021, the Company owned and operated 18 resort hotels and vacation club facilities at the Walt Disney World Resort, with approximately 24,000 rooms and 3,500 vacation club units. Resort facilities include 500,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites. The Company is constructing the *Star Wars: Galactic Starcruiser*, a new hotel at the Walt Disney World Resort scheduled to open in March 2022.

Disney Springs is an approximately 120-acre retail, dining and entertainment complex and consists of four areas: Marketplace, The Landing, Town Center and West Side. The areas are home to more than 150 venues including the 64,000-square-foot World of Disney retail store. Most of the Disney Springs facilities are operated by third parties that pay rent to the Company.

Nine independently-operated hotels with approximately 6,000 rooms are situated on property leased from the Company.

ESPN Wide World of Sports Complex is a 230-acre center that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes both amateur and professional athletes, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. It also includes a stadium, as well as two venues designed for cheerleading, dance competitions and other indoor sports. In 2020, the complex hosted the remainder of the previously suspended NBA season, including the playoffs and finals.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, swimming, horseback riding and a number of other sports and leisure time activities. The resort also includes two water parks: Disney's Blizzard Beach and Disney's Typhoon Lagoon.

Disneyland Resort

The Company owns 486 acres and has rights under a long-term lease for use of an additional 55 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex (Downtown Disney).

The Disneyland Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of the attractions and restaurants in the theme parks are sponsored or operated by other corporations under multi-year agreements.

Disneyland — Disneyland consists of nine themed areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square, *Star Wars: Galaxy's Edge*, and Tomorrowland. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences.

Disney California Adventure — Disney California Adventure is adjacent to Disneyland and includes eight themed areas: Avengers Campus, Buena Vista Street, Cars Land, Grizzly Peak, Hollywood Land, Pacific Wharf, Paradise Gardens Park and Pixar Pier. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Hotels, Vacation Club Units and Other Resort Facilities — Disneyland Resort includes three Company owned and operated hotels and vacation club facilities with approximately 2,400 rooms, 50 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney is a themed 15-acre retail, entertainment and dining complex with approximately 30 venues located adjacent to both Disneyland and Disney California Adventure. Most of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

Aulani, a Disney Resort & Spa

Aulani, a Disney Resort & Spa, is a Company-operated family resort on a 21-acre oceanfront property on Oahu, Hawaii featuring approximately 350 hotel rooms, an 18,000-square-foot spa and 12,000 square feet of conference meeting space. The resort also has approximately 480 vacation club units.

Disneyland Paris

Disneyland Paris is located on a 5,510-acre development in Marne-la-Vallée, approximately 20 miles east of Paris, France. The land is being developed pursuant to a master agreement with French governmental authorities. Disneyland Paris includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed resort hotels; two convention centers; a shopping, dining and entertainment complex (Disney Village); and a 27-hole golf facility. Of the 5,510 acres comprising the site, approximately half have been developed to date, including a planned community (Val d'Europe) and an eco-tourism destination (Villages Nature).

Disneyland Park — Disneyland Park consists of five themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street USA. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

TABLE OF CONTENTS

Walt Disney Studios Park — Walt Disney Studios Park includes four themed areas: Front Lot, Production Courtyard, Toon Studio and Worlds of Pixar. These areas each include themed attractions, restaurants, merchandise shops and entertainment experiences. Walt Disney Studios Park is undergoing a multi-year expansion that will include Avengers Campus, which is expected to open in summer 2022, and a new theme area based on Frozen.

Hotels and Other Facilities — Disneyland Paris operates seven resort hotels, with approximately 5,750 rooms and 250,000 square feet of conference meeting space. In addition, eight on-site hotels that are owned and operated by third parties provide approximately 2,575 rooms.

Disney Village is an approximately 500,000-square-foot retail, dining and entertainment complex located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to the Company.

Val d'Europe is a planned community near Disneyland Paris that is being developed in phases. Val d'Europe currently includes a regional train station, hotels and a town center consisting of a shopping center as well as office, commercial and residential space. Third parties operate these developments on land leased or purchased from the Company.

Villages Nature is a European eco-tourism resort that consists of recreational facilities, restaurants and 900 vacation units. The resort is a 50% joint venture between the Company and Pierre & Vacances-Center Parcs, who manages the venture.

Hong Kong Disneyland Resort

The Company owns a 48% interest in Hong Kong Disneyland Resort and the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 52% interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport and the Hong Kong-Zhuhai-Macau Bridge. Hong Kong Disneyland Resort includes one theme park and three themed resort hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

Hong Kong Disneyland — Hong Kong Disneyland consists of seven themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, Tomorrowland and Toy Story Land. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. The park is in the midst of a multi-year expansion project that includes a Frozen-themed area.

Hotels — Hong Kong Disneyland Resort includes three themed hotels with a total of 1,750 rooms and approximately 16,000 square feet of conference meeting space.

Shanghai Disney Resort

The Company owns a 43% interest in Shanghai Disney Resort and Shanghai Shendi (Group) Co., Ltd (Shendi) owns a 57% interest. The resort is located in the Pudong district of Shanghai on approximately 1,000 acres of land, which includes the Shanghai Disneyland theme park; two themed resort hotels; a retail, dining and entertainment complex (Disneytown); and an outdoor recreation area. A management company, in which the Company has a 70% interest and Shendi has a 30% interest, is responsible for operating the resort and receives a management fee based on the operating performance of Shanghai Disney Resort. The Company is also entitled to royalties based on the resort's revenues.

Shanghai Disneyland — Shanghai Disneyland consists of seven themed areas: Adventure Isle, Fantasyland, Gardens of Imagination, Mickey Avenue, Tomorrowland, Toy Story Land and Treasure Cove. These areas feature themed attractions, shows, restaurants, merchandise shops and entertainment experiences. The Company is constructing an eighth themed area based on the animated film *Zootopia*.

Hotels and Other Facilities — Shanghai Disneyland Resort includes two themed hotels with a total of 1,220 rooms. Disneytown is an 11-acre outdoor complex of dining, shopping and entertainment venues located adjacent to Shanghai Disneyland. Most Disneytown facilities are operated by third parties that pay rent to Shanghai Disney Resort.

Tokyo Disney Resort

Tokyo Disney Resort is located on 494 acres of land, six miles east of downtown Tokyo, Japan. The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a third-party Japanese corporation. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea); four Disney-branded hotels; six other hotels (operated by third parties other than OLC); a retail, dining and entertainment complex (Ikspiari); and Bon Voyage, a Disney-themed merchandise location.

Tokyo Disneyland — Tokyo Disneyland consists of seven themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

TABLE OF CONTENTS

Tokyo DisneySea — Tokyo DisneySea is divided into seven “ports of call,” including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery. OLC is expanding Tokyo DisneySea to include an eighth themed port, Fantasy Springs.

Hotels and Other Resort Facilities — Tokyo Disney Resort includes four Disney-branded hotels with a total of more than 2,400 rooms and a monorail, which links the theme parks and resort hotels with Ikspiari. OLC is currently constructing an approximate 600-room Toy Story themed hotel that is expected to open in April 2022 and an approximate 475-room Disney-branded hotel at Tokyo DisneySea that is expected to open in 2023.

Disney Vacation Club (DVC)

DVC offers ownership interests in 15 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Aulani; Vero Beach, Florida; and Hilton Head Island, South Carolina. Available units are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company’s vacation club units range from deluxe studios to three-bedroom grand villas. Unit counts in this document are presented in terms of two-bedroom equivalents. DVC had approximately 4,300 vacation club units as of October 2, 2021. The Company also plans to convert certain existing hotel rooms at Disney’s Grand Floridian Resort & Spa into approximately 70 DVC units by summer 2022 and build a new DVC property at Disneyland Resort with 135 units that is expected to open in 2023.

Disney Cruise Line

Disney Cruise Line is a four-ship vacation cruise line, which operates out of ports in North America and Europe. The *Disney Magic* and the *Disney Wonder* are approximately 85,000-ton 875-stateroom ships, and the *Disney Dream* and the *Disney Fantasy* are approximately 130,000-ton 1,250-stateroom ships. The ships cater to families, children, teenagers and adults, with distinctly-themed areas and activities for each group. Many cruise vacations include a visit to Disney’s Castaway Cay, a 1,000-acre private Bahamian island.

The Company is expanding its cruise business by adding three new ships. The first ship, the *Disney Wish*, is scheduled to launch in June 2022 with the other two ships to be delivered from the shipyard in 2024 and 2025. Each new ship can be powered by liquefied natural gas and will be approximately 140,000 tons with 1,250 staterooms.

The Company has an agreement with the Government of The Bahamas to create and manage a destination at Lighthouse Point on the island of Eleuthera, which is scheduled to open in 2024.

Adventures by Disney and National Geographic Expeditions

Adventures by Disney and National Geographic Expeditions offer guided tour packages predominantly at non-Disney sites around the world.

Walt Disney Imagineering

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and research and development for the DPEP segment.

Consumer Products

Licensing

The Company’s merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, games, home décor and furnishings, accessories, health and beauty, books, food, footwear, stationery, consumer electronics and magazines. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Minnie, Star Wars, Frozen, Disney Princess, Avengers, Spider-Man, Toy Story, Disney Classics, Winnie the Pooh and Cars.

Retail

The Company sells Disney-, Marvel-, Pixar- and Lucasfilm-branded products through retail stores and internet sites globally. During 2021, the Company announced plans to focus on its e-commerce business and significantly reduced its brick-and-mortar footprint in North America and Europe. At October 2, 2021, the Company owns and operates approximately 40 stores in Japan, 20 stores in North America, 15 stores in Europe and two stores in China. Retail stores operate under The Disney Store name and are generally located in leading shopping malls and other retail complexes. Internet sites are generally branded shopDisney.

The Company creates, distributes and publishes a variety of products in multiple countries and languages based on the Company's branded franchises. The products include children's books, comic books, digital comics and ebooks, learning products and storytelling apps.

[TABLE OF CONTENTS](#)

Competition and Seasonality

The Company's theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, health concerns, the political environment, travel industry trends, amount of available leisure time, oil and transportation prices, weather patterns and natural disasters. The licensing and retail business competes with other licensors, retailers and publishers of character, brand and celebrity names, as well as other licensors, publishers and developers of game software, online video content, websites, other types of home entertainment and retailers of toys and kids merchandise.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, theme park attendance and resort occupancy fluctuate based on the seasonal nature of vacation travel and leisure activities, the opening of new guest offerings and pricing and promotional offers. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. The licensing, retail and wholesale businesses are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues during the Company's first and fourth fiscal quarter, and by the timing and performance of theatrical and game releases and cable programming broadcasts.

INTELLECTUAL PROPERTY PROTECTION

The Company's businesses throughout the world are affected by its ability to exploit and protect against infringement of its IP, including trademarks, trade names, copyrights, patents and trade secrets. Important IP includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines, and merchandise. Risks related to the protection and exploitation of IP rights are set forth in Item 1A – Risk Factors.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, www.disney.com/investors, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

ITEM 1A. Risk Factors

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in our filings with the SEC, the most significant factors affecting our business include the following:

BUSINESS, ECONOMIC, MARKET and OPERATING CONDITION RISKS

The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

Since early 2020, the world has been and continues to be impacted by COVID-19 and its variants. COVID-19 and measures to prevent its spread has impacted our segments in a number of ways, most significantly at the DPEP segment where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. Most of our businesses have been closed, suspended or restricted consistent with government mandates or guidance. These operations resumed, generally at reduced capacity, at various points since May 2020. We experienced significant disruptions in the production and availability of content. Although film and television production generally resumed beginning in the fourth quarter of fiscal 2020, we continue to see disruption in production activities depending on local circumstances. Production delays and fewer theatrical releases have limited the

availability of film content to be sold in distribution windows subsequent to the theatrical release. Theaters have been subject to capacity limitations and shifting government mandates or guidance regarding COVID-19 restrictions. Declines in linear viewership and consumption of our content (due to production delays or otherwise) result in decreased advertising revenue.

Sports content continues to be delayed or impacted by COVID-19 restrictions. Continued or increased unavailability of sports content is likely to exacerbate the impacts to our business. Other of our offerings will be exposed to additional financial impacts in the event of future significant unavailability of content. COVID-19 impacts could also hasten the erosion of historical sources of revenue at our Linear Networks businesses. We have experienced reduced numbers of reservations at our hotels and cruises. We have experienced increased returns and refunds and customer requests for payment deferrals.

TABLE OF CONTENTS

Collectively, our impacted businesses have historically been the source of the majority of our revenue. Many of our businesses that are open are operating subject to restrictions and increased expenses. These and other impacts of COVID-19 on our businesses will continue for an unknown length of time. COVID-19 impacts that have subsided may again impact our businesses in the future and new impacts may emerge from COVID-19 developments or other pandemics. For example, some of our parks closed due to government mandates or guidance following their initial reopening.

Consumers may change their behavior and consumption patterns in response to the prolonged suspension of certain of our businesses, such as subscription to pay television packages (which experienced accelerated decline during some periods after the onset of COVID-19) or theater-going to watch movies. Certain of our customers, including individuals as well as businesses such as theatrical distributors, affiliates, licensees of rights to use our programming and IP, advertisers and others, have been negatively impacted by the economic downturn caused by COVID-19, which may continue to result in decreased purchases of our goods and services even after certain operations resume. Some industries in which our customers operate, such as theatrical distribution, retail and travel, could experience contraction, which could impact the profitability of our businesses going forward. Additionally, we have incurred and will continue to incur incremental costs to implement health and safety measures, reopen our parks and restart our halted projects and operations. As we have resumed production of content, including live sports events, we have incurred costs to implement health and safety measures and productions will generally take longer to complete.

Our mitigation efforts in response to the impacts of COVID-19 on our businesses have had, or may have, negative impacts. The Company (or our Board of Directors, as applicable) issued senior notes in March and May 2020, entered into an additional \$5.0 billion credit facility in April 2020 (which has now been terminated), did not pay a dividend with respect to fiscal 2020 operations and has not declared nor paid a dividend with respect to fiscal 2021 operations; suspended certain capital projects; temporarily reduced certain discretionary expenditures (such as spending on marketing); temporarily reduced management compensation; temporarily eliminated Board of Director retainers and committee fees; furloughed over half of our employees; and reduced our employee population. Such mitigation measures have resulted in the delay or suspension of certain projects in which we have invested, particularly at our parks and resorts and studio operations. We may take additional mitigation actions in the future such as raising additional financing; not declaring future dividends (the Company has announced an intention not to declare further dividends until a return to a more normalized operating environment); reducing, or not making, certain payments, such as some contributions to our pension and postretirement medical plans; further suspending capital spending; reducing film and television content investments; or implementing additional furloughs or reductions in force or modifying our operating strategy. These and other of our mitigating actions may have an adverse impact on our businesses. Additionally, there are limitations on our ability to mitigate the adverse financial impact of COVID-19, including the fixed costs of our theme park business and the impact COVID-19 may have on capital markets and our cost of borrowing. Further, the benefit of certain mitigation efforts will not continue to be available going forward. For example, as our employees are returning from furlough, the cost reductions of the related furloughs are no longer available and we are incurring expenses to recall and hire employees.

Even our operations that were not suspended or that have resumed continue to be adversely impacted by government mandated restrictions (such as density limitations and travel restrictions and requirements); measures we voluntarily implement; measures we are contractually obligated to implement; the distancing practices and health concerns of consumers, talent and production workers; and logistical limitations. Upon reopening our parks and resorts businesses we have seen certain instances of lower demand. Geographic variation in government requirements and ongoing changes to restrictions have disrupted and could further disrupt our businesses, including our production operations. Our operations could be suspended, re-suspended or subjected to new or reinstated limitations by government action or otherwise in the future as a result of developments related to COVID-19, such as the current expansion of the delta variant or other variants. For example, both Hong Kong Disneyland Resort and Disneyland Paris have reopened and closed multiple times since the onset of COVID-19. Some of our employees who returned to work were later refurloughed. Our operations could be further negatively impacted and our reputation could be negatively impacted by a significant COVID-19 outbreak impacting our employees, customers or others interacting with our businesses, including our supply chain.

In fiscal year 2020, we operated at a net loss and in fiscal year 2021, our net income from continuing operations remained substantially below pre-pandemic levels. We have impaired goodwill and intangible assets at our International Channels businesses and written down the value of certain of our retail store assets. Certain of our other assets could also become impaired, including further impairments of goodwill and intangible assets; we have increased, and may further increase, allowances for credit losses; and there may be changes in judgments in determining the fair-value of assets; and estimates related to variable consideration may change due to increased returns, reduced usage of our products or services and decreased royalties. Our leverage ratios have increased as a result of COVID-19's impact on our financial performance, which caused certain of the credit rating agencies to downgrade their assessment of our credit ratings, and are expected to remain elevated at least in the near term. Our debt ratings may be further downgraded, which may negatively impact our cost of borrowing. Due to reduced operating cash flow, we may utilize cash balances and/or future financings to fund a portion of our operations and investments in our businesses. Financial risks may be exacerbated by a number of factors, including the timing of customer deposit refunds and liquidity issues among our key customers, particularly advertisers, television affiliates, theatrical exhibitors

TABLE OF CONTENTS

and distributors, and licensees. These factors have impacted timely payments by such customers to the Company. Additionally, loss of or delay in the collection of receivables as a result of contractual performance short falls, meeting our contractual payment obligations, and investments we need to make in our business may result in increased financial risk. The Company has \$12.5 billion in trade accounts receivable outstanding at October 2, 2021, with an allowance for credit losses of \$0.2 billion. Our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty due to the impacts of COVID-19. Economic or political conditions in a country outside the U.S. could also reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

The impacts of COVID-19 to our business have generally amplified, or reduced our ability to mitigate, the other risks discussed in our filings with the SEC and our remediation efforts may not be successful.

COVID-19 also makes it more challenging for management to estimate future performance of our businesses. COVID-19 has already adversely impacted our businesses and net cash flow, and we expect the ultimate magnitude of these disruptions on our financial and operational results will be dictated by the length of time that such disruptions continue which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact and duration of governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters going forward. Where actual performance in our international markets significantly underperforms management's forecasts, the Company has had, and could have further, foreign currency hedge gains/losses which are not offset by the realization of exposures, resulting in excess hedge gains or losses. While we cannot be certain as to the duration of the impacts of COVID-19, we expect impacts of COVID-19 to continue to affect our financial results in fiscal 2022.

Changes in U.S., global, and regional economic conditions are expected to have an adverse effect on the profitability of our businesses.

A decline in economic activity, such as recession or economic downturn, in the U.S. and other regions of the world in which we do business can adversely affect demand for any of our businesses, thus reducing our revenue and earnings. Global economic activity has declined as a result of the impacts of COVID-19. Past declines in economic conditions reduced spending at our parks and resorts, purchases of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected should such conditions recur. The current decline in economic conditions could also reduce attendance at our parks and resorts, prices that MVPDs pay for our cable programming or subscription levels for our cable programming or direct-to-consumer products. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector (such as current inflation related to domestic and global supply chain issues, which has led to both overall price increases and pronounced price increases in certain sectors), could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. A decline in economic conditions could impact implementation of our expansion plans. Changes in exchange rates for foreign currencies may reduce international demand for our products or increase our labor or supply costs in non-U.S. markets, or reduce the U.S. dollar value of revenue we receive and expect to receive from other markets. Economic or political conditions in a country could also reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country. Broader supply chain delays, such as those currently impacting global distribution may impact our ability to sell and deliver goods or otherwise disrupt our operations.

Changes in technology and in consumer consumption patterns may affect demand for our entertainment products, the revenue we can generate from these products or the cost of producing or distributing products.

The media entertainment and internet businesses in which we participate increasingly depend on our ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources and nature of competing content offerings, the time and manner in which consumers

acquire and view some of our entertainment products and the options available to advertisers for reaching their desired audiences. This trend has impacted the business model for certain traditional forms of distribution, as evidenced by the industry-wide decline in ratings for broadcast television, the reduction in demand for home entertainment sales of theatrical content, the development of alternative distribution channels for broadcast and cable programming and declines in subscriber levels for traditional cable channels, including for a number of our networks. Declines in linear viewership have resulted in decreased advertising revenue. In order to respond to these developments, we regularly consider, and from time to time implement changes to our business models, most recently by developing, investing in and acquiring DTC products and reorganizing our media and entertainment businesses to accelerate our DTC strategies. There can be no assurance that our DTC offerings and other efforts will successfully respond to these changes. We expect to forgo revenue from traditional sources, particularly as we expand our DTC offerings. There can be no assurance that the DTC model and other business models we may develop will ultimately be as profitable as our existing or historic business models.

TABLE OF CONTENTS

Misalignment with public and consumer tastes and preferences for entertainment, travel and consumer products could negatively impact demand for our entertainment offerings and products and adversely affect the profitability of any of our businesses.

Our businesses create entertainment, travel and consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create content, which may be distributed, among other ways, through broadcast, cable, internet or cellular technology, theme park attractions, hotels and other resort facilities and travel experiences and consumer products. Such distribution must meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. The success of our theme parks, resorts, cruise ships and experiences, as well as our theatrical releases, depends on demand for public or out-of-home entertainment experiences. COVID-19 may impact consumer tastes and preferences. Many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S., and their success therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in content production and acquisition, acquisition of sports rights, theme park attractions, cruise ships or hotels and other facilities or customer facing platforms before we know the extent to which these products will earn consumer acceptance. The impacts of COVID-19 are inhibiting and delaying our ability to earn returns on some of these and other investments. If our entertainment offerings and products (including our content offerings, which have been impacted by COVID-19) as well as our methods to make our offerings and products available to consumers, do not achieve sufficient consumer acceptance, our revenue may decline, decline further or fail to grow to the extent we anticipate when making investment decisions and thereby further adversely affect the profitability of one or more of our businesses. Consumer tastes and preferences impact, among other items, revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air), affiliate fees, subscription fees, theatrical film receipts, the license of rights to other distributors, theme park admissions, hotel room charges and merchandise, food and beverage sales, sales of licensed consumer products or sales of our other consumer products and services.

The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.

The value to us of our IP is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our IP may decrease, or the cost of obtaining and maintaining rights may increase.

The unauthorized use of our IP may increase the cost of protecting rights in our IP or reduce our revenues. The convergence of computing, communication and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of IP rights more challenging. The unauthorized distribution and access to entertainment content generally continues to be a significant challenge for IP rights holders. Inadequate laws or weak enforcement mechanisms to protect entertainment industry IP in one country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its IP rights. COVID-19 and distribution innovation in response to COVID-19 has increased opportunities to access content in unauthorized ways. Additionally, negative economic conditions coupled with a shift in government priorities could lead to less enforcement. These developments require us to devote substantial resources to protecting our IP against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content and other commercial misuses of our IP.

With respect to IP developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in IP may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from or utilize the IP that is the subject of challenged rights. From time to time, the Company has been

notified that it may be infringing certain IP rights of third parties. Technological changes in industries in which the Company operates and extensive patent coverage in those areas may increase the risk of such claims being brought and prevailing.

Protection of electronically stored data and other cybersecurity is costly, and if our data or systems are materially compromised in spite of this protection, we may incur additional costs, lost opportunities, damage to our reputation, disruption of service or theft of our assets.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. We also use computer systems to deliver our products and services and operate our businesses. Data maintained in digital form is subject to the risk of unauthorized access, modification, exfiltration, destruction or denial of access and our computer systems are subject to cyberattacks that may result in disruptions in service. We use many third party systems and software, which are also subject to supply chain and other

TABLE OF CONTENTS

cyberattacks. We develop and maintain an information security program to identify and mitigate cyber risks but the development and maintenance of this program is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Accordingly, despite our efforts, the risk of unauthorized access, modification, exfiltration, destruction or denial of access with respect to data or systems and other cybersecurity attacks cannot be eliminated entirely, and the risks associated with a potentially material incident remain. In addition, we provide some confidential, proprietary and personal information to third parties in certain cases when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where we believe appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised.

If our information or cyber security systems or data are compromised in a material way, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be damaged resulting in loss of business or morale, and we may incur costs to remediate possible harm to our customers and employees or damages arising from litigation and/or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident. Insurance we obtain may not cover losses or damages associated with such attacks or events. Our systems and the systems of third parties with whom we engage are continually attacked.

A variety of uncontrollable events may reduce demand for or consumption of our products and services, impair our ability to provide our products and services or increase the cost or reduce the profitability of providing our products and services.

Demand for and consumption of our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for and consumption of other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: health concerns (including as it has been by COVID-19 and could be by future pandemics); adverse weather conditions arising from short-term weather patterns or long-term climate change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, tsunamis and earthquakes); international, political or military developments (including social unrest); a decline in economic activity; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to some of these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents, including the costs of protecting against the spread of COVID-19, reduces the profitability of our operations.

For example, COVID-19 and measures to prevent the spread of COVID-19 are currently impairing our ability to provide our products and services and reducing consumption of those products and services. Further, prior to COVID-19, events in Hong Kong impacted profitability of our Hong Kong operations and may continue to do so, and past hurricanes have impacted the profitability of Walt Disney World Resort in Florida and future hurricanes may also do so.

The negative economic consequences of COVID-19 may be particularly challenging in markets where individuals and local businesses have limited access to government supported “safety nets,” which could lead to political instability and unrest, and further depress demand for our products and services over a longer timeframe.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties, the profitability of one or more of our businesses could be

adversely affected. In specific geographic markets, we have experienced delayed and/or partial payments from certain affiliate partners due to liquidity issues.

We obtain insurance against the risk of losses relating to some of these events, generally including physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance. For example, most losses related to impacts of COVID-19 will not be covered by insurance available to us.

TABLE OF CONTENTS

Changes in our business strategy or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses or the value of our assets.

As changes in our business environment occur we have adjusted, and may further adjust our business strategies to meet these changes and we may otherwise decide to further restructure our operations or particular businesses or assets. For example, in October 2020 we announced a reorganization of our media and entertainment businesses to accelerate our DTC strategies. In March 2021 we announced the closure of a substantial number of our Disney-branded retail stores; and we have announced exploration of a number of new types of businesses. Our new organization and strategies may not produce the anticipated benefits, such as supporting our growth strategies and enhancing shareholder value. Our new organization and strategies could be less successful than our previous organizational structure and strategies. In addition, external events including changing technology, changing consumer purchasing patterns, acceptance of our theatrical and other content offerings and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write-down the value of assets. For example, current conditions, including COVID-19 and our business decisions, have reduced the value of some of our assets. We have impaired goodwill and intangible assets at our International Channels businesses and impaired the value of certain of our retail store assets. We may write-down other assets as our strategy evolves to account for the current business environment. We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. In recent years, such investments have included expansion and renovation of certain of our theme parks, expansion of our fleet of cruise ships, the acquisition of TFCF and investments related to DTC offerings. Some of these investments have returns that are negative or low, the ultimate business prospects of the businesses related to these investments are uncertain, these investments may impact the profitability of our other businesses, and these risks are exacerbated by COVID-19. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring. Even if our strategies are effective in the long term, growth of our new offerings is unlikely to be even quarter over quarter and we may not expand into new markets as or when anticipated. Our ability to forecast for new businesses may be impacted by our lack of experience operating in those new businesses, volatility beyond our control (such as the events beyond our control noted above) and our ability to obtain or develop the content and rights on which our projections are based. Accordingly, we may not achieve our forecasted outcomes.

Increased competitive pressures may reduce our revenues or increase our costs.

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. This includes, among other types, competition for human resources, content and other resources we require in operating our business. For example:

- Our programming and production operations compete to obtain creative, performing and business talent, sports and other programming, story properties, advertiser support and market share with other studio operators, television networks, SVOD providers and other new sources of broadband delivered content.
- Our television networks and stations and DTC offerings compete for the sale of advertising time with other television and SVOD services, as well as with newspapers, magazines, billboards and radio stations. In addition, we increasingly face competition for advertising sales from internet and mobile delivered content, which offer advertising delivery technologies that are more targeted than can be achieved through traditional means.
- Our television networks compete for carriage of their programming with other programming providers.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities.
- Our content sales/licensing operations compete for customers with all other forms of entertainment.
- Our consumer products business competes with other licensors and creators of IP.

- Our DTC businesses compete for customers with an increasing number of competitors' DTC offerings, all other forms of media and all other forms of entertainment, as well as for technology, creative, performing and business talent and for content.

Competition in each of these areas may increase as a result of technological developments and changes in market structure, including consolidation of suppliers of resources and distribution channels. Increased competition may divert consumers from our creative or other products, or to other products or other forms of entertainment, which could reduce our revenue or increase our marketing costs.

Competition for the acquisition of resources can increase the cost of producing our products and services, deprive us of talent necessary to produce high quality creative material or increase the cost of compensation for our employees. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks, parks and resorts admissions and room rates, prices for consumer products from which we derive license revenues, and fees for our DTC offerings.

TABLE OF CONTENTS

Our results may be adversely affected if long-term programming or carriage contracts are not renewed on sufficiently favorable terms.

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to content distributors. As these contracts expire, we must renew or renegotiate the contracts, and if we are unable to renew them on acceptable terms, we may lose programming rights or distribution rights. Even if these contracts are renewed, the cost of obtaining programming rights may increase (or increase at faster rates than our historical experience) or programming distributors, facing pressures resulting from increased subscription fees and alternative distribution challenges, may demand terms (including pricing and the breadth of distribution) that reduce our revenue from distribution of programs (or increase revenue at slower rates than our historical experience). Moreover, our ability to renew these contracts on favorable terms may be affected by consolidation in the market for program distribution, the entrance of new participants in the market for distribution of content on digital platforms and the impacts of COVID-19. With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including the strength of advertising markets, subscription levels and rates for programming, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

Changes in regulations applicable to our businesses may impair the profitability of our businesses.

Our broadcast networks and television stations are highly regulated, and each of our other businesses is subject to a variety of U.S. and overseas regulations. Some of these regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks and our owned television stations. See Item 1 — Business — Disney Media and Entertainment Distribution, Federal Regulation.
- Federal, state and foreign privacy and data protection laws and regulations.
- Regulation of the safety and supply chain of consumer products and theme park operations, including potential regulation regarding the sourcing, importation and the sale of goods.
- Environmental protection regulations.
- Imposition by foreign countries of trade restrictions, restrictions on the manner in which content is currently licensed and distributed, ownership restrictions, currency exchange controls or film or television content requirements, investment obligations or quotas.
- Domestic and international labor laws, tax laws or currency controls.

Changes in any of these regulations or regulator activities in any of these areas, or others, may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services in ways that are profitable. For example, in January 2019 India implemented regulation and tariffs impacting certain bundling of channels; U.S. agencies have enhanced trade restrictions and legislation is currently under consideration that would prohibit importation of goods from certain regions; and in many countries/regions around the world (including but not limited to the EU) regulators are requiring us to broadcast on our linear (or display on our DTC streaming services) programming produced in specific countries as well as invest specified amounts of our revenues in local content productions.

Public health and other regional, national, state and local regulations and policies are impacting our ability to operate our businesses at all or in accordance with historic practice. In addition to the government requirements that have closed or impacted most of our businesses as a result of COVID-19, government requirements may continue to be extended and new government requirements may be imposed.

Our operations outside the U.S. may be adversely affected by the operation of laws in those jurisdictions.

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than U.S. law. Laws in some jurisdictions differ in significant respects from those in the U.S. These

differences can affect our ability to react to changes in our business, and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some overseas jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete successfully in those jurisdictions while remaining in compliance with local laws or U.S. anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations.

Damage to our reputation or brands may negatively impact our Company across businesses and regions.

Our reputation and globally recognizable brands are integral to the success of our businesses. Because our brands engage consumers across our businesses, damage to our reputation or brands in one business may have an impact on our other

TABLE OF CONTENTS

businesses. Because some of our brands are globally recognized, brand damage may not be locally contained. Maintenance of the reputation of our Company and brands depends on many factors including the quality of our offerings, maintenance of trust with our customers and our ability to successfully innovate. Significant negative claims or publicity regarding the Company or its operations, products, management, employees, practices, business partners, business decisions, social responsibility and culture may damage our brands or reputation, even if such claims are untrue. Damage to our reputation or brands could impact our sales, business opportunities, profitability, recruiting and valuation of our securities.

Risks that impact our business as a whole may also impact the success of our DTC business.

We may not successfully execute on our DTC strategy. An increasing number of competitors have entered DTC businesses. Consumers may not be willing to pay for an expanding set of DTC streaming services, potentially exacerbated by an economic downturn. We face competition for creative talent and may not be successful in recruiting and retaining talent. Government regulation, including revised foreign content and ownership regulations, may impact the implementation of our DTC business plans. The highly competitive environment in which we operate puts pricing pressure on our DTC offerings and may require us to lower our prices or not take price increases to attract or retain customers. These and other risks may impact the profitability and success of our DTC businesses.

Potential credit ratings actions, increases in interest rates, or volatility in the U.S. and global financial markets could impede access to, or increase the cost of, financing our operations and investments.

Our borrowing costs have been, and can be affected by short- and long-term debt ratings assigned by independent ratings agencies that are based, in part, on the Company's performance as measured by credit metrics such as leverage and interest coverage ratios. As a result of COVID-19, Standard and Poor's downgraded our long-term debt ratings by two notches to BBB+ and downgraded our short-term debt ratings by one notch to A-2. Fitch downgraded our long- and short-term credit ratings by one notch to A- and F2, respectively. As of October 2, 2021 Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were BBB+ and A-2 (Stable), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. These ratings actions have increased, and any potential future downgrades could further increase, our cost of borrowing and/or make it more difficult for us to obtain financing.

In addition, increases in interest rates or volatility in U.S. and global financial markets could impact our access to, or increase the cost of, financing. Past disruptions in the U.S. and global credit and equity markets made it more difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments.

Labor disputes may disrupt our operations and adversely affect the profitability of any of our businesses.

A significant number of employees in various parts of our businesses are covered by collective bargaining agreements, including employees of our theme parks and resorts as well as writers, directors, actors, production personnel and others employed at DMED. In addition, the employees of licensees who manufacture and retailers who sell our consumer products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. In general, a labor dispute involving our employees or the employees of our licensees or retailers who sell our consumer products or providers of programming content may disrupt our operations and reduce our revenues. Resolution of disputes or negotiation of rate increases may increase our costs.

The seasonality of certain of our businesses and timing of certain of our product offerings could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations and variations in connection with the timing of our product offerings, including as follows:

- Revenues in our DPEP segment fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal

quarters. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. Our parks, resorts and experiences are or may be operating at diminished capacity or have been or may be closed during these periods as a result of COVID-19. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts, many of which have been delayed, canceled or modified.

- Revenues from television networks and stations are subject to seasonal advertising patterns and changes in viewership levels. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months.

TABLE OF CONTENTS

- Revenues from content sales/licensing fluctuate due to the timing of content releases across various distribution markets. Release dates and methods are determined by a number of factors, including, among others, competition, the timing of vacation and holiday periods and impacts of COVID-19 to various distribution markets.
- DTC revenues fluctuate based on changes in the number of subscribers and subscriber fee or revenue mix; viewership levels on our digital platforms; and the demand for sports and film and television content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons, content production schedules and league shut downs. Because our DTC business is relatively new, we have limited data on which to base our understanding of DTC seasonality.

Accordingly, negative impacts on our business occurring during a time of typical high seasonal demand could have a disproportionate effect on the results of that business for the year. Examples include the ongoing impact of COVID-19 on various high seasons or hurricane damage to our parks during the summer travel season.

Sustained increases in costs of pension and postretirement medical and other employee health and welfare benefits may reduce our profitability.

With approximately 190,000 employees, our profitability is substantially affected by costs of pension and current and postretirement medical benefits. We may experience significant increases in these costs as a result of macroeconomic factors, which are beyond our control, including increases in the cost of health care. Impacts of COVID-19 may lead to an increase in the cost of medical insurance and expenses. In addition, changes in investment returns and discount rates used to calculate pension and postretirement medical expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding requirements. There can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

The alteration or discontinuation of LIBOR may adversely affect our borrowing costs.

Certain of our interest rate derivatives and a portion of our indebtedness bear interest at variable interest rates, primarily based on LIBOR, which may be subject to regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. However, on November 30, 2020, ICE Benchmark Administration (“IBA”), indicated that it would consult on its intention to cease publication of most USD LIBOR tenors beyond June 30, 2023. On March 5, 2021, IBA confirmed it would cease publication of Overnight, 1, 3, 6 and 12 Month USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. IBA also intends to cease publishing 1 Week and 2 Month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021. The Alternative Reference Rates Committee (ARCC), which was convened by the Federal Reserve Board and the New York Fed, has identified the Secured Overnight Financing Rate (SOFR) as the recommended risk-free alternative rate for USD LIBOR. The extended cessation date for most USD LIBOR tenors will allow for more time for existing legacy USD LIBOR contracts to mature and provide additional time to continue to prepare for the transition from LIBOR. At this time, it is not possible to predict the effect any discontinuance, modification or other reforms to LIBOR, or the establishment of alternative reference rates such as SOFR, or any other reference rate, will have on the Company or its borrowing costs.

ACQUISITION RISKS

Our consolidated indebtedness increased substantially following completion of the TFCF acquisition and further increased as a result of the impacts of COVID-19. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.

As a result of the TFCF acquisition in fiscal 2019, the Company's net indebtedness increased substantially. The increased indebtedness could have the effect of, among other things, reducing our financial flexibility and reducing our flexibility to respond to changing business and economic conditions, such as those presented by COVID-19, among others. Increased levels of indebtedness could also reduce funds available for capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. The Company has announced an intention not to declare further dividends until a return to a more normalized operating environment. Our leverage ratios have increased as the result of COVID-19's impact on financial performance, which caused certain of the credit ratings agencies to downgrade their assessment of our credit ratings, and are expected to remain elevated at least in the near term. Our debt ratings may be further downgraded, which may negatively impact our cost of borrowings.

Consummation of the TFCF acquisition has increased our exposure to the risks of operating internationally.

We are a diversified entertainment company that offers entertainment, travel and consumer products worldwide. Although many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside of the U.S., the combination with TFCF has increased the importance of international operations to our future operations, growth and prospects.

TABLE OF CONTENTS

Our risks of operating internationally have increased following the completion of the TFCF acquisition and as a result of COVID-19.

The TFCF acquisition and integration and Hulu put/call may result in additional costs and expenses.

We have incurred and may continue to incur significant costs, expenses and fees for professional services and other transaction and financing costs in connection with the TFCF acquisition and integration and the Hulu put/call agreement with NBCU. We may also incur accounting and other costs that were not anticipated at the time of the TFCF acquisition, including costs for which we have established reserves or which may lead to reserves in the future. Such costs could negatively impact the Company's free cash flow.

GENERAL RISKS

The Company's amended and restated bylaws provide to the fullest extent permitted by law that the Court of Chancery of the State of Delaware will be the exclusive forum for certain legal actions between the Company and its stockholders, which could increase costs to bring a claim, discourage claims or limit the ability of the Company's stockholders to bring a claim in a judicial forum viewed by the stockholders as more favorable for disputes with the Company or the Company's directors, officers or other employees.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of the Company, (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or stockholder of the Company to the Company or the Company's stockholders, (iii) any action or proceeding asserting a claim arising pursuant to, or seeking to enforce any right, obligation or remedy under, any provision of the General Corporation Law of the State of Delaware (the "DGCL"), the Certificate of Incorporation or these Bylaws (as each may be amended from time to time), (iv) any action or proceeding as to which the General Corporation Law of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware, (v) or any action or proceeding asserting a claim governed by the internal affairs doctrine. The choice of forum provision may increase costs to bring a claim, discourage claims or limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company or the Company's directors, officers or other employees, which may discourage such lawsuits against the Company or the Company's directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in the Company's amended and restated bylaws to be inapplicable or unenforceable in an action, the Company may incur additional costs associated with resolving such action in other jurisdictions. The exclusive forum provision in the Company's amended and restated bylaws will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the federal securities laws including the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or the respective rules and regulations promulgated thereunder.

ITEM 1B. Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of fiscal 2021 and that remain unresolved.

ITEM 2. Properties

Our parks and resorts locations and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Disney Parks, Experiences and Products*. Film and television library properties and television stations owned by the Company are described in Item 1 under the caption *Disney Media and Entertainment Distribution*.

TABLE OF CONTENTS

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business segment.

Location	Property / Approximate Size	Use	Business Segment
Burbank, CA & surrounding cities ⁽¹⁾	Land (201 acres) & Buildings (4,695,000 ft ²)	Owned Office/Production/Warehouse (includes 240,000 ft ² sublet to third-party tenants)	Corporate/DMED/DPEP
Burbank, CA & surrounding cities ⁽¹⁾	Buildings (1,806,000 ft ²)	Leased Office/Warehouse	Corporate/DMED/DPEP
Los Angeles, CA	Land (22 acres) & Buildings (600,000 ft ²)	Owned Office/Production/Technical	Corporate/DMED
Los Angeles, CA	Buildings (2,267,000 ft ²)	Leased Office/Production/Technical/Theater (includes 118,000 ft ² sublet to third-party tenants)	Corporate/DMED/DPEP
New York, NY	Buildings (51,000 ft ²)	Owned Office/Production/Technical	Corporate/DMED
New York, NY	Land (2 acres) & Buildings (2,716,000 ft ²)	Leased Office/Production/Theater/Warehouse (includes 676,000 ft ² sublet to third-party tenants)	Corporate/DMED/DPEP
Bristol, CT	Land (117 acres) & Buildings (1,174,000 ft ²)	Owned Office/Production/Technical	DMED
Bristol, CT	Buildings (512,000 ft ²)	Leased Office/Warehouse/Technical	DMED
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft ²)	Owned Office/Production/Technical	DMED
Emeryville, CA	Buildings (80,000 ft ²)	Leased Office/Storage	DMED
San Francisco, CA	Buildings (642,000 ft ²)	Leased Office/Production/Technical/Theater (includes 47,000 ft ² sublet to third-party tenants)	Corporate/DMED
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/Production/Transmitter/Theaters/Warehouse	Corporate/DMED/DPEP
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Warehouse/Retail/Residential	Corporate/DMED/DPEP

⁽¹⁾ Surrounding cities include Glendale, CA, North Hollywood, CA and Sun Valley, CA

ITEM 3. Legal Proceedings

As disclosed in Note 15 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 15 relating to certain legal matters is incorporated herein by reference.

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

ITEM 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below. Each of the executive officers has been employed by the Company for more than five years.

TABLE OF CONTENTS

At October 2, 2021, the executive officers of the Company were as follows:

Name	Age	Title	Executive Officer Since
Robert A. Iger	70	Executive Chairman ⁽¹⁾	2000
Robert A. Chapek	62	Chief Executive Officer ⁽²⁾	2020
Alan N. Braverman	73	Senior Executive Vice President, General Counsel and Secretary	2003
Christine M. McCarthy	66	Senior Executive Vice President and Chief Financial Officer ⁽³⁾	2005
Paul J. Richardson	56	Senior Executive Vice President and Chief Human Resources Officer ⁽⁴⁾	2021
Zenia B. Mucha	65	Senior Executive Vice President Corporate Communications ⁽⁵⁾	2018

⁽¹⁾ Mr. Iger was appointed Executive Chairman effective February 24, 2020. He is also Chairman of the Board from March 2012. He was Chief Executive Officer from October 2005 to February 2020.

⁽²⁾ Mr. Chapek was appointed Chief Executive Officer effective February 24, 2020. He served as Chairman of Disney Parks, Experiences and Products since the segment's creation in 2018, and prior to that was Chairman of Walt Disney Parks and Resorts since 2015.

⁽³⁾ Ms. McCarthy was appointed Senior Executive Vice President and Chief Financial Officer effective June 30, 2015. She was previously Executive Vice President, Corporate Real Estate, Alliances and Treasurer of the Company from 2000 to 2015.

⁽⁴⁾ Mr. Richardson was appointed Senior Executive Vice President and Chief Human Resources Officer effective July 1, 2021. He was previously Senior Vice President of Human Resources at ESPN from 2007.

⁽⁵⁾ Ms. Mucha was appointed Senior Executive Vice President Corporate Communications effective August 2016. She was previously Executive Vice President Corporate Communications from March 2005.

PART II**ITEM 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is listed on the New York Stock Exchange under the ticker symbol "DIS".

The Company did not pay a dividend with respect to fiscal year 2020 operations and has not declared or paid a dividend with respect to fiscal 2021 operations. Longer term, we anticipate dividends will remain a part of our capital allocation strategy. However, for the time being, we don't anticipate declaring a dividend until we return to a more normalized operating environment. The Company does not intend to provide statements about its intentions to pay future dividends until such time as a dividend is declared.

As of October 2, 2021, the approximate number of common shareholders of record was 813,000.

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended October 2, 2021:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 4, 2021 – July 31, 2021	15,923	\$ 180.39	—	n/a
August 1, 2021 – August 31, 2021	15,510	176.90	—	n/a
September 1, 2021 – October 2, 2021	15,493	179.52	—	n/a
Total	46,926	178.95	—	n/a

⁽¹⁾ 46,926 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

⁽²⁾ Not applicable as the Company no longer has a stock repurchase plan or program.

ITEM 6. [Reserved]

[TABLE OF CONTENTS](#)

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CONSOLIDATED RESULTS

(in millions, except per share data)

	2021	2020	% Change Better (Worse)
Revenues:			
Services	\$ 61,768	\$ 59,265	4 %
Products	5,650	6,123	(8) %
Total revenues	67,418	65,388	3 %
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(41,129)	(39,406)	(4) %
Cost of products (exclusive of depreciation and amortization)	(4,002)	(4,474)	11 %
Selling, general, administrative and other	(13,517)	(12,369)	(9) %
Depreciation and amortization	(5,111)	(5,345)	4 %
Total costs and expenses	(63,759)	(61,594)	(4) %
Restructuring and impairment charges	(654)	(5,735)	89 %
Other income, net	201	1,038	(81) %
Interest expense, net	(1,406)	(1,491)	6 %
Equity in the income of investees, net	761	651	17 %
Income (loss) from continuing operations before income taxes	2,561	(1,743)	nm
Income taxes from continuing operations	(25)	(699)	96 %
Net income (loss) from continuing operations	2,536	(2,442)	nm
Loss from discontinued operations, net of income tax benefit of \$9 and \$10, respectively	(29)	(32)	9 %
Net income (loss)	2,507	(2,474)	nm
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(512)	(390)	(31) %
Net income (loss) attributable to Disney	\$ 1,995	\$ (2,864)	nm
Earnings (loss) per share attributable to Disney:			
Diluted ⁽¹⁾			
Continuing operations	\$ 1.11	\$ (1.57)	nm
Discontinued operations	(0.02)	(0.02)	— %
	\$ 1.09	\$ (1.58)	nm
Basic ⁽¹⁾			
Continuing operations	\$ 1.11	\$ (1.57)	nm
Discontinued operations	(0.02)	(0.02)	— %
	\$ 1.10	\$ (1.58)	nm
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,828	1,808	
Basic	1,816	1,808	

⁽¹⁾ Total may not equal the sum of the column due to rounding.

TABLE OF CONTENTS

Organization of Information

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Significant Developments
- Consolidated Results and Non-Segment Items
- Business Segment Results
- Corporate and Unallocated Shared Expenses
- Restructuring Activities
- Liquidity and Capital Resources
- Supplemental Guarantor Financial Information
- Critical Accounting Policies and Estimates
- Forward-Looking Statements

In Item 7, we discuss fiscal 2021 and 2020 results and comparisons of fiscal 2021 results to fiscal 2020 results. Discussions of fiscal 2019 results and comparisons of fiscal 2020 results to fiscal 2019 results can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the update to Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2020 as reported in [Exhibit 99.1 to the Current Report on form 8-K of the Company filed April 1, 2021](#).

SIGNIFICANT DEVELOPMENTS

COVID-19 Pandemic

Since early 2020, the world has been, and continues to be, impacted by COVID-19 and its variants. COVID-19 and measures to prevent its spread has impacted our segments in a number of ways, most significantly at the DPEP segment where our theme parks and resorts were closed and cruise ship sailings and guided tours were suspended. These operations resumed, generally at reduced capacity, at various points since May 2020. We have delayed, or in some cases, shortened or cancelled theatrical releases, and stage play performances were suspended as of March 2020. Stage play operations resumed, generally at reduced capacity, in the first quarter of fiscal 2021. Theaters have been subject to capacity limitations and shifting government mandates or guidance regarding COVID-19 restrictions. We experienced significant disruptions in the production and availability of content, including the delay of key live sports programming during fiscal 2020 and fiscal 2021, as well as the suspension of most film and television production in March 2020. Although film and television production generally resumed beginning in the fourth quarter of fiscal 2020, we continue to see disruption of production activities depending on local circumstances. Fewer theatrical releases and production delays have limited the availability of film content to be sold in distribution windows subsequent to the theatrical release.

We have taken a number of mitigation efforts in response to the impacts of COVID-19 on our businesses. We significantly increased cash balances through the issuance of senior notes in March and May 2020. The Company did not pay a dividend with respect to fiscal 2020 operations and has not declared or paid a dividend with respect to fiscal 2021 operations; suspended certain capital projects; reduced certain discretionary expenditures (such as spending on marketing); reduced management compensation for several months in fiscal 2020 and temporarily eliminated Board of Director retainers and committee fees in fiscal 2020. In addition, we furloughed over 120,000 of our employees (who continued to receive Company provided medical benefits), most of which have returned from furlough as operations have reopened. At the end of fiscal 2020, the Company announced a workforce reduction plan, which was essentially completed in the first half of fiscal 2021. We may take additional mitigation actions in the future such as raising additional financing; not declaring future dividends; reducing, or not making, certain payments, such as some contributions to our pension and postretirement medical plans; further suspending capital

spending, reducing film and television content investments; or implementing additional furloughs or reductions in force; or modifying our operating strategies. Some of these measures may have an adverse impact on our businesses.

The most significant impact on operating income since the second quarter of fiscal 2020 from COVID-19 was at the DPEP segment due to revenue lost as a result of closures and/or reduced operating capacities. Although results improved in the second half of fiscal 2021 compared to the second half of fiscal 2020 from reopening our DPEP businesses, we continue to be impacted by reduced operating capacities. COVID-19 also had a negative impact in fiscal 2021 at our DMED segment compared to fiscal 2020 as higher advertising revenue from the return of live sporting events was more than offset by higher sports programming costs. Our other film and television distribution businesses were impacted by revenue lost from the deferral or cancellation of significant film releases, partially offset by costs avoided due to a reduction in film cost amortization, marketing and distribution costs. The impact of COVID-19 on fiscal 2021 and 2020 results is not necessarily indicative of the impact on future period results.

TABLE OF CONTENTS

The impact of these disruptions and the extent of their adverse impact on our financial and operational results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19 and its variants, and among other things, the impact and duration of governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters going forward.

Our businesses have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent. For example, when we reopened theme parks and retail stores, we incurred and will continue to incur costs for such things as additional custodial services, personal protection equipment, temperature screenings and testing, sanitizer and cleaning supplies and signage, among other items. Similar costs have been incurred in the production of film and television content, including live sporting events, and productions may take longer to complete. The timing, duration and extent of these costs will depend on the timing and scope of the resumption of our operations. These costs totaled approximately \$1 billion in fiscal 2021. Some of these costs have been capitalized and will be amortized over future periods. With the unknown duration of COVID-19, it is not possible to precisely estimate the impact of COVID-19 on our operations in future periods, although we estimate a modestly lower impact in fiscal 2022. In addition, we are no longer benefiting from certain savings related to the closure of certain businesses, such as related furloughs. The reopening or closure of our businesses is dependent on applicable government requirements, which vary by location and are subject to ongoing changes.

Additionally, see Part I., Item 1A. Risk Factors - The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

Direct-to-Consumer

The Company has significantly increased its focus on distribution of branded film and episodic content via our own DTC streaming services. As a result, we are forgoing certain licensing revenue from the sale of this content to third parties in TV/SVOD markets. We also expect to forgo revenue as we shut down channels in certain markets as a result of investment in our DTC offerings. In addition, we are increasing programming and production investments to create exclusive content for our DTC offerings.

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

The Company's fiscal year end is on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. Fiscal 2020 was a fifty-three week year, which began on September 29, 2019 and ended on October 3, 2020. We estimate that the additional week of operations in fiscal 2020 resulted in a benefit to pre-tax income in the prior year of approximately \$200 million, primarily at the DMED segment.

Revenues for fiscal 2021 increased 3%, or \$2.0 billion, to \$67.4 billion; net income attributable to Disney increased \$4.9 billion, to income of \$2.0 billion; and diluted earnings per share from continuing operations attributable to Disney increased to income of \$1.11 compared to a loss of \$1.57 in the prior year. The EPS increase for the year was due to the comparison to goodwill and intangible asset impairments recognized in the prior year at our International Channels business, an income tax benefit in the current year compared to tax expense in the prior year and lower amortization of fair value step-up on film and television costs and intangible assets from the TFCF acquisition and consolidation of Hulu (collectively TFCF and Hulu acquisition amortization). These increases were partially offset by lower net investment gains and a decrease in segment operating income at DMED.

Revenues

Service revenues for fiscal 2021 increased 4%, or \$2.5 billion, to \$61.8 billion, due to higher DTC subscription revenue, advertising revenue growth and, to a lesser extent, increased merchandise licensing revenue. These increases were partially offset by a decrease in TV/SVOD distribution revenue, lower theatrical revenues, a decrease in revenue at our parks and experiences businesses and, to a lesser extent, lower electronic home entertainment sales, all of which reflected the impact of COVID-19. The decrease at parks and experiences was due to lower volumes from closure/generally reduced operating capacities, partially offset by an increase in average guest spending. The

decrease in TV/SVOD distribution revenue also reflected the shift from licensing our content to third parties to distributing it on our DTC streaming services.

Product revenues for fiscal 2021 decreased 8%, or \$0.5 billion, to \$5.7 billion, due to lower home entertainment volumes and a decrease in merchandise, food and beverage sales at parks and experiences as lower volumes were partially offset by an increase in average guest spending.

Costs and expenses

Cost of services for fiscal 2021 increased 4%, or \$1.7 billion, to \$41.1 billion, due to higher programming, production and technology costs at Disney+ and Hulu and higher sports programming costs. The increase in sports programming costs was due to NBA, cricket, college football and soccer events, many of which shifted from fiscal 2020 to fiscal 2021 due to COVID-19. These increases were partially offset by a decrease in film and television production cost amortization and distribution costs at

TABLE OF CONTENTS

Content Sales/Licensing reflecting lower revenues and, to a lesser extent, lower volumes at our parks and experiences businesses.

Cost of products for fiscal 2021 decreased 11%, or \$0.5 billion, to \$4.0 billion, due to lower merchandise, food and beverage sales at our theme parks and resorts and a decrease in home entertainment volumes.

Selling, general, administrative and other costs for fiscal 2021 increased 9%, or \$1.1 billion, to \$13.5 billion, due to higher marketing costs at Direct-to-Consumer and Linear Networks, partially offset by lower marketing costs at Content Sales/Licensing.

Depreciation and amortization costs decreased 4%, or \$0.2 billion, to \$5.1 billion due to lower amortization of intangible assets from the acquisition of TFCF and Hulu and lower depreciation at our theme parks and resorts.

Restructuring and Impairment Charges

Restructuring and impairment charges in fiscal 2021 were \$0.7 billion due to \$0.4 billion of asset impairments and severance costs related to the shut-down of an animation studio and the closure of a substantial number of Disney-branded retail stores in North America and Europe and \$0.3 billion of severance and other costs in connection with the integration of TFCF and workforce reductions at DPEP.

Restructuring and impairment charges in fiscal 2020 were \$5.7 billion due to \$5.0 billion of impairment charges for goodwill and intangible assets at our International Channels business and \$0.8 billion of severance and other costs in connection with the acquisition and integration of TFCF and at our DPEP segment.

Other Income (expense), net

(in millions)	2021	2020	% Change Better (Worse)
fuboTV gain	\$ 186	\$ —	nm
German FTA gain	126	—	nm
DraftKings gain (loss)	(111)	973	nm
Endemol Shine gain	—	65	— %
Other income, net	\$ 201	\$ 1,038	(81) %

In fiscal 2021, the Company recognized a \$186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain), a \$126 million gain on the sale of our 50% interest in a German free-to-air (FTA) television network (German FTA gain) and a non-cash loss of \$111 million to adjust our investment in DraftKings, Inc. to fair value (DraftKings gain (loss)).

In fiscal 2020, the Company recognized a \$973 million DraftKings gain and a \$65 million gain on the sale of our 50% interest in Endemol Shine Group (Endemol Shine gain).

Interest Expense, net

(in millions)	2021	2020	% Change Better (Worse)
Interest expense	\$ (1,546)	\$ (1,647)	6 %
Interest income, investment income and other	140	156	(10) %
Interest expense, net	\$ (1,406)	\$ (1,491)	6 %

The decrease in interest expense was primarily due to lower average interest rates and higher capitalized interest, partially offset by higher average debt balances.

The decrease in interest income, investment income and other was due to higher pension and postretirement benefit costs, other than service cost, partially offset by lower investment impairments.

Equity in the Income of Investees

Equity in the income of investees increased \$110 million to \$761 million in the current year due to higher income from A+E Television Networks and Tata Sky Limited and lower investment impairments.

[TABLE OF CONTENTS](#)

Effective Income Tax Rate

	2021	2020
Income (loss) from continuing operations before income taxes	\$ 2,561	\$ (1,743)
Income tax expense on continuing operations	25	699
Effective income tax rate - continuing operations	1.0%	(40.1)%

The effective income tax rate in the current year was lower than the U.S. statutory rate due to favorable adjustments related to prior years and excess tax benefits on employee share-based awards, partially offset by an unfavorable impact from foreign losses for which we are unable to recognize a tax benefit. The effective income tax rate in the prior year included unfavorable impacts from the goodwill impairment, which was not tax deductible, higher tax rates than the U.S. statutory rate on foreign earnings and foreign losses for which we are unable to recognize a tax benefit.

Noncontrolling Interests

(in millions)	2021	2020	% Change Better (Worse)
Net income from continuing operations attributable to noncontrolling interests	\$ (512)	\$ (390)	(31)%

The increase in net income from continuing operations attributable to noncontrolling interests was due to lower losses at Shanghai Disney Resort, our DTC sports business and Hong Kong Disneyland Resort and higher accretion of the fair value of the redeemable noncontrolling interest in BAMTech. These increases were partially offset by lower results at ESPN.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

Certain Items Impacting Results in the Year

Results for fiscal 2021 were impacted by the following:

- TFCF and Hulu acquisition amortization of \$2,418 million
- Restructuring and impairment charges of \$654 million
- The fuboTV gain of \$186 million, German FTA gain of \$126 million and DraftKings loss of \$111 million

Results for fiscal 2020 were impacted by the following:

- Goodwill and intangible asset impairments of \$4,953 million and restructuring charges of \$782 million
- TFCF and Hulu acquisition amortization of \$2,846 million
- The DraftKings gain of \$973 million and Endemol Shine gain of \$65 million

A summary of the impact of these items on EPS is as follows:

(in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense) ⁽¹⁾	After-Tax Income (Loss)	EPS Favorable (Adverse) ⁽²⁾
Year Ended October 2, 2021:				
TFCF and Hulu acquisition amortization ⁽³⁾	\$ (2,418)	\$ 562	\$ (1,856)	\$ (1.00)
Restructuring and impairment charges	(654)	152	(502)	(0.27)
fuboTV and German FTA gains, partially offset by DraftKings loss	201	(46)	155	0.08
Total	<u>\$ (2,871)</u>	<u>\$ 668</u>	<u>\$ (2,203)</u>	<u>\$ (1.18)</u>
Year Ended October 3, 2020:				
Restructuring and impairment charges	\$ (5,735)	\$ 571	\$ (5,164)	\$ (2.86)
TFCF and Hulu acquisition amortization ⁽³⁾	(2,846)	662	(2,184)	(1.17)
DraftKings and Endemol Shine gains	1,038	(242)	796	0.44
Total	<u>\$ (7,543)</u>	<u>\$ 991</u>	<u>\$ (6,552)</u>	<u>\$ (3.59)</u>

⁽¹⁾ Tax benefit/expense adjustments are determined using the tax rate applicable to the individual item affecting comparability.

⁽²⁾ EPS is net of noncontrolling interest, where applicable. Total may not equal the sum of the column due to rounding.

⁽³⁾ Includes amortization of intangibles related to TFCF equity investees.

[TABLE OF CONTENTS](#)

BUSINESS SEGMENT RESULTS

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other costs, and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

Our DMED segment primarily generates revenue across three significant lines of business/distribution platforms: Linear Networks, Direct-to-Consumer and Content Sales/Licensing. Programming and production costs to support these businesses/distribution platforms are largely incurred across three content creation groups: Studios, General Entertainment and Sports. Programming and production costs include amortization of acquired licensed programming rights (including sports rights), amortization of capitalized production costs (including participations and residuals) and production costs related to live programming such as news and sports.

The Linear Networks business generates revenue from affiliate fees and advertising sales and from fees from sub-licensing of sports programming to third parties. Operating expenses include programming and production costs, technical support costs, operating labor and distribution costs.

The Direct-to-Consumer business generates revenue from subscription fees, advertising sales and pay-per-view and Premier Access fees. Operating expenses include programming and production costs, technology support costs, operating labor and distribution costs. Operating expenses also includes fees paid to Linear Networks for the right to air the linear networks feed and other services.

The Content Sales/Licensing business generates revenue from the sale of film and episodic television content in the TV/SVOD and home entertainment markets, distribution of films in the theatrical market, licensing of our music rights, sales of tickets to stage play performances and licensing of our IP for use in stage plays. Operating expenses include programming and production costs, distribution expenses and costs of sales.

Our DPEP segment primarily generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise at our theme parks and resorts, charges for room nights at hotels, sales of cruise vacations, sales and rentals of vacation club properties, royalties from licensing our IP for use on consumer goods and the sale of branded merchandise. Revenues are also generated from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort. Significant expenses include operating labor, costs of goods sold, infrastructure costs, depreciation and other operating expenses. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation. Other operating expenses include costs for such items as supplies, commissions and entertainment offerings.

The Company evaluates the performance of its operating segments based on segment operating income, and management uses total segment operating income as a measure of the overall performance of the operating businesses. Total segment operating income is not a financial measure defined by GAAP, should be reviewed in conjunction with the relevant GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company believes that information about total 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 income (loss) from continuing operations before income taxes to total segment operating income:

(in millions)	2021	2020	% Change Better (Worse)
Income (loss) from continuing operations before income taxes	\$ 2,561	\$ (1,743)	nm
Add (subtract):			
Corporate and unallocated shared expenses	928	817	(14) %
Restructuring and impairment charges	654	5,735	89 %
Other income, net	(201)	(1,038)	(81) %
Interest expense, net	1,406	1,491	6 %
TFCF and Hulu acquisition amortization	2,418	2,846	15 %
Total segment operating income	<u>\$ 7,766</u>	<u>\$ 8,108</u>	(4) %

[TABLE OF CONTENTS](#)

The following is a summary of segment revenue and operating income:

(in millions)	2021	2020	% Change Better (Worse)
<i>Revenues:</i>			
Disney Media and Entertainment Distribution	\$ 50,866	\$ 48,350	5 %
Disney Parks, Experiences and Products	16,552	17,038	(3) %
	<u>\$ 67,418</u>	<u>\$ 65,388</u>	3 %
<i>Segment operating income:</i>			
Disney Media and Entertainment Distribution	\$ 7,295	\$ 7,653	(5) %
Disney Parks, Experiences and Products	471	455	4 %
	<u>\$ 7,766</u>	<u>\$ 8,108</u>	(4) %

Disney Media and Entertainment Distribution

Revenue and operating results for the DMED segment are as follows:

(in millions)	2021	2020	% Change Better (Worse)
<i>Revenues:</i>			
Linear Networks	\$ 28,093	\$ 27,583	2 %
Direct-to-Consumer	16,319	10,552	55 %
Content Sales/Licensing and Other	7,346	10,977	(33) %
Elimination of Intrasegment Revenue ⁽¹⁾	(892)	(762)	(17) %
	<u>\$ 50,866</u>	<u>\$ 48,350</u>	5 %
<i>Segment operating income (loss):</i>			
Linear Networks	\$ 8,407	\$ 9,413	(11) %
Direct-to-Consumer	(1,679)	(2,913)	42 %
Content Sales/Licensing and Other	567	1,153	(51) %
	<u>\$ 7,295</u>	<u>\$ 7,653</u>	(5) %

⁽¹⁾ Reflects fees received by the Linear Networks from other DMED businesses for the right to air our Linear Networks and related services.

Linear Networks

Operating results for Linear Networks are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Revenues			
Affiliate fees	\$ 18,652	\$ 18,691	— %
Advertising	8,853	8,252	7 %
Other	588	640	(8) %
Total revenues	28,093	27,583	2 %
Operating expenses	(16,808)	(15,309)	(10) %
Selling, general, administrative and other	(3,491)	(3,330)	(5) %
Depreciation and amortization	(168)	(262)	36 %
Equity in the income of investees	781	731	7 %
Operating Income	\$ 8,407	\$ 9,413	(11) %

TABLE OF CONTENTS

Revenues

Affiliate revenue is as follows:

(in millions)	2021	2020	% Change Better (Worse)
Domestic Channels	\$ 15,244	\$ 15,018	2 %
International Channels	3,408	3,673	(7) %
	<u>\$ 18,652</u>	<u>\$ 18,691</u>	— %

The increase in affiliate revenue at the Domestic Channels was due to an increase of 7% from higher contractual rates, partially offset by decreases of 4% from fewer subscribers and 2% from the comparison to the additional week of operations in the prior year.

The decrease in affiliate revenue at the International Channels was due to decreases of 4% from fewer subscribers driven by channel closures, primarily in Europe and Asia, 2% from the comparison to the additional week of operations in the prior year and 1% from an unfavorable foreign exchange impact.

Advertising revenue is as follows:

(in millions)	2021	2020	% Change Better (Worse)
Cable	\$ 3,681	\$ 3,648	1 %
Broadcasting	3,239	3,278	(1) %
Domestic Channels	6,920	6,926	— %
International Channels	1,933	1,326	46 %
	<u>\$ 8,853</u>	<u>\$ 8,252</u>	7 %

The increase in Cable advertising revenue was due to an increase of 10% from higher rates, partially offset by decreases of 6% from fewer impressions and 4% from the comparison to the additional week of operations in the prior year. The decrease in impressions reflected lower average viewership, partially offset by higher units delivered.

The decrease in Broadcasting advertising revenue was primarily due to decreases of 7% from fewer impressions at ABC and 2% from the comparison to the additional week of operations in the prior year, partially offset by increases of 4% from higher rates at ABC and 4% from the owned television stations. The decrease in impressions reflected lower average viewership, partially offset by higher units delivered. The increase at the owned television stations was primarily due to higher rates reflecting political advertising.

The increase in International Channels advertising revenue was due to increases of 43% from higher impressions, reflecting an increase in average viewership, 6% from higher rates and 2% from a favorable foreign exchange impact, partially offset by a decrease of 5% from the comparison to the additional week of operations in the prior year. The increase in impressions was due to the airing of live sporting events in the current year that were not aired in the prior year, primarily Indian Premier League (IPL) cricket matches.

Other revenue decreased \$52 million, to \$588 million from \$640 million, due to an unfavorable foreign exchange impact.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Programming and production costs			
Cable	\$ (9,353)	\$ (8,538)	(10) %
Broadcasting	(2,767)	(2,605)	(6) %
Domestic Channels	(12,120)	(11,143)	(9) %
International Channels	(3,139)	(2,693)	(17) %
	(15,259)	(13,836)	(10) %
Other operating expenses	(1,549)	(1,473)	(5) %
	<u>\$ (16,808)</u>	<u>\$ (15,309)</u>	(10) %

TABLE OF CONTENTS

The increase in programming and production costs at Cable was due to the timing of live sporting events, partially offset by the comparison to the additional week of operations in the prior year. As a result of COVID-19, events have been delayed since March 2020. The most significant impacts were due to the shift of NBA and college football games from fiscal 2020 into the current fiscal year.

The increase in programming and production costs at Broadcasting was due to an increase in the average cost of programming reflecting incremental costs of health and safety measures.

The increase in programming and production costs at the International Channels was due to an increase in sports programming costs, partially offset by the comparison to the additional week of operations in the prior year and the impact of channel closures. Higher sports programming costs were due to the timing of live sporting events driven by the shift of IPL cricket matches into the current year from fiscal 2020.

Selling, general administrative and other costs increased \$161 million, to \$3,491 million from \$3,330 million, due to higher marketing costs at FX Channels and ABC reflecting more titles premiering in the current year, partially offset by lower bad debt expense.

Depreciation and amortization decreased \$94 million, to \$168 million from \$262 million, primarily due to the transfer of technology assets and related depreciation primarily between Linear Networks and Content Sales/Licensing and Other and higher asset write-offs in the prior year.

Equity in the Income of Investees

Income from equity investees increased \$50 million, to \$781 million from \$731 million, primarily due to higher income from A+E Television Networks driven by an increase in program sales and lower programming costs, partially offset by lower advertising revenue and higher marketing costs.

Operating Income from Linear Networks

Operating income decreased 11%, to \$8,407 million from \$9,413 million due to decreases at Cable and, to a lesser extent, Broadcasting, partially offset by an increase at the International Channels and higher income from equity investees.

The following table provides supplemental revenue and operating income detail for Linear Networks:

(in millions)	2021	2020	% Change Better (Worse)
<i>Supplemental revenue detail</i>			
Domestic Channels	\$ 22,463	\$ 22,244	1 %
International Channels	5,630	5,339	5 %
	<u>\$ 28,093</u>	<u>\$ 27,583</u>	2 %
<i>Supplemental operating income detail</i>			
Domestic Channels	\$ 6,594	\$ 7,708	(14) %
International Channels	1,032	974	6 %
Equity in the income of investees	781	731	7 %
	<u>\$ 8,407</u>	<u>\$ 9,413</u>	(11) %

Direct-to-Consumer

Operating results for Direct-to-Consumer are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Revenues			
Subscription fees	\$ 12,020	\$ 7,645	57 %
Advertising	3,366	2,357	43 %
TV/SVOD distribution and other	933	550	70 %
Total revenues	16,319	10,552	55 %
Operating expenses	(13,234)	(10,078)	(31) %
Selling, general, administrative and other	(4,435)	(3,126)	(42) %
Depreciation and amortization	(329)	(260)	(27) %
Equity in the loss of investees	—	(1)	100 %
Operating Loss	\$ (1,679)	\$ (2,913)	42 %

[TABLE OF CONTENTS](#)

Revenues

The increase in subscription fees was due to higher subscribers driven by growth at Disney+, Hulu and, to a lesser extent, ESPN+, and higher rates due to increases in retail pricing at Hulu, Disney+ and, to a lesser extent, ESPN+.

Higher advertising revenue reflected increases of 39% from higher impressions and 3% from higher rates due to an increase at Hulu. Higher impressions were due to increases at Hulu, Disney+ and, to a lesser extent, ESPN+.

The increase in TV/SVOD distribution and other revenue was due to higher Disney+ Premier Access revenues and an increase in Ultimate Fighting Championship (UFC) pay-per-view fees. Higher Disney+ Premier Access revenues were due to four releases in the current year, *Black Widow*, *Raya*, *Jungle Cruise* and *Cruella*, compared to one release in the prior year, *Mulan*. The increase in UFC pay-per-view fees reflected the benefit of thirteen events in the current year compared to eleven in the prior year and higher pricing.

The following table presents the number of paid subscribers⁽¹⁾ (in millions) for Disney+, ESPN+ and Hulu as of:

	October 2, 2021	October 3, 2020	% Change Better (Worse)
Disney+ ⁽²⁾	118.1	73.7	60 %
ESPN+	17.1	10.3	66 %
Hulu			
SVOD Only	39.7	32.5	22 %
Live TV + SVOD	4.0	4.1	(2) %
Total Hulu ⁽³⁾	43.8	36.6	20 %

The following table presents the average monthly revenue per paid subscriber⁽⁴⁾ for the fiscal year ended:

	2021	2020	% Change Better (Worse)
Disney+	\$ 4.08	\$ 4.80	(15) %
ESPN+	\$ 4.57	\$ 4.35	5 %
Hulu			
SVOD Only	\$ 12.86	\$ 12.24	5 %
Live TV + SVOD	\$ 81.35	\$ 67.24	21 %

⁽¹⁾ Reflects subscribers for which we recognized subscription revenue. Subscribers cease to be a paid subscriber as of their effective cancellation date or as a result of a failed payment method. Subscribers to the bundled offering in the U.S. are counted as a paid subscriber for each service included in the bundle (Disney+, Hulu and ESPN+). Star+ in Latin America is offered as a standalone service or along with Disney+. If a subscriber has either the standalone Disney+ or Star+ service or both the Disney+ and Star+ services, they are counted as one Disney+ paid subscriber. When we aggregate the total number of paid subscribers across our DTC streaming services, whether acquired individually, through a wholesale arrangement or via the bundle, we refer to them as paid subscriptions.

⁽²⁾ Includes Disney+ Hotstar and Star+. Disney+ Hotstar launched on April 3, 2020 in India (as a conversion of the preexisting Hotstar service), on September 5, 2020 in Indonesia, on June 1, 2021 in Malaysia, and on June 30, 2021 in Thailand. Disney+ Hotstar average monthly revenue per paid subscriber is significantly lower than the average monthly revenue per paid subscriber for Disney+ in other markets. Star+ launched in Latin America on August 31, 2021.

⁽³⁾ Total may not equal the sum of the column due to rounding.

- ⁽⁴⁾ Revenue per paid subscriber is calculated based on the average of the monthly average paid subscribers for each month in the period. The monthly average paid subscribers is calculated as the sum of the beginning of the month and end of the month paid subscriber count, divided by two. Disney+ average monthly revenue per paid subscriber is calculated using a daily average of paid subscribers for the period. Revenue includes subscription fees, advertising (excluding revenue earned from selling advertising spots to other Company businesses) and premium and feature add-on revenue but excludes Premier Access and Pay-Per-View revenue. The average revenue per subscriber is net of discounts on bundled services. The bundled discount is allocated to each service based on the relative retail price of each service on a standalone basis. In general, wholesale arrangements have a lower average monthly revenue per paid subscriber than subscribers that we acquire directly or through third party platforms like Apple.

TABLE OF CONTENTS

The average monthly revenue per paid subscriber for Disney+ decreased from \$4.80 to \$4.08 due to a higher mix of Disney+ Hotstar subscribers in the current year, partially offset by a lower mix of wholesale subscribers in the current year and increases in retail pricing.

The average monthly revenue per paid subscriber for ESPN+ increased from \$4.35 to \$4.57 primarily due to increases in retail pricing in August 2021 and August 2020, partially offset by a higher mix of subscribers to the bundled offering.

The average monthly revenue per paid subscriber for the Hulu SVOD Only service increased from \$12.24 to \$12.86 primarily due to higher per-subscriber advertising revenue, a lower mix of wholesale subscribers and an increase in per-subscriber premium add-on revenue, partially offset by a higher mix of subscribers to the bundled offering. The average monthly revenue per paid subscriber for the Hulu Live TV + SVOD service increased from \$67.24 to \$81.35 due to an increase in retail pricing in December 2020, higher per-subscriber advertising revenue and, to a lesser extent, per-subscriber premium and feature add-on revenue, partially offset by a higher mix of subscribers to the bundled offering.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Programming and production costs	\$ (10,716)	\$ (8,124)	(32) %
Other operating expense	(2,518)	(1,954)	(29) %
	<u>\$ (13,234)</u>	<u>\$ (10,078)</u>	(31) %

The increase in programming and production costs was due to higher costs at Disney+, Hulu and, to a lesser extent, ESPN+. The increase at Disney+ was due to the ongoing expansion including launches in additional markets. Higher costs at Hulu were due to an increase in subscriber-based fees for programming the Live service driven by higher average monthly subscribers and rate increases. Higher ESPN+ costs were primarily due to new soccer programming rights, higher costs for UFC programming rights driven by two additional events in the current year, and new college sports rights. Other operating expenses, which include technical support and distribution costs, increased due to higher distribution costs at Disney+ due to the ongoing expansion.

Selling, general, administrative and other costs increased \$1,309 million, to \$4,435 million from \$3,126 million, due to higher marketing and general and administrative costs at Disney+ driven by the ongoing expansion.

Depreciation and amortization increased \$69 million, to \$329 million from \$260 million, driven by the ongoing expansion of Disney+.

Operating Loss from Direct-to-Consumer

Operating loss from Direct-to-Consumer decreased \$1,234 million, to \$1,679 million from \$2,913 million due to improved results at Hulu and, to a lesser extent, ESPN+, partially offset by a higher loss at Disney+.

Content Sales/Licensing and Other

Operating results for Content Sales/Licensing and Other are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Revenues			
TV/SVOD distribution	\$ 4,206	\$ 5,673	(26) %
Theatrical distribution	920	2,134	(57) %
Home entertainment	1,014	1,802	(44) %
Other	1,206	1,368	(12) %
Total revenues	7,346	10,977	(33) %
Operating expenses	(4,536)	(6,871)	34 %
Selling, general, administrative and other	(1,963)	(2,628)	25 %
Depreciation and amortization	(294)	(291)	(1) %
Equity in the income (loss) of investees	14	(34)	nm
Operating Income	\$ 567	\$ 1,153	(51) %

TABLE OF CONTENTS

COVID-19

Our Content Sales/Licensing businesses have been impacted by COVID-19 in a number of ways. We have delayed, or in some cases, shortened or cancelled, theatrical releases, and stage play performances were suspended as of March 2020. Stage play operations resumed, generally at reduced capacity, in the first quarter of fiscal 2021. Theaters have been subject to capacity limitations and shifting government mandates or guidance regarding COVID-19. We experienced significant disruptions in the production and availability of content, including the suspension of most film and television production in March 2020. Although film and television production generally resumed beginning in the fourth quarter of 2020, we continue to see disruption of production activities depending on local circumstances. Fewer theatrical releases and production delays have limited the availability of film content to be sold in distribution windows subsequent to the theatrical release.

Revenues

The decrease in TV/SVOD distribution revenue reflected both lower episodic and film content sales. The decrease in episodic content sales was primarily due to lower sales of *Homeland*, *How to Get Away with Murder*, *Modern Family*, *Grey's Anatomy* and *This is Us* in the current year and the comparison to prior-year sales of *Ratched*, *The Politician*, *Tales from the Loop* and *The Wilds*. Lower film content sales reflected less content available due to the impact of COVID-19 and the shift from licensing our content to third parties to distributing it on our DTC streaming services.

The decrease in theatrical distribution revenue was due to the prior-year performance of *Frozen II* and *Star Wars: The Rise of Skywalker*, which were both released prior to COVID-19's impact on our business. Other significant titles released in the prior year included *Maleficent: Mistress of Evil* and *Ford v Ferrari*, whereas the current year included *Shang-Chi and the Legend of the Ten Rings*, *Black Widow* and *Free Guy*.

The decrease in home entertainment revenue was due to decreases of 36% from lower unit sales and 5% from lower average net effective pricing. New release titles in the current year included *Mulan*, *Raya and the Last Dragon* and *Black Widow*, whereas the prior year included *Frozen II*, *Star Wars: The Rise of Skywalker*, *The Lion King*, *Toy Story 4*, *Maleficent: Mistress of Evil*, *Onward*, *Ford v Ferrari*, *Aladdin* and *Avengers: Endgame*. The decrease in average net effective pricing was due to a lower mix of new release titles, which have a higher sales price than catalog titles.

The decrease in other revenue was due to lower revenue from stage plays reflecting the impact of COVID-19, partially offset by an increase in revenue from Lucasfilm's special effects business driven by more projects.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Programming and production costs	\$ (3,611)	\$ (5,729)	37 %
Distribution costs and cost of goods sold	(925)	(1,142)	19 %
	<u>\$ (4,536)</u>	<u>\$ (6,871)</u>	34 %

The decrease in programming and production costs was due to lower production cost amortization driven by a decline in revenues and lower film and television cost impairments.

The decrease in distribution costs and cost of goods sold was primarily due to lower home entertainment volumes, a decrease in costs for stage plays as a result of a limited number of performances in the current year and lower theatrical distribution costs due to fewer theatrical releases, partially offset by more projects at Lucasfilm's special effects business.

Selling, general, administrative and other costs decreased \$665 million, to \$1,963 million from \$2,628 million, primarily due to lower theatrical and home entertainment marketing costs and, to a lesser extent, a decrease in bad debt expense.

Equity in the Income (Loss) of Investees

Income from equity investments increased \$48 million, to income of \$14 million from a loss of \$34 million, primarily due to higher income from Tata Sky Limited and the absence of an investment impairment recognized in the prior year.

Operating Income from Content Sales/Licensing and Other

Operating income from Content Sales/Licensing and Other decreased \$586 million, to \$567 million from \$1,153 million, primarily due to lower theatrical distribution and home entertainment results, partially offset by lower film and television cost impairments.

[TABLE OF CONTENTS](#)

Items Excluded from Segment Operating Income Related to Disney Media and Entertainment Distribution

The following table presents supplemental information for items related to the DMED segment that are excluded from segment operating income:

(in millions)	2021	2020	% Change Better (Worse)
TFCF and Hulu acquisition amortization ⁽¹⁾	\$ (2,410)	\$ (2,838)	15 %
Restructuring and impairment charges ⁽²⁾	(315)	(5,394)	94 %
German FTA gain	126	—	nm

⁽¹⁾ In the current year, amortization of step-up on film and television costs was \$646 million and amortization of intangible assets was \$1,749 million. In the prior year, amortization of step-up on film and television costs was \$899 million and amortization of intangible assets was \$1,913 million.

⁽²⁾ The current year includes impairments and severance costs related to the closure of an animation studio and severance costs and contract termination charges in connection with the integration of TFCF. The prior year includes goodwill and intangible asset impairments and severance and contract termination charges in connection with the acquisition and integration of TFCF.

Disney Parks, Experiences and Products

Operating results for the DPEP segment are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Revenues			
Theme park admissions	\$ 3,848	\$ 4,038	(5) %
Parks & Experiences merchandise, food and beverage	3,299	3,441	(4) %
Resorts and vacations	2,701	3,402	(21) %
Merchandise licensing and retail	5,241	4,721	11 %
Parks licensing and other	1,463	1,436	2 %
Total revenues	16,552	17,038	(3) %
Operating expenses	(10,799)	(11,485)	6 %
Selling, general, administrative and other	(2,886)	(2,642)	(9) %
Depreciation and amortization	(2,377)	(2,437)	2 %
Equity in the loss of investees	(19)	(19)	— %
Operating Income	\$ 471	\$ 455	4 %

COVID-19

Revenues at the DPEP segment were adversely impacted by COVID-19 as a result of the closure/generally reduced operating capacity across our theme parks and resorts. The following table summarizes the approximate number of weeks of operations in the current and prior year:

	Weeks of Operation	
	2021	2020
Walt Disney World Resort	52	36
Disneyland Resort	22	24
Disneyland Paris	19	35
Hong Kong Disneyland Resort ⁽¹⁾	40	22
Shanghai Disney Resort	52	38

⁽¹⁾ Hong Kong Disneyland Resort generally operated 5 days per week in fiscal 2021 and 7 days per week in fiscal 2020

Revenues

The decrease in theme park admissions revenue was due to a decrease of 14% from lower attendance, partially offset by an increase of 8% from higher average ticket prices.

TABLE OF CONTENTS

Parks & Experiences merchandise, food and beverage revenue was lower compared to the prior year due to a decrease of 9% from lower volumes, partially offset by an increase of 3% from higher average guest spending.

The decrease in resorts and vacations revenue was due to decreases of 17% from fewer passenger cruise days and 3% from lower occupied room nights.

Merchandise licensing and retail revenue growth was due to an increase of 9% from merchandise licensing driven by higher revenues from merchandise based on Mickey and Minnie, Spider-Man, Star Wars, including *The Mandalorian*, and Disney Princesses, partially offset by a decrease in revenues from merchandise based on Frozen.

The increase in parks licensing and other revenue was primarily due to an increase in sponsorship revenue, partially offset by a decrease in royalties from Tokyo Disney Resort as a result of the resort operating at reduced capacities.

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽¹⁾		Total	
	2021	2020	2021	2020	2021	2020
Parks						
Increase (decrease)						
Attendance ⁽²⁾	(17) %	(47) %	(4) %	(53) %	(14) %	(49) %
Per Capita Guest Spending ⁽³⁾	17 %	8 %	(3) %	(3) %	11 %	7 %
Hotels						
Occupancy ⁽⁴⁾	42 %	43 %	21 %	35 %	37 %	41 %
Available Room Nights (in thousands) ⁽⁵⁾	10,451	11,114	3,179	3,207	13,630	14,321
Per Room Guest Spending ⁽⁶⁾	\$374	\$367	\$377	\$308	\$374	\$355

⁽¹⁾ Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the average foreign exchange rate for the same period in the prior year.

⁽²⁾ Attendance is used to analyze volume trends at our theme parks and is based on the number of unique daily entries, i.e. a person visiting multiple theme parks in a single day is counted only once. Our attendance count includes complimentary entries but excludes entries by children under the age of three.

⁽³⁾ Per capita guest spending is used to analyze guest spending trends and is defined as total revenue from ticket sales and sales of food, beverage and merchandise in our theme parks, divided by total theme park attendance.

⁽⁴⁾ Occupancy is used to analyze the usage of available capacity at hotels and is defined as the number of room nights occupied by guests as a percentage of available hotel room nights.

⁽⁵⁾ Available hotel room nights are defined as the total number of room nights that are available at our hotels and at DVC properties located at our theme parks and resorts that are not utilized by DVC members. Available hotel room nights include rooms temporarily taken out of service.

⁽⁶⁾ Per room guest spending is used to analyze guest spending at our hotels and is defined as total revenue from room rentals and sales of food, beverage and merchandise at our hotels, divided by total occupied hotel room nights.

Costs and Expenses

Operating expenses are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Operating labor	\$ (4,711)	\$ (4,870)	3 %
Infrastructure costs	(2,308)	(2,422)	5 %
Cost of goods sold and distribution costs	(2,086)	(2,202)	5 %
Other operating expense	(1,694)	(1,991)	15 %
	<u>\$ (10,799)</u>	<u>\$ (11,485)</u>	6 %

The decrease in operating labor was due to lower volumes and decreased furlough costs (net of government credits), partially offset by inflation and an increase in incentive compensation costs. The decrease in infrastructure costs was primarily due to the prior year write-down of assets at our retail stores and reduced volumes. Lower cost of goods sold were due to lower

[TABLE OF CONTENTS](#)

volumes. The decrease in other operating expenses was due to lower volumes and the comparison to prior-year charges for capital project abandonments.

Selling, general, administrative and other costs increased \$244 million from \$2,642 million to \$2,886 million due to higher incentive compensation costs and increased marketing spend.

Depreciation and amortization decreased \$60 million from \$2,437 million to \$2,377 million, primarily due to lower depreciation at our theme parks and resorts.

Segment Operating Income

Segment operating income increased \$16 million, to \$471 million due to an increase at our consumer products business, largely offset by a decrease at our domestic parks and experiences.

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment:

(in millions)	2021	2020	% Change Better (Worse)
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 9,353	\$ 10,226	(9) %
International	1,859	2,020	(8) %
Consumer Products	5,340	4,792	11 %
	<u>\$ 16,552</u>	<u>\$ 17,038</u>	(3) %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ (1,139)	\$ (623)	(83) %
International	(1,074)	(1,073)	— %
Consumer Products	2,684	2,151	25 %
	<u>\$ 471</u>	<u>\$ 455</u>	4 %

Items Excluded from Segment Operating Income Related to Parks, Experiences and Products

The following table presents supplemental information for items related to the DPEP segment that are excluded from segment operating income:

(in millions)	2021	2020	% Change Better (Worse)
Restructuring and impairment charges ⁽¹⁾	\$ (327)	\$ (265)	(23) %
Amortization of TFCF intangible assets	(8)	(8)	— %

- ⁽¹⁾ The current year includes asset impairments and severance costs related to the closure of a substantial number of our Disney-branded retail stores in North America and Europe and severance costs related to other workforce reductions. The prior year includes severance costs related to workforce reductions.

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses are as follows:

(in millions)	2021	2020	% Change Better (Worse)
Corporate and unallocated shared expenses	\$ (928)	\$ (817)	(14) %

The increase in corporate and unallocated shared expenses was due to higher compensation costs.

RESTRUCTURING ACTIVITIES

See Note 19 to the Consolidated Financial Statements for information regarding the Company's restructuring activities in connection with the acquisition and integration of TFCF and at the DPEP segment.

[TABLE OF CONTENTS](#)

LIQUIDITY AND CAPITAL RESOURCES

The change in cash, cash equivalents and restricted cash is as follows:

(in millions)	2021	2020
Cash provided by operations - continuing operations	\$ 5,566	\$ 7,616
Cash used in investing activities - continuing operations	(3,171)	(3,850)
Cash provided by (used in) financing activities - continuing operations	(4,385)	8,480
Cash provided by operations - discontinued operations	1	2
Cash provided by investing activities - discontinued operations	8	213
Impact of exchange rates on cash, cash equivalents and restricted cash	30	38
Change in cash, cash equivalents and restricted cash	\$ (1,951)	\$ 12,499

Operating Activities

Continuing operations

Cash provided by operating activities of \$5.6 billion for fiscal 2021 decreased 27% or \$2.0 billion compared to \$7.6 billion in fiscal 2020 due to lower operating cash flow at DMED and higher income tax and interest payments, partially offset by higher operating cash flow at DPEP and lower payments for severance. The decrease at DMED was due to higher spending on film and television productions. The increase at DPEP was due to lower operating cash disbursements due to the pay-down of liabilities in the prior year as a result of closures/reduced capacities and lower volumes in the current year.

Depreciation expense is as follows:

(in millions)	2021	2020
Disney Media and Entertainment Distribution	\$ 613	\$ 638
Disney Parks, Experiences and Products		
Domestic	1,551	1,634
International	718	694
Total Disney Parks, Experiences and Products	2,269	2,328
Corporate	186	174
Total depreciation expense	\$ 3,068	\$ 3,140

Amortization of intangible assets is as follows:

(in millions)	2021	2020
Disney Media and Entertainment Distribution	\$ 178	\$ 175
Disney Parks, Experiences and Products	108	109
TFCF and Hulu	1,757	1,921
Total amortization of intangible assets	\$ 2,043	\$ 2,205

Produced and licensed content costs

The DMED segment incurs costs to produce and license film, episodic television and other content. Production costs include spend on content internally produced at our studios such as live-action and animated films, episodic series, specials, shorts and theatrical stage plays. Production costs also include original content commissioned from third party studios. Programming costs include content rights licensed from third parties for use on the Company's

Linear Networks and DTC streaming services. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities.

TABLE OF CONTENTS

The Company's production and programming activity for fiscal 2021 and 2020 are as follows:

(in millions)	2021	2020
Beginning balances:		
Production and programming assets	\$ 27,193	\$ 27,407
Programming liabilities	(4,099)	(4,061)
	<u>23,094</u>	<u>23,346</u>
Spending:		
Licensed programming and rights	12,412	12,077
Produced content	12,848	8,104
	<u>25,260</u>	<u>20,181</u>
Amortization:		
Licensed programming and rights	(12,784)	(11,241)
Produced content	(8,175)	(9,337)
	<u>(20,959)</u>	<u>(20,578)</u>
Change in production and programming costs	4,301	(397)
Other non-cash activity	224	145
Ending balances:		
Production and programming assets	31,732	27,193
Programming liabilities	(4,113)	(4,099)
	<u>\$ 27,619</u>	<u>\$ 23,094</u>

The Company currently expects its fiscal 2022 spend on produced and licensed content, including sports rights, to be as much as approximately \$33 billion, or approximately \$8 billion more than fiscal 2021 spend of \$25 billion. The increase is driven by higher spend to support our DTC expansion and generally assumes no significant disruptions to production due to COVID-19. See Note 15 to the Consolidated Financial Statements for information regarding the Company's contractual commitments to acquire sports and broadcast programming.

Commitments and guarantees

The Company has various commitments and guarantees, such as long-term leases, purchase commitments and other executory contracts, that are disclosed in the footnotes to the financial statements. See Notes 15 and 16 to the Consolidated Financial Statements for further information regarding these commitments.

Legal and Tax Matters

As disclosed in Notes 10 and 15 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal matters.

Investing Activities

Continuing operations

Investing activities 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 for fiscal 2021 and 2020 are as follows:

(in millions)	2021	2020
Disney Media and Entertainment Distribution	\$ 862	\$ 783
Disney Parks, Experiences and Products		
Domestic	1,597	2,145
International	675	759
Total Disney Parks, Experiences and Products	2,272	2,904
Corporate	444	335
	\$ 3,578	\$ 4,022

Capital expenditures at the DMED segment primarily reflect investments in technology and in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

TABLE OF CONTENTS

Capital expenditures at the DPEP segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The decrease in capital expenditures at our domestic parks and resorts in fiscal 2021 compared to fiscal 2020 was driven by the temporary suspension of certain capital projects since the onset of COVID-19 although spending increased in the latter part of fiscal 2021 compared to fiscal 2020.

Capital expenditures at Corporate primarily reflect investments in facilities, information technology infrastructure and equipment. The increase in fiscal 2021 compared to fiscal 2020 was due to higher spending on facilities.

The Company currently expects its fiscal 2022 capital expenditures will be approximately \$6.1 billion compared to fiscal 2021 capital expenditures of \$3.6 billion. The increase in capital expenditures is due to higher spending on cruise ship fleet expansion, Corporate facilities and production facilities and technology at the DMED segment.

Other Investing Activities

Cash provided by other investing activities of \$407 million in fiscal 2021 and \$172 million in fiscal 2020 reflects proceeds from the sales of investments.

Financing Activities

Continuing operations

Cash used in financing activities was \$4.4 billion in fiscal 2021 compared to cash provided by financing activities of \$8.5 billion in fiscal 2020. Cash used in financing activities in fiscal 2021 was due to a reduction in borrowings and the purchase of a redeemable non-controlling interest, partially offset by proceeds from the issuance of stock options. The decrease in cash provided by financing activities in fiscal 2021 compared to fiscal 2020 reflected a reduction in net borrowings of \$3.7 billion in fiscal 2021 compared to proceeds from net borrowings of \$11.2 billion in fiscal 2020. Additionally, we paid a cash dividend of \$1.6 billion in fiscal 2020 compared to no dividend in fiscal 2021.

Borrowings activities and other

During the year ended October 2, 2021, the Company's borrowing activity was as follows:

(in millions)	October 3, 2020	Borrowings	Payments	Other Activity	October 2, 2021
Commercial paper with original maturities less than three months ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial paper with original maturities greater than three months	2,023	2,221	(2,247)	(5)	1,992
U.S. dollar denominated notes ⁽²⁾	52,736	—	(3,510)	(136)	49,090
Asia Theme Parks borrowings	1,303	35	(129)	122	1,331
Foreign currency denominated debt and other ⁽³⁾	2,566	29	(98)	(504)	1,993
	<u>\$ 58,628</u>	<u>\$ 2,285</u>	<u>\$ (5,984)</u>	<u>\$ (523)</u>	<u>\$ 54,406</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

⁽²⁾ The other activity is primarily due to the amortization of purchase price adjustments on debt assumed in the TFCF acquisition and debt issuance fees.

⁽³⁾ The other activity is due to market value adjustments for debt with qualifying hedges.

See Note 9 to the Consolidated Financial Statements for information regarding the Company's bank facilities and debt maturities. The Company may use operating cash flows, commercial paper borrowings up to the amount of its unused \$12.25 billion bank facilities maturing in March 2022, March 2023 and March 2025, and incremental term debt issuances, to retire or refinance other borrowings before or as they come due.

See Note 4 to the Consolidated Financial Statements for a summary of the Company's put/call agreement with NBCU.

See Note 7 to the Consolidated Financial Statements for information regarding commitments to fund Hong Kong Disneyland Resort and Shanghai Disney Resort.

See Note 12 to the Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2020 and 2019. The Company did not declare or pay a dividend in fiscal 2021. The Company did not repurchase any of its shares in fiscal 2021, 2020 or 2019.

The Company's operating cash flow and access to the capital markets can be impacted by factors outside of its control, including COVID-19, which has had an adverse impact on the Company's operating cash flows. We have taken a number of measures to mitigate the impact on the Company's financial position. See Significant Developments for the impact COVID-19 has had on our operations and mitigating measures we have taken.

TABLE OF CONTENTS

We believe that the Company's financial condition remains strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity under current bank facilities, taken together, provide adequate resources to fund ongoing operating requirements and upcoming debt maturities as well as future capital expenditures related to the expansion of existing businesses and development of new projects, although certain of these activities have been scaled back or suspended in light of COVID-19. Depending on the unknowable duration and severity of the future impacts of COVID-19 and its variants, the Company may take additional mitigating actions in the future such as continuing to not declare dividends (the Company did not pay a dividend with respect to fiscal 2020 operations and has not declared or paid a dividend with respect to fiscal 2021 operations); reducing, or not making certain payments, such as some contributions to our pension and postretirement medical plans; raising additional financing; further suspending capital spending; reducing film and television content investments; or implementing additional furloughs or reductions in force. The impacts on our operating cash flows are subject to uncertainty and may require us to rely more heavily on external funding sources, such as debt and other types of financing.

The Company's borrowing costs can also be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as leverage and interest coverage ratios. As of October 2, 2021, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1 (Stable), respectively, Standard and Poor's long- and short-term debt ratings for the Company were BBB+ and A-2 (Stable), respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2 (Stable), respectively. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on October 2, 2021, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On March 20, 2019, as part of the acquisition of TFCF, The Walt Disney Company ("TWDC") became the ultimate parent of TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company) ("Legacy Disney"). Legacy Disney and TWDC are collectively referred to as "Obligor Group", and individually, as a "Guarantor". Concurrent with the close of the TFCF acquisition, \$16.8 billion of TFCF's assumed public debt (which then constituted 96% of such debt) was exchanged for senior notes of TWDC (the "exchange notes") issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to an Indenture, dated as of March 20, 2019, between TWDC, Legacy Disney, as guarantor, and Citibank, N.A., as trustee (the "TWDC Indenture") and guaranteed by Legacy Disney. On November 26, 2019, \$14.0 billion of the outstanding exchange notes were exchanged for new senior notes of TWDC registered under the Securities Act, issued pursuant to the TWDC Indenture and guaranteed by Legacy Disney. In addition, contemporaneously with the closing of the March 20, 2019 exchange offer, TWDC entered into a guarantee of the registered debt securities issued by Legacy Disney under the Indenture dated as of September 24, 2001 between Legacy Disney and Wells Fargo Bank, National Association, as trustee (the "2001 Trustee") (as amended by the first supplemental indenture among Legacy Disney, as issuer, TWDC, as guarantor, and the 2001 Trustee, as trustee).

Other subsidiaries of the Company do not guarantee the registered debt securities of either TWDC or Legacy Disney (such subsidiaries are referred to as the "non-Guarantors"). The par value and carrying value of total outstanding and guaranteed registered debt securities of the Obligor Group at October 2, 2021 was as follows:

(in millions)	TWDC		Legacy Disney	
	Par Value	Carrying Value	Par Value	Carrying Value
Registered debt with unconditional guarantee	\$ 37,338	\$ 39,162	\$ 10,587	\$ 10,671

The guarantees by TWDC and Legacy Disney are full and unconditional and cover all payment obligations arising under the guaranteed registered debt securities. The guarantees may be released and discharged upon (i) as a general matter, the indebtedness for borrowed money of the consolidated subsidiaries of TWDC in aggregate

constituting no more than 10% of all consolidated indebtedness for borrowed money of TWDC and its subsidiaries (subject to certain exclusions), (ii) upon the sale, transfer or disposition of all or substantially all of the equity interests or all or substantially all, or substantially as an entirety, the assets of Legacy Disney to a third party, and (iii) other customary events constituting a discharge of a guarantor's obligations. In addition, in the case of Legacy Disney's guarantee of registered debt securities issued by TWDC, Legacy Disney may be released and discharged from its guarantee at any time Legacy Disney is not a borrower, issuer or guarantor under certain material bank facilities or any debt securities.

Operations are conducted almost entirely through the Company's subsidiaries. Accordingly, the Obligor Group's cash flow and ability to service its debt, including the public debt, are dependent upon the earnings of the Company's subsidiaries and the distribution of those earnings to the Obligor Group, whether by dividends, loans or otherwise. Holders of the guaranteed registered debt securities have a direct claim only against the Obligor Group.

TABLE OF CONTENTS

Set forth below are summarized financial information for the Obligor Group on a combined basis after elimination of (i) intercompany transactions and balances between TWDC and Legacy Disney and (ii) equity in the earnings from and investments in any subsidiary that is a non-Guarantor. This summarized financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 13-01, “Financial Disclosures about Guarantors and Issuers of Guaranteed Securities” and is not intended to present the financial position or results of operations of the Obligor Group in accordance with U.S. GAAP.

Results of operations (in millions)	2021	
Revenues	\$	—
Costs and expenses		—
Net income (loss) from continuing operations		(1,847)
Net income (loss)		(1,847)
Net income (loss) attributable to TWDC shareholders		(1,847)

Balance Sheet (in millions)	October 2, 2021	October 3, 2020
Current assets	\$ 9,506	\$ 12,899
Noncurrent assets	1,689	2,076
Current liabilities	6,878	6,155
Noncurrent liabilities (excluding intercompany to non-Guarantors)	51,439	57,809
Intercompany payables to non-Guarantors	147,629	146,748

CRITICAL 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.

Produced and Acquired/Licensed Content Costs

We amortize and test for impairment capitalized film and television production costs based on whether the content is predominantly monetized individually or as a group. See Note 2 to the Consolidated Financial Statements for further discussion.

Production costs that are classified as individual are amortized based upon the ratio of the current period’s revenues to the estimated remaining total revenues (Ultimate Revenues).

With respect to produced films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues is theatrical performance. Revenues derived from other markets subsequent to the theatrical release are generally highly correlated with theatrical performance. Theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film’s release and determination of the theatrical performance, the Company’s estimates of revenues from succeeding windows and markets, which may include imputed license fees for content that is used on our DTC streaming services, are revised based on historical relationships and an analysis of current market trends.

With respect to capitalized television production costs that are classified as individual, the most sensitive factors affecting estimates of Ultimate Revenues are program ratings of the content on our licensees’ platforms. Program ratings, which are an indication of market acceptance, directly affect the program’s ability to generate advertising and subscriber revenues and are correlated with the license fees we can charge for the content in subsequent windows and for subsequent seasons.

Ultimate Revenues are reassessed each reporting period and the impact of any changes on amortization of production cost is accounted for as if the change occurred at the beginning of the current fiscal year. If our estimate of Ultimate Revenues decreases, amortization of costs may be accelerated or result in an impairment. Conversely, if our estimate of Ultimate Revenues increases, cost amortization may be slowed.

Produced content costs that are part of a group and acquired/licensed content costs are amortized based on projected usage typically resulting in an accelerated or straight-line amortization pattern. The determination of projected usage requires judgement and is reviewed periodically for changes. If projected usage changes we may need to accelerate or slow the recognition of amortization expense.

The amortization of multi-year sports rights is based on our projections of revenues over the contract period, which include advertising revenue and an allocation of affiliate revenue (relative value). If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. If estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

[TABLE OF CONTENTS](#)

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. Refer to Note 2 to the Consolidated Financial Statements for our revenue recognition policies.

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, which we evaluate 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. A lower discount rate increases the present value of benefit obligations and increases pension and postretirement medical expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. We increased our discount rate to 2.88% at the end of fiscal 2021 from 2.82% at the end of fiscal 2020 to reflect market interest rate conditions at our fiscal 2021 year-end measurement date. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2022 by approximately \$341 million and would increase the projected benefit obligation at October 2, 2021 by approximately \$4.0 billion. A one percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by approximately \$292 million and \$3.4 billion, 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. Our expected return on plan assets is 7.00%. A lower expected rate of return on plan assets will increase pension and postretirement medical expense. A one percentage point change in the long-term asset return assumption would impact fiscal 2022 annual expense by approximately \$175 million.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2021, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we apply what we believe to be the most appropriate valuation methodology for each of our reporting units. We generally use a present value technique

(discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the discount rates used to calculate the present value of future cash flows. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

TABLE OF CONTENTS

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the useful life of the significant assets of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows and the discount rate used to determine fair values.

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

The Company recorded non-cash impairment charges of \$0.3 billion and \$5.2 billion in fiscal 2021 and 2020, respectively.

The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

The fiscal 2020 impairment charges primarily related to impairments of MVPD agreement intangible assets (\$1.9 billion) and goodwill (\$3.1 billion) at the International Channels' business. See Note 19 to the Consolidated Financial Statements for additional discussion of these impairment charges.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies with which we do business, current market conditions, and reasonable and supportable forecasts of future economic conditions. In times of economic turmoil, including COVID-19, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods. See Note 3 to the Consolidated Financial Statements for additional discussion.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we are also involved in other contingent matters for which we accrue estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 15 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to

[TABLE OF CONTENTS](#)

settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

Impacts of COVID-19 on Accounting Policies and Estimates

In light of the currently unknown ultimate duration and severity of COVID-19, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply our significant accounting policies and make changes to these estimates and judgements over time. This could result in meaningful impacts to our financial statements in future periods. A more detailed discussion of the impact of COVID-19 on the Accounting Policies and Estimates follows.

Produced and Acquired/Licensed Content Costs

Certain of our completed or in progress film and television productions have had their initial release dates delayed. The duration of the delay, market conditions when we release the content, or a change in our release strategy (e.g. bypassing certain distribution windows) could have an impact on Ultimate Revenues, which may accelerate amortization or result in an impairment of capitalized film and television production costs.

Given the ongoing uncertainty around live sporting events continuing uninterrupted, the amount and timing of revenues derived from the broadcast of these events may differ from the projections of revenues that support our amortization pattern of the rights costs we pay for these events. Such changes in revenues could result in an acceleration or slowing of the amortization of our sports rights costs.

Revenue Recognition

Certain of our affiliate contracts contain commitments with respect to the content to be aired on our television networks (e.g. live sports or original content). If there are delays or cancellations of live sporting events or disruptions to film and television content production activities, we may need to assess the impact on our contractual obligations and adjust the revenue that we recognize related to these contracts.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

Given the ongoing impacts of COVID-19 across our businesses, the projected cash flows that we use to assess the fair value of our businesses and assets for purposes of impairment testing are subject to greater uncertainty than normal. If in the future we reduce our estimate of cash flow projections, we may need to impair some of these assets.

Prior to the Company's reorganization in October 2020, the former Direct-to-Consumer & International segment included an International Channels reporting unit, which was comprised of the Company's international television networks. Our international television networks primarily derive revenues from affiliate fees charged to MVPDs for the right to deliver our programming under multi-year licensing agreements and the sales of advertising time/space on the networks.

In the third quarter of fiscal 2020, we assessed the International Channels' long-lived assets and goodwill for impairment and recorded impairments of \$1.9 billion primarily related to MVPD agreement intangible assets and \$3.1 billion related to goodwill.

As of October 2, 2021, the remaining balance of our international MVPD agreement intangible assets was \$2.2 billion, primarily related to our channel businesses in Latin America and India.

See Note 19 to the Consolidated Financial Statements for discussion of the impairment tests performed in the third quarter of fiscal 2020.

Risk Management Contracts

The Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

As a result of the impact of COVID-19 on our businesses, our projected cash flows or projected usage of commodities are subject to a greater degree of uncertainty, which may cause us to recognize gains or losses on our hedging instruments in different periods than the hedged transaction.

New Accounting Pronouncements

See Note 20 to the Consolidated Financial Statements for information regarding new accounting pronouncements.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for “forward-looking statements” made by or on behalf of the Company. We may from time to time make written or oral statements that are “forward-looking,” including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our

[TABLE OF CONTENTS](#)

shareholders. Such statements may, for example, express expectations, projections, estimates, plans or future impacts; actions that we may take (or not take); developments beyond our control, including changes in domestic or global economic conditions; or other statements that are not historical in nature. All forward-looking statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward-looking matters. Actual results may differ materially from those expressed or implied due to a variety of important factors, many of which are beyond our control. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in our filings with the SEC, the most significant factors affecting these expectations, which may be revised or supplemented in subsequent reports we file with the SEC, are set forth under Item 1A – Risk Factors of this Report on Form 10-K as well as in this Item 7 - Management's Discussion and Analysis and Item 1 - Business.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow 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 U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel oil and gasoline.

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

Value at Risk (VAR)

The Company utilizes a VAR model to estimate the maximum potential one-day loss in the fair value of its interest rate, foreign exchange, commodities and market sensitive equity financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Various modeling techniques can be used in a VAR computation. The Company's computations are based on the interrelationships between

movements in various interest rates, currencies, commodities and equity prices (a variance/co-variance technique). These interrelationships were determined by observing interest rate, foreign currency, commodity and equity market changes over the preceding quarter for the calculation of VAR amounts at each fiscal quarter end. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivative contracts, commodities and market sensitive equity investments. Forecasted transactions, firm commitments, and accounts receivable and 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.

TABLE OF CONTENTS

VAR on a combined basis increased to \$364 million at October 2, 2021 from \$323 million at October 3, 2020.

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

Fiscal 2021	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Commodity Sensitive Financial Instruments	Combined Portfolio
Year end fiscal 2021 VAR	\$ 357	\$ 44	\$ 37	\$ 1	\$ 364
Average VAR	342	34	48	1	345
Highest VAR	380	44	65	1	372
Lowest VAR	290	23	37	1	296
Year end fiscal 2020 VAR	304	29	81	1	323

The VAR for Hong Kong Disneyland Resort and Shanghai Disney Resort is immaterial as of October 2, 2021 and accordingly has been excluded from the above table.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page [63](#).

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of October 2, 2021, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report set forth on page [64](#) is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended October 2, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Delinquent Section 16(a) Reports," "The Board of Directors," "Committees," "Governing Documents," "Director Selection Process" and "Election of Directors" in the Company's Proxy Statement for the 2022 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions "Director Compensation," and "Executive Compensation" (other than the "Compensation Committee Report," which is deemed furnished herein by reference, and the "Letter from the Compensation Committee") in the 2022 Proxy Statement is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information appearing under the caption "Equity Compensation Plans" in the 2022 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2022 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2022 Proxy Statement is hereby incorporated by reference.

[TABLE OF CONTENTS](#)

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

- (1) Financial Statements and Schedules

See Index to Financial Statements and Supplemental Data on page [63](#).

- (2) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit	Location
1.1 Underwriting Agreement, dated March 19, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and BofA Securities, Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, as representatives of the several underwriters named therein	Exhibit 1.1 to the Current Report on Form 8-K of the Company filed March 23, 2020
1.2 Underwriting Agreement, dated March 26, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Merrill Lynch Canada Inc., HSBC Securities (Canada) Inc. and RBC Dominion Securities Inc.	Exhibit 1.1 to the Current Report on Form 8-K of the company filed March 30, 2020
1.3 Underwriting Agreement, dated May 11, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC and Morgan Stanley & Co. LLC, as representatives of the several underwriters named therein.	Exhibit 1.1 to the Current Report on form 8-K of the Company filed May 13, 2020
3.1 Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 19, 2019	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.2 Certificate of Amendment to the Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.3 Amended and Restated Bylaws of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.3 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.4 Amended and Restated Certificate of Incorporation of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.5 Amended and Restated Bylaws of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.6 Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed November 30, 2018
4.1 Senior Debt Securities Indenture, dated as of September 24, 2001, between TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed September 24, 2001
4.2 First Supplemental Indenture, dated as of March 20, 2019, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
4.3 Indenture, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, and TWDC Enterprises 18 Corp., as guarantor, and Citibank, N.A., as trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.4 Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	
4.5 Description of Registrant's Securities	Exhibit 4.6 to the Form 10-K of the Company for the fiscal year ended September 28, 2019

[TABLE OF CONTENTS](#)

Exhibit		Location
10.1	Employment Agreement dated as of February 24, 2020 between the Company and Robert Chapek †	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.2	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Form 10-K of Legacy Disney for the fiscal year ended October 1, 2011
10.3	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed July 1, 2013
10.4	Amendment dated October 2, 2014 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 3, 2014
10.5	Amendment dated March 22, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 23, 2017
10.6	Amendment dated December 13, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 14, 2017
10.7	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.8	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated March 4, 2019 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 4, 2019
10.9	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011 and as previously amended, between the Company and Robert A. Iger, dated February 24, 2020 †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.10	Employment Agreement, dated as of September 27, 2013 between the Company and Alan N. Braverman †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 2, 2013
10.11	Amendment dated February 4, 2015 to the Employment Agreement dated as of September 27, 2013 between the Company and Alan N. Braverman †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed February 5, 2015
10.12	Amendment dated August 15, 2017 to the Employment Agreement dated as of September 27, 2013 between the Company and Alan N. Braverman †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.13	Amendment dated December 3, 2018 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 4, 2018
10.14	Amendment dated October 8, 2019 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed October 11, 2019
10.15	Employment Agreement dated August 15, 2017 and effective between the Company and Iger	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017

[TABLE OF CONTENTS](#)

Exhibit		Location
10.20	Employment Agreement, dated as of July 1, 2021 between the Company and Paul J. Richardson †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended July 3, 2021
10.21	Voluntary Non-Qualified Deferred Compensation Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 23, 2014
10.22	Description of Directors Compensation	Filed herewith
10.23	Form of Indemnification Agreement for certain officers and directors †	Annex C to the Proxy Statement for the 1987 annual meeting of DEI
10.24	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended June 29, 2019
10.25	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.26	Amended and Restated 2002 Executive Performance Plan †	Annex A to the Proxy Statement for the 2013 Annual Meeting of the Registrant
10.27	Management Incentive Bonus Program †	The portions of the tables labeled “Performance based Bonus” in the sections of the Proxy Statement for the 2021 annual meeting titled “Compensation Program Elements - Objectives and Key Features” and “Compensation Process” and the section of the Proxy Statement titled “Performance Goals”
10.28	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of Legacy Disney
10.29	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 1, 2006
10.30	Amended and Restated 2011 Stock Incentive Plan †	Annex B to Proxy Statement of registrant filed January 17, 2020
10.31	Disney Key Employees Retirement Savings Plan †	Exhibit 10.1 to the Form 10-Q of Legacy Disney for the quarter ended July 2, 2011
10.32	Amendments dated April 30, 2015 to the Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan, Amended and Restated Benefit Equalization Plan of ABC, Inc. and Disney Key Employees Retirement Savings Plan †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.33	Second Amendment to the Disney Key Employees Retirement Savings Plan †	Filed herewith
10.34	Group Personal Excess Liability Insurance Plan †	Exhibit 10(x) to the Form 10-K of Legacy Disney for the fiscal year ended September 30, 1997
10.35	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.2 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.36	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting) †	Exhibit 10.3 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.37	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement) †	Exhibit 10.4 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.38	Form of Performance- Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.5 to the Form 10-Q of the Company for the quarter ended January 2, 2021
10.39	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.6 to the Form 10-Q of the Company for the quarter ended January 2, 2021

[TABLE OF CONTENTS](#)

Exhibit		Location
10.42	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests/ Section 162(m) Vesting Requirement) †	Exhibit 10.11 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.43	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests) †	Exhibit 10.10 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.44	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.12 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.45	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test/ Section 162(m) Vesting Requirements) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.46	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test) as Amended and Restated November 30, 2018 by and between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.47	Performance-Based Stock Unit Award (Section 162(m) Vesting Requirement) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.48	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended December 28, 2019
10.49	Twenty-First Century Fox, Inc. 2013 Long-Term Incentive Plan †	Exhibit 10.1 to the Form 8-K of TFCF filed October 18, 2013
10.50	Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed March 9, 2018
10.51	First Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 26, 2018
10.52	Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 11, 2020
10.53	364-Day Credit Agreement dated as of March 5, 2021	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 8, 2021
21	Subsidiaries of the Company	Filed herewith
22	List of Guarantor Subsidiaries	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith

TABLE OF CONTENTS

Exhibit		Location
101	The following materials from the Company's Annual Report on Form 10-K for the year ended October 2, 2021 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	Filed herewith
*	Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.	
**	A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.	
†	Management contract or compensatory plan or arrangement.	

ITEM 16. Form 10-K Summary

None.

[TABLE OF CONTENTS](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WALT DISNEY COMPANY

(Registrant)

Date: November 24, 2021

By: /s/ ROBERT A. CHAPEK

(Robert A. Chapek,

Chief Executive Officer and Director)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>Principal Executive Officer</i>		
<u>/s/ ROBERT A. CHAPEK</u> (Robert A. Chapek)	Chief Executive Officer and Director	November 24, 2021
<i>Principal Financial and Accounting Officers</i>		
<u>/s/ CHRISTINE M. MCCARTHY</u> (Christine M. McCarthy)	Senior Executive Vice President and Chief Financial Officer	November 24, 2021
<u>/s/ BRENT A. WOODFORD</u> (Brent A. Woodford)	Executive Vice President- Controllershship, Financial Planning and Tax	November 24, 2021
<i>Directors</i>		
<u>/s/ SUSAN E. ARNOLD</u> (Susan E. Arnold)	Director	November 24, 2021
<u>/s/ MARY T. BARRA</u> (Mary T. Barra)	Director	November 24, 2021
<u>/s/ SAFRA A. CATZ</u> (Safra A. Catz)	Director	November 24, 2021
<u>/s/ AMY L. CHANG</u> (Amy L. Chang)	Director	November 24, 2021
<u>/s/ FRANCIS A. DESOUZA</u> (Francis A. deSouza)	Director	November 24, 2021
<u>/s/ MICHAEL B.G. FROMAN</u> (Michael B.G. Froman)	Director	November 24, 2021
<u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Executive Chairman, Chairman of the Board and Director	November 24, 2021
<u>/s/ MARIA ELENA LAGOMASINO</u> (Maria Elena Lagomasino)	Director	November 24, 2021
<u>/s/ CALVIN R. MCDONALD</u> (Calvin R. McDonald)	Director	November 24, 2021
<u>/s/ MARK G. PARKER</u> (Mark G. Parker)	Director	November 24, 2021
<u>/s/ DERICA W. RICE</u> (Derica W. Rice)	Director	November 24, 2021

[TABLE OF CONTENTS](#)

**THE WALT DISNEY COMPANY AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

	Page
Management's Report on Internal Control Over Financial Reporting	<u>64</u>
Report of Independent Registered Public Accounting Firm	<u>65</u>
Consolidated Financial Statements of The Walt Disney Company and Subsidiaries	
Consolidated Statements of Operations for the Years Ended October 2, 2021, October 3, 2020 and September 28, 2019	<u>67</u>
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended October 2, 2021, October 3, 2020 and September 28, 2019	<u>68</u>
Consolidated Balance Sheets as of October 2, 2021 and October 3, 2020	<u>69</u>
Consolidated Statements of Cash Flows for the Years Ended October 2, 2021, October 3, 2020 and September 28, 2019	<u>70</u>
Consolidated Statements of Shareholders' Equity for the Years Ended October 2, 2021, October 3, 2020 and September 28, 2019	<u>71</u>
Notes to Consolidated Financial Statements	<u>72</u>

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of October 2, 2021.

The effectiveness of our internal control over financial reporting as of October 2, 2021 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

[TABLE OF CONTENTS](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Walt Disney Company and its subsidiaries (the “Company”) as of October 2, 2021 and October 3, 2020, and the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity and cash flows for each of the three years in the period ended October 2, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of October 2, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 2, 2021 and October 3, 2020, and the results of its operations and its cash flows for each of the three years in the period ended October 2, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 2, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in fiscal year 2020.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TABLE OF CONTENTS

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Amortization of Production Costs

As described in Note 2 and 8 to the consolidated financial statements and disclosed by management, capitalized film and television production costs are amortized based on whether the content is predominantly monetized individually or as a group. Production costs for content that is predominantly monetized individually is amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include imputed license fees for content that is used by the Company's DTC streaming services, that will be earned within ten years from the date of the initial release for theatrical films. For episodic television series, Ultimate Revenues include revenues that will be earned within ten years, including imputed license fees for content that is used on the Company's DTC streaming services, from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Production costs that are predominantly monetized as a group are amortized based on projected usage (which may be, for example, derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern. For the year ended October 2, 2021, the Company recognized \$8,175 million of amortization of produced content costs, which is primarily included in "Cost of services" in the consolidated statements of operations.

The principal considerations for our determination that performing procedures relating to amortization of production costs is a critical audit matter are the significant auditor effort in performing procedures and evaluating audit evidence used in the amortization calculation for production costs monetized individually and as a group, and management's estimates of Ultimate Revenues and projected usage.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to amortization of production costs, including controls over the estimation of Ultimate Revenues and projected usage. These procedures also included, among others, (i) testing management's process for determining the amortization of production costs, (ii) evaluating whether ultimate revenues for certain content titles were reasonable considering information such as past performance of comparable titles, future firm commitments to license programs, and current market trends, (iii) evaluating the accelerated amortization pattern for content predominately monetized as a group, and (iv) testing the completeness and accuracy of the underlying data used in the amortization calculation for certain titles and for historical viewership data used to calculate the estimate of projected usage for certain groups.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

November 24, 2021

We have served as the Company's auditor since 1938.

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	2021	2020	2019
Revenues:			
Services	\$ 61,768	\$ 59,265	\$ 60,579
Products	5,650	6,123	9,028
Total revenues	67,418	65,388	69,607
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(41,129)	(39,406)	(36,493)
Cost of products (exclusive of depreciation and amortization)	(4,002)	(4,474)	(5,568)
Selling, general, administrative and other	(13,517)	(12,369)	(11,549)
Depreciation and amortization	(5,111)	(5,345)	(4,167)
Total costs and expenses	(63,759)	(61,594)	(57,777)
Restructuring and impairment charges	(654)	(5,735)	(1,183)
Other income, net	201	1,038	4,357
Interest expense, net	(1,406)	(1,491)	(978)
Equity in the income (loss) of investees	761	651	(103)
Income (loss) from continuing operations before income taxes	2,561	(1,743)	13,923
Income taxes on continuing operations	(25)	(699)	(3,026)
Net income (loss) from continuing operations	2,536	(2,442)	10,897
Income (loss) from discontinued operations, net of income tax benefit (expense) of \$9, \$10 and (\$39), respectively	(29)	(32)	687
Net income (loss)	2,507	(2,474)	11,584
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(512)	(390)	(472)
Net income from discontinued operations attributable to noncontrolling interests	—	—	(58)
Net income (loss) attributable to The Walt Disney Company (Disney)	\$ 1,995	\$ (2,864)	\$ 11,054
Earnings (loss) per share attributable to Disney ⁽¹⁾ :			
Diluted			
Continuing operations	\$ 1.11	\$ (1.57)	\$ 6.26
Discontinued operations	(0.02)	(0.02)	0.38
	\$ 1.09	\$ (1.58)	\$ 6.64
Basic			
Continuing operations	\$ 1.11	\$ (1.57)	\$ 6.30
Discontinued operations	(0.02)	(0.02)	0.38
	\$ 1.10	\$ (1.58)	\$ 6.68
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,828	1,808	1,666
Basic	1,816	1,808	1,656

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	2021	2020	2019
Net income (loss)	\$ 2,507	\$ (2,474)	\$ 11,584
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	41	(251)	(37)
Pension and postretirement medical plan adjustments	1,850	(1,476)	(2,446)
Foreign currency translation and other	77	115	(396)
Other comprehensive income (loss)	1,968	(1,612)	(2,879)
Comprehensive income (loss)	4,475	(4,086)	8,705
Net income from continuing operations attributable to noncontrolling interests	(512)	(390)	(530)
Other comprehensive income (loss) attributable to noncontrolling interests	(86)	(93)	65
Comprehensive income (loss) attributable to Disney	\$ 3,877	\$ (4,569)	\$ 8,240

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	October 2, 2021	October 3, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,959	\$ 17,914
Receivables, net	13,367	12,708
Inventories	1,331	1,583
Content advances	2,183	2,171
Other current assets	817	875
Total current assets	33,657	35,251
Produced and licensed content costs	29,549	25,022
Investments	3,935	3,903
Parks, resorts and other property		
Attractions, buildings and equipment	64,892	62,111
Accumulated depreciation	(37,920)	(35,517)
	26,972	26,594
Projects in progress	4,521	4,449
Land	1,131	1,035
	32,624	32,078
Intangible assets, net	17,115	19,173
Goodwill	78,071	77,689
Other assets	8,658	8,433
Total assets	\$ 203,609	\$ 201,549
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 20,894	\$ 16,801
Current portion of borrowings	5,866	5,711
Deferred revenue and other	4,317	4,116
Total current liabilities	31,077	26,628
Borrowings	48,540	52,917
Deferred income taxes	7,246	7,288
Other long-term liabilities	14,522	17,204
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	9,213	9,249
Equity		
Preferred stock	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	55,471	54,497
Retained earnings	40,429	38,315
Accumulated other comprehensive loss	(6,440)	(8,322)
Treasury stock, at cost, 19 million shares	(907)	(907)
Total Disney Shareholders' equity	88,553	83,583
Noncontrolling interests	4,458	4,680
Total equity	93,011	88,263
Total liabilities and equity	\$ 203,609	\$ 201,549

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2021	2020	2019
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	\$ 2,536	\$ (2,442)	\$ 10,897
Depreciation and amortization	5,111	5,345	4,167
Goodwill and intangible asset impairments	—	4,953	—
Net gain on investments, acquisitions and dispositions	(332)	(920)	(4,733)
Deferred income taxes	(1,241)	(392)	117
Equity in the (income) loss of investees	(761)	(651)	103
Cash distributions received from equity investees	754	774	754
Net change in produced and licensed content costs and advances	(4,301)	397	(542)
Net change in operating lease right of use assets / liabilities	46	31	—
Equity-based compensation	600	525	711
Pension and postretirement medical amortization	816	547	278
Other, net	144	94	(124)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	(357)	1,943	55
Inventories	252	14	(223)
Other assets	171	(157)	932
Accounts payable and other liabilities	2,410	(2,293)	191
Income taxes	(282)	(152)	(6,599)
Cash provided by operations - continuing operations	5,566	7,616	5,984
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	(3,578)	(4,022)	(4,876)
Acquisitions	—	—	(9,901)
Other	407	172	(319)
Cash used in investing activities - continuing operations	(3,171)	(3,850)	(15,096)
FINANCING ACTIVITIES			
Commercial paper borrowings (payments), net	(26)	(3,354)	4,318
Borrowings	64	18,120	38,240
Reduction of borrowings	(3,737)	(3,533)	(38,881)
Dividends	—	(1,587)	(2,895)
Proceeds from exercise of stock options	435	305	318
Contributions from / sales of noncontrolling interests	91	94	737
Acquisition of noncontrolling and redeemable noncontrolling interests	(350)	—	(1,430)
Other	(862)	(1,565)	(871)
Cash provided by (used in) financing activities - continuing operations	(4,385)	8,480	(464)
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Cash provided by operations - discontinued operations	1	2	622
Cash provided by investing activities - discontinued operations	8	213	10,978
Cash used in financing activities - discontinued operations	—	—	(626)
Cash provided by discontinued operations	9	215	10,974
Impact of exchange rates on cash, cash equivalents and restricted cash	30	38	(98)
Change in cash, cash equivalents and restricted cash	(1,951)	12,499	1,300
Cash, cash equivalents and restricted cash, beginning of year	17,954	5,455	4,155
Cash, cash equivalents and restricted cash, end of year	\$ 16,003	\$ 17,954	\$ 5,455
Supplemental disclosure of cash flow information:			

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests ⁽¹⁾	Total Equity
Balance at September 29, 2018	1,488	\$ 36,779	\$ 82,679	\$ (3,097)	\$ (67,588)	\$ 48,773	\$ 4,059	\$ 52,832
Comprehensive income	—	—	11,054	(2,814)	—	8,240	371	8,611
Equity compensation activity	7	912	—	—	—	912	—	912
Dividends	—	18	(2,913)	—	—	(2,895)	—	(2,895)
Contributions	—	—	—	—	—	—	737	737
Acquisition of TFCF	307	33,774	—	—	—	33,774	10,408	44,182
Adoption of new accounting guidance:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	192	—	—	192	—	192
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Retirement of treasury stock	—	(17,563)	(49,118)	—	66,681	—	—	—
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	(7,770)	(7,770)
Redemption of noncontrolling interest	—	—	—	—	—	—	(1,430)	(1,430)
Sales of the RSNs	—	—	—	—	—	—	(744)	(744)
Distributions and other	—	(13)	3	—	—	(10)	(619)	(629)
Balance at September 28, 2019	1,802	\$ 53,907	\$ 42,494	\$ (6,617)	\$ (907)	\$ 88,877	\$ 5,012	\$ 93,889
Comprehensive income	—	—	(2,864)	(1,705)	—	(4,569)	198	(4,371)
Equity compensation activity	8	590	—	—	—	590	—	590
Dividends	—	9	(1,596)	—	—	(1,587)	—	(1,587)
Contributions	—	—	—	—	—	—	94	94
Adoption of new lease accounting guidance	—	—	197	—	—	197	—	197
Distributions and other	—	(9)	84	—	—	75	(624)	(549)
Balance at October 3, 2020	1,810	\$ 54,497	\$ 38,315	\$ (8,322)	\$ (907)	\$ 83,583	\$ 4,680	\$ 88,263
Comprehensive income (loss)	—	—	1,995	1,882	—	3,877	284	4,161
Equity compensation activity	8	904	—	—	—	904	—	904

⁽¹⁾ Excludes redeemable noncontrolling interest.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions, except where noted and per share amounts)

1 Description of the Business and Segment Information

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the Disney Media and Entertainment Distribution (DMED) and Disney Parks, Experiences and Products (DPEP) segments (see additional information below on the recast of fiscal 2020 and 2019 segment information as a result of the media and entertainment reorganization). On March 20, 2019, the Company acquired Twenty-First Century Fox, Inc., a diversified global media and entertainment company, which was subsequently renamed TFCF Corporation (TFCF). As a result of the acquisition, the Company's ownership in Hulu LLC (Hulu) increased from 30% to 60% (currently 67%). The acquired TFCF operations and Hulu have been consolidated since the acquisition (See Note 4).

The terms "Company", "we", "our" and "us" are used in this report to refer collectively to the parent company and the subsidiaries through which various businesses are conducted. The term "TWDC" is used to refer to the parent company.

Impact of COVID-19

Since early 2020, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) and its variants. COVID-19 and measures to prevent its spread has impacted our segments in a number of ways, most significantly at the DPEP segment where our theme parks were closed and cruise ship sailings and guided tours were suspended. These operations resumed, generally at reduced capacity, at various points since May 2020. We have delayed, or in some cases, shortened or cancelled theatrical releases, and stage play performances were suspended as of March 2020. Stage play operations resumed, generally at reduced capacity, in the first quarter of fiscal 2021. Theaters have been subject to capacity limitations and shifting government mandates or guidance regarding COVID-19. We experienced significant disruptions in the production and availability of content, including the delay of key live sports programming during fiscal 2020 and fiscal 2021, as well as the suspension of most film and television production in March 2020. Although film and television production generally resumed beginning in the fourth quarter of 2020, we continue to see disruption of production activities depending on local circumstances. Fewer theatrical releases and production delays have limited the availability of film content to be sold in distribution windows subsequent to the theatrical release.

The impact of these disruptions and the extent of their adverse impact on our financial and operating results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19 and its variants, and among other things, the impact of governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters going forward. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, guests and talent.

In fiscal 2020, the Company recorded goodwill and intangible asset impairments totaling \$5.0 billion, in part due to the negative impact COVID-19 has had on the International Channels business (see Note 19).

DESCRIPTION OF THE BUSINESS

Disney Media and Entertainment Distribution

The DMED segment encompasses the Company's global film and episodic television content production and distribution activities. Content is distributed by a single organization across three significant lines of business: Linear Networks, Direct-to-Consumer and Content Sales/Licensing and is generally created by three production/content licensing groups: Studios, General Entertainment and Sports. The distribution organization has full accountability for the financial results of the entire media and entertainment business.

The operations of DMED's significant lines of business are as follows:

- Linear Networks
 - Domestic Channels: ABC Television Network and eight owned ABC television stations (Broadcasting), and Disney, ESPN (80% interest), Freeform, FX and National Geographic (73% interest) branded domestic television networks (Cable)
 - International Channels: Disney, ESPN, Fox, National Geographic and Star branded television networks outside the U.S.
 - A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable channels including A&E, HISTORY and Lifetime

TABLE OF CONTENTS

- Direct-to-Consumer
 - Disney+, Disney+ Hotstar, ESPN+ (68% effective interest), Hulu and Star+ direct-to-consumer (DTC) streaming services
- Content Sales/Licensing
 - Sale of film and television content to third-party television and subscription video-on-demand (TV/SVOD) services
 - Theatrical distribution
 - Home entertainment distribution (DVD, Blu-ray discs and electronic home video licenses)
 - Music distribution
 - Staging and licensing of live entertainment events on Broadway and around the world (Stage Plays)

DMED also includes the following activities that are reported with Content Sales/Licensing:

- Post-production services by Industrial Light & Magic and Skywalker Sound
- A 30% ownership interest in Tata Sky Limited, which operates a direct-to-home satellite distribution platform in India

The significant revenues of DMED are as follows:

- Affiliate fees - Fees charged by our Linear Networks to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. YouTube TV) service providers) (MVPDs) and television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Advertising - Sales of advertising time/space on our Linear Networks and Direct-to-Consumer
- Subscription fees - Fees charged to customers/subscribers for our DTC streaming services
- TV/SVOD distribution - Licensing fees and other revenue for the right to use our film and television productions and revenue from fees charged to customers to view our sports programming (“pay-per-view”) and streaming access to films that are also playing in theaters (“Premier Access”). TV/SVOD distribution revenue is primarily reported in Content Sales/Licensing, except for pay-per-view and Premier Access revenue, which is reported in Direct-to-Consumer
- Theatrical distribution - Rentals from licensing our film productions to theaters
- Home entertainment - Sale of our film and television content to retailers and distributors in home video formats
- Other content sales/licensing revenue - Revenues from licensing our music, ticket sales from stage play performances and fees from licensing our intellectual properties (“IP”) for use in stage plays
- Other revenue - Fees from sub-licensing of sports programming rights (reported in Linear Networks) and post-production services (reported with Content Sales/Licensing)

The significant expenses of DMED are as follows:

- Operating expenses consist primarily of programming and production costs, technical support costs, operating labor, distribution costs and costs of sales. Programming and production costs include amortization of acquired licensed programming rights (including sports rights), amortization of capitalized production costs (including participations and residuals) and production costs related to live programming such as news and sports. Programming and production costs are generally allocated across the DMED businesses based on the estimated relative value of the distribution windows. These costs are largely incurred across three content creation groups, as follows:
 - Studios - Primarily capitalized production costs related to feature films produced under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar and Searchlight Pictures banners
 - General Entertainment - Primarily acquisition of rights to and internal production of episodic television programs and news content. Internal content is generally produced by the following television studios:

ABC Signature; 20th Television; Disney Television Animation, FX Productions and various studios for which we commission productions for our branded channels and DTC streaming services

- Sports - Primarily acquisition of professional and college sports programming rights and related production costs
- Selling, general and administrative costs
- Depreciation and amortization

Disney Parks, Experiences and Products

The operations of DPEP's significant lines of business are as follows:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our IP to a third party to operate Tokyo Disney Resort

TABLE OF CONTENTS

- Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other IP to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in DMED)

The significant revenues of DPEP are as follows:

- Theme park admissions - Sales of tickets for admission to our theme parks
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from licensing our IP for use on consumer goods
 - Retail - Sales of merchandise at The Disney Store and through internet shopping sites generally branded shopDisney, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities and real estate rent and sales. In addition, we earn royalties on Tokyo Disney Resort revenues

The significant expenses of DPEP are as follows:

- Operating expenses consist primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

SEGMENT INFORMATION

Our operating segments report separate financial information, which is evaluated regularly by the Chief Executive Officer in order to decide how to allocate resources and to assess performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and acquisition accounting amortization of TFCF Corporation (TFCF) and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the TFCF acquisition in fiscal 2019 (TFCF and Hulu acquisition amortization). Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption.

In fiscal 2021, we changed the presentation of segment operating results as discussed below and have recast our fiscal 2020 and fiscal 2019 segment operating results to align with the fiscal 2021 presentation.

Media and Entertainment Reorganization

In October 2020, the Company reorganized its media and entertainment operations, which had been previously reported in three segments: Media Networks, Studio Entertainment and Direct-to-Consumer & International. As a result of the reorganization, the operations of the media and entertainment businesses are reported as one segment, DMED.

Intersegment Transfer Pricing

Under our previous segment structure, in certain instances production and distribution activities were in different segments. In these situations, for segment financial accounting purposes, the producer segment would recognize revenue based on an intersegment transfer price that included a “mark-up”. These transactions were reported “gross” (i.e. the segment producing the content reported revenue and the mark-up from intersegment transactions, and the required eliminations were reported on a separate “Eliminations” line when presenting a summary of our segment results). Under our new segment structure, the operating results of the production and distribution activities are reported in the same segment, and the fully loaded production cost is allocated across the distribution platforms which are utilizing the content.

[TABLE OF CONTENTS](#)

Elimination of Consumer Products Revenue Share

Under our legacy segment financial reporting, the Studio Entertainment segment received a revenue share related to the consumer products business, which is included in the DPEP segment. Under the new reporting structure, DMED does not receive a revenue share from DPEP related to the consumer products business.

Segment revenues and segment operating income are as follows:

	2021	2020	2019
<i>Revenues</i>			
Disney Media and Entertainment Distribution	\$ 50,866	\$ 48,350	\$ 42,821
Disney Parks, Experiences and Products	16,552	17,038	26,786
Total consolidated revenues	<u>\$ 67,418</u>	<u>\$ 65,388</u>	<u>\$ 69,607</u>
<i>Segment operating income</i>			
Disney Media and Entertainment Distribution	\$ 7,295	\$ 7,653	\$ 7,528
Disney Parks, Experiences and Products	471	455	7,319
Total segment operating income ⁽¹⁾	<u>\$ 7,766</u>	<u>\$ 8,108</u>	<u>\$ 14,847</u>

⁽¹⁾ Equity in the income (loss) of investees is included in segment operating income as follows:

	2021	2020	2019
Disney Media and Entertainment Distribution	\$ 795	\$ 696	\$ 463
Disney Parks, Experiences and Products	(19)	(19)	(13)
Equity in the income of investees included in segment operating income	776	677	450
Impairment of equity investments	—	—	(538)
Amortization of TFCF intangible assets related to equity investees	(15)	(26)	(15)
Equity in the income (loss) of investees	<u>\$ 761</u>	<u>\$ 651</u>	<u>\$ (103)</u>

A reconciliation of segment operating income to income from continuing operations before income taxes is as follows:

	2021	2020	2019
Segment operating income	\$ 7,766	\$ 8,108	\$ 14,847
Corporate and unallocated shared expenses	(928)	(817)	(987)
Restructuring and impairment charges	(654)	(5,735)	(1,183)
Other income, net	201	1,038	4,357
Interest expense, net	(1,406)	(1,491)	(978)
TFCF and Hulu acquisition amortization ⁽¹⁾	(2,418)	(2,846)	(1,595)
Impairment of equity investments ⁽²⁾	—	—	(538)
Income (loss) from continuing operations before income taxes	<u>\$ 2,561</u>	<u>\$ (1,743)</u>	<u>\$ 13,923</u>

⁽¹⁾ For fiscal 2021, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,757 million, \$646 million and \$15 million, respectively. For fiscal 2020, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,921 million, \$899 million and \$26 million,

respectively. For fiscal 2019, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,043 million, \$537 million and \$15 million, respectively.

- ⁽²⁾ Impairment of equity investments for fiscal 2019 primarily reflects the impairments of Vice Group Holding Inc. and of an investment in a cable channel at A+E Television Networks (\$353 million and \$170 million, respectively).

TABLE OF CONTENTS

Capital expenditures, depreciation expense and amortization expense are as follows:

<i>Capital expenditures</i>	2021	2020	2019
Disney Media and Entertainment Distribution	\$ 862	\$ 783	\$ 520
Disney Parks, Experiences and Products			
Domestic	1,597	2,145	3,294
International	675	759	852
Corporate	444	335	210
Total capital expenditures	\$ 3,578	\$ 4,022	\$ 4,876
<i>Depreciation expense</i>			
Disney Media and Entertainment Distribution	\$ 613	\$ 638	\$ 479
Disney Parks, Experiences and Products			
Domestic	1,551	1,634	1,474
International	718	694	724
Amounts included in segment operating income	2,269	2,328	2,198
Corporate	186	174	167
Total depreciation expense	\$ 3,068	\$ 3,140	\$ 2,844
<i>Amortization of intangible assets</i>			
Disney Media and Entertainment Distribution	\$ 178	\$ 175	\$ 172
Disney Parks, Experiences and Products	108	109	108
Amounts included in segment operating income	286	284	280
TFCF and Hulu	1,757	1,921	1,043
Total amortization of intangible assets	\$ 2,043	\$ 2,205	\$ 1,323

Identifiable assets⁽¹⁾ are as follows:

	October 2, 2021	October 3, 2020
Disney Media and Entertainment Distribution	\$ 144,675	\$ 139,538
Disney Parks, Experiences and Products	41,763	42,320
Corporate ⁽²⁾	17,171	19,691
Total consolidated assets	\$ 203,609	201,549

⁽¹⁾ Equity method investments included in identifiable assets by segment are as follows:

	October 2, 2021	October 3, 2020
Disney Media and Entertainment Distribution	\$ 2,578	\$ 2,574
Disney Parks, Experiences and Products	2	3
Corporate	58	55
	\$ 2,638	\$ 2,632

Intangible assets, which include character/franchise intangibles, copyrights, trademarks, MVPD agreements and FCC licenses (see Note 14), included in identifiable assets by segment are as follows:

	October 2, 2021	October 3, 2020
Disney Media and Entertainment Distribution	\$ 14,143	\$ 16,087
Disney Parks, Experiences and Products	2,952	3,066
Corporate	20	20
	<u>\$ 17,115</u>	<u>\$ 19,173</u>

⁽²⁾ Primarily fixed assets and cash and cash equivalents.

TABLE OF CONTENTS

The following table presents our revenues and segment operating income by geographical markets:

	2021	2020	2019
<i>Revenues</i>			
Americas	\$ 54,157	\$ 51,992	\$ 53,805
Europe	6,690	7,333	8,006
Asia Pacific	6,571	6,063	7,796
	<u>\$ 67,418</u>	<u>\$ 65,388</u>	<u>\$ 69,607</u>
<i>Segment operating income</i>			
Americas	\$ 6,314	\$ 5,819	\$ 10,247
Europe	800	1,273	2,433
Asia Pacific	652	1,016	2,167
	<u>\$ 7,766</u>	<u>\$ 8,108</u>	<u>\$ 14,847</u>

Long-lived assets⁽¹⁾ by geographical markets are as follows:

	October 2, 2021	October 3, 2020
Americas	\$ 144,788	\$ 141,674
Europe	8,215	7,672
Asia Pacific	12,012	12,235
	<u>\$ 165,015</u>	<u>\$ 161,581</u>

⁽¹⁾ Long-lived assets are total assets less: current assets, long-term receivables, deferred taxes, financial investments and the fair value of derivative instruments.

2 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships with or makes investments in other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia Theme Parks in its financial statements.

Reporting Period

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year

occurs, the Company reports the additional week in the fourth quarter. Fiscal 2021 and 2019 were fifty-two week years. Fiscal 2020 was a fifty-three week year, which began on September 29, 2019 and ended on October 3, 2020.

Reclassifications

Certain reclassifications have been made in the fiscal 2020 and fiscal 2019 financial statements and notes to conform to the fiscal 2021 presentation.

TABLE OF CONTENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Revenues and Costs from Services and Products

The Company generates revenue from the sale of both services and tangible products and revenues and operating costs are classified under these two categories in the Consolidated Statements of Operations. Certain costs related to both the sale of services and tangible products are not specifically allocated between the service or tangible product revenue streams but are instead attributed to the principal revenue stream. The cost of services and tangible products exclude depreciation and amortization.

Significant service revenues include:

- Affiliate fees
- Advertising revenues
- Subscription fees to our DTC streaming services
- Revenue from the licensing and distribution of film and television properties
- Admissions to our theme parks, charges for room nights at hotels and sales of cruise vacation packages
- Royalties from licensing our IP for use on consumer goods, published materials and in multi-platform games

Significant operating costs related to the sale of services include:

- Programming and production costs
- Distribution costs
- Operating labor
- Facilities and infrastructure costs

Significant tangible product revenues include:

- The sale of food, beverage and merchandise at our retail locations
- The sale of DVDs and Blu-ray discs
- The sale of books, comic books and magazines

Significant operating costs related to the sale of tangible products include:

- Costs of goods sold
- Programming and production costs
- Distribution costs
- Operating labor
- Retail occupancy costs

Revenue Recognition

At the beginning of fiscal 2019, the Company adopted Financial Accounting Standards Board (FASB) guidance that replaced the existing accounting guidance for revenue recognition and recorded a net reduction of \$116 million to opening fiscal 2019 retained earnings.

The Company's revenue recognition policies are as follows:

- Affiliate fees are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming.

For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term.

If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded.

Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

- Subscription fees are recognized ratably over the term of the subscription.
- Advertising sales are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the

TABLE OF CONTENTS

guaranteed number of impressions is not met (“ratings shortfall”), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.

- Theme park admissions are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- Resorts and vacations sales are recognized as revenue as the services are provided to the guest. Sales of vacation club properties are recognized as revenue upon the later of when title transfers to the customer or when construction activity is deemed complete.
- Merchandise, food and beverage sales are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- TV/SVOD distribution fixed license fees are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue as earned based on the contractual royalty rate applied to the licensee sales.

For TV/SVOD licenses that include multiple titles with a fixed license fee across all titles, each title is considered a separate performance obligation. The fixed license fee is allocated to each title at contract inception and the allocated license fee is recognized as revenue when the title is available for use by the licensee.

When the license contains a minimum guaranteed license fee across all titles, the license fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee is exceeded, revenue is recognized as earned based on the licensee’s underlying sales.

TV/SVOD distribution contracts may limit the licensee’s use of a title to certain defined periods of time during the contract term. In these instances, each period of availability is generally considered a separate performance obligation. For these contracts, the fixed license fee is allocated to each period of availability at contract inception based on relative standalone selling price using management’s best estimate. Revenue is recognized at the start of each availability period when the content is made available for use by the licensee.

When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.

- Theatrical distribution licensing fees are recognized as revenue based on the contractual royalty rate applied to the distributor’s underlying sales from exhibition of the film.
- Merchandise licensing fees are recognized as revenue as earned based on the contractual royalty rate applied to the licensee’s underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual royalties earned (“shortfall”) is recognized straight-line over the remaining license period once an expected shortfall is probable.
- Home entertainment sales in physical formats are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our films in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling fees collected from customers are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of current and non-current accounts receivable based on historical bad debt experience, our assessment of the financial condition of individual companies

with which we do business, current market conditions and reasonable supportable forecasts of future economic conditions.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2021, 2020 and 2019 was \$5.5 billion, \$4.7 billion and \$4.3 billion, respectively. The increase in advertising expense for fiscal 2021 compared to fiscal 2020 was due to higher spend for our DTC streaming services. The increase in advertising expense for fiscal 2020 compared to fiscal 2019 was primarily due to the consolidation of TFCF and Hulu, partially offset by lower advertising for our theatrical, home entertainment and parks and experiences businesses.

Cash and Cash Equivalents

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

TABLE OF CONTENTS

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. The Company's restricted cash balances are primarily made up of cash posted as collateral for certain derivative instruments.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statements of Cash Flows.

	October 2, 2021	October 3, 2020	September 28, 2019
Cash and cash equivalents	\$ 15,959	\$ 17,914	5,418
Restricted cash included in:			
Other current assets	3	3	26
Other assets	41	37	11
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 16,003	\$ 17,954	\$ 5,455

Investments

Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at that value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value.

Translation Policy

Generally, the U.S. dollar is the functional currency for our international film and television distribution and licensing businesses and the branded International Channels and DTC streaming services. Generally, the local currency is the functional currency for the Asia Theme Parks, Disneyland Paris, the Star branded channels in India, international sports channels and international locations of The Disney Store.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) (AOCI).

Inventories

Inventory primarily includes vacation timeshare units, merchandise, food, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, food, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or net realizable value.

Film and Television Content Costs

At the beginning of fiscal 2020, the Company adopted, on a prospective basis, new FASB guidance that updates the accounting for film and television content costs. Therefore, reporting periods beginning after September 29, 2019

are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting. The new guidance aligns the capitalization of production costs for episodic television content with the capitalization of production costs for theatrical content. Previously, theatrical content production costs could be fully capitalized while episodic television production costs were generally limited to the amount of contracted revenues. This change did not have a material impact on the Company's financial statements for fiscal year 2020.

Capitalized content cost, whether produced or acquired/licensed rights are recognized as "Produced and licensed content costs" in the Consolidated Balance Sheet. Advances for live programming rights made prior to the live event are reported in "Content advances" in the Consolidated Balance Sheet. The new guidance introduced the concept of "predominant monetization strategy" to classify capitalized content costs for purposes of amortization and impairment as follows:

- Individual - lifetime value is predominantly derived from third-party revenues that are directly attributable to the specific film or television title (e.g. theatrical revenues or sales to third-party television programmers).

TABLE OF CONTENTS

- Group - lifetime value is predominantly derived from third-party revenues that are attributable only to a bundle of titles (e.g. subscription revenue for a DTC service or affiliate fees for a cable television network).

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which we derive third-party revenues from use of the content. Imputed title by title license fees that may be necessary for other purposes and are established as required by those purposes.

We generally classify content that is initially intended for use on our DTC streaming services or Linear Networks as group assets. Content initially intended for theatrical release or for sale to third-party licensees, we generally classify as individual assets. Because the new accounting guidance is applied prospectively, the predominant monetization strategy for content released prior to the beginning of fiscal 2020 was determined based on the expected means of monetization over the remaining life of the content. Thus for example, film titles that were released theatrically and in home entertainment prior to fiscal year 2020 and are now distributed on Disney+ are generally considered group content.

The classification of content as individual or group only changes if there is a significant change to the title's monetization strategy relative to its initial assessment (e.g. content that was initially intended for license to a third-party is instead used on an owned DTC service). When there is a significant change in monetization strategy, the title's capitalized content costs are tested for impairment.

Production costs for content that is predominantly monetized individually is amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For film productions, Ultimate Revenues include revenues from all sources, which may include imputed license fees for content that is used on our DTC streaming services, that will be earned within ten years from the date of the initial release for theatrical films. For episodic television series, Ultimate Revenues include revenues that will be earned within ten years, including imputed license fees for content that is used on our DTC streaming services, from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Participations and residuals are expensed over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues for each production.

Production costs that are predominantly monetized as a group are amortized based on projected usage (which may be, for example, derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern. Participations and residuals are generally expensed in line with the pattern of usage.

Licensed rights to film and television content and other programs for broadcast on our Linear Networks or DTC streaming services are expensed on an accelerated or straight-line basis over their useful life or over the number of times the program is expected to be aired, as appropriate. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. If annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season.

Acquired film and television libraries are generally amortized on a straight-line basis over 20 years from the date of acquisition. Acquired film and television libraries include content that was initially released three years prior to its acquisition, except it excludes the prior seasons of episodic television programming still in production at the date of its acquisition.

The costs of produced and licensed film and television content are subject to regular recoverability assessments. For content that is predominantly monetized individually, the unamortized costs are compared to the estimated fair value. The fair value is determined based on a discounted cash flow analysis of the cash flows directly attributable to the title. To the extent the unamortized costs exceed the fair value, an impairment charge is recorded for the excess. For content that is predominantly monetized as a group, the aggregate unamortized costs of the group are compared to the present value of the discounted cash flows using the lowest level for which identifiable cash flows are independent of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative

carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written-off immediately. Licensed content is included as part of the group within which it is monetized for purposes of assessing recoverability.

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of October 2, 2021 and October 3, 2020, capitalized software costs, net of accumulated depreciation, totaled \$1,186 million and \$778 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software up to 7 years.

TABLE OF CONTENTS

Parks, Resorts and Other Property

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method, generally over estimated useful lives as follows:

Attractions, buildings and improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Land improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less

Leases

At the beginning of fiscal 2020, the Company adopted new lease accounting guidance issued by the FASB. The most significant change requires lessees to record the present value of operating lease payments as right-of-use assets and lease liabilities on the balance sheet. We adopted the new guidance using the modified retrospective method at the beginning of fiscal year 2020, therefore reporting periods beginning after September 29, 2019 are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting.

We determine whether a contract is a lease at contract inception or for a modified contract at the modification date. At inception or modification, the Company calculates the present value of operating lease payments using the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. Our leases may require us to make fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use asset and lease liability. Fixed non-lease costs, for example common-area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. The Company performs its annual test of goodwill and indefinite-lived intangible assets for impairment in its fiscal fourth quarter.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2021, the Company bypassed the qualitative test and performed a quantitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we apply what we believe to be the most appropriate valuation methodology for each of our reporting units. We generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the

discount rates used to calculate the present value of future cash flows. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. We believe our estimates are consistent with how a marketplace participant would value our reporting units. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

TABLE OF CONTENTS

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks, which are our most significant indefinite-lived intangible assets.

Finite-lived intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the relevant useful life of an asset group to the carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long lived-assets and the carrying amount of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying amount of each asset is above its fair value. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

The Company recorded non-cash impairment charges of \$0.3 billion, \$5.2 billion, and \$0.6 billion in fiscal 2021, 2020 and 2019, respectively.

The fiscal 2021 charges primarily related to the closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe.

The fiscal 2020 impairment charges primarily related to impairments of MVPD agreement intangibles assets (\$1.9 billion) and goodwill (\$3.1 billion) at the International Channels business. See Note 19 to the Consolidated Financial Statements for additional discussion of these impairment charges.

The fiscal 2019 charges primarily related to impairments of investments accounted for under the equity method of accounting recorded in "Equity in the income (loss) of investees" in the Consolidated Statements of Operations.

The Company expects its aggregate annual amortization expense for finite-lived intangible assets for fiscal 2022 through 2026 to be as follows:

2022	\$ 2,005
2023	1,806
2024	1,567
2025	1,469
2026	976

Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedges and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company primarily enters into

two types of derivatives: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating-rate debt).

The Company designates and assigns the derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged occur or are no longer expected to occur, the Company recognizes the gain or loss on the designated derivatives.

TABLE OF CONTENTS

The Company's hedge positions are measured at fair value on the balance sheet. 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 swaps to be paid or received under the agreements as interest rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

The Company enters into derivatives that are not designated as hedges and do not qualify for hedge accounting. These derivatives are intended to offset certain economic exposures of the Company and are carried at fair value with changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 9 and 18).

Income Taxes

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Redeemable Noncontrolling Interests

The Company consolidates the results of certain subsidiaries that are less than 100% owned and for which the noncontrolling interest shareholders have the rights to require the Company to purchase their interests in these subsidiaries. The most significant of these are Hulu and BAMTech LLC (BAMTech).

Hulu provides DTC streaming services and is owned 67% by the Company and 33% by NBCU. In May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU's interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu to the Company, at a redemption value based on NBCU's equity ownership percentage of the greater of Hulu's then equity fair value or a guaranteed floor value of \$27.5 billion.

NBCU's interest will generally not be allocated its portion of Hulu's losses as the redeemable noncontrolling interest is required to be carried at a minimum value. The minimum value is equal to the fair value as of the May 13, 2019 agreement date accreted to the January 2024 estimated redemption value. At October 2, 2021, NBCU's interest in Hulu is recorded in the Company's financial statements at \$8.4 billion.

BAMTech provides streaming technology services to third parties and is owned 85% by the Company and 15% by the MLB. Prior to September 2021, BAMTech was owned 75% by the Company, 15% by MLB and 10% by the NHL. The NHL interest included a right to require the Company to purchase the NHL interest for \$350 million in 2021. In August 2021, the NHL exercised its right and the Company purchased the NHL interest for \$350 million in September 2021.

MLB has the right to sell its interest to the Company and the Company has the right to buy MLB's interest starting five years from and ending ten years after the Company's September 25, 2017 acquisition date of BAMTech at a redemption value equal to the greater of fair value or a guaranteed floor value (\$563 million accreting at 8% annually for eight years from the date of acquisition).

The MLB interest is required to be carried at a minimum value equal to its acquisition date fair value accreted to its estimated redemption value through the applicable redemption date. Therefore, the MLB interest is generally

not allocated its portion of BAMTech losses. As of October 2, 2021, the MLB interest was recorded in the Company's financial statements at \$820 million.

Our estimate of the redemption value of noncontrolling interests requires management to make significant judgments with respect to the future value of the noncontrolling interests. We are accreting the noncontrolling interests of both BAMTech and Hulu to their guaranteed floor values. If our estimate of the future redemption value increased above either of the guaranteed floor values, we would change our rate of accretion, which would generally increase earnings recorded in "Net income from continuing operations attributable to noncontrolling interests and redeemable noncontrolling interests" and thus reduce "Net income (loss) attributable to The Walt Disney Company (Disney)" on the Consolidated Statements of Operations.

[TABLE OF CONTENTS](#)

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2021	2020	2019
Weighted average number of common and common equivalent shares outstanding (basic)	1,816	1,808	1,656
Weighted average dilutive impact of Awards ⁽¹⁾	12	—	10
Weighted average number of common and common equivalent shares outstanding (diluted)	1,828	1,808	1,666
Awards excluded from diluted earnings per share	4	35	7

⁽¹⁾ Amounts exclude all potential common and common equivalent shares for periods when there is a net loss from continuing operations.

3 *Revenues*

The following table presents our revenues by segment and major source:

	2021			2020			2019		
	DMED	DPEP	Total	DMED	DPEP	Total	DMED	DPEP	Total
Affiliate fees	\$ 17,760	\$ —	\$ 17,760	\$ 17,929	\$ —	\$ 17,929	\$ 15,948	\$ —	\$ 15,948
Advertising	12,425	4	12,429	10,851	4	10,855	10,507	6	10,513
Subscription fees	12,020	—	12,020	7,645	—	7,645	2,115	—	2,115
Theme park admissions	—	3,848	3,848	—	4,038	4,038	—	7,540	7,540
Resort and vacations	—	2,701	2,701	—	3,402	3,402	—	6,266	6,266
Retail and wholesale sales of merchandise, food and beverage	—	4,957	4,957	—	4,952	4,952	—	7,716	7,716
TV/SVOD distribution licensing	5,266	—	5,266	6,253	—	6,253	5,555	—	5,555
Theatrical distribution licensing	920	—	920	2,134	—	2,134	4,726	—	4,726
Merchandise licensing	12	3,586	3,598	32	3,210	3,242	51	3,329	3,380
Home entertainment	1,014	—	1,014	1,802	—	1,802	1,961	—	1,961
Other	1,449	1,456	2,905	1,704	1,432	3,136	1,958	1,929	3,887
Total revenues	\$ 50,866	\$ 16,552	\$ 67,418	\$ 48,350	\$ 17,038	\$ 65,388	\$ 42,821	\$ 26,786	\$ 69,607

The following table presents our revenues by segment and primary geographical markets:

	2021			2020			2019		
	DMED	DPEP	Total	DMED	DPEP	Total	DMED	DPEP	Total
Americas	\$ 41,754	\$ 12,403	\$ 54,157	\$ 39,163	\$ 12,829	\$ 51,992	\$ 33,602	\$ 20,203	\$ 53,805
Europe	5,022	1,668	6,690	5,240	2,093	7,333	4,762	3,244	8,006
Asia Pacific	4,090	2,481	6,571	3,947	2,116	6,063	4,457	3,339	7,796
Total revenues	<u>\$ 50,866</u>	<u>\$ 16,552</u>	<u>\$ 67,418</u>	<u>\$ 48,350</u>	<u>\$ 17,038</u>	<u>\$ 65,388</u>	<u>\$ 42,821</u>	<u>\$ 26,786</u>	<u>\$ 69,607</u>

Revenues recognized in the current and prior year from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/SVOD licensee sales on titles made available to the licensee in previous reporting periods. For fiscal 2021, \$1.3 billion was recognized related to performance obligations satisfied prior to October 3, 2020. For fiscal 2020, \$1.4 billion was recognized related to performance obligations satisfied prior to September 30, 2019. For fiscal 2019, \$1.2 billion was recognized related to performance obligations satisfied prior to September 30, 2018.

As of October 2, 2021, revenue for unsatisfied performance obligations expected to be recognized in the future is \$14 billion, which primarily relates to content to be delivered in the future under existing agreements with television station

[TABLE OF CONTENTS](#)

affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately \$6 billion in fiscal 2022, \$4 billion in fiscal 2023, \$2 billion in fiscal 2024 and \$2 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

Payment terms vary by the type and location of our customers and the products or services offered. For certain products or services and customer types, we require payment before the products or services are provided to the customer; in other cases, after appropriate credit evaluations, payment is due in arrears. Advertising contracts, which are generally short term, are billed monthly with payments generally due within 30 days. Payments due under affiliate arrangements are calculated monthly and are generally due within 30 days of month end. Home entertainment terms generally require payment within 60 to 90 days of availability date to the customer. Licensing payment terms vary by contract but are generally collected in advance or over the license term.

When the timing of the Company's revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears is recognized as accounts receivable. Deferred revenues are recognized as (or when) the Company performs under the contract. Contract assets, accounts receivable and deferred revenues from contracts with customers are as follows:

	October 2, 2021	October 3, 2020
Contract assets	\$ 155	\$ 70
Accounts Receivable		
Current	11,190	11,340
Non-current	1,359	1,789
Allowance for credit losses	(194)	(460)
Deferred revenues		
Current	4,067	3,688
Non-current	581	513

Contract assets primarily relate to certain multi-season TV/SVOD licensing contracts. Activity for fiscal 2021 and 2020 related to contract assets was not material. The allowance for credit losses decreased from \$460 million at October 3, 2020 to \$194 million at October 2, 2021 primarily due to the adoption of new accounting guidance on the measurement of credit losses (see Note 20).

For fiscal 2021, the Company recognized revenues of \$2.9 billion, primarily related to content sales, including subscription revenue, and licensing advances included in the deferred revenue balance at October 3, 2020. For fiscal 2020, the Company recognized revenues of \$3.4 billion primarily related to theme park admissions and vacation packages and licensing and publishing advances included in the deferred revenue balance at September 28, 2019. For fiscal 2019, the Company recognized revenues of \$2.7 billion primarily related to theme park admissions and vacation packages and licensing and publishing advances included in the deferred revenue balance at September 29, 2018.

The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties. These receivables are discounted to present value at contract inception, and the related revenues are recognized at the discounted amount.

The balance of film and television program sales receivables recorded in other non-current assets, net of an allowance for credit losses that is not material, was \$0.8 billion as of October 2, 2021. The activity in the allowance for credit loss for fiscal 2021 was not material.

The balance of mortgage receivables recorded in other non-current assets, net of an allowance for credit loss that is not material, was \$0.6 billion as of October 2, 2021. The activity in the allowance for credit loss for fiscal 2021 was not material.

4. *Acquisitions*

TFCF Corporation

On March 20, 2019, the Company acquired the outstanding capital stock of TFCF for \$69.5 billion, of which the Company paid \$35.7 billion in cash and \$33.8 billion in Disney shares (307 million shares at a price of \$110.00 per share). Prior to the acquisition, TFCF and a newly-formed subsidiary of TFCF (New Fox) entered into a separation agreement,

TABLE OF CONTENTS

pursuant to which TFCF transferred to New Fox a portfolio of TFCF's news, sports and broadcast businesses and certain other assets. TFCF retained all of the assets and liabilities not transferred to New Fox, the most significant of which were the Twentieth Century Fox film and television studios, certain cable networks (primarily FX and National Geographic), TFCF's international television businesses (including Star) and TFCF's 30% interest in Hulu. Under the terms of the agreement governing the acquisition, the Company will generally phase-out Fox brands by 2024, but has perpetual rights to certain Fox brands, including Twentieth Century Fox and Fox Searchlight, although these have been rebranded to Twentieth Century Studios and Searchlight Pictures, respectively.

We acquired TFCF to enhance the Company's position as a premier, global entertainment company by increasing our portfolio of creative assets and branded content to be monetized through our film and television studio, theme parks and direct-to-consumer offerings.

The purchase price for TFCF includes \$361 million related to TFCF stock awards that were settled or replaced in connection with the acquisition, and in fiscal 2019, the Company recognized compensation expense of \$164 million related to stock awards that were accelerated to vest upon closing of the acquisition. Additionally, compensation expense of \$219 million related to stock awards that were replaced with new restricted stock units is being recognized over the post-acquisition service period of up to approximately two years.

In fiscal 2019, the Company incurred \$0.3 billion of acquisition-related expenses, of which \$0.2 billion is included in "Selling, general, administrative and other", and \$0.1 billion related to financing fees is included in "Interest expense, net" in the Consolidated Statements of Operations.

In fiscal 2019, the Company remeasured its initial 30% interest in Hulu to its estimated fair value and recorded a one-time gain of \$4.8 billion (Hulu Gain), which was determined based on a discounted cash flow analysis. On April 15, 2019, Hulu redeemed Warner Media LLC's (WM) 10% interest in Hulu for \$1.4 billion. The redemption was funded by the Company and NBCU. This resulted in the Company's and NBCU's interests in Hulu increasing to 67% and 33%, respectively. NBCU's interest is classified as a redeemable noncontrolling interest in the Consolidated Balance Sheets. See Note 2 for further discussion of NBCU's interest.

In order to obtain regulatory approval for the acquisition, the Company agreed to sell TFCF's domestic regional sports networks (RSNs) (sold in August 2019 for approximately \$11 billion) and sports media operations in Brazil and Mexico. In addition, the Company agreed to divest its interest in certain European cable channels that were controlled by A+E Television Networks (A+E) (sold in April 2019 for an amount that was not material). In the third quarter of fiscal 2020, the Company received regulatory approval to retain the sports media operation in Brazil. In May 2021, the Company entered into an agreement to sell the Fox sports media business in Mexico for an amount that is not material. The transaction received regulatory approval and closed in November 2021. The RSNs and sports media operation in Mexico, along with certain other divested businesses, are presented as discontinued operations in the Consolidated Statements of Operations. At October 2, 2021 and October 3, 2020, the assets and liabilities of the businesses held for sale are not material and are included in other assets and other liabilities in the Consolidated Balance Sheets.

The following pro forma summary presents consolidated information of the Company for fiscal 2019 as if the acquisition of TFCF and consolidation of Hulu had occurred on October 1, 2017:

Revenues	\$	78,047
Net income		7,511
Net income attributable to Disney		7,206
Earnings per share attributable to Disney:		
Diluted	\$	3.68
Basic		3.70

The pro forma results include adjustments for purposes of consolidating the historical financial results of TFCF and Hulu (net of adjustments to eliminate transactions between Disney and TFCF, Disney and Hulu, and Hulu and

TFCF). The pro forma results include \$3.1 billion (of which \$0.4 billion related to the RSNs) to reflect the incremental amortization as a result of recording film and television programming and production costs and finite lived intangible assets at fair value. Interest expense of \$0.4 billion is included to reflect the cost of borrowings to finance the TFCF acquisition. The pro forma results also include \$0.9 billion of net income attributable to Disney related to TFCF businesses that have been divested.

The pro forma results exclude the Hulu Gain, compensation expense of \$0.2 billion related to TFCF equity and cash awards that were accelerated to vest upon closing of the acquisition, and \$0.4 billion of acquisition-related expenses. These amounts were recognized by Disney and TFCF in fiscal 2019.

The pro forma results exclude a \$10.8 billion gain on the sale of TFCF's 39% interest in Sky plc in October 2018.

TABLE OF CONTENTS

The pro forma results do not represent financial results that would have been realized had the acquisition actually occurred on October 1, 2017, nor are they intended to be a projection of future results.

Goodwill

The changes in the carrying amount of goodwill are as follows:

	Media Networks	DPEP	Studio Entertainment	Direct-to- Consumer & International	DMED	Total
Balance at Sept. 28, 2019	\$ 33,423	\$ 5,535	\$ 17,797	\$ 23,538	\$ —	\$ 80,293
Acquisitions ⁽¹⁾	568	15	98	51	—	732
Impairments (see Note 19)	—	—	—	(3,074)	—	(3,074)
Currency translation adjustments and other, net	—	—	(100)	(162)	—	(262)
Balance at Oct. 3, 2020	\$ 33,991	\$ 5,550	\$ 17,795	\$ 20,353	\$ —	\$ 77,689
Segment recast ⁽²⁾	(33,991)	—	(17,795)	(20,353)	72,139	—
Currency translation adjustments and other, net	—	—	—	—	382	382
Balance at Oct. 2, 2021	\$ —	\$ 5,550	\$ —	\$ —	\$ 72,521	\$ 78,071

⁽¹⁾ Reflects updates to allocation of purchase price for the acquisition of TFCF.

⁽²⁾ Reflects the reallocation of goodwill as a result of the Company recasting its segments.

5 Other Income, Net

Other income, net is as follows:

	2021	2020	2019
DraftKings gain (loss)	\$ (111)	\$ 973	\$ —
fuboTV gain	186	—	—
German FTA gain	126	—	—
Endemol Shine gain	—	65	—
Hulu gain (see Note 4)	—	—	4,794
Insurance recoveries related to legal matters	—	—	46
Charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition (see Note 9)	—	—	(511)
Gain on sale of real estate, property rights and other	—	—	28
Other income, net	\$ 201	\$ 1,038	\$ 4,357

In fiscal 2021, the Company recognized a non-cash loss of \$111 million from the adjustment of its investment in DraftKings, Inc. (DraftKings) to fair value (DraftKings gain (loss)). In fiscal 2020, the Company recognized a \$973 million DraftKings gain.

In fiscal 2021, the Company recognized a \$186 million gain from the sale of our investment in fuboTV Inc. (fuboTV gain) and a \$126 million gain on the sale of its 50% interest in a German free-to-air (FTA) television network (German FTA gain).

In fiscal 2020, the Company recognized a \$65 million gain on the sale of its 50% interest in Endemol Shine Group (Endemol Shine gain).

6 *Investments*

Investments consist of the following:

	October 2, 2021	October 3, 2020
Investments, equity basis	\$ 2,638	\$ 2,632
Investments, other	1,297	1,271
	<u>\$ 3,935</u>	<u>\$ 3,903</u>

TABLE OF CONTENTS

Investments, Equity Basis

The Company's significant equity investments primarily consist of media investments and include A+E (50% ownership), CTV Specialty Television, Inc. (30% ownership), Endemol Shine Group (50% ownership until sale of the interest in July 2020) and Tata Sky Limited (30% ownership). As of October 2, 2021, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately \$0.8 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

As of October 2, 2021 and October 3, 2020, the Company had securities recorded at fair value of \$1.0 billion and \$1.1 billion, respectively. As of October 2, 2021 and October 3, 2020, the Company had securities recorded at book value related to non-publicly traded securities without a readily determinable fair value of \$0.3 billion and \$0.2 billion, respectively.

Gains, losses and impairments on securities are generally recorded in "Interest expense, net" in the Consolidated Statements of Operations. See Note 5 for fiscal 2021 realized gains and unrealized losses on securities and fiscal 2020 unrealized gains recorded in "Other income, net" in the Consolidated Statements of Operations. Fiscal 2021 and fiscal 2020 impairments on securities and fiscal 2020 realized gains were not material. In fiscal 2019, realized gains, unrealized gains and losses and impairments on securities were not material.

7 International Theme Parks

The Company has a 48% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (together, the Asia Theme Parks), which are both VIEs consolidated in the Company's financial statements. See Note 2 for the Company's policy on consolidating VIEs. In addition, the Company has 100% ownership of Disneyland Paris. The Asia Theme Parks together with Disneyland Paris are collectively referred to as the International Theme Parks.

The following table summarizes the carrying amounts of the Asia Theme Parks' assets and liabilities included in the Company's Consolidated Balance Sheet:

	October 2, 2021	October 3, 2020
Cash and cash equivalents	\$ 287	\$ 372
Other current assets	95	91
Total current assets	382	463
Parks, resorts and other property	6,928	6,720
Other assets	176	191
Total assets	<u>\$ 7,486</u>	<u>\$ 7,374</u>
Current liabilities	\$ 473	\$ 486
Borrowings - long-term	1,331	1,213
Other long-term liabilities	422	403
Total liabilities	<u>\$ 2,226</u>	<u>\$ 2,102</u>

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Consolidated Statements of Operations for fiscal 2021:

Revenues	\$ 1,698
Costs and expenses	(2,845)
Equity in the loss of investees	(19)

Asia Theme Parks' royalty and management fees of \$119 million for fiscal 2021 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's fiscal 2021 Consolidated Statements of Cash Flows were \$292 million used in operating activities, \$668 million used in investing activities and \$74 million used in financing activities.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 52% and a 48% equity interest in Hong Kong Disneyland Resort, respectively.

TABLE OF CONTENTS

The Company and HKSAR have provided loans to Hong Kong Disneyland Resort with outstanding balances of \$149 million and \$100 million, respectively. The interest rate on both loans is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$270 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. The outstanding balance under the line of credit at October 2, 2021 was \$124 million. The Company's line of credit is eliminated in consolidation.

Hong Kong Disneyland Resort is undergoing a multi-year expansion estimated to cost HK \$10.9 billion (\$1.4 billion). The Company and HKSAR have agreed to fund the expansion on an equal basis through equity contributions, which totaled \$42 million and \$188 million in fiscal 2021 and 2020, respectively. To date, the Company and HKSAR have funded a total of \$568 million.

HKSAR has the right to receive additional shares over time to the extent Hong Kong Disneyland Resort exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on both an annual and cumulative basis and could decrease the Company's equity interest by up to an additional 6 percentage points over a period no shorter than 11 years. Assuming HK \$10.9 billion is contributed in the expansion, the impact to the Company's equity interest would be limited to 4 percentage points.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling \$895 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. The Company has also provided Shanghai Disney Resort with a 1.0 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit as of October 2, 2021. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.9 billion yuan (approximately \$1.2 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit as of October 2, 2021.

8 *Produced and Acquired/Licensed Content Costs and Advances*

Total capitalized produced and licensed content by predominant monetization strategy is as follows:

	As of October 2, 2021			As of October 3, 2020		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content						
Released, less amortization	\$ 4,944	\$ 9,779	\$ 14,723	\$ 5,090	\$ 8,185	\$ 13,275
Completed, not released	630	762	1,392	555	720	1,275
In-process	4,371	4,623	8,994	3,585	2,090	5,675
In development or pre-production	351	162	513	268	103	371
	<u>\$ 10,296</u>	<u>\$ 15,326</u>	<u>25,622</u>	<u>\$ 9,498</u>	<u>\$ 11,098</u>	<u>20,596</u>
Licensed content - Programming rights and advances			6,110			6,597
Total produced and licensed content			<u>\$ 31,732</u>			<u>\$ 27,193</u>
Current portion			\$ 2,183			\$ 2,171
Non-current portion			\$ 29,549			\$ 25,022

TABLE OF CONTENTS

Amortization of produced and licensed content is as follows:

	2021	2020
Produced content		
Predominantly monetized individually	\$ 2,947	\$ 4,305
Predominantly monetized as a group	5,228	5,032
	8,175	9,337
Licensed programming rights and advances	12,784	11,241
Total produced and licensed content costs ⁽¹⁾	<u>\$ 20,959</u>	<u>\$ 20,578</u>

⁽¹⁾ Primarily included in “Costs of services” in the Consolidated Statements of Operations.

Amortization of produced and licensed content for fiscal 2019 was \$17.1 billion.

Total expected amortization by fiscal year of completed (released and not released) produced, licensed and acquired library content on the balance sheet as of October 2, 2021 is as follows:

	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content			
Released			
2022	\$ 1,459	\$ 3,127	\$ 4,586
2023	764	1,987	2,751
2024	473	1,254	1,727
Completed, not released			
2022	334	312	646
Licensed content - Programming rights and advances			
2022		\$	3,663
2023			1,125
2024			585

Approximately \$2.4 billion of accrued participations and residual liabilities will be paid in fiscal 2022.

At October 2, 2021, acquired film and television libraries have remaining unamortized costs of \$3.5 billion, which are generally being amortized straight-line over a weighted-average remaining period of approximately 16 years.

9 Borrowings

The Company's borrowings, including the impact of interest rate and cross-currency swaps, are summarized as follows:

	October 2, 2021					
	Oct. 2, 2021	Oct. 3, 2020	Stated Interest Rate ⁽¹⁾	Pay Floating Interest rate and Cross- Currency Swaps ⁽²⁾	Effective Interest Rate ⁽³⁾	Swap Maturities
Commercial paper	\$ 1,992	\$ 2,023	—	\$ —	0.31%	
U.S. dollar denominated notes ⁽⁴⁾	49,090	52,736	3.86%	13,125	3.08%	2022-2031
Foreign currency denominated debt	2,011	1,983	2.92%	2,016	2.83%	2027
Other ⁽⁵⁾	(18)	583		—		
	53,075	57,325	3.68%	15,141	2.96%	
Asia Theme Parks borrowings	1,331	1,303	1.53%	—	5.32%	
Total borrowings	54,406	58,628	3.63%	15,141	3.02%	
Less current portion	5,866	5,711	2.23%	500	2.10%	
Total long-term borrowings	\$ 48,540	\$ 52,917		\$ 14,641		

⁽¹⁾ The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating-rate borrowings, interest rates are the rates in effect at October 2, 2021; these rates are not necessarily an indication of future interest rates.

⁽²⁾ Amounts represent notional values of interest rate and cross-currency swaps outstanding as of October 2, 2021.

⁽³⁾ The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance premiums, discounts and costs.

⁽⁴⁾ Includes net debt issuance discounts, costs and purchase accounting adjustments totaling a net premium of \$2.1 billion and a net premium of \$2.2 billion at October 2, 2021 and October 3, 2020, respectively.

⁽⁵⁾ Includes market value adjustments for debt with qualifying hedges, which reduces borrowings by \$99 million and increases borrowings by \$509 million at October 2, 2021 and October 3, 2020, respectively.

Commercial Paper

At October 2, 2021, the Company's bank facilities, which are with a syndicate of lenders and support our commercial paper borrowings, were as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2022	\$ 5,250	\$ —	\$ 5,250
Facility expiring March 2023	4,000	—	4,000
Facility expiring March 2025	3,000	—	3,000
Total	\$ 12,250	\$ —	\$ 12,250

The facilities expiring in March 2023 and March 2025 allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, or a fixed spread in the case of

the facility expiring in March 2022, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard & Poor's. The spread above LIBOR can range from 0.18% to 1.63%. The bank facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default. The bank facilities contain only one financial covenant, which is interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On October 2, 2021 the financial covenant was met by a significant margin. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of October 2, 2021, the Company has \$1.4 billion of outstanding letters of credit, of which none were issued under this facility.

TABLE OF CONTENTS

Commercial paper activity is as follows:

	Commercial paper with original maturities less than three months, net ⁽¹⁾	Commercial paper with original maturities greater than three months	Total
Balance at Sept. 28, 2019	\$ 1,934	\$ 3,408	\$ 5,342
Additions	—	11,500	11,500
Payments	(1,961)	(12,893)	(14,854)
Other Activity	27	8	35
Balance at Oct. 3, 2020	\$ —	\$ 2,023	\$ 2,023
Additions	—	2,221	2,221
Payments	—	(2,247)	(2,247)
Other Activity	—	(5)	(5)
Balance at Oct. 2, 2021	\$ —	\$ 1,992	\$ 1,992

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

U.S. Dollar Denominated Notes

At October 2, 2021, the Company had \$49.1 billion of U.S. dollar denominated notes with maturities ranging from 1 to 75 years. The debt outstanding includes \$48.1 billion of fixed rate notes, which have stated interest rates that range from 1.65% to 9.50% and \$1.0 billion of floating-rate notes that bear interest at U.S. LIBOR plus or minus a spread. At October 2, 2021, the effective rate on the floating-rate notes was 0.54%.

On March 20, 2019, the Company assumed public debt with a fair value of \$21.2 billion (principal balance of \$17.4 billion) upon completion of the TFCF acquisition. On March 20, 2019, 96% (principal balance of \$16.8 billion) of the assumed debt was exchanged for senior notes of TWDC, with essentially the same terms. In September 2019, the Company repurchased previously exchanged debt with a carrying value of approximately \$3.5 billion (principal balance of approximately \$2.7 billion) and TFCF debt with a carrying value of approximately \$280 million (principal balance of approximately \$260 million) for \$4.3 billion and recognized a charge of \$511 million in “Other income, net” in the fiscal 2019 Consolidated Statement of Operations.

Foreign Currency Denominated Debt

Prior to 2019, the Company issued Canadian \$1.3 billion (\$1.0 billion) of fixed rate senior notes, which bear interest at 2.76% and mature in October 2024. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable-rate U.S. dollar denominated borrowing indexed to LIBOR.

In fiscal 2020, the Company issued Canadian \$1.3 billion (\$1.0 billion) of fixed rate senior notes, which bear interest at 3.057% and mature in March 2027. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable-rate U.S. dollar denominated borrowing indexed to LIBOR.

RSN Debt

On March 20, 2019, as part of the TFCF acquisition, the Company assumed \$1.1 billion of debt related to one of the RSNs. In August 2019, the RSN was sold and the buyer has assumed the outstanding debt obligation.

Credit Facilities to Acquire TFCF

On March 20, 2019, the Company borrowed \$31.1 billion under two 364-day unsecured bridge loan facilities with a bank syndicate to fund the cash component of the TFCF acquisition. On March 21, 2019, the Company repaid

one bridge loan facility in the amount of \$16.1 billion, utilizing cash acquired in the TFCF transaction, and terminated the facility. The remaining 364-day unsecured bridge loan facility in the amount of \$15.0 billion was repaid and terminated during the fourth quarter of fiscal 2019 using the after-tax proceeds from the divestiture of the RSNs and proceeds from new borrowings.

Cruise Ship Credit Facilities

The Company has credit facilities to finance up to 80% of the contract price of three new cruise ships, which are scheduled to be delivered in 2022, 2024 and 2025. Under the facilities, \$1.0 billion in financing is available beginning in October 2021, \$1.1 billion is available beginning in August 2023 and \$1.1 billion is available beginning in August 2024. Each tranche of financing may be utilized for a period of 18 months from the initial availability date. If utilized, the interest rates will be fixed at 3.48%, 3.80% and 3.74%, respectively, and the loan and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

TABLE OF CONTENTS

Asia Theme Parks Borrowings

HKSAR provided Hong Kong Disneyland Resort with loans totaling HK\$0.8 billion (\$100 million). The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025.

Shendi has provided Shanghai Disney Resort with loans totaling 7.9 billion yuan (approximately \$1.2 billion) bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. As of October 2, 2021 there was no outstanding balance.

The following table provides total borrowings, excluding market value adjustments and debt issuance premiums, discounts and costs, by scheduled maturity date as of October 2, 2021. The table also provides the estimated interest payments on these borrowings as of October 2, 2021 although actual future payments will differ for floating-rate borrowings:

Fiscal Year:	Borrowings				Total Borrowings and Interest
	Before Asia Theme Parks Consolidation	Asia Theme Parks	Total Borrowings	Interest ⁽¹⁾	
2022	\$ 5,861	\$ 10	\$ 5,871	\$ 1,846	\$ 7,717
2023	1,241	25	1,266	1,804	3,070
2024	2,872	30	2,902	1,738	4,640
2025	3,685	35	3,720	1,728	5,448
2026	4,578	—	4,578	1,700	6,278
Thereafter	32,861	1,231	34,092	20,602	54,694
	<u>\$ 51,098</u>	<u>\$ 1,331</u>	<u>\$ 52,429</u>	<u>\$ 29,418</u>	<u>\$ 81,847</u>

⁽¹⁾ In 2023, the Company has the ability to call a debt instrument prior to its scheduled maturity, which if exercised by the Company would reduce future interest payments by \$1.1 billion.

The Company capitalizes interest on assets constructed for its parks and resorts and on certain film and television productions. In fiscal 2021, 2020 and 2019, total interest capitalized was \$187 million, \$157 million and \$222 million, respectively. Interest expense, net of capitalized interest, for fiscal 2021, 2020 and 2019 was \$1,546 million, \$1,647 million and \$1,246 million, respectively.

10 *Income Taxes*

Provision for Income Taxes and Deferred Tax Assets and Liabilities

	2021	2020	2019
Income (Loss) Before Income Taxes			
Domestic (including U.S. exports)	\$ 5,241	\$ 4,706	\$ 12,389
Foreign subsidiaries ⁽¹⁾	(2,680)	(6,449)	1,534
Total income (loss) from continuing operations	2,561	(1,743)	13,923
Income (loss) from discontinued operations	(38)	(42)	726
	<u>\$ 2,523</u>	<u>\$ (1,785)</u>	<u>\$ 14,649</u>

⁽¹⁾ Includes goodwill and intangible asset impairment in fiscal 2020.

TABLE OF CONTENTS

Income Tax Expense (Benefit)

Current	2021	2020	2019
Federal	\$ 594	\$ 95	\$ 14
State	129	148	112
Foreign ⁽¹⁾	554	731	824
	<u>1,277</u>	<u>974</u>	<u>950</u>
Deferred			
Federal	(526)	279	1,829
State	(220)	(29)	259
Foreign	(506)	(525)	(12)
	<u>(1,252)</u>	<u>(275)</u>	<u>2,076</u>
Income tax expense from continuing operations	25	699	3,026
Income tax expense from discontinued operations	(9)	(10)	39
	<u>\$ 16</u>	<u>\$ 689</u>	<u>\$ 3,065</u>

⁽¹⁾ Includes foreign withholding taxes.

	October 2, 2021	October 3, 2020
Components of Deferred Tax (Assets) and Liabilities		
Deferred tax assets		
Net operating losses and tax credit carryforwards ⁽¹⁾	\$ (3,944)	\$ (3,137)
Accrued liabilities	(2,544)	(2,952)
Lease liabilities	(764)	(825)
Licensing revenues	(202)	—
Other	(725)	(652)
Total deferred tax assets	<u>(8,179)</u>	<u>(7,566)</u>
Deferred tax liabilities		
Depreciable, amortizable and other property	7,916	8,256
Investment in U.S. entities	2,775	2,514
Right-of-use assets	697	740
Licensing revenues	—	189
Investment in foreign entities	392	266
Other	164	150
Total deferred tax liabilities	<u>11,944</u>	<u>12,115</u>
Net deferred tax liability before valuation allowance	3,765	4,549
Valuation allowance	2,795	2,410
Net deferred tax liability	<u>\$ 6,560</u>	<u>\$ 6,959</u>

⁽¹⁾ Balances as of October 2, 2021 and October 3, 2020 include approximately \$1.6 billion and \$1.4 billion, respectively, of International Theme Park net operating losses and approximately \$1.0 billion and \$0.7 billion, respectively of foreign tax credits in the U.S. The International Theme Park net operating losses are primarily in France and, to a lesser extent, Hong Kong and China. Losses in France and Hong Kong

have an indefinite carryforward period and losses in China have a five-year carryforward period. China theme park net operating losses of \$0.1 billion may expire between fiscal 2022 and fiscal 2027. Foreign tax credits in the U.S. have a ten-year carryforward period. Foreign tax credits of \$1.0 billion may expire beginning fiscal 2028.

TABLE OF CONTENTS

The following table details the change in valuation allowance for fiscal 2021, 2020 and 2019 (in billions):

	Balance at Beginning of Period	Charges to Tax Expense ⁽¹⁾	Changes Due to TFCF Acquisition	Balance at End of Period
Year ended October 2, 2021	\$ 2.4	\$ 0.4	\$ —	\$ 2.8
Year ended October 3, 2020	1.9	0.6	(0.1)	2.4
Year ended September 28, 2019	1.4	(0.1)	0.6	1.9

⁽¹⁾ Charges to tax expense in fiscal 2021 and fiscal 2020 are primarily due to International Theme Parks net operating losses.

Reconciliation of the effective income tax rate to the federal rate for continuing operations

	2021	2020 ⁽¹⁾	2019
Federal income tax rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	1.9	4.3	1.9
Tax rate differential on foreign income	12.0	(16.5)	0.3
Foreign derived intangible income	(6.4)	—	(1.1)
Excess tax benefits from equity awards	(5.3)	3.7	(0.3)
Legislative changes	(12.2)	4.4	(0.3)
Income tax audits and reserves	(4.8)	(6.1)	(0.6)
Goodwill impairment	—	(41.1)	—
Valuation allowance	2.6	(14.6)	0.1
Other	(7.8)	4.8	0.7
	1.0 %	(40.1 %)	21.7 %

⁽¹⁾ In fiscal 2020, the Company had a pre-tax loss. Positive amounts reflect tax benefits, whereas negative amounts reflect tax expense.

The effective income tax rate in the current year was lower than the U.S. statutory rate due to favorable adjustments related to prior years and excess tax benefits on employee share-based awards, partially offset by an unfavorable impact from foreign losses for which we are unable to recognize a tax benefit. The effective income tax rate in the prior year included an unfavorable impact of the goodwill impairment, which was not tax deductible, the impact of higher tax rates on foreign earnings than U.S. statutory rates and an unfavorable impact from foreign losses for which we are unable to recognize a tax benefit.

Unrecognized tax benefits

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

	2021	2020	2019
Balance at the beginning of the year	\$ 2,740	\$ 2,952	\$ 648
Increases due to acquisitions	—	34	2,728
Increases for current year tax positions	51	26	84
Increases for prior year tax positions	556	134	143
Decreases in prior year tax positions	(174)	(99)	(61)
Settlements with taxing authorities	(532)	(307)	(590)
Balance at the end of the year	\$ 2,641	\$ 2,740	\$ 2,952

The fiscal year-end 2021, 2020 and 2019 balances include \$2.0 billion, \$2.1 billion and \$2.4 billion, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

At October 2, 2021, October 3, 2020 and September 28, 2019, the Company had \$1.0 billion, \$1.1 billion and \$1.0 billion, respectively, in accrued interest and penalties related to unrecognized tax benefits. During fiscal 2021, 2020 and 2019, the Company recorded additional interest and penalties of \$191 million, \$211 million and \$802 million (of which the substantial majority is due to the acquisition of TFCF), respectively, and recorded reductions in accrued interest and penalties of \$256

[TABLE OF CONTENTS](#)

million, \$101 million and \$96 million, respectively, as a result of audit settlements and other prior-year adjustments. The Company's policy is to report interest and penalties as a component of income tax expense.

The Company is no longer subject to U.S. federal examination for years prior to 2018 for The Walt Disney Company and for years prior to 2016 for TFCF. The Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2008.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of certain tax matters, which could include payments on those tax matters. These resolutions and payments could reduce our unrecognized tax benefits by \$0.4 billion.

Intra-Entity Transfers of Assets Other Than Inventory

At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance that requires recognition of the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs instead of when the asset is ultimately sold to an outside party. In the first quarter of fiscal 2019, the Company recorded a \$0.2 billion deferred tax asset with an offsetting increase to retained earnings.

Other

In fiscal 2021, 2020 and 2019, the Company recognized income tax benefits of \$135 million, \$64 million and \$41 million, respectively for the excess of equity-based compensation deductions over amounts recorded based on the grant date fair value.

11 Pension and Other Benefit Programs

The Company maintains pension and postretirement medical benefit plans covering certain of its employees not covered by union or industry-wide plans. The Company has defined benefit pension plans that cover employees hired prior to January 1, 2012. For employees hired after this date, the Company has a defined contribution plan. Benefits under these pension plans are generally based on years of service and/or compensation and generally require 3 years of vesting service. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits. In addition, the Company has a defined benefit plan for TFCF employees for which benefits stopped accruing in June 2017.

Defined Benefit Plans

The Company measures the actuarial value of its benefit obligations and plan assets for its defined benefit pension and postretirement medical benefit plans at September 30 and adjusts for any plan contributions or significant events between September 30 and our fiscal year end.

TABLE OF CONTENTS

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the defined benefit pension and postretirement medical benefit plans:

	Pension Plans		Postretirement Medical Plans	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Projected benefit obligations				
Beginning obligations	\$ (20,760)	\$ (18,531)	\$ (2,104)	\$ (1,946)
Service cost	(434)	(410)	(10)	(10)
Interest cost	(457)	(527)	(47)	(56)
Actuarial gain (loss) ⁽¹⁾	15	(1,958)	(13)	(127)
Plan amendments and other	20	1	(14)	(12)
Benefits paid	661	662	67	47
Curtailments	—	3	—	—
Ending obligations	<u>\$ (20,955)</u>	<u>\$ (20,760)</u>	<u>\$ (2,121)</u>	<u>\$ (2,104)</u>
Fair value of plans' assets				
Beginning fair value	\$ 15,598	\$ 14,878	\$ 771	\$ 762
Actual return on plan assets	2,653	770	137	38
Contributions	565	664	47	9
Benefits paid	(661)	(662)	(67)	(47)
Expenses and other	(79)	(52)	1	9
Ending fair value	<u>\$ 18,076</u>	<u>\$ 15,598</u>	<u>\$ 889</u>	<u>\$ 771</u>
Underfunded status of the plans	<u>\$ (2,879)</u>	<u>\$ (5,162)</u>	<u>\$ (1,232)</u>	<u>\$ (1,333)</u>
Amounts recognized in the balance sheet				
Non-current assets	\$ 88	\$ 20	\$ —	\$ —
Current liabilities	(63)	(59)	(4)	(5)
Non-current liabilities	(2,904)	(5,123)	(1,228)	(1,328)
	<u>\$ (2,879)</u>	<u>\$ (5,162)</u>	<u>\$ (1,232)</u>	<u>\$ (1,333)</u>

⁽¹⁾ The actuarial loss for 2020 was primarily due to a reduction in the discount rate from the rate that was used in the preceding fiscal year.

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2021	2020	2019	2021	2020	2019
Service cost	\$ 434	\$ 410	\$ 345	\$ 10	\$ 10	\$ 8
Other costs (benefits):						
Interest cost	457	527	592	47	56	67
Expected return on plan assets	(1,100)	(1,084)	(978)	(55)	(57)	(56)
Amortization of prior-year service costs	11	13	13	—	—	—
Recognized net actuarial loss	777	544	260	30	14	—
Total other costs (benefits)	145	—	(113)	22	13	11
Net periodic benefit cost	\$ 579	\$ 410	\$ 232	\$ 32	\$ 23	\$ 19

In fiscal 2022, we expect pension and postretirement medical costs to decrease by \$260 million to \$350 million driven by lower amortization of previously deferred losses.

TABLE OF CONTENTS

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2021	2020	2019	2021	2020	2019
Discount rate used to determine the fiscal year-end benefit obligation	2.88 %	2.82 %	3.22 %	2.89 %	2.80 %	3.22 %
Discount rate used to determine the interest cost component of net periodic benefit cost	2.28 %	2.94 %	4.09 %	2.28 %	2.95 %	4.10 %
Rate of return on plan assets	7.00 %	7.00 %	7.25 %	7.00 %	7.00 %	7.25 %
Weighted average rate of compensation increase to determine the fiscal year-end benefit obligation	3.10 %	3.20 %	3.20 %	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	7.00 %	7.00 %	7.00 %
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	4.00 %	4.25 %	4.25 %
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2040	2034	2033

AOCI, before tax, as of October 2, 2021 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Prior service cost	\$ 18	\$ —	\$ 18
Net actuarial loss	6,628	333	6,961
Total amounts included in AOCI	6,646	333	6,979
Prepaid (accrued) pension cost	(3,767)	899	(2,868)
Net balance sheet liability	<u>\$ 2,879</u>	<u>\$ 1,232</u>	<u>\$ 4,111</u>

Plan Funded Status

The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$9.0 billion, \$8.5 billion and \$6.9 billion, respectively, as of October 2, 2021 and \$19.5 billion, \$18.1 billion and \$14.4 billion, respectively, as of October 3, 2020.

For pension plans with projected benefit obligations in excess of plan assets, the projected benefit obligation and aggregate fair value of plan assets were \$19.9 billion and \$16.9 billion, respectively, as of October 2, 2021 and \$19.8 billion and \$14.6 billion respectively, as of October 3, 2020.

The Company's total accumulated pension benefit obligations at October 2, 2021 and October 3, 2020 were \$19.4 billion and \$19.1 billion, respectively. Approximately 98% was vested as of both October 2, 2021 and October 3, 2020.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$2.1 billion and \$0.9 billion, respectively, at October 2, 2021 and \$2.1 billion and \$0.8 billion, respectively, at October 3, 2020.

Plan Assets

A significant portion of the assets of the Company's defined benefit plans are managed in a third-party master trust. The investment policy and allocation of the assets in the master trust were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments	30%	60%
Fixed income investments	20%	40%
Alternative investments	10%	30%
Cash & money market funds	—%	10%

TABLE OF CONTENTS

The primary investment objective for the assets within the master trust is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Investments are monitored to assess whether returns are commensurate with risks taken.

The long-term asset allocation policy for the master trust was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trust are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers pursuant to investment management agreements that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts.

Fair Value Measurements of Plan Assets

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories of the fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Investments that are valued using the net asset value (NAV) (or its equivalent) practical expedient are excluded from the fair value hierarchy disclosure.

The following is a description of the valuation methodologies used for assets reported at fair value. The methodologies used at October 2, 2021 and October 3, 2020 are the same.

Level 1 investments are valued based on reported market prices on the last trading day of the fiscal year. Investments in common and preferred stocks and mutual funds are valued based on the securities' exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in government and federal agency bonds and notes (excluding U.S. Treasury securities), corporate bonds, mortgage-backed securities (MBS) and asset-backed securities are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates or foreign currency exchange rates.

TABLE OF CONTENTS

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of October 2, 2021				Plan Asset Mix
	Level 1	Level 2	Total		
Cash	\$ 77	\$ —	\$ 77		—%
Common and preferred stocks ⁽¹⁾	4,407	—	4,407		23%
Mutual funds	1,326	—	1,326		7%
Government and federal agency bonds, notes and MBS	2,437	349	2,786		15%
Corporate bonds	—	1,098	1,098		6%
Other mortgage- and asset-backed securities	—	96	96		1%
Derivatives and other, net	8	21	29		—%
Total investments in the fair value hierarchy	<u>\$ 8,255</u>	<u>\$ 1,564</u>	<u>\$ 9,819</u>		
Assets valued at NAV as a practical expedient:					
Common collective funds			4,550		24%
Alternative investments			4,342		23%
Money market funds and other			254		1%
Total investments at fair value			<u>\$ 18,965</u>		100%

Description	As of October 3, 2020				Plan Asset Mix
	Level 1	Level 2	Total		
Cash	\$ 207	\$ —	\$ 207		1%
Common and preferred stocks ⁽¹⁾	3,308	—	3,308		20%
Mutual funds	1,154	—	1,154		7%
Government and federal agency bonds, notes and MBS	2,326	354	2,680		16%
Corporate bonds	—	935	935		6%
Other mortgage- and asset-backed securities	—	106	106		1%
Derivatives and other, net	(2)	7	5		—%
Total investments in the fair value hierarchy	<u>\$ 6,993</u>	<u>\$ 1,402</u>	<u>\$ 8,395</u>		
Assets valued at NAV as a practical expedient:					
Common collective funds			3,993		24%
Alternative investments			3,375		21%
Money market funds and other			606		4%
Total investments at fair value			<u>\$ 16,369</u>		100%

- ⁽¹⁾ Includes 2.9 million shares of Company common stock valued at \$489 million (3% of total plan assets) and 2.9 million shares valued at \$355 million (2% of total plan assets) at October 2, 2021 and October 3, 2020, respectively.

Uncalled Capital Commitments

Alternative investments held by the master trust include interests in funds that have rights to make capital calls to the investors. In such cases, the master trust would be contractually obligated to make a cash contribution at the time of the capital call. At October 2, 2021, the total committed capital still uncalled and unpaid was \$1.2 billion.

Plan Contributions

During fiscal 2021, the Company made \$612 million of contributions to its pension and postretirement medical plans. The Company currently expects to make approximately \$100 million to \$150 million in pension and postretirement medical plan contributions in fiscal 2022. Final minimum funding requirements for fiscal 2022 will be determined based on a January 1, 2022 funding actuarial valuation, which is expected to be received during the fourth quarter of fiscal 2022.

[TABLE OF CONTENTS](#)

Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans ⁽¹⁾
2022	\$ 692	\$ 61
2023	692	65
2024	728	70
2025	769	74
2026	811	79
2027 – 2031	4,626	459

⁽¹⁾ Estimated future benefit payments are net of expected Medicare subsidy receipts of \$81 million.

Assumptions

Assumptions, such as discount rates, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

Discount Rate — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. The Company measures service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows.

Long-term rate of return on plan assets — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	6 % to 10 %
Debt Securities	2 % to 4 %
Alternative Investments	6 % to 11 %

Healthcare cost trend rate — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. The 2021 actuarial valuation assumed a 7.00% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over nineteen years until reaching 4.00%.

Sensitivity — A one percentage point change in the discount rate and expected long-term rate of return on plan assets would have the following effects on the projected benefit obligations for pension and postretirement medical plans as of October 2, 2021 and on cost for fiscal 2022:

	Discount Rate		Expected Long-Term Rate of Return On Assets
Increase (decrease)	Benefit Expense	Projected Benefit Obligations	Benefit Expense
1 percentage point decrease	\$ 341	\$ 4,011	\$ 175
1 percentage point increase	(292)	(3,402)	(175)

Multiemployer Benefit Plans

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

TABLE OF CONTENTS

- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.
- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our contributions to multiemployer pension and health and welfare benefit plans:

	2021	2020	2019
Pension plans	\$ 289	\$ 221	\$ 189
Health & welfare plans	272	217	218
Total contributions	<u>\$ 561</u>	<u>\$ 438</u>	<u>\$ 407</u>

Defined Contribution Plans

The Company has defined contribution retirement plans for domestic employees who began service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 4% to 10% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. The Company has savings and investment plans that allow eligible employees to contribute up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's contribution up to plan limits. The Company also has defined contribution retirement plans for employees in our international operations. In fiscal 2021, 2020 and 2019, the costs of our domestic and international defined contribution plans were \$254 million, \$242 million and \$233 million, respectively.

12 *Equity*

The Company paid the following dividends in fiscal 2020 and 2019:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Second Quarter of Fiscal 2020	Second Half 2019
\$0.88	\$1.6 billion	Fourth Quarter of Fiscal 2019	First Half 2019
\$0.88	\$1.3 billion	Second Quarter of Fiscal 2019	Second Half 2018

The Company did not pay a dividend with respect to fiscal year 2020 operations and has not declared or paid a dividend with respect to fiscal 2021 operations.

As a result of the acquisition of TFCF, TWDC became the parent entity of both TFCF and TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company and referred to herein as Legacy Disney). TWDC issued 307 million shares of common stock to acquire TFCF (see Note 4), and all the outstanding shares of Legacy Disney (other than shares of Legacy Disney held in treasury that were not held on behalf of a third party) were converted on a one-for-one basis into new publicly traded shares of TWDC.

In March 2019, Legacy Disney terminated its share repurchase program, and 1.4 billion treasury shares were canceled, which resulted in a decrease to common stock and retained earnings of \$17.6 billion and \$49.1 billion, respectively. The cost of treasury shares canceled was allocated to common stock based on the ratio of treasury shares to total shares outstanding, with the excess allocated to retained earnings. At October 2, 2021, TWDC held 19 million treasury shares.

TWDC's authorized share capital consists of 4.6 billion common shares at \$0.01 par value and 100 million preferred shares at \$0.01 par value, both of which represent the same authorized capital structure in effect prior to the completion of the TFCF acquisition and as of September 29, 2018. As of September 29, 2018, Legacy Disney had 40 thousand preferred series B shares authorized with \$0.01 par value, which were eliminated in fiscal 2019.

[TABLE OF CONTENTS](#)

The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, before tax</u>				
Balance at September 29, 2018	\$ 201	\$ (4,323)	\$ (727)	\$ (4,849)
Unrealized gains (losses) arising during the period	136	(3,457)	(359)	(3,680)
Reclassifications of net (gains) losses to net income	(185)	278	—	93
Reclassifications to retained earnings	(23)	—	—	(23)
Balance at September 28, 2019	\$ 129	\$ (7,502)	\$ (1,086)	\$ (8,459)
Unrealized gains (losses) arising during the period	(57)	(2,468)	(2)	(2,527)
Reclassifications of net (gains) losses to net income	(263)	547	—	284
Balance at October 3, 2020	\$ (191)	\$ (9,423)	\$ (1,088)	\$ (10,702)
Unrealized gains (losses) arising during the period	70	1,582	41	1,693
Reclassifications of net (gains) losses to net income	(31)	816	—	785
Balance at October 2, 2021	<u>\$ (152)</u>	<u>\$ (7,025)</u>	<u>\$ (1,047)</u>	<u>\$ (8,224)</u>

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>Tax on AOCI</u>				
Balance at September 29, 2018	\$ (41)	\$ 1,690	\$ 103	\$ 1,752
Unrealized gains (losses) arising during the period	(31)	797	28	794
Reclassifications of net (gains) losses to net income	43	(64)	—	(21)
Reclassifications to retained earnings ⁽¹⁾	—	(667)	(16)	(683)
Balance at September 28, 2019	\$ (29)	\$ 1,756	\$ 115	\$ 1,842
Unrealized gains (losses) arising during the period	8	572	24	604
Reclassifications of net (gains) losses to net income	61	(127)	—	(66)
Balance at October 3, 2020	\$ 40	\$ 2,201	\$ 139	\$ 2,380
Unrealized gains (losses) arising during the period	(8)	(358)	(50)	(416)
Reclassifications of net (gains) losses to net income	10	(190)	—	(180)
Balance at October 2, 2021	<u>\$ 42</u>	<u>\$ 1,653</u>	<u>\$ 89</u>	<u>\$ 1,784</u>

TABLE OF CONTENTS

	Market Value Adjustments for Hedges	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, after tax</u>				
Balance at September 29, 2018	\$ 160	\$ (2,633)	\$ (624)	\$ (3,097)
Unrealized gains (losses) arising during the period	105	(2,660)	(331)	(2,886)
Reclassifications of net (gains) losses to net income	(142)	214	—	72
Reclassifications to retained earnings ⁽¹⁾	(23)	(667)	(16)	(706)
Balance at September 28, 2019	\$ 100	\$ (5,746)	\$ (971)	\$ (6,617)
Unrealized gains (losses) arising during the period	(49)	(1,896)	22	(1,923)
Reclassifications of net (gains) losses to net income	(202)	420	—	218
Balance at October 3, 2020	\$ (151)	\$ (7,222)	\$ (949)	\$ (8,322)
Unrealized gains (losses) arising during the period	62	1,224	(9)	1,277
Reclassifications of net (gains) losses to net income	(21)	626	—	605
Balance at October 2, 2021	\$ (110)	\$ (5,372)	\$ (958)	\$ (6,440)

- ⁽¹⁾ At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and reclassified \$691 million from AOCI to retained earnings. In addition, at the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Recognition and Measurement of Financial Assets and Liabilities, and reclassified \$24 million (\$15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

Details about AOCI components reclassified to net income are as follows:

Gains (losses) in net income:	Affected line item in the Consolidated Statements of Operations:	2021	2020	2019
Market value adjustments, primarily cash flow hedges	Primarily revenue	\$ 31	\$ 263	\$ 185
Estimated tax	Income taxes	(10)	(61)	(43)
		21	202	142
Pension and postretirement medical expense	Interest expense, net	(816)	(547)	(278)
Estimated tax	Income taxes	190	127	64
		(626)	(420)	(214)
Total reclassifications for the period		\$ (605)	\$ (218)	\$ (72)

13 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market or performance conditions (Performance RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the stock's market price at the date of grant and become exercisable ratably over a three-year period from the grant date (exercisable ratably over four-year period from the grant date prior to fiscal 2021). The contractual terms for our outstanding stock option grants are 10 years. At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. RSUs generally vest ratably over three years (four years for grants prior to fiscal 2021) and Performance RSUs generally fully vest after three years, subject to achieving market or performance conditions. Equity-based award grants generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

TABLE OF CONTENTS

Each share granted subject to a stock option award reduces the number of shares available under the Company's stock incentive plans by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. As of October 2, 2021, the maximum number of shares available for issuance under the Company's stock incentive plans (assuming all the awards are in the form of stock options) was approximately 148 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 71 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the first half of the year, the Company awards stock options and restricted stock units to a broad-based group of management, technology and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being canceled due to the termination of the option holder) in computing the value of the option.

The weighted average assumptions used in the option-valuation model were as follows:

	2021	2020	2019
Risk-free interest rate	1.2%	1.8%	2.8%
Expected volatility	30%	23%	23%
Dividend yield	0.03%	1.36%	1.61%
Termination rate	5.8%	5.8%	4.8%
Exercise multiple	1.83	1.83	1.75

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively. The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market or performance conditions will be met.

Compensation expense related to stock options and RSUs is as follows:

	2021	2020	2019
Stock option	\$ 95	\$ 101	\$ 84
RSUs ⁽¹⁾	505	424	627
Total equity-based compensation expense ⁽²⁾	600	525	711
Tax impact	(136)	(118)	(161)
Reduction in net income	\$ 464	\$ 407	\$ 550
Equity-based compensation expense capitalized during the period	\$ 112	\$ 87	\$ 81

⁽¹⁾ Fiscal 2019 includes a \$164 million charge for acceleration of TFCF performance RSUs converted to Company RSUs in connection with the TFCF acquisition (see Note 4).

⁽²⁾ Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

TABLE OF CONTENTS

The following table summarizes information about stock option transactions in fiscal 2021 (shares in millions):

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	23	\$ 101.41
Awards forfeited	(1)	141.97
Awards granted	2	177.27
Awards exercised	(6)	79.21
Outstanding at end of year	18	\$ 113.99
Exercisable at end of year	12	\$ 98.04

The following tables summarize information about stock options vested and expected to vest at October 2, 2021 (shares in millions):

Vested			
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0 — \$ 50	1	\$ 43.76	0.6
\$ 51 — \$ 100	4	76.09	2.4
\$ 101 — \$ 150	7	113.70	5.9
	12		
Expected to Vest			
Range of Exercise Prices	Number of Options ⁽¹⁾	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 100 — \$ 135	2	\$ 111.16	7.0
\$ 136 — \$ 170	2	148.02	8.2
\$ 171 — \$ 200	2	177.74	9.4
	6		

⁽¹⁾ Number of options expected to vest is total unvested options less estimated forfeitures.

The following table summarizes information about RSU transactions in fiscal 2021 (shares in millions):

	Units ⁽³⁾	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	12	\$ 128.56
Granted ⁽¹⁾	6	179.44
Vested	(4)	122.72
Forfeited	(1)	151.54
Unvested at end of year ⁽²⁾	13	\$ 151.61

- (1) Includes 0.2 million Performance RSUs.
- (2) Includes 1.5 million Performance RSUs.
- (3) Excludes Performance RSUs for which vesting is subject to service conditions and the number of units vesting is subject to the discretion of the CEO. At October 2, 2021, the maximum number of these Performance RSUs that could be issued upon vesting is 0.1 million.

The weighted average grant-date fair values of options granted during fiscal 2021, 2020 and 2019 were \$57.05, \$36.19 and \$28.76, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during fiscal 2021, 2020 and 2019 totaled \$1,175 million, \$989 million and \$646 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at October 2, 2021 were \$885 million and \$217 million, respectively.

[TABLE OF CONTENTS](#)

As of October 2, 2021, unrecognized compensation cost related to unvested stock options and RSUs was \$114 million and \$1,202 million, respectively. That cost is expected to be recognized over a weighted-average period of 1.4 years for stock options and 1.6 years for RSUs.

Cash received from option exercises for fiscal 2021, 2020 and 2019 was \$435 million, \$305 million and \$318 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSUs vesting for fiscal 2021, 2020 and 2019 was approximately \$256 million, \$220 million and \$145 million, respectively.

14 *Detail of Certain Balance Sheet Accounts*

	October 2, 2021	October 3, 2020
<i>Current receivables</i>		
Accounts receivable	\$ 11,177	\$ 11,299
Other	2,360	1,835
Allowance for credit losses	(170)	(426)
	<u>\$ 13,367</u>	<u>\$ 12,708</u>
<i>Parks, resorts and other property</i>		
Attractions, buildings and improvements	\$ 32,765	\$ 31,279
Furniture, fixtures and equipment	24,008	22,976
Land improvements	7,061	6,828
Leasehold improvements	1,058	1,028
	<u>64,892</u>	<u>62,111</u>
Accumulated depreciation	(37,920)	(35,517)
Projects in progress	4,521	4,449
Land	1,131	1,035
	<u>\$ 32,624</u>	<u>\$ 32,078</u>
<i>Intangible assets</i>		
Character/franchise intangibles, copyrights and trademarks	\$ 10,572	\$ 10,572
MVPD agreements	8,089	8,098
Other amortizable intangible assets	4,303	4,309
Accumulated amortization	(7,641)	(5,598)
Net amortizable intangible assets	15,323	17,381
Indefinite lived intangible assets ⁽¹⁾	1,792	1,792
	<u>\$ 17,115</u>	<u>\$ 19,173</u>

⁽¹⁾ Indefinite lived intangible assets consist of ESPN, Pixar and Marvel trademarks and television FCC licenses.

Accounts payable and other accrued liabilities

Accounts and accrued payables	\$ 16,357	\$ 13,183
Payroll and employee benefits	3,482	2,925
Other	1,055	693
	<u>\$ 20,894</u>	<u>\$ 16,801</u>

Other long-term liabilities

Pension and postretirement medical plan liabilities	\$ 4,132	\$ 6,451
Operating and financing lease liabilities	3,229	2,911
Other	7,161	7,842
	<u>\$ 14,522</u>	<u>\$ 17,204</u>

15 *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for broadcast rights for sports, films and other programming, totaling approximately \$77.4 billion, including approximately \$2.7 billion for available programming as of October 2, 2021. The Company also has contractual commitments for the construction of three new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives. Contractual commitments for sports programming rights, other broadcast programming rights and other commitments including cruise ships and creative talent are as follows:

Fiscal Year:	Sports Programming	Broadcast Programming	Other	Total
2022	\$ 10,305	\$ 3,105	\$ 4,469	\$ 17,879
2023	9,658	1,739	1,624	13,021
2024	8,406	852	1,735	10,993
2025	8,663	520	1,384	10,567
2026	5,863	314	165	6,342
Thereafter	27,501	428	3,477	31,406
	<u>\$ 70,396</u>	<u>\$ 6,958</u>	<u>\$ 12,854</u>	<u>\$ 90,208</u>

Sports programming primarily relates to rights for NFL, college football (including bowl games and the College Football Playoff) and basketball, NBA, NHL, UFC, MLB, soccer, cricket, tennis, golf and Top Rank Boxing. Certain sports programming rights have payments that are variable based primarily on revenues and are not included in the table above.

See Note 16 for discussion of the Company's operating and financing lease commitments.

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds, which mature in 2037. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of October 2, 2021, the remaining debt service obligation guaranteed by the Company was \$220 million. To the extent that tax revenues exceed the debt service payments subsequent to the Company funding a shortfall, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

16 *Leases*

The Company's operating leases primarily consist of real estate and equipment, including office space for general and administrative purposes, production facilities, land, retail outlets and distribution centers for consumer

products and content broadcast equipment. The Company also has finance leases, primarily for land and broadcast equipment.

Some of our leases include renewal and/or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease. As of October 2, 2021, our operating leases have a weighted-average remaining lease term of approximately 10 years, and our finance leases have a weighted-average remaining lease term of approximately 27 years. The weighted-average incremental borrowing rate is 2.4% and 6.3%, for our operating leases and finance leases, respectively. At October 2, 2021 total estimated future lease payments for signed non-cancelable leases agreements that have not commenced are not material.

TABLE OF CONTENTS

The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	October 2, 2021	October 3, 2020
Right-of-use assets⁽¹⁾		
Operating leases	\$ 3,895	\$ 3,687
Finance leases	336	361
Total right-of-use assets	<u>4,231</u>	<u>4,048</u>
Short-term lease liabilities⁽²⁾		
Operating leases	637	747
Finance leases	41	37
	<u>678</u>	<u>784</u>
Long-term lease liabilities⁽³⁾		
Operating leases	2,983	2,640
Finance leases	246	271
	<u>3,229</u>	<u>2,911</u>
Total lease liabilities	<u>\$ 3,907</u>	<u>\$ 3,695</u>

⁽¹⁾ Included in "Other assets" in the Consolidated Balance Sheet.

⁽²⁾ Included in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet.

⁽³⁾ Included in "Other long-term liabilities" in the Consolidated Balance Sheet.

The components of lease costs are as follows:

	October 2, 2021	October 3, 2020
Finance lease cost		
Amortization of right-of-use assets	\$ 42	\$ 37
Interest on lease liabilities	20	16
Operating lease cost	853	899
Variable fees and other ⁽¹⁾	414	491
Total lease cost	<u>\$ 1,329</u>	<u>\$ 1,443</u>

⁽¹⁾ Includes variable lease payments related to our operating and finance leases and costs of Short-term leases, net of sublease income.

Rental expense for operating leases during fiscal 2019, including common-area maintenance and contingent rentals, was \$1.1 billion.

Cash paid during the year for amounts included in the measurement of lease liabilities is as follows:

	October 2, 2021	October 3, 2020
Operating cash flows for operating leases	\$ 925	\$ 879
Operating cash flows for finance leases	20	16
Financing cash flows for finance leases	25	37
Total	<u>\$ 970</u>	<u>\$ 932</u>

[TABLE OF CONTENTS](#)

Future minimum lease payments, as of October 2, 2021, are as follows:

	Operating	Financing
Fiscal Year:		
2022	\$ 707	\$ 59
2023	601	52
2024	467	42
2025	415	38
2026	298	32
Thereafter	2,057	443
Total undiscounted future lease payments	4,545	666
Less: Imputed interest	(925)	(379)
Total reported lease liability	\$ 3,620	\$ 287

17 Fair Value Measurement

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 11 for definitions of fair value measures and the Levels within the fair value hierarchy.

Description	Fair Value Measurement at October 2, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 950	\$ —	\$ —	\$ 950
Derivatives				
Interest rate	—	186	—	186
Foreign exchange	—	707	—	707
Other	—	10	—	10
Liabilities				
Derivatives				
Interest rate	—	(287)	—	(287)
Foreign exchange	—	(618)	—	(618)
Other	—	(8)	—	(8)
Other	—	(375)	—	(375)
Total recorded at fair value	\$ 950	\$ (385)	\$ —	\$ 565
Fair value of borrowings	\$ —	\$ 58,913	\$ 1,411	\$ 60,324

TABLE OF CONTENTS

Description	Fair Value Measurement at October 3, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ —	\$ 1,057	\$ —	\$ 1,057
Derivatives				
Interest rate	—	515	—	515
Foreign exchange	—	505	—	505
Other	—	1	—	1
Liabilities				
Derivatives				
Interest rate	—	(4)	—	(4)
Foreign exchange	—	(549)	—	(549)
Other	—	(22)	—	(22)
Other	—	(294)	—	(294)
Total recorded at fair value	—	1,209	—	1,209
Fair value of borrowings	\$ —	\$ 63,370	\$ 1,448	\$ 64,818

The fair values of Level 2 investments are based on quoted market prices, adjusted for trading restrictions.

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, had an impact on derivative fair value estimates that was not material.

Level 2 other liabilities are primarily arrangements that are valued based on the fair value of underlying investments, which are generally measured using Level 1 and Level 2 fair value techniques.

Level 2 borrowings, which include commercial paper, U.S. dollar denominated notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

The Company also has assets that are required to be recorded at fair value on a non-recurring basis. These assets are evaluated when certain triggering events occur (including a decrease in estimated future cash flows) that indicate the asset should be evaluated for impairment. In fiscal 2020, the Company recorded impairment charges for goodwill and intangible assets as disclosed in Note 19. The fair value of these assets was determined using estimated discounted future cash flows, which is a Level 3 valuation technique (see Note 19 for a discussion of the more significant inputs used in our discounted cash flow analysis).

Credit Concentrations

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of October 2, 2021, in the event of nonperformance by any single derivative counterparty.

The Company generally enters into derivative transactions only with counterparties that have a credit rating of A- or better and requires collateral in the event credit ratings fall below A- or aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have below investment grade credit ratings and maintains short-term liquidity needs in high quality money market funds. At October 2, 2021, the Company did not have balances (excluding money market funds) with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents.

[TABLE OF CONTENTS](#)

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at October 2, 2021 due to the wide variety of customers and markets in which the Company's products are sold, the dispersion of our customers across geographic areas and the diversification of the Company's portfolio among financial institutions.

18 *Derivative Instruments*

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The Company's derivative positions measured at fair value are summarized in the following tables:

As of October 2, 2021				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 165	\$ 240	\$ (122)	\$ (83)
Interest rate	—	186	(287)	—
Other	10	—	—	—
Derivatives not designated as hedges				
Foreign exchange	183	119	(208)	(205)
Other	(8)	—	—	—
Gross fair value of derivatives	350	545	(617)	(288)
Counterparty netting	(301)	(360)	460	201
Cash collateral (received) paid	(3)	(51)	157	73
Net derivative positions	\$ 46	\$ 134	\$ —	\$ (14)

As of October 3, 2020				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 184	\$ 132	\$ (77)	\$ (273)
Interest rate	—	515	(4)	—
Other	1	—	(15)	(4)
Derivatives not designated as hedges				
Foreign exchange	53	136	(98)	(101)
Other	—	—	(3)	—
Gross fair value of derivatives	238	783	(197)	(378)
Counterparty netting	(143)	(378)	184	338
Cash collateral (received) paid	(26)	(142)	—	9
Net derivative positions	\$ 69	\$ 263	\$ (13)	\$ (31)

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable-rate borrowings indexed to LIBOR. As of October 2, 2021 and October 3, 2020, the total notional amount of the Company's pay-floating interest rate swaps was \$15.1 billion and \$15.8 billion, respectively.

[TABLE OF CONTENTS](#)

The following table summarizes fair value hedge adjustments to hedged borrowings:

	Carrying Amount of Hedged Borrowings		Fair Value Adjustments Included in Hedged Borrowings	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Borrowings:				
Current	\$ 505	\$ 753	\$ 5	\$ 4
Long-term	15,136	16,229	(103)	505
	<u>\$ 15,641</u>	<u>\$ 16,982</u>	<u>\$ (98)</u>	<u>\$ 509</u>

The following amounts are included in “Interest expense, net” in the Consolidated Statements of Operations:

	2021	2020	2019
Gain (loss) on:			
Pay-floating swaps	\$ (603)	\$ 479	\$ 337
Borrowings hedged with pay-floating swaps	603	(479)	(337)
Benefit (expense) associated with interest accruals on pay-floating swaps	143	28	(58)

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed interest rate swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at October 2, 2021 or at October 3, 2020, and gains and losses related to pay-fixed swaps recognized in earnings for fiscal 2021, 2020 and 2019 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company’s objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of October 2, 2021 and October 3, 2020, the notional amounts of the Company’s net foreign exchange cash flow hedges were \$6.9 billion and \$4.6 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months total \$68 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI:

	2021	2020
Gain (loss) recognized in Other Comprehensive Income	\$ 61	\$ (63)
Gain (loss) reclassified from AOCI into the Statement of Operations ⁽¹⁾	24	269

⁽¹⁾ Primarily recorded in revenue.

The Company designates cross currency swaps as fair value hedges of foreign currency denominated borrowings. The impact of the designated exposure is recorded to “Interest expense, net” to offset the foreign currency impact of the foreign currency denominated borrowing. The non-hedged exposure is recorded to AOCI and is amortized over the life of the cross currency swap. As of October 2, 2021 and October 3, 2020, the total notional amounts of the Company’s designated cross currency swaps were Canadian \$1.3 billion (\$1.0 billion) and Canadian \$1.3 billion (\$1.0 billion), respectively.

TABLE OF CONTENTS

The following amounts are included in “Interest expense, net” in the Consolidated Statements of Operations:

	October 2, 2021	October 3, 2020
Gain (loss) on:		
Cross currency swaps	\$ 47	\$ 53
Borrowings hedged with cross currency swaps	(47)	(53)

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at both October 2, 2021 and October 3, 2020 was \$3.5 billion. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities by the corresponding line item in which they are recorded in the Consolidated Statements of Operations:

	Costs and Expenses			Interest expense, net			Income Tax Expense		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Net gains (losses) on foreign currency denominated assets and liabilities	\$ (30)	\$ 10	\$ (188)	\$ (47)	\$ 1	\$ 16	\$ (7)	\$ (35)	\$ 50
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(83)	(56)	123	47	—	(19)	2	33	(51)
Net gains (losses)	<u>\$ (113)</u>	<u>\$ (46)</u>	<u>\$ (65)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (3)</u>	<u>\$ (5)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices, and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at October 2, 2021 and October 3, 2020 and related gains or losses recognized in earnings were not material for fiscal 2021, 2020 and 2019.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount of these contracts at October 2, 2021 and October 3, 2020 were \$0.4 billion and \$0.3 billion, respectively. The related gains or losses recognized in earnings were not material for fiscal 2021, 2020 and 2019.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company’s credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty’s credit rating. If the Company’s or the counterparty’s credit ratings were to fall below investment grade, such counterparties or the

Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were \$244 million and \$53 million at October 2, 2021 and October 3, 2020, respectively.

19 Restructuring and Impairment Charges

Goodwill and Intangible Asset Impairment

Prior to the Company's reorganization in October 2020 (see Note 1 for additional information), the former Direct-to-Consumer & International segment included the International Channels reporting unit, which comprised the Company's international television networks. Our international television networks primarily derive revenues from affiliate fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top service

TABLE OF CONTENTS

providers) (MVPDs) for the right to deliver our programming under multi-year licensing agreements and the sales of advertising time/space on the networks. A majority of the operations in this reporting unit were acquired in the TFCF acquisition, and therefore the fair value of these businesses approximated the carrying value at the date of the acquisition of TFCF.

The International Channels business has been negatively impacted by the COVID-19 pandemic resulting in decreased viewership and lower advertising revenue related to the availability of content, including the deferral of certain live sporting events. The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our film and television content from licensing of linear channels to distributing it on our DTC platforms. The International Channels reporting unit valuation does not include the value derived from this shift, which is reflected in other reporting units. In addition, the industry shift to DTC, including by us and many of our distributors, who are pursuing their own DTC strategies, has changed the competitive dynamics for the International Channels business and resulted in unfavorable renewal terms for certain of our distribution agreements.

Due to these circumstances, in fiscal 2020, we tested the International Channels' goodwill and long-lived assets (including intangible assets) for impairment.

We determined the appropriate asset groups for our International Channels to be the regions in which they operate. We estimated the projected undiscounted cash flows over the remaining useful life of the significant assets of the asset group. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment is measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets.

We tested the International Channels reporting unit goodwill for impairment by comparing the fair value of the International Channels reporting unit to its carrying value.

The more significant inputs used in determining our estimate of the projected undiscounted cash flows included future revenue growth and projected margins as well as the discount rates used to calculate the present value of the future cash flows (fair value). The determination of fair value requires us to make assumptions and estimates about how market participants would value the business or asset group. Given the ongoing impacts of COVID-19, the projected cash flows and underlying assumptions are subject to greater uncertainty than normal.

In fiscal 2020, we recorded a non-cash impairment charge primarily on our MVPD agreement intangible assets of \$1.9 billion and we recorded a \$3.1 billion non-cash impairment charge to fully impair the International Channels reporting unit goodwill. These charges are recorded in "Restructuring and impairment charges" in the Consolidated Statements of Operations.

As of October 2, 2021, the remaining balance of our international MVPD agreement intangible assets was \$2.2 billion, primarily related to our channel businesses in Latin America and India.

TFCF Integration

In fiscal 2019, the Company implemented a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of TFCF, which was substantially complete as of the end of fiscal 2020. We have recorded restructuring charges of \$1.7 billion since the TFCF acquisition primarily related to the DMED segment. These charges included \$1.3 billion related to severance (including employee contract terminations) and \$0.3 billion of equity based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the TFCF acquisition. These charges are recorded in "Restructuring and impairment charges" in the Consolidated Statements of Operations.

The changes in restructuring reserves related to the TFCF integration for fiscal 2021, 2020 and 2019 are as follows:

Balance at September 29, 2018	\$	—
Additions in fiscal 2019		906
Payments in fiscal 2019		(230)
Balance at September 28, 2019		676
Additions in fiscal 2020		453
Payments in fiscal 2020		(772)
Balance at October 3, 2020		357
Additions in fiscal 2021		44
Payments in fiscal 2021		(351)
Balance at October 2, 2021	\$	<u>50</u>

TABLE OF CONTENTS

Other

In fiscal 2021, the Company recognized restructuring and impairment charges of \$0.6 billion, primarily related to the planned closure of an animation studio and a substantial number of our Disney-branded retail stores in North America and Europe as well as severance at our parks and experiences businesses. In fiscal 2020, the Company recognized restructuring and impairment charges of \$0.3 billion, primarily for severance at our parks and experiences businesses. Other restructuring and impairment charges in fiscal 2019 were not material. These charges are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Operations.

20 New Accounting Pronouncements

Accounting Pronouncements Adopted in Fiscal 2021

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued new accounting guidance which modifies existing guidance related to the measurement of credit losses on financial instruments, including trade and loan receivables. The new guidance requires the allowance for credit losses to be measured based on expected losses over the life of the asset rather than incurred losses. The Company adopted the new guidance in the first quarter of fiscal 2021 without restating prior periods by recording the impact of adoption as an adjustment to retained earnings at the beginning of fiscal 2021. The adoption did not have a material impact on our financial statements.

Accounting Pronouncements Not Yet Adopted

Facilitation of the Effects of Reference Rate Reform

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships, and other transactions affected by the transition from the use of LIBOR to an alternative reference rate. We are currently evaluating our contracts and hedging relationships that reference LIBOR and the potential effects of adopting this new guidance. The guidance can be adopted immediately and is applicable to contracts entered into before January 1, 2023.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance which simplifies the accounting for income taxes. The guidance amends the rules for recognizing deferred taxes for investments, performing intraperiod tax allocations and calculating income taxes in interim periods. It also reduces complexity in certain areas, including the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating taxes to members of a consolidated group. The guidance is effective at the beginning of the Company’s 2022 fiscal year. The new guidance will not have a material impact on our financial statements.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 3, 2020

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-38842

dis-20201003_g1.jpg

Delaware

83-0940635

State or Other Jurisdiction of
Incorporation or Organization

I.R.S. Employer Identification

**500 South Buena Vista Street
Burbank, California 91521**

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was \$174.0 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 1,810,485,037 shares of common stock outstanding as of November 18, 2020.

Documents Incorporated by Reference

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2021 annual meeting of the Company's shareholders.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

TABLE OF CONTENTS

PART I

ITEM 1.	<u>Business</u>	<u>1</u>
ITEM 1A.	<u>Risk Factors</u>	<u>20</u>
ITEM 1B.	<u>Unresolved Staff Comments</u>	<u>29</u>
ITEM 2.	<u>Properties</u>	<u>29</u>
ITEM 3.	<u>Legal Proceedings</u>	<u>30</u>
ITEM 4.	<u>Mine Safety Disclosures</u>	<u>30</u>
	<u>Executive Officers of the Company</u>	<u>30</u>

PART II

ITEM 5.	<u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>32</u>
ITEM 6.	<u>Selected Financial Data</u>	<u>33</u>
ITEM 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
ITEM 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
ITEM 8.	<u>Financial Statements and Supplementary Data</u>	<u>62</u>
ITEM 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>62</u>
ITEM 9A.	<u>Controls and Procedures</u>	<u>62</u>
ITEM 9B.	<u>Other Information</u>	<u>62</u>

PART III

ITEM 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>63</u>
ITEM 11.	<u>Executive Compensation</u>	<u>63</u>
ITEM 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>63</u>
ITEM 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>63</u>
ITEM 14.	<u>Principal Accounting Fees and Services</u>	<u>63</u>

TABLE OF CONTENTS

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in the following business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI). In October 2020, the Company announced a strategic reorganization of our media and entertainment businesses to accelerate the growth of our direct-to-consumer (DTC) strategy. The operations of the Media Networks, Studio Entertainment and DTCI segments were reorganized into four groups: three content groups (Studios, General Entertainment and Sports), which are focused on developing and producing content that will be used across all of our traditional and DTC platforms and a distribution group, which is focused on distribution and commercialization activities across these platforms and which has full accountability for media and entertainment operating results globally.

The terms “Company”, “we”, “our” and “us” are used in this report to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

COVID-19 Pandemic

During fiscal 2020 and continuing into fiscal 2021, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) pandemic. COVID-19 and measures to prevent its spread impacted our segments in a number of ways, most significantly at Parks, Experiences and Products where our theme parks were closed or operating at significantly reduced capacity for a significant portion of the year, cruise ship sailings and guided tours were suspended since late in the second quarter and retail stores were closed for a significant portion of the year. We also had an adverse impact on our merchandise licensing business. Our Studio Entertainment segment has delayed, or in some cases, shortened or cancelled, theatrical releases, and stage play performances have been suspended since late in the second quarter. We also had adverse impacts on advertising sales at Media Networks and Direct-to-Consumer & International. Since March 2020, we have experienced significant disruptions in the production and availability of content, including the shift of key live sports programming from our third quarter to the fourth quarter and into fiscal 2021 as well as the suspension of production of most film and television content since late in the second quarter, although some film and television production resumed in the fourth quarter.

The impact of these disruptions and the extent of their adverse impact on our financial and operating results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact of governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. As some of our businesses have reopened, we have incurred additional costs to address government regulations and the safety of our employees, talent and guests. The reopening or closure of our businesses is dependent on applicable government requirements, which vary by location, are subject to ongoing changes, which could result from increasing COVID-19 cases.

Human Capital

The Company’s key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company’s human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future; reward and support employees through competitive pay, benefit, and perquisite programs; enhance the Company’s culture through efforts aimed at making the workplace more engaging and inclusive; acquire talent and facilitate internal talent mobility to create a high-performing, diverse workforce; engage employees as brand ambassadors of the Company’s content, products and experiences; and evolve and invest in technology, tools, and resources to enable employees at work.

The Company employed approximately 203,000 people as of October 3, 2020. Our global workforce is comprised of approximately 80% full time and 20% part time employees, with nearly 1% of the part time population being seasonal employees. Of the total population as of October 3, 2020, approximately 155,000 of our employees worked in the Parks, Experiences and Products segment.

Some examples of key programs and initiatives that are focused to attract, develop and retain our diverse workforce include:

- Diversity and inclusion (D&I). Our D&I objectives are to build teams that reflect the life experiences of our audiences, while employing and supporting a diverse array of voices in our creative and production content.
 - Established six pillars that serve as the foundation for our D&I commitments – transparency, accountability, representation, content, community, and culture
 - Created a pipeline of next-generation creative executives from underrepresented backgrounds through programs such as the Executive Incubator, Creative Talent Development and Inclusion (CTDI), and the Disney Launchpad: Shorts Incubator

TABLE OF CONTENTS

- Championed targeted development programs for underrepresented talent
- Hosted a series of culture-changing, innovation and learning opportunities to spark dialogue among employees, leaders, Disney talent and external experts
- Sponsored over 70 employee-led Business Employee Resource Groups (BERGs) that represent and support the diverse communities that make up our workforce. The BERGs facilitate networking and connections with peers, outreach and mentoring, leadership and skill development and cross-cultural business innovation
- Health, wellness and family resources. Disney's benefit offerings are designed to meet the varied and evolving needs of a diverse workforce across businesses and geographies. Because we want our employees and their families to thrive, this year, we enhanced the ways we help our employees care for themselves and their families, especially in response to COVID-19
 - Healthcare options for employees in Florida and Southern California, aimed at reducing out-of-pocket costs
 - Coverage of all COVID-19 testing and treatment under all Company medical plans at no cost to the employees and dependents
 - Child care programs for employees, including access to onsite/community centers, enhanced back-up care choices to include personal caregivers, child care referral assistance and center discounts, homework help and a variety of parenting educational resources
 - Free mental and behavioral health resources, including on-demand access to the Employee Assistance Program (EAP) for employees and their dependents
- Disney Aspire. We support the long-term career aspirations of our hourly employees through education and personal development. We pay tuition costs at a network of schools and aim to help our hourly employees put their career goals within reach by equipping them with degree programs, coaching and job skills designed for a rapidly changing workplace and workforce
 - Investment of \$150 million in Aspire's first five years to cover 100% of tuition, books and education fees
 - Access to a wide variety of degree, certificate, high school completion, college start, language learning and trades programs
 - Chosen fields of study do not have to be related to an employee's current position, and employees do not have to stay at the Company upon completion of their studies
- Talent Development. We prioritize and invest in creating opportunities to help employees grow and build their careers, through a multitude of training and development programs. These include online, instructor-led and on-the-job learning formats as well as executive talent and succession planning paired with an individualized development approach
- Community & Social Impact. We are committed to providing comfort to those in need and inspiration and opportunity to those who want to improve their world. One primary way we do this is through our unique employee volunteer program - Disney VoluntEARS. Throughout the year, employees make a positive impact in their local communities and have found a multitude of special ways to continue volunteering during the pandemic

Due to the current climate, including COVID-19 impacts, and changing environment in which we are operating, the Company has generated efficiencies in its staffing, including limiting hiring to critical business roles, furloughs and reductions-in-force. As part of these actions, the employment of approximately 32,000 employees primarily at Parks, Experiences and Products will terminate in the first half of fiscal 2021. Additionally, as of October 3, 2020, approximately 37,000 employees who are not scheduled for employment termination were on furlough as a result of COVID-19's impact on our businesses.

Direct-to-Consumer

In November 2019, the Company launched Disney+, a subscription-based DTC video streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded content in the U.S. and four other countries and has expanded to select Western European countries in the Spring of 2020. In April, our Hotstar service in India was

converted to Disney+Hotstar, and in June 2020, current subscribers of the Disney Deluxe service in Japan were converted to Disney+. In September 2020, Disney+ was launched in additional European countries and Disney+Hotstar was launched in Indonesia. In November 2020, Disney+ was launched in Latin America. Additional launches are planned for various Asia-Pacific territories in calendar 2021.

The Company also plans to launch a general entertainment DTC video streaming offering under the Star brand outside the U.S. in calendar year 2021.

TFCF Acquisition

On March 20, 2019, the Company acquired the outstanding capital stock of Twenty-First Century Fox, Inc., a diversified global media and entertainment company, which was subsequently renamed TFCF Corporation (TFCF). As a result of the

TABLE OF CONTENTS

acquisition, the Company's ownership interest in Hulu, LLC (Hulu), a general entertainment DTC video streaming service, increased to 60% (67% as of October 3, 2020), and the Company started consolidating the results of Hulu as of the acquisition date. See Note 4 of the Consolidated Financial Statements for additional information on the TFCF and Hulu transactions.

MEDIA NETWORKS

Significant operations:

- Disney, ESPN, Freeform, FX and National Geographic branded domestic cable networks
- ABC branded broadcast television network and eight owned domestic television stations
- Television production and distribution
- A 50% equity investment in A+E Television Networks (A+E)

Significant revenues:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (OTT) (e.g. Hulu, YouTube TV) service providers) (MVPDs) and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Advertising - Sales of advertising time/space on our domestic networks and related platforms ("ratings-based ad sales", which excludes advertising on digital platforms that is not ratings-based), and the sale of advertising time on our domestic television stations. Ratings-based ad sales are generally determined using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms is reported by DTCI
- TV/SVOD distribution - Licensing fees and other revenues from the right to use our television programs and productions and revenue from content transactions with other Company segments ("program sales")

Significant expenses:

- Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

Domestic Cable Networks

Our domestic cable networks produce their own programs and also acquire programming rights from our television and film production operations and third parties. The majority of the domestic cable networks' revenue is derived from affiliate fees and advertising sales. Generally, the Company's cable networks provide programming under multi-year licensing agreements with MVPDs that include contractually specified rates on a per subscriber basis. The amounts that we can charge to MVPDs for our cable network programming is largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand. We also sell programs developed by our cable networks worldwide to television broadcasters, to subscription video-on-demand (SVOD) services (such as Netflix and Amazon) and in home entertainment formats (such as DVD, Blu-ray and electronic home video license). A significant portion of our programs are sold to the DTCI segment for use on our DTC offerings. As such, we are forgoing certain licensing revenue from the sale of this content to third parties in TV/SVOD markets.

TABLE OF CONTENTS

The Company's significant domestic cable channels and the number of subscribers (in millions) as estimated by Nielsen Media Research⁽¹⁾ as of September 2020 (except where noted) are as follows:

	Estimated Subscribers⁽²⁾
Disney	
Disney Channel	85
Disney Junior	66
Disney XD	66
ESPN	
ESPN	84
ESPN2	84
ESPNU	62
ESPNEWS	62
SEC Network ⁽³⁾	57
Freeform	85
FX	
FX	86
FXX	83
FXM	57
National Geographic	
National Geographic	85
National Geographic Wild	60

⁽¹⁾ As a result of COVID-19, we understand there have been disruptions in Nielsen Media Research's ability to collect in-home data, which may have had an impact on the estimated subscriber counts at September 2020.

⁽²⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

⁽³⁾ Because Nielsen Media Research does not measure this channel, estimated subscribers are according to SNL Kagan as of December 2019.

Disney

Branded television channels include Disney Channel, Disney Junior and Disney XD. Programming for these channels includes internally developed and acquired programming. The Disney branded channels also provide programming for video-on-demand (VOD) services and through the DisneyNOW App and website, both of which are operated by DTCL.

Disney Channel - the domestic Disney Channel airs original series and movie programming 24 hours a day targeted to kids ages 2 to 14. Disney Channel develops and produces shows for exhibition on its channel, including live-action comedy series, animated programming and preschool series, as well as original movies. Disney Channel also airs content from Disney's theatrical film and television programming library.

Disney Junior - the domestic Disney Junior channel airs programming 24 hours a day targeted to kids ages 2 to 7 and their parents and caregivers. The channel features animated and live-action programming that blends Disney's storytelling and characters with learning. Disney Junior also airs as a programming block on the Disney Channel.

Disney XD - the domestic Disney XD channel airs programming 24 hours a day targeted to kids ages 6 to 11. The channel features a mix of live-action and animated programming.

ESPN

ESPN is a multimedia sports entertainment company owned 80% by the Company and 20% by Hearst Corporation (Hearst). ESPN operates nine 24-hour domestic television sports channels: ESPN and ESPN2 (both of which are sports channels dedicated to professional and college sports as well as sports news and original programming), ESPNU (which is devoted to college sports), ESPNEWS (which simulcasts weekday ESPN Radio programming, re-airs select ESPN studio shows and airs a variety of other programming), SEC Network (which is dedicated to Southeastern Conference college athletics), ESPN Classic (which airs rebroadcasts of famous sporting events, sports documentaries and sports-themed movies), Longhorn Network (which is dedicated to The University of Texas athletics), ESPN Deportes (which airs professional and

TABLE OF CONTENTS

college sports, as well as studio shows in Spanish), and ACC Network (which is dedicated to Atlantic Coast Conference college athletics). ESPN programs the sports schedule on the ABC Television Network, which is branded ESPN on ABC.

ESPN holds rights for various professional and college sports programming including college football (including bowl games and the College Football Playoff) and basketball, the National Basketball Association (NBA), the National Football League (NFL), Major League Baseball (MLB), US Open Tennis, the Professional Golfers' Association (PGA) Championship, the Women's National Basketball Association (WNBA), various soccer rights, Top Rank Boxing, the Wimbledon Championships and the Masters golf tournament.

ESPN provides programming for the following, which are operated by DTCL:

- ESPN.com delivers sports news, information and video on internet-connected devices, with approximately 20 editions in three languages globally. In the U.S., ESPN.com also features live video streams of ESPN channels to authenticated MVPD subscribers. Non-subscribers have limited access to certain content.
- ESPN App delivers scores, news, stories, highlights, short form video, podcasts and live audio, with fourteen editions in three languages globally. In the U.S., the ESPN App also features live video streams of ESPN's linear channels and exclusive events to authenticated MVPD subscribers. Non-subscribers have limited access to certain content. The ESPN App is available for download on various internet-connected devices.
- ESPN+ is a multi-sports subscription offering available through ESPN.com and the ESPN App.

ESPN also operates the following:

- ESPN Radio distributes talk and play-by-play programming in the U.S. ESPN Radio network programming is carried on approximately 400 terrestrial stations, including four ESPN owned stations in New York, Los Angeles, Chicago and Dallas, and on satellite and internet radio.
- ESPN owns and operates the following events: ESPYs (annual awards show); X Games (winter and summer action sports competitions); and a portfolio of collegiate sporting events including: bowl games, basketball games, softball games and post-season award shows.

Freeform

Freeform is a channel targeted to viewers ages 18 to 34. Freeform produces original live-action programming, acquires programming rights from our television and theatrical production businesses and from third parties, and features branded holiday programming events. Freeform content is also available through VOD services and through the Freeform App and website, both of which are operated by DTCL.

FX

Branded television channels include FX, FXM and FXX. Programming for these channels includes internally developed and acquired programming. Internally produced programming for the 2020/2021 season includes two returning and one new one-hour dramas, nine returning half-hour comedies, and three new and one returning non-scripted series.

FX - is a general entertainment channel that airs original series, acquired television series and films including content from the Company's libraries.

FXX - is a general entertainment channel targeted to young adults that airs acquired television series and films as well as content from the Company's film and television libraries. The channel also airs original television series.

FXM - is a television channel that primarily airs films from the Company's library or acquired from third parties.

National Geographic

National Geographic operates branded television channels (National Geographic, Nat Geo Wild and Nat Geo Mundo (collectively the National Geographic Channels)) and publishes the National Geographic magazines. The National Geographic Channels air scripted and documentary programming on such topics as natural history,

adventure, science, exploration and culture. National Geographic is owned 73% by the Company and 27% by the National Geographic Society.

Broadcasting

Our broadcasting business includes a domestic broadcast network, television production and distribution operations, and eight owned domestic television stations.

Domestic Broadcast Television Network

The Company operates the ABC Television Network (ABC), which as of October 3, 2020, had affiliation agreements with approximately 240 local television stations reaching almost 100% of U.S. television households. ABC broadcasts programs in the primetime, daytime, late night, news and sports “dayparts”.

TABLE OF CONTENTS

ABC produces its own programs and also acquires programming rights from third parties as well as entities that are owned by or affiliated with the Company. ABC derives the majority of its revenues from advertising sales and affiliate fees. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand for time on broadcast networks. ABC also receives fees from affiliated television stations for the right to broadcast ABC programming.

ABC network programming is available digitally on internet-connected devices to authenticated MVPD subscribers. Non-subscribers have more limited access to on-demand episodes.

ABC provides online access to in-depth worldwide news and certain other programming through various Company operated and third party distribution platforms.

Television Production and Distribution

ABC Signature (previously ABC Studios), 20th Television (previously Twentieth Century Fox Television) and Touchstone Television (previously Fox 21 Television Studios) produce the majority of the Company's general entertainment television programs. Program development is carried out in collaboration with writers, producers and creative teams, with a focus on one-hour dramas and half-hour comedies, primarily for primetime broadcasts.

Programming produced either for our networks or for third-party platforms for the 2020/2021 television season includes:

- ABC Signature - seven returning and two new one-hour dramas and five returning and two new half-hour comedies
- 20th Television and Touchstone Television - fifteen returning and eight new one-hour dramas and nine returning and four new half-hour comedies

The Company also produces *Jimmy Kimmel Live* for late night and a variety of primetime specials, as well as syndicated, news and daytime programming.

We distribute the Company's productions worldwide to television broadcasters and SVOD services and in home entertainment formats. The Company has a significant library of television programming spanning approximately 70 years of production history. Series with four or more seasons include approximately 55 one-hour dramas and 40 half-hour comedies.

Domestic Television Stations

The Company owns eight television stations, six of which are located in the top ten television household markets in the U.S. The television stations derive the majority of their revenues from advertising sales. The stations also receive affiliate fees from MVPDs. All of our television stations are affiliated with ABC and collectively reach approximately 20% of the nation's television households. Generally, each owned station broadcasts three digital channels: the first consists of local, ABC and syndicated programming; the second is Localish (formerly the Live Well Network); and the third is the LAFF Network.

The stations we own are as follows:

TV Station	Market	Television Market Ranking⁽¹⁾
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KGO	San Francisco, CA	6
KTRK	Houston, TX	8
WTVD	Raleigh-Durham, NC	27
KFSN	Fresno, CA	55

⁽¹⁾ Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2020.

Equity Investments

The Company has investments in media businesses that are accounted for under the equity method, and the Company's share of the financial results for these investments is reported as "Equity in the income (loss) of investees, net" in the

TABLE OF CONTENTS

Company's Consolidated Statements of Operations. The Company's significant equity investments reported in the Media Networks segment are as follows:

A+E

A+E is owned 50% by the Company and 50% by Hearst. A+E operates a variety of cable channels:

- A&E – which offers entertainment programming including original reality and scripted series
- HISTORY – which offers original series and event-driven specials
- Lifetime and Lifetime Real Women – which offer female-focused programming
- Lifetime Movie Network (LMN) – which offers female-focused movies
- FYI – which offers contemporary lifestyle programming

A+E also has a 50% ownership interest in Viceland, a channel offering lifestyle-oriented documentaries and reality series aimed at millennial audiences.

A+E programming is available in approximately 200 countries and territories. A+E's networks are distributed internationally under multi-year licensing agreements with MVPDs. A+E programming is also sold to international television broadcasters and SVOD services.

The number of domestic subscribers (in millions) for A+E channels as estimated by Nielsen Media Research⁽¹⁾ as of September 2020 is as follows:

	Estimated Subscribers⁽²⁾
A&E	84
HISTORY	85
Lifetime	84
LMN	61
FYI	50
Viceland	63

⁽¹⁾ As a result of COVID-19, we understand there have been disruptions in Nielsen Media Research's ability to collect in-home data, which may have had an impact on the estimated subscriber counts at September 2020.

⁽²⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

CTV

ESPN holds a 30% equity interest in CTV Specialty Television, Inc., which owns television channels in Canada, including The Sports Networks (TSN) 1-5, Le Réseau des Sports (RDS), RDS2, RDS Info, ESPN Classic Canada, Discovery Canada and Animal Planet Canada.

Competition and Seasonality

The Company's Media Networks businesses compete for viewers primarily with other broadcast and cable networks, independent television stations and other media, such as DTC services and video games. With respect to the sale of advertising time, we compete with other television networks and radio stations, independent television stations, MVPDs and other advertising media such as digital content, newspapers, magazines and billboards. Our television and radio stations primarily compete for audiences and advertisers in local market areas.

The Company's Media Networks businesses face competition from other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

The Company's Media Networks businesses also compete with other media and entertainment companies, independent production companies, SVOD providers and direct-to-consumer services for the acquisition of sports rights, talent, show concepts, scripted and other programming, and exhibition outlets.

The Company's internet websites and digital products compete with other websites and entertainment products.

TABLE OF CONTENTS

Advertising revenues at Media Networks are subject to seasonal advertising patterns and changes in viewership levels. Revenues are typically somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are generally collected ratably throughout the year.

Federal Regulation

Television and radio broadcasting are subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary fines, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect our Media Networks segment include the following:

- *Licensing of television and radio stations.* Each of the television and radio stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (and the acquiring entity in the case of a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.
- *Television and radio station ownership limits.* The FCC imposes limitations on the number of television stations and radio stations we can own in a specific market, on the combined number of television and radio stations we can own in a single market and on the aggregate percentage of the national audience that can be reached by television stations we own. Currently:
 - FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any market.
 - Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience. Pursuant to the most recent decision by the FCC as to how to calculate compliance with this limit, our eight stations reach approximately 20% of the national audience.
 - FCC regulations in some cases impose restrictions on our ability to acquire additional radio or television stations in the markets in which we own radio stations. We do not believe any such limitations are material to our current operating plans.
- *Dual networks.* FCC rules currently prohibit any of the four major broadcast television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.
- *Regulation of programming.* The FCC regulates broadcast programming by, among other things, banning “indecent” programming, regulating political advertising and imposing commercial time limits during children’s programming. Penalties for broadcasting indecent programming can be over \$400 thousand per indecent utterance or image per station.

Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast stations are generally required to provide an average of three hours per week of programming that has as a “significant purpose” meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.

- *Cable and satellite carriage of broadcast television stations.* With respect to MVPDs operating within a television station’s Designated Market Area, FCC rules require that every three years each television station elect either “must carry” status, pursuant to which MVPDs generally must carry a local television station in the station’s market, or “retransmission consent” status, pursuant to which the MVPDs must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. The ABC owned television stations have historically elected retransmission consent.

- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations regarding cable and satellite retransmission consent, and some cable and satellite distribution companies have sought regulation of additional aspects of the carriage of programming on cable and satellite systems. New legislation, court action or regulation in this area could have an impact on the Company's operations.

The foregoing is a brief summary of certain provisions of the Communications Act, other legislation and specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC's regulatory authority.

[TABLE OF CONTENTS](#)

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

PARKS, EXPERIENCES AND PRODUCTS

Significant operations:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); and Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort.
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in Media Networks)

Significant revenues:

- Theme park admissions - Sales of tickets for admission to our theme parks
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from intellectual property licensing
 - Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities and real estate rent and sales. In addition, we earn royalties on Tokyo Disney Resort revenues.

Significant expenses:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

Significant capital investments:

- In recent years, over 70% of the Company's capital spend has been at our parks and experiences business, which is principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The various investment plans discussed in the "Parks & Experiences" section are based on management's current expectations. Actual investment may differ

Many of our Parks, Experiences and Products businesses have been significantly impacted by COVID-19, including:

- Walt Disney World Resort closed from March 16, 2020 through July 10, 2020
- Disneyland Resort closed March 14, 2020 and continues to be closed, except for the Downtown Disney district which reopened on July 9, 2020
- Disneyland Paris closed from March 14, 2020 through July 14, 2020 and closed again on October 30, 2020
- Hong Kong Disneyland Resort closed from January 26, 2020 through June 17, 2020 and July 15, 2020 through September 24, 2020
- Shanghai Disney Resort closed from January 25, 2020 through May 10, 2020

TABLE OF CONTENTS

- Tokyo Disney Resort closed from February 29, 2020 through June 30, 2020
- Disney Cruise Line sailings have been suspended since March 14, 2020
- Many of our retail stores were closed for most of the second half of our fiscal year although most have since reopened

Parks & Experiences

Walt Disney World Resort

The Walt Disney World Resort is located approximately 20 miles southwest of Orlando, Florida, on approximately 25,000 acres of land. The resort includes theme parks (the Magic Kingdom, Epcot, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex (Disney Springs); a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored or operated by other corporations under multi-year agreements.

Magic Kingdom — The Magic Kingdom consists of six themed areas: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed attractions, restaurants, merchandise shops and entertainment experiences.

Epcot — Epcot consists of two major themed areas: Future World and World Showcase. Future World dramatizes certain historical developments and addresses the challenges facing the world today through pavilions devoted to showcasing science and technology innovations, communication, transportation, use of imagination, nature and food production, the ocean environment and space. World Showcase presents a community of nations focusing on the culture, traditions and accomplishments of people around the world. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the U.S. Both areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. Epcot is undergoing a multi-year transformation, which will include the addition of new attractions and experiences.

Disney's Hollywood Studios — Disney's Hollywood Studios consists of eight themed areas: Animation Courtyard, Commissary Lane, Echo Lake, Grand Avenue, Hollywood Boulevard, *Star Wars*: Galaxy's Edge, Sunset Boulevard and Toy Story Land. The areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service, merchandise shops and entertainment experiences.

Disney's Animal Kingdom — Disney's Animal Kingdom consists of a 145-foot tall Tree of Life centerpiece surrounded by five themed areas: Africa, Asia, DinoLand USA, Discovery Island and Pandora - The World of Avatar. Each themed area contains attractions, restaurants, merchandise shops and entertainment experiences. The park features more than 300 species of live mammals, birds, reptiles and amphibians and 3,000 varieties of vegetation.

Hotels, Vacation Club Properties and Other Resort Facilities — As of October 3, 2020, the Company owned and operated 18 resort hotels and vacation club facilities at the Walt Disney World Resort, with approximately 24,000 rooms and 3,500 vacation club units. Resort facilities include 500,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites. The Company is constructing a new *Star Wars*: Galactic Starcruiser hotel at the Walt Disney World Resort.

Disney Springs is an approximately 120-acre retail, dining and entertainment complex and consists of four areas: Marketplace, The Landing, Town Center and West Side. The areas are home to more than 150 venues including the 64,000-square-foot World of Disney retail store and NBA Experience. Most of the Disney Springs facilities are operated by third parties that pay rent to the Company.

Nine independently-operated hotels with approximately 6,000 rooms are situated on property leased from the Company.

ESPN Wide World of Sports Complex is a 230-acre center that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes both amateur and professional athletes, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. It also includes a stadium, as well as two venues designed for cheerleading, dance competitions and other indoor sports. In 2020, the complex hosted the remainder of the previously suspended NBA season, including the playoffs and finals.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, swimming, horseback riding and a number of other sports and leisure time activities. The resort also includes two water parks: Disney's Blizzard Beach and Disney's Typhoon Lagoon.

TABLE OF CONTENTS

Disneyland Resort

The Company owns 486 acres and has rights under a long-term lease for use of an additional 55 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex (Downtown Disney).

The Disneyland Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of the attractions and restaurants in the theme parks are sponsored or operated by other corporations under multi-year agreements.

Disneyland — Disneyland consists of nine themed areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square, *Star Wars: Galaxy's Edge*, and Tomorrowland. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences.

Disney California Adventure — Disney California Adventure is adjacent to Disneyland and includes seven themed areas: Buena Vista Street, Cars Land, Grizzly Peak, Hollywood Land, Pacific Wharf, Paradise Gardens Park and Pixar Pier. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences. The Company is constructing a new themed area, Avengers Campus.

Hotels, Vacation Club Units and Other Resort Facilities — Disneyland Resort includes three Company owned and operated hotels and vacation club facilities with approximately 2,400 rooms, 50 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney is a themed 15-acre retail, entertainment and dining complex with approximately 30 venues located adjacent to both Disneyland and Disney California Adventure. Most of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

Aulani, a Disney Resort & Spa

Aulani, a Disney Resort & Spa, is a Company-operated family resort on a 21-acre oceanfront property on Oahu, Hawaii featuring approximately 350 hotel rooms, an 18,000-square-foot spa and 12,000 square feet of conference meeting space. The resort also has approximately 480 vacation club units.

Disneyland Paris

Disneyland Paris is located on a 5,510-acre development in Marne-la-Vallée, approximately 20 miles east of Paris, France. The land is being developed pursuant to a master agreement with French governmental authorities. Disneyland Paris includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed resort hotels; two convention centers; a shopping, dining and entertainment complex (Disney Village); and a 27-hole golf facility. Of the 5,510 acres comprising the site, approximately half have been developed to date, including a planned community (Val d'Europe) and an eco-tourism destination (Villages Nature).

Disneyland Park — Disneyland Park consists of five themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street USA. These areas include themed attractions, restaurants, merchandise shops and entertainment experiences.

Walt Disney Studios Park — Walt Disney Studios Park includes four themed areas: Backlot, Front Lot, Production Courtyard and Toon Studio. These areas each include themed attractions, restaurants, merchandise shops and entertainment experiences. The Company has announced plans for a multi-year expansion of Walt Disney Studios Park that will add new themed areas based on Marvel and Frozen.

Hotels and Other Facilities — Disneyland Paris operates seven resort hotels, with approximately 5,800 rooms and 210,000 square feet of conference meeting space. In addition, eight on-site hotels that are owned and operated by third parties provide approximately 2,575 rooms.

Disney Village is a 500,000-square-foot retail, dining and entertainment complex located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to the Company.

Val d'Europe is a planned community near Disneyland Paris that is being developed in phases. Val d'Europe currently includes a regional train station, hotels and a town center consisting of a shopping center as well as office, commercial and residential space. Third parties operate these developments on land leased or purchased from the Company.

Villages Nature is a European eco-tourism resort that consists of recreational facilities, restaurants and 900 vacation units. The resort is a 50% joint venture between the Company and Pierre & Vacances-Center Parcs, who manages the venture.

TABLE OF CONTENTS

Hong Kong Disneyland Resort

The Company owns a 48% interest in Hong Kong Disneyland Resort and the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 52% interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport and the Hong Kong-Zhuhai-Macau Bridge. Hong Kong Disneyland Resort includes one theme park and three themed resort hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

Hong Kong Disneyland — Hong Kong Disneyland consists of seven themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, Tomorrowland and Toy Story Land. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. The park is in the midst of a multi-year expansion project that will add a number of new guest offerings, including a transformed castle and a Frozen-themed area.

Hotels — Hong Kong Disneyland Resort includes three themed hotels with a total of 1,750 rooms and approximately 16,000 square feet of conference meeting space.

Shanghai Disney Resort

The Company owns a 43% interest in Shanghai Disney Resort and Shanghai Shendi (Group) Co., Ltd (Shendi) owns a 57% interest. The resort is located in the Pudong district of Shanghai on approximately 1,000 acres of land, which includes the Shanghai Disneyland theme park; two themed resort hotels; a retail, dining and entertainment complex (Disneytown); and an outdoor recreation area. A management company, in which the Company has a 70% interest and Shendi has a 30% interest, is responsible for operating the resort and receives a management fee based on the operating performance of Shanghai Disney Resort. The Company is also entitled to royalties based on the resort's revenues.

Shanghai Disneyland — Shanghai Disneyland consists of seven themed areas: Adventure Isle, Fantasyland, Gardens of Imagination, Mickey Avenue, Tomorrowland, Toy Story Land and Treasure Cove. These areas feature themed attractions, restaurants, merchandise shops and entertainment experiences. The Company is constructing an eighth themed area based on the animated film *Zootopia*.

Hotels and Other Facilities — Shanghai Disneyland Resort includes two themed hotels with a total of 1,220 rooms. Disneytown is an 11-acre outdoor complex of dining, shopping and entertainment venues located adjacent to Shanghai Disneyland. Most Disneytown facilities are operated by third parties that pay rent to Shanghai Disney Resort.

Tokyo Disney Resort

Tokyo Disney Resort is located on 494 acres of land, six miles east of downtown Tokyo, Japan. The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a third-party Japanese corporation. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea); four Disney-branded hotels; six other hotels (operated by third parties other than OLC); a retail, dining and entertainment complex (Ikspiari); and Bon Voyage, a Disney-themed merchandise location.

Tokyo Disneyland — Tokyo Disneyland consists of seven themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

Tokyo DisneySea — Tokyo DisneySea is divided into seven “ports of call,” including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery. OLC is expanding Tokyo DisneySea to include an eighth themed port, Fantasy Springs.

Hotels and Other Resort Facilities — Tokyo Disney Resort includes four Disney-branded hotels with a total of more than 2,400 rooms and a monorail, which links the theme parks and resort hotels with Ikspiari. OLC is currently constructing a 475-room Disney-branded hotel at Tokyo DisneySea, and a 600-room Toy Story themed hotel opening in 2021.

Disney Vacation Club (DVC)

DVC offers ownership interests in 15 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Aulani; Vero Beach, Florida; and Hilton Head Island, South Carolina. Available units are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company's vacation club units range from deluxe studios to three-bedroom grand villas. Unit counts in this document are presented in terms of two-bedroom equivalents. DVC had approximately 4,300 vacation club units as of October 3, 2020. The Company also plans to build a new DVC property at Disneyland Resort with 135 units.

Disney Cruise Line

Disney Cruise Line is a four-ship vacation cruise line, which operates out of ports in North America and Europe. The *Disney Magic* and the *Disney Wonder* are approximately 85,000-ton 875-stateroom ships, and the *Disney Dream* and the *Disney*

TABLE OF CONTENTS

Fantasy are approximately 130,000-ton 1,250-stateroom ships. The ships cater to families, children, teenagers and adults, with distinctly-themed areas and activities for each group. Many cruise vacations include a visit to Disney's Castaway Cay, a 1,000-acre private Bahamian island.

The Company is expanding its cruise business by adding three new ships. The first ship, the *Disney Wish*, is scheduled to launch in summer 2022 with the other two ships to be delivered from the shipyard in 2024 and 2025. These dates include impacts from shipyard delays due to COVID-19. Each new ship can be powered by liquefied natural gas and will be approximately 140,000 tons with 1,250 staterooms.

The Company has an agreement with the Government of The Bahamas to create and manage a destination at Lighthouse Point on the island of Eleuthera.

Adventures by Disney

Adventures by Disney offers guided tour packages predominantly at non-Disney sites around the world. Adventures by Disney offered approximately 20 different tour packages during 2020.

National Geographic Expeditions

National Geographic Expeditions offers guided tour packages around the world that explore cultures, landscapes and history. National Geographic offered approximately 190 different tour packages during 2020.

Walt Disney Imagineering

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and research and development for the Company's Parks, Experiences and Products operations.

Consumer Products

Licensing

The Company's merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, games, home décor and furnishings, accessories, health and beauty, books, food, stationery, footwear, consumer electronics and magazines. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Minnie, Frozen, Star Wars, Disney Princess, Avengers, Spider-Man, Toy Story, Disney Channel characters, Winnie the Pooh, Cars and Disney Classics.

Retail

The Company sells Disney-, Marvel-, Pixar- and Lucasfilm-branded products through retail stores and internet sites globally. Retail stores operate under The Disney Store name and are generally located in leading shopping malls and other retail complexes. The Company owns and operates approximately 200 stores in North America, 60 stores in Europe, 45 stores in Japan and two stores in China. Internet sites are generally branded shopDisney.

The Company creates, distributes and publishes a variety of products in multiple countries and languages based on the Company's branded franchises. The products include children's books, comic books, digital comics and ebooks, learning products and storytelling apps.

Competition and Seasonality

The Company's theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, the political environment, travel industry trends, amount of available leisure time, oil and transportation prices, weather patterns and natural disasters. The licensing and retail business compete with other licensors, retailers and publishers of character, brand and celebrity names, as well as

other licensors, publishers and developers of game software, online video content, internet websites, other types of home entertainment and retailers of toys and kids merchandise.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, theme park attendance and resort occupancy fluctuate based on the seasonal nature of vacation travel and leisure activities, the opening of new guest offerings and pricing and promotional offers. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. The licensing, retail and wholesale businesses are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues

TABLE OF CONTENTS

during the Company's first and fourth fiscal quarter, and by the timing and performance of theatrical and game releases and cable programming broadcasts.

STUDIO ENTERTAINMENT

Significant operations:

- Motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Studios (previously Twentieth Century Fox), Marvel, Lucasfilm, Pixar, Searchlight Pictures (previously Fox Searchlight Pictures) and Blue Sky Studios banners
- Development, production and licensing of live entertainment events on Broadway and around the world (stage plays)
- Music production and distribution
- Post-production services through Industrial Light & Magic and Skywalker Sound

Significant revenues:

- Theatrical distribution - Rentals from licensing our motion pictures to theaters
- Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
- TV/SVOD distribution and other - Licensing fees and other revenue from the right to use our motion picture productions, revenue from content transactions with other Company segments, ticket sales from stage plays, fees from licensing our intellectual properties for use in live entertainment productions, revenue from licensing our music and revenue from post-production services

Significant expenses:

- Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales
- Selling, general and administrative costs
- Depreciation and amortization

Prior to the Company's acquisition of Marvel in fiscal 2010, Marvel had licensed Spider-Man rights to Sony Pictures Entertainment (Sony). With the exception of a co-production relationship for the upcoming Spider-Man 3 (2021) film, Sony incurs the costs to produce and distribute Spider-Man films. For Spider-Man 3 (2021), the Company and Sony share in the cost to produce the film and proportionately share in revenues, adjusted for distribution fees retained by Sony. Sony distributes all the Spider-man films and the Company licenses the merchandise rights to third parties. The Company pays Sony a licensing fee based on each film's box office receipts, subject to specified limits. The Company distributes all other Marvel-produced films with the exception of *The Incredible Hulk*, which is distributed by Universal Pictures.

Theatrical Market

We produce and distribute full-length live-action films and animated films. In the domestic theatrical market, we generally distribute and market our filmed products directly. In most major international markets, we distribute our filmed products directly while in other markets our films are distributed by independent companies or joint ventures. During fiscal 2021, we expect to release approximately 15 to 20 of our own produced feature films, although the timing and number of feature films could be impacted by COVID-19. As a result of COVID-19, our distribution strategy may change and certain films intended for theatrical release may be licensed to DTCI for use on Disney+ in certain territories. Some of these films will be released theatrically in certain territories and released on Disney+ where not available theatrically. Cumulatively through October 3, 2020, the Company has released approximately 1,100 full-length live-action features and 100 full-length animated features.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help

generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred, which may result in a loss on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

Home Entertainment Market

In the domestic market, we distribute home entertainment releases directly under each of our motion picture banners. In international markets, we distribute home entertainment releases under our motion picture banners both directly and through independent distribution companies.

Domestic and international home entertainment distribution typically starts three to six months after the theatrical release in each market. Home entertainment releases are distributed in physical (DVD and Blu-ray) and electronic formats. Electronic

TABLE OF CONTENTS

formats may be released up to four weeks ahead of the physical release. Physical formats are generally sold to retailers, such as Walmart and Target, and electronic formats are sold through e-tailers, such as Apple and Amazon.

As of October 3, 2020, we have approximately 2,500 active produced and acquired film titles, including 2,200 live-action titles and 300 animated titles, in the domestic home entertainment marketplace and approximately 2,400 active produced and acquired titles, including 2,000 live-action titles and 400 animated titles, in the international marketplace.

Concurrently with physical home entertainment distribution, we license titles to VOD services for electronic delivery to consumers for a specified rental period.

Television Market

In the television market, we license our films to cable and broadcast networks, television stations and other video service providers, which may provide the content to viewers on television or a variety of internet-connected devices. The television market is comprised of multiple pay TV and free TV windows, which can have license periods of various lengths following the home entertainment window. Our Walt Disney Pictures, Marvel, Lucasfilm and Pixar branded films are generally licensed to DTCI for use on Disney+ after the theatrical and home entertainment windows. In response to the impact COVID-19 is having on theatrical distribution, certain films originally intended for theatrical release were licensed to DTCI for use on Disney+ in certain territories.

Disney Music Group

The Disney Music Group (DMG) commissions new music for the Company's motion pictures and television programs and develops, produces, markets and distributes the Company's music worldwide either directly or through license agreements. DMG also licenses the songs and recording copyrights to third parties for printed music, records, audio-visual devices, public performances and digital distribution and produces live musical concerts. DMG includes Walt Disney Records, Hollywood Records, Disney Music Publishing and Disney Concerts.

Disney Theatrical Group

Disney Theatrical Group develops, produces and licenses live entertainment events on Broadway and around the world, including *The Lion King*, *Aladdin*, *Frozen*, *The Little Mermaid*, *Beauty and the Beast*, *The Hunchback of Notre Dame*, *Mary Poppins* (a co-production with Cameron Mackintosh Ltd), *Newsies*, *Aida* and *TARZAN*®.

Disney Theatrical Group also licenses the Company's intellectual property to Feld Entertainment, the producer of *Disney On Ice* and *Marvel Universe Live!*.

Competition and Seasonality

The Studio Entertainment businesses compete with all forms of entertainment. A significant number of companies produce and/or distribute theatrical and television films, exploit products in the home entertainment market, provide pay television and SVOD services, and produce music and live theater. We also compete to obtain creative and performing talent, story properties and advertiser support that are essential to the success of our Studio Entertainment businesses.

The success of Studio Entertainment operations is heavily dependent upon public taste and preferences. In addition, Studio Entertainment operating results fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

DIRECT-TO-CONSUMER & INTERNATIONAL

Significant operations:

- Direct-to-consumer (DTC) streaming services, which include Disney + / Disney+Hotstar, ESPN+ and Hulu

- Branded international television networks and channels, which include Disney, ESPN, Fox, National Geographic and Star (International Channels)
- Other digital content distribution platforms and services
- Equity investments:
 - A 50% ownership interest in Endemol Shine Group, which was sold on July 2, 2020
 - A 20% ownership interest (49% economic interest) in Seven TV
 - A 30% effective ownership interest in Tata Sky Limited

TABLE OF CONTENTS

- An approximate 24% effective ownership interest (14% fully diluted) in Vice Group Holding Inc. (Vice). Vice operates Viceland, which is owned 50% by Vice and 50% by A+E.

Significant revenues:

- Subscription fees - Fees charged to customers/subscribers for our video streaming services
- Advertising - Sales of advertising time/space on our International Channels and sales of non-ratings based advertising time/space on digital media platforms (“addressable ad sales”) across the Company. In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups
- Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
- TV/SVOD distribution - Program sales, sub-licensing fees for sports programming rights and fees charged to customers to view our sports programming (“pay-per-view”) (e.g. Ultimate Fighting Championship) and Premier Access content (e.g. *Mulan* on Disney+)

Significant expenses:

- Operating expenses consisting primarily of programming and production costs (including amortization of content obtained from other Company segments), technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

Direct-to-Consumer Services (DTC)

Our DTC businesses consist of subscription services that provide video streaming of general entertainment, family and sports programming (services are offered individually or in a bundle). The services are offered to customers directly or through third-party distributors on mobile and connected devices. Customers are generally billed a monthly or annual subscription fee.

Disney+ / Disney+Hotstar

Disney+ is a subscription based DTC video streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming. It offers approximately 11,700 episodes and 700 movies from the Company’s library of television and film programming and over 30 exclusive original series and over 15 exclusive original movies and specials produced by the Company’s film and television studios. Disney+ launched in November 2019 in the U.S. and four other countries and has expanded to select Western European countries in the Spring of 2020. In April, our Hotstar service in India was converted to Disney+Hotstar, and in June 2020, subscribers of the Disney Deluxe service in Japan were converted to Disney+. In September 2020, Disney+ was launched in additional European countries and Disney+Hotstar was launched in Indonesia. In November 2020, Disney+ was launched in Latin America. Additional launches are planned for various Asia-Pacific territories in calendar 2021.

Disney+Hotstar is a subscription based DTC video streaming service with local and international television shows, movies, sports, news and original series in approximately ten languages and incorporates gaming and social features. Disney+Hotstar has exclusive streaming rights to Home Box Office, Inc.’s original programming in India and also carries content from Disney, Fox and Showtime Networks.

The majority of Disney+ / Disney+Hotstar revenue is derived from subscription fees. Disney+Hotstar also generates advertising revenue from commercial announcements in select programming.

Based on internal management reports, the estimated number of paid Disney+ / Disney+Hotstar subscribers as of October 3, 2020 was approximately 74 million.

ESPN+

ESPN+ is a subscription based DTC video streaming service offering thousands of live sporting events, on-demand sports content and original programming not available on ESPN’s other networks. ESPN+ revenue is derived

from subscription fees, pay-per-view fees and, to a lesser extent, advertising sales. Live events available through the service include mixed martial arts, soccer, hockey, boxing, baseball, college sports, tennis and cricket. ESPN+ is currently the exclusive distributor for UFC pay-per-view events in the U.S. Based on internal management reports, the estimated number of paid ESPN+ subscribers as of October 3, 2020 was approximately 10 million.

Hulu

Hulu is a subscription based DTC video streaming service with acquired and original television and film content. The majority of Hulu's revenue is derived from subscription fees and advertising sales. Hulu offers four primary subscription services/bundles, including an SVOD service with either limited commercial announcements or no commercial announcements,

TABLE OF CONTENTS

and a digital OTT MVPD service that also includes the SVOD service with either limited commercial announcements or no commercial announcements. The digital OTT MVPD service includes live linear streams of cable networks and the major broadcast networks. In addition, Hulu offers subscriptions to premium services such as HBOMax, Cinemax, Starz and Showtime, which can be added to the Hulu service. Based on internal management reports, the estimated number of paid Hulu subscribers as of October 3, 2020 was approximately 37 million.

The Company has a 67% ownership interest in Hulu and full operational control, with NBCU owning the remaining 33%. The Company also has a put/call agreement with NBCU, which provides NBCU the option to require the Company to purchase NBCU's interest in Hulu and the Company the option to require NBCU to sell its interest in Hulu to the Company, in both cases, beginning in January 2024 (see Note 4 of the Consolidated Financial Statements for additional information).

Star

The Company plans to launch a DTC general entertainment video streaming offering under the Star brand outside the U.S. in calendar year 2021.

International Channels

Our International Channels produce local programs or acquire rights from our domestic studios and from third parties. Our International Channels derive the majority of their revenues from advertising sales and affiliate fees. Generally, channels provide programming under multi-year agreements with MVPDs that include contractually determined rates on a per subscriber basis. The amounts that we can charge to MVPDs for our channels are largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that a channel can deliver to the advertiser as well as overall advertiser demand.

The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our film and television content from licensing of linear channels to use on our DTC services.

The Company's significant International Channels and the number of subscribers (in millions) based on internal management reports as of September 2020 are as follows:

	Estimated Subscribers
Disney	
Disney Channel	196
Disney Junior	166
Disney XD	105
ESPN⁽¹⁾	53
Fox⁽¹⁾	201
National Geographic⁽¹⁾	317
Star	
General Entertainment ⁽¹⁾	134
Sports ⁽¹⁾	80

⁽¹⁾ Reflects each unique subscriber that has access to one or more of these branded channels.

Disney

DTCI operates approximately 100 Disney branded television channels outside of the U.S., which are broadcast in approximately 30 languages and 170 countries/territories. Branded channels include Disney Channel, Disney Junior, Disney XD and Disney International HD. Disney content is also available on third-party VOD services and

online on our apps and websites. Programming for these channels includes Disney branded programming acquired from our domestic studios, programming acquired from third parties and internally developed local programming.

ESPN

DTCI operates approximately 25 ESPN branded television channels outside of the U.S. (primarily in Latin America and Australia), which are broadcast in three languages (English, Spanish and Portuguese) and approximately 60 countries/territories. ESPN holds non-U.S. rights for various professional sports programming including English Premier League, La Liga, multiple UEFA leagues, various other soccer rights, various tennis rights and the NFL.

TABLE OF CONTENTS

Fox

The DTCI segment operates approximately 190 Fox branded channels outside of the U.S., which are broadcast in approximately 40 languages and 190 countries/territories. Branded channels include Fox Channel, Fox Movies, Fox Life, Fox Crime, Fox Traveler, FX and Fox Sports. Content is also available on third-party VOD services and online on our apps and websites. Programming for these channels includes internally developed local programming and programming acquired from our domestic studios and from third parties.

Fox Sports distributes Spanish-language sports programming services in Latin America that feature local and international soccer events, motorsports programming, combat sports and U.S. sports leagues (such as NFL and MLB). Fox Sports Premium, a pay television service in Argentina, airs the matches of the professional soccer league in Argentina. In addition, Fox Sports distributes programming in Asia Pacific with regional feeds offered for Taiwan, Singapore, Philippines and South East Asia markets. The service features Bundesliga, motorsports, combat sports and international tennis programming.

In order to obtain regulatory approval for the acquisition of TFCF, the Company agreed to sell TFCF's sports media operations in Mexico.

The Company has a 51% direct ownership interest in Eredivisie Media & Marketing CV (EMM), a media company that holds the media and sponsorship rights of the Dutch Premier League for soccer.

National Geographic

The DTCI segment operates approximately 90 National Geographic branded channels outside of the U.S., which are broadcast in approximately 40 languages and 180 countries/territories. Branded channels include National Geographic Channel, Nat Geo People, Nat Geo Wild and Nat Geo Kids. These channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture. Content is also available on third-party VOD services and online on our apps and websites. Programming for these channels includes programming acquired from our domestic studios, internally developed local programming and programming acquired from third parties.

Star

Star develops, produces and broadcasts approximately 60 channels, in approximately 10 languages in India and throughout Asia, the United Kingdom, Continental Europe, the Middle East and parts of Africa. Programming for these channels includes internally developed local programming and acquired programming, as well as content from Star's extensive library of film and television programs. Star holds rights for various sports programming including cricket (for which Star has the global distribution rights to certain events) soccer, tennis and field hockey.

Other India Channels

DTCI operates UTV, Bindass and Hungama branded channels in India. UTV Action and UTV Movies offer Bollywood movies as well as Hollywood, Asian and Indian regional movies dubbed in Hindi. Bindass is a youth entertainment channel. Hungama is targeted to kids and features a mix of animated series and movies.

At October 3, 2020, we adjusted the methodology used to determine the number of branded channels and the number of countries/territories in which we operate channels. The current year includes language feeds that were previously excluded but includes only one channel (rather than two) in markets where we have both high definition and standard definition feeds. In addition, the current year includes certain Fox and National Geographic channels in Africa and Eastern Europe that were previously excluded. On a comparable basis, the number of branded channels declined by approximately 30 primarily due to shutting down Disney and Fox channels.

Other Digital Content Distribution Platforms and Services

DTCI operates branded apps and websites, the Disney Movie Club and Disney Digital Network and provides streaming technology support services.

Branded Apps and Websites

DTCI operates apps and websites under the ESPN, ABC, Disney, Freeform, FX and Nat Geo brands. DTCI sells advertising on these apps and websites, which are programmed with content licensed from the Media Networks.

Disney Movie Club

The Disney Movie Club sells DVD/Blu-ray discs directly to consumers in the U.S. and Canada.

Disney Digital Network (DDN)

DDN develops online video content, primarily for distribution on YouTube, and provides online marketing services.

TABLE OF CONTENTS

Streaming Technology Services

BAMTech LLC (BAMTech) provides streaming technology services to third parties. BAMTech is owned 75% by the Company, 15% by MLB and 10% by the National Hockey League (NHL), both of which have the right to sell their shares to the Company in the future (see Note 2 of the Consolidated Financial Statements for additional information).

BAMTech also operates the Company's DTC sports business, which includes ESPN+ as well as DTC services for NHL programming. Hearst has a 20% interest in the Company's DTC sports business.

Equity Investments

The significant equity investments reported in the Direct-to-Consumer & International segment are as follows:

Endemol Shine Group

Endemol Shine Group produces both scripted and non-scripted content for distribution across multiple platforms. On July 2, 2020, the Company sold its 50% interest in Endemol Shine Group.

Seven TV

Seven TV operates an advertising-supported, free-to-air Disney Channel in Russia. The Company has a 20% ownership interest and a 49% economic interest in the business.

Tata Sky

The Company has a 30% effective interest in Tata Sky Limited, which operates a direct-to-home satellite distribution platform in India.

Vice

The Company has an approximate 24% effective ownership (14% fully diluted) in Vice, which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by A+E and 50% by Vice.

Competition and Seasonality

The Company's DTC and International Channel businesses compete for viewers primarily with other television and cable networks, television stations and other media, such as DTC services and video games. With respect to the sale of advertising time, we compete with other television networks, television stations, MVPDs and other advertising media such as digital content, newspapers, magazines and billboards.

The Company's International Channels face competition from other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for distribution that are as favorable as those currently in place.

The Company's DTC and International Channels businesses also compete with other media and entertainment companies, SVOD providers and DTC services for the acquisition of sports rights, talent, show concepts and scripted and other programming.

Internet websites and digital products operated by the segment compete with other websites and entertainment products.

Revenues fluctuate based on the timing of releases and performance of our digital media content, viewership levels on our channels and digital platforms, changes in subscriber levels and the demand for sports and other content.

INTERCOMPANY ELIMINATIONS

Intersegment content transactions are presented “gross” (i.e. the segment producing the content reports revenue and profit from intersegment transactions, and the required eliminations are reported on a separate “Eliminations” line when presenting a summary of our segment results).

As it relates to film and television content that is produced by our Media Networks and Studio Entertainment segments that will be used on our DTC services, there are four broad categories of content:

- Content produced for exclusive DTC use, “Originals”;
- New Studio Entertainment theatrical releases following the theatrical and home entertainment windows, “Studio Pay 1”;

TABLE OF CONTENTS

- New Media Networks episodic television series following their initial airing on our linear networks, “Media Pay 1”; and
- Content in all other windows, “Library”.

The intersegment transfer price, for purposes of segment financial reporting pursuant to ASC 280 Segment Reporting, is generally cost plus a margin for Originals and Media Pay 1 content and generally based on comparable transactions for Studio Pay 1 and Library content. Imputed title by title intersegment license fees that may be necessary for other purposes are established as required by those purposes.

Intersegment revenue is recognized upon availability of the content to the DTC service except with respect to Library content for which revenue is recognized ratably over the license period.

Our DTC services generally amortize intersegment content costs for Originals and Studio Pay 1 content on an accelerated basis and for Media Pay 1 and Library content on a straight line basis.

When the DTC amortization timing is different than the timing of revenue recognition at Studio Entertainment or Media Networks, the difference results in an operating income impact in the elimination segment, which nets to zero over the DTC amortization period. Generally, timing of revenue recognition is similar to the reporting of third-party sales transactions, except that intersegment sales of library content are generally recognized over time.

INTELLECTUAL PROPERTY PROTECTION

The Company’s businesses throughout the world are affected by its ability to exploit and protect against infringement of its intellectual property, including trademarks, trade names, copyrights, patents and trade secrets. Important intellectual property includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines, and merchandise. Risks related to the protection and exploitation of intellectual property rights are set forth in Item 1A – Risk Factors.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, www.disney.com/investors, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

ITEM 1A. Risk Factors

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this report and our other filings with the SEC, the most significant factors affecting our business include the following:

BUSINESS, ECONOMIC, MARKET and OPERATING CONDITION RISKS

The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

The impact of COVID-19 and measures to prevent its spread are affecting our businesses in a number of ways. Our theme parks were closed or operating at significantly reduced capacity for a significant portion of the year, cruise ship sailings, guided tours and stage play performances were suspended since late in the second quarter, and retail stores were closed for a significant portion of the year. In addition, we have delayed or, in some instances shortened or cancelled, theatrical releases and have experienced adverse impacts on advertising sales and on our merchandise licensing business. Many of our businesses have been closed or suspended consistent with government mandates or guidance. We have experienced disruptions in the production and availability of content, including the deferral or cancellation of certain sports events and suspension of production of most film and television content. We

have continued to pay for certain sports rights, including for certain events that have been deferred or canceled. The impacts to our content have resulted in decreased viewership and advertising revenues, and demands for affiliate fee reductions related to certain of our television networks. These impacts are likely to be exacerbated the longer such content is not available, including if sports content should become unavailable again in the future. Other of our offerings will be exposed to additional financial impacts in the event of future significant unavailability of content. COVID-19 impacts could also hasten the erosion of our historical sources of revenue at our Media Networks businesses. We have significantly reduced numbers of reservations at our hotels and cruises. We have granted rent waivers to some of our tenants, and they have not paid rent while certain of our facilities have been closed. We have experienced increased returns and refunds and customer requests

TABLE OF CONTENTS

for payment deferrals. Collectively, our impacted businesses have historically been the source of the majority of our revenue. Some of our businesses remain closed and those that are open are operating subject to restrictions and increased expenses. These and other impacts of COVID-19 on our businesses will continue for an unknown length of time. COVID-19 impacts that have subsided may again impact our businesses in the future and new impacts may emerge, particularly given the rise of COVID-19 cases following the end of fiscal 2020. For example, some of our parks have closed due to government mandates or guidance following their initial reopening.

Consumers may change their behavior and consumption patterns in response to the prolonged suspension of certain of our businesses, such as subscription to pay television packages (which have experienced accelerated decline during COVID-19) or theater-going to watch movies. Certain of our customers, including individuals as well as businesses such as theatrical distributors, affiliates, licensees of rights to use our programming and intellectual property, advertisers and others, have been negatively impacted by the economic downturn caused by COVID-19, which may result in decreased purchases of our goods and services even after certain operations resume. Some industries in which our customers operate, such as theatrical distribution, retail and travel, could experience contraction, which could impact the profitability of our businesses going forward. Additionally, we have and will continue to incur incremental costs to implement health and safety measures, reopen our parks and restart our halted construction projects. As we have resumed production of film and television content, including live sporting events, we have incurred costs to implement health and safety measures and productions will generally take longer to complete.

Our mitigation efforts in response to the impacts of COVID-19 on our businesses have had, or may have, negative impacts. The Company (or our Board of Directors, as applicable) significantly increased cash balances through the issuance of senior notes in March and May 2020, and we entered into an additional \$5.0 billion credit facility in April 2020, did not declare a dividend with respect to fiscal year 2020 operations; suspended certain capital projects; reduced certain discretionary expenditures (such as spending on marketing); temporarily reduced management compensation; temporarily eliminated Board of Director retainers and committee fees; furloughed over half of our employees (some of whom remain furloughed and continue to receive Company provided medical benefits); and reduced our employee population. Such mitigation measures have resulted in the delay or suspension of certain projects in which we have invested, particularly at our parks and resorts and Studio Entertainment segment. We may take additional mitigation actions in the future such as raising additional financing; not declaring future dividends; reducing, or not making, certain payments, such as some contributions to our pension and postretirement medical plans; further suspending capital spending; reducing film and television content investments; or implementing additional furloughs or reductions in force. These and other of our mitigating actions may have an adverse impact on our businesses. Additionally, there are certain limitations on our ability to mitigate the adverse financial impact of COVID-19, including the fixed costs of our theme park business and the impact COVID-19 may have on capital markets and our cost of borrowing. Further, the benefit of certain mitigation efforts will not continue to be available going forward. For example, as our employees return from furlough, the cost reductions of the related furloughs will no longer be available.

Even our operations that were not suspended or that have resumed continue to be adversely impacted by government mandated restrictions (such as density limitations and travel restrictions); measures we voluntarily implement; measures we are contractually obligated to implement; the distancing practices and health concerns of consumers, talent and production workers; and logistical limitations. Upon reopening our parks and resorts business we have seen lower demand. Geographic variation in government requirements and ongoing changes to restrictions have disrupted and could further disrupt our businesses, including our production operations. Our operations could be suspended or re-suspended by government action or otherwise in the future. For example, after Hong Kong Disneyland Resort reopened in June 2020, it closed again in July 2020 and Disneyland Paris opened July 2020 and closed again in October 2020. Some of our businesses have not yet been permitted to open, such as Disneyland Resort and our cruise business. Some of our employees who returned to work have been refurloughed. Our operations could be negatively impacted by a significant COVID-19 outbreak impacting our employees, customers or others interacting with our businesses, including our supply chain.

In fiscal year 2020, we operated at a net loss. We have impaired goodwill and intangible assets at our International Channels businesses and written down the value of certain of our retail store assets. Certain of our other assets could also become impaired, including further impairments of goodwill and intangible assets; we have increased, and may further increase, allowances for credit losses; and there may be changes in judgments in determining the fair-value of assets; and estimates related to variable consideration may change due to increased returns, reduced usage of our products or services and decreased royalties. Our leverage ratios have increased and may remain elevated in the near-term as a result of COVID-19's impact on our financial performance, causing certain of the credit rating agencies to downgrade our ratings. Our debt ratings may be further downgraded as a result of the COVID-19 impact, which may negatively impact our cost of borrowing. Due to reduced operating cash flow, we may utilize cash balances and/or future financings to fund a portion of our operations and investments in our businesses. Financial risks may be exacerbated by the timing of customer deposit refunds; liquidity issues among our key customers, particularly advertisers, television affiliates, theatrical exhibitors and distributors and licensees, which have impacted timely payments by such customers to the Company; loss or delay of receivables as a result of contractual performance short falls; and our contractual payment obligations. The Company has \$13.1 billion in trade accounts receivable

TABLE OF CONTENTS

outstanding at October 3, 2020, with an allowance for credit losses of \$0.5 billion. Our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty due to the impacts of COVID-19. Economic or political conditions in a country outside the U.S. as a result of COVID-19 could also reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

The impacts of COVID-19 to our business have generally amplified, or reduced our ability to mitigate, the other risks discussed herein. Our remediation efforts may not be successful.

COVID-19 also makes it more challenging for management to estimate future performance of our businesses. COVID-19 has already adversely impacted our businesses and net cash flow, and we expect the ultimate magnitude of these disruptions on our financial and operational results will be dictated by the length of time that such disruptions continue which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact and duration of governmental actions imposed in response to COVID-19 and individuals' and companies' risk tolerance regarding health matters going forward. If actual performance in our international markets significantly underperforms management's forecasts, the Company could have foreign currency hedge gains/losses which are not offset by the realization of exposures, resulting in excess hedge gains or losses. While we cannot be certain as to the duration of the impacts of COVID-19, we expect impacts of COVID-19 to affect our financial results at least through fiscal 2021.

Changes in U.S., global, and regional economic conditions are expected to have an adverse effect on the profitability of our businesses.

A decline in economic activity in the U.S. and other regions of the world in which we do business can adversely affect demand for any of our businesses, thus reducing our revenue and earnings. Global economic activity has declined as a result of COVID-19. Past declines in economic conditions reduced spending at our parks and resorts, purchases of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected should such conditions recur. The current decline in economic conditions could also reduce attendance at our parks and resorts, prices that MVPDs pay for our cable programming or subscription levels for our cable programming or direct-to-consumer products. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. A decline in economic conditions could impact implementation of our expansion plans. Changes in exchange rates for foreign currencies may reduce international demand for our products or increase our labor or supply costs in non-U.S. markets, or reduce the U.S. dollar value of revenue we receive and expect to receive from other markets. Economic or political conditions in a country could also reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Changes in technology and in consumer consumption patterns may affect demand for our entertainment products, the revenue we can generate from these products or the cost of producing or distributing products.

The media entertainment and internet businesses in which we participate increasingly depend on our ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources and nature of competing content offerings, the time and manner in which consumers acquire and view some of our entertainment products and the options available to advertisers for reaching their desired audiences. This trend has impacted the business model for certain traditional forms of distribution, as evidenced by the industry-wide decline in ratings for broadcast television, the reduction in demand for home entertainment sales of theatrical content, the development of alternative distribution channels for broadcast and cable programming and declines in subscriber levels for traditional cable channels, including for a number of our networks. COVID-19 has accelerated this trend. In order to respond to these developments, we regularly consider, and from time to time implement changes to our business models, most recently by developing, investing in and acquiring

DTC products and reorganizing our media and entertainment businesses to accelerate our DTC strategies. There can be no assurance that our DTC offerings and other efforts will successfully respond to these changes. We expect to forgo revenue from traditional sources, particularly as we expand our DTC offerings. There can be no assurance that the DTC model and other business models we may develop will ultimately be as profitable as our existing or historic business models.

Misalignment with public and consumer tastes and preferences for entertainment and consumer products could negatively impact demand for our entertainment offerings and products and adversely affect the profitability of any of our businesses.

Our businesses create entertainment, travel and consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create filmed entertainment and television programming, which may be distributed among other ways through

TABLE OF CONTENTS

broadcast, cable, internet or cellular technology, theme park attractions, hotels and other resort facilities and travel experiences and consumer products that meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. The success of our theme parks, resorts, cruise ships and experiences, as well as our theatrical releases, depends on demand for public or out-of-home entertainment experiences. COVID-19 may impact consumer tastes and preferences. Many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S., and their success therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in film production, television programming, other content production and acquisition, acquisition of sports rights, theme park attractions, cruise ships or hotels and other resort facilities before we know the extent to which these products will earn consumer acceptance. The impacts of COVID-19 are inhibiting and delaying our ability to earn returns on these and other investments. If our entertainment offerings and products, including our content offerings, modified as a result of COVID-19, do not achieve sufficient consumer acceptance, our revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air), affiliate fees, subscription fees, theatrical film receipts, the license of rights to other distributors, theme park admissions, hotel room charges and merchandise, food and beverage sales, sales of licensed consumer products or from sales of our other consumer products and services, may decline, decline further or fail to grow to the extent we anticipate when making investment decisions and thereby further adversely affect the profitability of one or more of our businesses.

The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.

The value to us of our intellectual property rights is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our intellectual property may decrease, or the cost of obtaining and maintaining rights may increase.

The unauthorized use of our intellectual property may increase the cost of protecting rights in our intellectual property or reduce our revenues. The convergence of computing, communication and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of intellectual property rights more challenging. The unauthorized distribution and access to entertainment content generally continues to be a significant challenge for intellectual property rights holders. Inadequate laws or weak enforcement mechanisms to protect entertainment industry intellectual property in one country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its intellectual property rights. COVID-19 may increase incentives and opportunities to access content in unauthorized ways, as negative economic conditions coupled with a shift in government priorities could lead to less enforcement. These developments require us to devote substantial resources to protecting our intellectual property against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content.

With respect to intellectual property developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in intellectual property may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from the intellectual property that is the subject of challenged rights.

Protection of electronically stored data is costly, and if our data is compromised in spite of this protection, we may incur additional costs, lost opportunities and damage to our reputation.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. Data maintained in digital form is subject to the risk of unauthorized access, modification and exfiltration. We develop and maintain

information security systems in an effort to prevent this, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Accordingly, despite our efforts, unauthorized access, modification and exfiltration of data cannot be eliminated entirely, and the risks associated with a potentially material incident remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where we believe appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our information security systems or data are compromised in a material way, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be damaged resulting in loss of business or morale, and we may incur costs to remediate

TABLE OF CONTENTS

possible harm to our customers and employees and/or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident.

A variety of uncontrollable events may reduce demand for or consumption of our products and services, impair our ability to provide our products and services or increase the cost or reduce the profitability of providing our products and services.

Demand for and consumption of our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for and consumption of other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: adverse weather conditions arising from short-term weather patterns or long-term change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, tsunamis and earthquakes); health concerns (including as it has been by COVID-19); international, political or military developments; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to some of these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents, including the costs of protecting against the spread of COVID-19, reduces the profitability of our operations.

For example, COVID-19 and measures to prevent the spread of COVID-19 are currently impairing our ability to provide our products and services and reducing consumption of those products and services. Further, prior to COVID-19, events in Hong Kong impacted profitability of our Hong Kong operations and may continue to do so, and past hurricanes have impacted the profitability of Walt Disney World Resort in Florida and future hurricanes may also do so.

The negative economic consequences of COVID-19 may be particularly challenging in markets where individuals and local businesses have limited access to government supported “safety nets”, which could lead to political instability and unrest, and further depress demand for our products and services over a longer timeframe.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties, the profitability of one or more of our businesses could be adversely affected. Impacts of COVID-19 on third parties’ liquidity have impacted timely payments by such third parties to the Company.

We obtain insurance against the risk of losses relating to some of these events, generally including physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance. For example, we expect some losses related to impacts of COVID-19 will not be covered by insurance available to us and insurers may contest coverage.

Changes in our business strategy or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses or the value of our assets.

As changes in our business environment occur we have adjusted, and may further adjust our business strategies to meet these changes and we may otherwise decide to further restructure our operations or particular businesses or assets. For example, in October 2020 we announced a reorganization of our media and entertainment businesses to accelerate our direct-to-consumer strategies. Our new organization and strategies may not produce the anticipated

benefits, such as supporting our growth strategies and enhancing shareholder value. Our new organization and strategies could be less successful than our previous organizational structure and strategies. In addition, external events including changing technology, changing consumer patterns, acceptance of our theatrical offerings and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write-down the value of assets. For example, current conditions, including COVID-19 and our business decisions, have reduced the value of some of our assets. We have impaired goodwill and intangible assets at our International Channels businesses and written down the value of certain of our retail store assets. We may write-down other assets as our strategy evolves to account for the current business environment. We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. In recent years, such investments have included expansion and renovation of certain of our theme parks, expansion of our fleet of cruise ships, the acquisition of TFCF and investments related to direct-to-consumer offerings. Some of these investments may have returns that are negative or low, the ultimate business prospects of the businesses related to these investments may be uncertain, these investments may impact the profitability of our other

TABLE OF CONTENTS

businesses, and these risks are exacerbated by COVID-19. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring.

Increased competitive pressures may reduce our revenues or increase our costs.

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. This includes, among other types, competition for human resources, programming and other resources we require in operating our business. For example:

- Our studio operations and media businesses compete to obtain creative, performing and business talent, sports and other programming, story properties, advertiser support and market share with other studio operations, broadcast and cable networks, SVOD providers and other new sources of broadband delivered content.
- Our broadcast and cable networks and stations and direct-to-consumer offerings compete for the sale of advertising time with other broadcast, cable and satellite services, as well as with newspapers, magazines, billboards and radio stations. In addition, we increasingly face competition for advertising sales from internet and mobile delivered content, which offer advertising delivery technologies that are more targeted than can be achieved through traditional means.
- Our cable networks compete for carriage of their programming with other programming providers.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities.
- Our studio operations compete for customers with all other forms of entertainment.
- Our consumer products business competes with other licensors and creators of intellectual property.
- Our direct-to-consumer businesses compete for customers with competitors' direct-to-consumer offerings, all other forms of media and all other forms of entertainment, as well as for technology, creative, performing and business talent and for content. Competition in each of these areas may increase as a result of technological developments and changes in market structure, including consolidation of suppliers of resources and distribution channels. Increased competition may divert consumers from our creative or other products, or to other products or other forms of entertainment, which could reduce our revenue or increase our marketing costs.

Competition for the acquisition of resources can increase the cost of producing our products and services or deprive us of talent necessary to produce high quality creative material. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks, parks and resorts admissions and room rates, and prices for consumer products from which we derive license revenues.

Our results may be adversely affected if long-term programming or carriage contracts are not renewed on sufficiently favorable terms.

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to content distributors. As these contracts expire, we must renew or renegotiate the contracts, and if we are unable to renew them on acceptable terms, we may lose programming rights or distribution rights. Even if these contracts are renewed, the cost of obtaining programming rights may increase (or increase at faster rates than our historical experience) or programming distributors, facing pressures resulting from increased subscription fees and alternative distribution challenges, may demand terms (including pricing and the breadth of distribution) that reduce our revenue from distribution of programs (or increase revenue at slower rates than our historical experience). Moreover, our ability to renew these contracts on favorable terms may be affected by consolidation in the market for program distribution, the entrance of new participants in the market for distribution of content on digital platforms and the impacts of COVID-19. With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the

contracts depends on a number of factors, including the strength of advertising markets, subscription levels and rates for programming, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

Changes in regulations applicable to our businesses may impair the profitability of our businesses.

Our broadcast networks and television stations are highly regulated, and each of our other businesses is subject to a variety of U.S. and overseas regulations. These regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks and our owned television stations. See Item 1 — Business — Media Networks, Federal Regulation.
- Federal, state and foreign privacy and data protection laws and regulations.

TABLE OF CONTENTS

- Regulation of the safety and supply chain of consumer products and theme park operations, including potential regulation regarding the sourcing, importation and sale of goods.
- Environmental protection regulations.
- Imposition by foreign countries of trade restrictions, restrictions on the manner in which content is currently licensed and distributed, ownership restrictions, currency exchange controls or film or television content requirements, investment obligations or quotas.
- Domestic and international labor laws, tax laws or currency controls

Changes in any of these regulations or regulatory activities in any of these areas may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services in ways that are profitable. For example, in January 2019 India implemented regulation and tariffs impacting certain bundling of channels and in November 2020 potential U.S. legislation is pending prohibiting importation of goods from certain regions.

Public health and other regional, national, state and local regulations and policies are impacting our ability to operate our businesses at all or in accordance with historic practice. In addition to the government requirements that have closed or impacted most of our businesses as a result of COVID-19, government requirements may continue to be extended and new government requirements may be imposed.

Our operations outside the U.S. may be adversely affected by the operation of laws in those jurisdictions.

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than U.S. law. Laws in some jurisdictions differ in significant respects from those in the U.S. These differences can affect our ability to react to changes in our business, and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some overseas jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete successfully in those jurisdictions while remaining in compliance with local laws or U.S. anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations.

Damage to our reputation or brands may negatively impact our business across segments and regions.

Our reputation and globally recognizable brands are integral to the success of our businesses. Because our brands engage consumers across our businesses, damage to our reputation or brands in one business may have an impact on our other businesses. Because some of our brands are globally recognized, brand damage may not be locally contained. Maintenance of the reputation of our Company and brands depends on many factors including the quality of our offerings, maintenance of trust with our customers and our ability to successfully innovate. Significant negative claims or publicity regarding the Company or its operations, products, management, employees, practices, business partners, business decisions, social responsibility and culture may damage our brands or reputation, even if such claims are untrue. Damage to our reputation or brands could impact our sales, business opportunities, profitability, recruiting and valuation of our securities.

Risks that impact our business as a whole may also impact the success of our direct-to-consumer (DTC) business.

We may not successfully execute on our DTC strategy. Consumers may not be willing to pay for an expanding set of DTC services, potentially exacerbated by an economic downturn. We face competition for creative talent and may not be successful in recruiting and retaining talent. Government regulation, including revised foreign content and ownership regulations, may impact the implementation of our DTC business plans. Poor quality broadband infrastructure in certain markets may impact our customers' access to our DTC products and may diminish our customers' experience with our DTC products. These and other risks may impact the profitability and success of our DTC businesses.

Volatility in the financial markets and our debt ratings have impacted our cost of borrowing and could impede access to, or increase the cost of, financing our operations and investments.

U.S. and global markets have experienced significant volatility. Past disruptions in the U.S. and global credit and equity markets made it more difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments. In addition, our borrowing costs can be affected by short- and long-term debt ratings assigned by independent rating agencies that are based, in part, on the Company's performance as measured by credit metrics such as leverage and interest coverage ratios.

Since April 2020, Standard and Poor's has downgraded our long-term debt ratings by two notches to BBB+, downgraded our short-term debt ratings by one notch to A-2 and placed our long-term debt ratings on Negative Outlook. In May 2020, Fitch downgraded our long- and short-term credit ratings by one notch to A- and F2, respectively, and placed our long-term ratings

TABLE OF CONTENTS

on Negative Outlook. On November 18, 2020, Standard and Poor's lowered the Company's long-term rating to BBB+ and placed the Company's long-term ratings on Negative Outlook. These ratings actions have increased, and any potential future downgrades could further increase, our cost of borrowing and/or make it more difficult for us to obtain financing. Past disruptions in the global financial markets also impacted some of the financial institutions with which we do business. A similar decline in the financial stability of financial institutions could affect our ability to secure credit-worthy counterparties for our interest rate and foreign currency hedging programs, could affect our ability to settle existing contracts and could also affect the ability of our business customers to obtain financing and thereby to satisfy their obligations to us.

Labor disputes may disrupt our operations and adversely affect the profitability of any of our businesses.

A significant number of employees in various parts of our businesses are covered by collective bargaining agreements, including employees of our theme parks and resorts as well as writers, directors, actors, production personnel and others employed in our media networks and studio operations. In addition, the employees of licensees who manufacture and retailers who sell our consumer products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. In general, a labor dispute involving our employees or the employees of our licensees or retailers who sell our consumer products or providers of programming content may disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs.

The seasonality of certain of our businesses and timing of certain of our product offerings could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations and variations in connection with the timing of our product offerings, including as follows:

- Revenues in our Media Networks segment are subject to seasonal advertising patterns, changes in viewership levels and timing of program sales. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are typically recognized ratably throughout the year.
- Revenues in our Parks, Experiences and Products segment fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarters. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early winter and spring holiday periods. Our parks, resorts, stores and experiences are operating at diminished capacity or closed during these periods as a result of COVID-19. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts, many of which have been delayed, canceled or modified.
- Revenues in our Studio Entertainment segment fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition, the timing of vacation and holiday periods and closing of theaters and impacts on attendance due to COVID-19.
- Direct-to-Consumer & International revenues fluctuate based on: changes in subscriber levels; the timing and performance of releases of our digital media content; viewership levels on our cable channels and digital platforms; and the demand for sports and our content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons, content production schedules and league shut downs.

Accordingly, negative impacts on our business occurring during a time of typical high seasonal demand could have a disproportionate effect on the results of that business for the year. Examples include the ongoing impact of COVID-19 on various high seasons or hurricane damage to our parks during the summer travel season.

Sustained increases in costs of pension and postretirement medical and other employee health and welfare benefits may reduce our profitability.

With approximately 203,000 employees, our profitability is substantially affected by costs of pension and current and postretirement medical benefits. We may experience significant increases in these costs as a result of macroeconomic factors, which are beyond our control, including increases in the cost of health care. Impacts of COVID-19 may lead to an increase in the cost of medical insurance and expenses. In addition, changes in investment returns and discount rates used to calculate pension and postretirement medical expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. Our pension and postretirement medical plans were remeasured at the end of fiscal 2020, and as a result, the underfunded status and fiscal 2021 costs increased. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding requirements. There can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

[TABLE OF CONTENTS](#)

The alteration or discontinuation of LIBOR may adversely affect our borrowing costs.

Certain of our interest rate derivatives and a portion of our indebtedness bear interest at variable interest rates, primarily based on LIBOR, which may be subject to regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The Alternative Reference Rates Committee (ARCC), which was convened by the Federal Reserve Board and the New York Fed, has identified the Secured Overnight Financing Rate (SOFR) as the recommended risk-free alternative rate for USD LIBOR. At this time, it is not possible to predict the effect any discontinuance, modification or other reforms to LIBOR, or the establishment of alternative reference rates such as SOFR, or any other reference rate, will have on the Company. However, if LIBOR ceases to exist or if the methods of calculating LIBOR change from their current form, the Company’s borrowing costs may be adversely affected.

TFCF ACQUISITION RISKS

Our consolidated indebtedness increased substantially following completion of the TFCF acquisition and may increase in connection with impacts of the COVID-19. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.

Our consolidated indebtedness and cash and cash equivalents as of September 29, 2018 were approximately \$20.9 billion and \$4.2 billion, respectively. With the completion of the TFCF acquisition, our consolidated indebtedness and cash and cash equivalents as of September 28, 2019 were approximately \$47.0 billion and \$5.4 billion, respectively. As of October 3, 2020 our consolidated indebtedness and cash and cash equivalents were approximately \$58.6 billion and \$17.9 billion, respectively. The increased indebtedness could have the effect of, among other things, reducing our financial flexibility and reducing our flexibility to respond to changing business and economic conditions, such as those presented by COVID-19, among others. Increased levels of indebtedness could also reduce funds available for capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. Since April 2020, Standard and Poor’s has downgraded our long-term debt ratings by two notches to BBB+, downgraded our short-term debt ratings by one notch to A-2 and placed our long-term debt ratings on Negative Outlook. In May 2020, Fitch downgraded our long- and short-term credit ratings by one notch to A- and F2, respectively, and placed our long-term ratings on Negative Outlook. Our financial flexibility may be further constrained by the issuance of shares of common stock in the TFCF acquisition, to the extent we determine to make dividend payments in the future.

We could fail to realize all of the benefits anticipated in the TFCF acquisition.

If we are not able to realize the strategic value of the TFCF assets, the anticipated benefits of the TFCF acquisition may not be realized fully or may take longer than expected to be realized, and these risks could be exacerbated by the impact of COVID-19. Further, there could be loss of key employees, loss of customers, disruption of ongoing businesses or unexpected issues, higher than expected costs and an overall post-acquisition process that takes longer than originally anticipated. Specifically, the following issues, among others, must be addressed in order to realize the anticipated benefits of the TFCF acquisition so the combined company performs as we hope:

- combining the businesses of the Company and TFCF in a manner that permits us to achieve the synergies anticipated to result from the TFCF acquisition, the failure of which would result in the anticipated benefits of the TFCF acquisition not being realized in the time frame currently anticipated or at all;
- maintaining existing agreements with customers, distributors, providers, talent and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers, talent and vendors; and
- developing products and technology that allow value to be unlocked in the future.

Consummation of the TFCF acquisition has increased our exposure to the risks of operating internationally.

We are a diversified entertainment company that offers entertainment, travel and consumer products worldwide. Although many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside of the U.S., the combination with TFCF has increased the importance of international operations to our future operations, growth and prospects. Our risks of operating internationally have increased following the completion of the TFCF acquisition and as a result of COVID-19.

The TFCF acquisition and integration may result in additional costs and expenses.

We have incurred and expect to continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the TFCF acquisition and integration. We may also incur accounting and other costs that were not anticipated at the time of the TFCF acquisition, including costs for which we have established reserves or which may lead to reserves in the future. Such costs could negatively impact the Company's free cash flow.

GENERAL RISKS

The Company's amended and restated bylaws provide to the fullest extent permitted by law that the Court of Chancery of the State of Delaware will be the exclusive forum for certain legal actions between the Company and its stockholders, which could increase costs to bring a claim, discourage claims or limit the ability of the Company's stockholders to bring a claim in a judicial forum viewed by the stockholders as more favorable for disputes with the Company or the Company's directors, officers or other employees.

The Company's amended and restated bylaws provide to the fullest extent permitted by law that unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of the Company, (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or stockholder of the Company to the Company or the Company's stockholders, (iii) any action or proceeding asserting a claim arising pursuant to, or seeking to enforce any right, obligation or remedy under, any provision of the General Corporation Law of the State of Delaware (the "DGCL"), the Certificate of Incorporation or these Bylaws (as each may be amended from time to time), (iv) any action or proceeding as to which the General Corporation Law of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware, (v) or any action or proceeding asserting a claim governed by the internal affairs doctrine. The choice of forum provision may increase costs to bring a claim, discourage claims or limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company or the Company's directors, officers or other employees, which may discourage such lawsuits against the Company or the Company's directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in the Company's amended and restated bylaws to be inapplicable or unenforceable in an action, the Company may incur additional costs associated with resolving such action in other jurisdictions. The exclusive forum provision in the Company's amended and restated bylaws will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the federal securities laws including the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or the respective rules and regulations promulgated thereunder.

ITEM 1B. Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of fiscal 2020 and that remain unresolved.

ITEM 2. Properties

The Walt Disney World Resort, Disneyland Resort, retail store locations leased by the Company and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Parks, Experiences and Products*. Film and television library properties are described in Item 1 under the caption *Media Networks* and *Studio Entertainment*. Television stations owned by the Company are described in Item 1 under the caption *Media Networks*.

TABLE OF CONTENTS

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business segment.

Location	Property / Approximate Size	Use	Business Segment⁽¹⁾
Burbank, CA & surrounding cities ⁽²⁾	Land (201 acres) & Buildings (4,695,000 ft ²)	Owned Office/Production/Warehouse (includes 239,000 ft ² sublet to third-party tenants)	Corp/Studio/Media/PEP/DTCI
Burbank, CA & surrounding cities ⁽²⁾	Buildings (1,748,000 ft ²)	Leased Office/Warehouse	Corp/Studio/Media/PEP/DTCI
Los Angeles, CA	Land (22 acres) & Buildings (600,000 ft ²)	Owned Office/Production/Technical	Media/Studio/DTCI
Los Angeles, CA	Buildings (2,724,000 ft ²)	Leased Office/Production/Technical/Theater (includes 376,000 ft ² sublet to third-party tenants)	Media/Studio
New York, NY	Buildings (51,000 ft ²)	Owned Office/Production/Technical	Media/Corp
New York, NY	Buildings (2,716,000 ft ²)	Leased Office/Production/Theater/Warehouse (includes 676,000 ft ² sublet to third-party tenants)	Corp/Studio/Media/PEP/DTCI
Bristol, CT	Land (117 acres) & Buildings (1,174,000 ft ²)	Owned Office/Production/Technical	Media/Studio
Bristol, CT	Buildings (512,000 ft ²)	Leased Office/Warehouse/Technical	Media/Studio
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft ²)	Owned Office/Production/Technical	Studio
Emeryville, CA	Buildings (80,000 ft ²)	Leased Office/Storage	Studio/Media
San Francisco, CA	Buildings (646,000 ft ²)	Leased Office/Production/Technical/Theater (includes 57,000 ft ² sublet to third-party tenants)	Studio/Media/PEP/DTCI
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/Production/Transmitter/Theaters/Warehouse	Corp/Studio/Media/PEP/DTCI
Hammersmith, England	Building (284,000 ft ²)	Leased Office	Corp/Studio/Media/PEP/DTCI
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Warehouse/Retail/Residential	Studio/Media/PEP/DTCI

⁽¹⁾ Corp – Corporate, PEP – Parks, Experiences and Products, DTCI – Direct-To-Consumer & International

⁽²⁾ Surrounding cities include Glendale, CA, North Hollywood, CA and Sun Valley, CA

ITEM 3. Legal Proceedings

As disclosed in Note 15 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 15 relating to certain legal matters is incorporated herein by reference.

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

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Company

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the

TABLE OF CONTENTS

executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below. Each of the executive officers has been employed by the Company for more than five years.

At October 3, 2020, the executive officers of the Company were as follows:

Name	Age	Title	Executive Officer Since
Robert A. Iger	69	Executive Chairman ⁽¹⁾	2000
Robert A. Chapek	61	Chief Executive Officer ⁽²⁾	2020
Alan N. Braverman	72	Senior Executive Vice President, General Counsel and Secretary	2003
Christine M. McCarthy	65	Senior Executive Vice President and Chief Financial Officer ⁽³⁾	2005
M. Jayne Parker	59	Senior Executive Vice President and Chief Human Resources Officer ⁽⁴⁾	2009
Zenia B. Mucha	64	Senior Executive Vice President Corporate Communications ⁽⁵⁾	2018

⁽¹⁾ Mr. Iger was appointed Executive Chairman effective February 24, 2020, he is also Chairman of the Board from March 2012. He was Chief Executive Officer from October 2005 to February 2020.

⁽²⁾ Mr. Chapek was appointed Chief Executive Officer effective February 24, 2020. He served as Chairman of Disney Parks, Experiences and Products since the segment's creation in 2018, and prior to that was Chairman of Walt Disney Parks and Resorts since 2015.

⁽³⁾ Ms. McCarthy was appointed Senior Executive Vice President and Chief Financial Officer effective June 30, 2015. She was previously Executive Vice President, Corporate Real Estate, Alliances and Treasurer of the Company from 2000 to 2015.

⁽⁴⁾ Ms. Parker was appointed Senior Executive Vice President and Chief Human Resources Officer effective August 20, 2017. She was previously Executive Vice President and Chief Human Resources Officer from 2009.

⁽⁵⁾ Ms. Mucha was appointed Senior Executive Vice President Corporate Communications effective August 2016. She was previously Executive Vice President Corporate Communications from March 2005.

PART II

ITEM 5. Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the New York Stock Exchange under the ticker symbol “DIS”.

See Note 12 of the Consolidated Financial Statements for a summary of the Company’s dividends in fiscal 2020 and 2019.

As of October 3, 2020, the approximate number of common shareholders of record was 826,250.

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended October 3, 2020:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
June 28, 2020 – July 31, 2020	27,550	\$ 117.57	—	n/a
August 1, 2020 – August 31, 2020	22,011	128.29	—	n/a
September 1, 2020 – October 3, 2020	21,613	131.57	—	n/a
Total	<u>71,174</u>	125.14	<u>—</u>	n/a

⁽¹⁾ 71,174 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

⁽²⁾ Not applicable as the Company no longer has a stock repurchase plan or program.

During the fiscal quarter ended October 3, 2020, 823,340 shares of common stock were issued in a privately negotiated sale, at a price of \$129.5537 per share, which was determined by applying a volume weighed average price over a period of 30 trading days, in satisfaction of contractual obligations of the Company undertaken in a commercial agreement entered into in the ordinary course of business. The shares issued are subject to restrictions which, among other things, are designed to assure that any resales will occur in reliance on an applicable exemption under the Securities Act.

[TABLE OF CONTENTS](#)

ITEM 6. Selected Financial Data

(in millions, except per share data)

	2020 ⁽¹⁾	2019 ⁽²⁾	2018 ⁽³⁾	2017 ⁽⁴⁾	2016 ⁽⁵⁾
Statements of operations					
Revenues	\$ 65,388	\$ 69,607	\$ 59,434	\$ 55,137	\$ 55,632
Net income (loss) from continuing operations	(2,442)	10,897	13,066	9,366	9,790
Net income (loss) from continuing operations attributable to Disney	(2,832)	10,425	12,598	8,980	9,391
Per common share					
Earnings (loss) attributable to Disney:					
Continuing Operations - Diluted	\$ (1.57)	\$ 6.26	\$ 8.36	\$ 5.69	\$ 5.73
Continuing Operations - Basic	(1.57)	6.30	8.40	5.73	5.76
Dividends	0.88	1.76	1.68	1.56	1.42
Balance sheets					
Total assets	\$ 201,549	\$ 193,984	\$ 98,598	\$ 95,789	\$ 92,033
Long-term obligations	79,370	60,852	24,797	26,710	24,189
Disney shareholders' equity	83,583	88,877	48,773	41,315	43,265
Statements of cash flows					
Cash provided (used) by - continuing operations:					
Operating activities	\$ 7,616	\$ 5,984	\$ 14,295	\$ 12,343	\$ 13,136
Investing activities	(3,850)	(15,096)	(5,336)	(4,111)	(5,758)
Financing activities	8,480	(464)	(8,843)	(8,959)	(7,220)

⁽¹⁾ Fiscal 2020 results include the impact of COVID-19 (estimated at approximately \$3.19 per diluted share), goodwill and intangible asset impairments at our International Channels business (\$2.53 per diluted share), amortization expense related to recognition of TFCF and Hulu intangible assets and fair value step-up on film and television costs (\$1.17 per diluted share), a non-cash gain to adjust our investment in DraftKings, Inc. to fair value (DraftKings gain) (\$0.41 per diluted share) and restructuring and impairment charges (\$0.33 per diluted share). At the beginning of fiscal 2020, the Company adopted new lease accounting guidance increasing total assets and liabilities by approximately \$3.7 billion.

⁽²⁾ On March 20, 2019, the Company acquired TFCF for cash and Disney shares (see Note 4 to the Consolidated Financial Statements). TFCF and Hulu's financial results have been consolidated since the date of acquisition. The acquisition had a number of impacts on fiscal 2019 results, the most significant of which were a non-cash gain from remeasuring our initial 30% interest in Hulu to fair value (\$2.22 per diluted share), amortization expense related to recognition of TFCF and Hulu intangible assets and fair value step-up on film and television costs (\$0.74 per diluted share), restructuring and impairment charges (\$0.55 per diluted share), an adverse impact from TFCF and Hulu operating results (\$0.27 per diluted share) and a charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition (\$0.24 per diluted share). Fiscal 2019 results also reflected equity investment impairments (\$0.25 per diluted share). Cash provided by continuing operating activities reflected payments for tax obligations that arose from the spin-off of Fox Corporation in connection with the TFCF acquisition and the sale of the Regional Sports Networks (RSN) acquired with TFCF (\$7.6 billion). Cash used in continuing investing activities reflected a cash payment of \$35.7 billion paid to acquire TFCF, offset by \$25.7 billion in cash and cash equivalents assumed in the TFCF acquisition.

- ⁽³⁾ Fiscal 2018 results include a net benefit from the Tax Act Deferred Remeasurement, net of the Deemed Repatriation Tax (\$1.11 per diluted share) and the Tax Act reduction in the fiscal 2018 U.S. federal statutory income tax rate (\$0.75 per diluted share) (see Note 10 to the Consolidated Financial Statements). In addition, fiscal 2018 included gains on the sales of real estate and property rights (\$0.28 per diluted share) and an adverse impact from equity investment impairments (\$0.11 per diluted share).
- ⁽⁴⁾ Fiscal 2017 results include a non-cash net gain in connection with the acquisition of a controlling interest in BAMTech (\$0.10 per diluted share).
- ⁽⁵⁾ Fiscal 2016 results include the Company's share of a net gain recognized by A+E in connection with an acquisition of an interest in Vice (\$0.13 per diluted share).

[TABLE OF CONTENTS](#)

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CONSOLIDATED RESULTS
(in millions, except per share data)

	2020	2019	% Change Better (Worse)
Revenues:			
Services	\$ 59,265	\$ 60,579	(2) %
Products	6,123	9,028	(32) %
Total revenues	65,388	69,607	(6) %
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(39,406)	(36,493)	(8) %
Cost of products (exclusive of depreciation and amortization)	(4,474)	(5,568)	20 %
Selling, general, administrative and other	(12,369)	(11,549)	(7) %
Depreciation and amortization	(5,345)	(4,167)	(28) %
Total costs and expenses	(61,594)	(57,777)	(7) %
Restructuring and impairment charges	(5,735)	(1,183)	>(100) %
Other income, net	1,038	4,357	(76) %
Interest expense, net	(1,491)	(978)	(52) %
Equity in the income (loss) of investees, net	651	(103)	nm
Income (loss) from continuing operations before income taxes	(1,743)	13,923	nm
Income taxes from continuing operations	(699)	(3,026)	77 %
Net income (loss) from continuing operations	(2,442)	10,897	nm
Income (loss) from discontinued operations, net of income tax benefit (expense) of \$10 and (\$39), respectively	(32)	687	nm
Net income (loss)	(2,474)	11,584	nm
Less: Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(390)	(472)	17 %
Less: Net income from discontinued operations attributable to noncontrolling interests	—	(58)	100 %
Net income (loss) attributable to Disney	\$ (2,864)	\$ 11,054	nm
Earnings (loss) per share attributable to Disney:			
Diluted ⁽¹⁾			
Continuing operations	\$ (1.57)	\$ 6.26	nm
Discontinued operations	(0.02)	0.38	nm
	\$ (1.58)	\$ 6.64	nm
Basic ⁽¹⁾			
Continuing operations	\$ (1.57)	\$ 6.30	nm
Discontinued operations	(0.02)	0.38	nm
	\$ (1.58)	\$ 6.68	nm
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,808	1,666	
Basic	1,808	1,656	

⁽¹⁾ Total may not equal the sum of the column due to rounding.

[TABLE OF CONTENTS](#)

Organization of Information

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Significant Developments
- Consolidated Results and Non-Segment Items
- Business Segment Results
- Corporate and Unallocated Shared Expenses
- Restructuring Activities
- Liquidity and Capital Resources
- Supplemental Guarantor Financial Information
- Contractual Obligations, Commitments and Off Balance Sheet Arrangements
- Critical Accounting Policies and Estimates
- Forward-Looking Statements

In Item 7, we discuss fiscal 2020 and 2019 results and comparisons of fiscal 2020 results to fiscal 2019 results. Discussions of fiscal 2018 results and comparisons of fiscal 2019 results to fiscal 2018 results can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019.

SIGNIFICANT DEVELOPMENTS

Strategic Reorganization

In October 2020, the Company announced a strategic reorganization of our media and entertainment businesses to accelerate the growth of our DTC strategy. The operations of the Media Networks, Studio Entertainment and DTCI segments were reorganized into four groups: three content groups (Studios, General Entertainment and Sports), which are focused on developing and producing content that will be used across all of our traditional and DTC platforms and a distribution group, which is focused on distribution and commercialization activities across these platforms and which has full accountability for media and entertainment operating results globally.

COVID-19 Pandemic

During fiscal 2020 and continuing into fiscal 2021, the world has been, and continues to be, impacted by COVID-19. COVID-19 and measures to prevent its spread impacted our segments in a number of ways, most significantly at Parks, Experiences and Products where our theme parks were closed or operating at significantly reduced capacity for a significant portion of the year, cruise ship sailings and guided tours were suspended since late in the second quarter and retail stores were closed for a significant portion of the year. We also had an adverse impact on our merchandise licensing business. Our Studio Entertainment segment has delayed, or in some cases, shortened or cancelled, theatrical releases, and stage play performances have been suspended since late in the second quarter. We also had adverse impacts on advertising sales at Media Networks and Direct-to-Consumer & International. Since March 2020, we have experienced significant disruptions in the production and availability of content, including the shift of key live sports programming from our third quarter to the fourth quarter and into fiscal 2021, as well as the suspension of production of most film and television content since late in the second quarter, although some film and television production resumed in the fourth quarter.

We have taken a number of mitigation efforts in response to the impacts of COVID-19 on our businesses. We have significantly increased cash balances through the issuance of senior notes in March and May 2020, and we entered into an additional \$5.0 billion credit facility in April 2020. The Company (or our Board of Directors, as applicable) did not declare a dividend with respect to fiscal 2020 operations; suspended certain capital projects; reduced certain discretionary expenditures (such as spending on marketing); reduced management compensation for

several months and temporarily eliminated Board of Director retainers and committee fees. In addition, we furloughed over 120,000 of our employees (who continued to receive Company provided medical benefits), many of which have returned from furlough as certain business operations have reopened. At the end of September, the Company announced a workforce reduction plan that would primarily impact Parks, Experiences and Products. Overall, approximately 32,000 employees will be terminated in the first half of fiscal 2021. We may take additional mitigation actions in the future such as raising additional financing; not declaring future dividends; reducing, or not making, certain payments, such as some contributions to our pension and postretirement medical plans; further suspending capital spending, reducing film and television content investments; or implementing additional furloughs or reductions in force. Some of these measures may have an adverse impact on our businesses.

TABLE OF CONTENTS

The most significant impact of COVID-19 on fiscal 2020 operating results was an estimated detriment of approximately \$6.9 billion on operating income at our Parks, Experiences and Products segment due to revenue lost as a result of the closures or reduced operating capacities. The impacts at the Media Networks, Direct-to-Consumer & International and Studio Entertainment segments were less significant. Media Networks had a modest benefit reflecting the deferral of sports programming costs to fiscal 2021, when we expect rescheduled events to occur, partially offset by lower advertising revenue. At Direct-to-Consumer & International, lower advertising revenue was partially offset by lower costs including the deferral of sports programming costs into fiscal 2021. At Studio Entertainment, lower revenues due to the deferral or cancellation of significant film releases as a result of theater closures were partially offset by lower amortization, marketing and distribution costs. In total, we estimate the net adverse impact of COVID-19 on our full year segment operating income across all of our businesses was approximately \$7.4 billion, inclusive of the impact at Parks, Experiences and Products. The estimated impact is net of approximately \$500 million in government credits, from the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in the U.S. and a similar program in France, both primarily at our Parks, Experiences and Products segment. The impact in fiscal 2020 is not necessarily indicative of the impact on future period results, including the impact of sports programming cost deferrals.

The impact of these disruptions and the extent of their adverse impact on our financial and operational results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact and duration of governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. While we cannot be certain as to the duration of the impacts of COVID-19, we currently expect COVID-19 to adversely impact our financial results at least through fiscal 2021.

Some of our businesses have reopened with limited operations. We have incurred and will continue to incur additional costs to address government regulations and the safety of our employees, talent and guests. For example, as we reopened theme parks and retail stores, we incurred and will continue to incur costs for such things as additional custodial services, personal protection equipment, temperature screenings and testing, sanitizer and cleaning supplies and signage, among other items. As we resume production of film and television content, including live sporting events, we anticipate incurring similar costs and productions may take longer to complete. The timing, duration and extent of these costs will depend on the timing and scope of the resumption of our operations. We currently estimate these costs may total approximately \$1 billion in fiscal 2021. Some of these costs may be capitalized and amortized over future periods. With the unknown duration of COVID-19 and yet to be determined timing of the phased reopening of certain businesses, it is not possible to precisely estimate the impact of COVID-19 on our operations in future quarters. As we reopen our businesses, we will no longer benefit from certain savings related to the closure of those businesses, such as related furloughs. The reopening or closure of our businesses is dependent on applicable government requirements, which vary by location, are subject to ongoing changes, which could result from increasing COVID-19 cases.

Additionally, see Part I., Item 1A. Risk Factors - The adverse impact of COVID-19 on our businesses will continue for an unknown length of time and may continue to impact certain of our key sources of revenue.

Direct-to-Consumer

In November 2019, the Company launched Disney+, a subscription based DTC streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming in the U.S. and four other countries and has expanded to select Western European countries in the Spring of 2020. In April 2020, our Hotstar service in India was converted to Disney+Hotstar, and in June 2020, current subscribers of the Disney Deluxe service in Japan were converted to Disney+. In September 2020, Disney+ was launched in additional European countries and Disney+ Hotstar was launched in Indonesia. In November 2020, Disney+ was launched in Latin America. Additional launches are planned for various Asia-Pacific territories in calendar year 2021.

The Company also plans to launch a general entertainment DTC video streaming offering under the Star brand outside the U.S. in calendar year 2021.

As we will use our branded film and television content on our DTC offerings, we are forgoing certain licensing revenue from the sale of this content to third parties in TV/SVOD markets. We also expect to forgo revenue as we shut down channels in certain markets as a result of investment in our DTC offerings. In addition, we are increasing programming and production investments to create exclusive content for our DTC offerings.

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Fiscal 2019 includes the consolidated results of TFCF and Hulu for the period March 20, 2019 through September 28, 2019, whereas the fiscal 2020 results include the consolidated results of TFCF and Hulu for the full year. We refer to the impact of the approximately six month non-comparable period as “the consolidation of TFCF and Hulu”.

TABLE OF CONTENTS

The Company's fiscal year end is on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. Fiscal 2020 is a fifty-three week year, which began on September 29, 2019 and ended on October 3, 2020. We estimate that the additional week of operations in fiscal 2020 resulted in a benefit to pre-tax income of approximately \$200 million, primarily at the Media Networks segment.

Revenues for fiscal 2020 decreased 6%, or \$4.2 billion, to \$65.4 billion; net income attributable to Disney decreased \$13.9 billion, to a loss of \$2.9 billion; and diluted earnings per share from continuing operations attributable to Disney decreased to a loss of \$1.57 compared to income of \$6.26 in the prior year. The EPS decrease for the year was due to lower segment operating income, goodwill and intangible asset impairments at our International Channels business, the comparison to a prior-year non-cash gain in connection with the acquisition of Hulu (Hulu gain), higher amortization of intangible assets and fair value step-up on film and television costs from the TFCF acquisition and the consolidation of Hulu and higher interest expense. These decreases were partially offset by an investment gain in the current year and the comparison to investment impairments and a charge for the extinguishment of debt recorded in the prior year. The decrease in segment operating income was due to lower results at Parks, Experiences and Products and higher losses at Direct-to-Consumer & International, partially offset by an increase at our Media Networks segment. Segment operating results for the current period include a \$0.5 billion net benefit from the consolidation of TFCF and Hulu.

Revenues

Service revenues for fiscal 2020 decreased 2%, or \$1.3 billion, to \$59.3 billion, driven by lower volumes at our theme parks, resorts and cruise line, a decrease in theatrical distribution and stage play revenues, lower advertising revenue and a decrease in sales of our television and film programs to third parties. These decreases were partially offset by the consolidation of TFCF and Hulu and an increase in subscription revenue from Disney+/Disney+Hotstar and Hulu. Theme park, resort, cruise line, theatrical distribution, stage play and advertising revenue were adversely impacted by COVID-19.

Product revenues for fiscal 2020 decreased 32%, or \$2.9 billion, to \$6.1 billion, due to lower volumes at our theme parks and resorts, which were impacted by being closed or operating at reduced capacity for a significant part of the year as a result of COVID-19.

Costs and expenses

Cost of services for fiscal 2020 increased 8%, or \$2.9 billion, to \$39.4 billion, due to the consolidation of TFCF and Hulu and an increase in programming and production costs, partially offset by lower theatrical and TV/SVOD production cost amortization and distribution costs and decreased volumes at our theme parks, resorts and cruise line. The increase in programming and production costs reflected costs for Disney+ programming, partially offset by a decrease due to a shift in timing of major sporting events to fiscal 2021.

Cost of products for fiscal 2020 decreased 20%, or \$1.1 billion, to \$4.5 billion, due to lower volumes at our theme parks and resorts.

Selling, general, administrative and other costs for fiscal 2020 increased 7%, or \$0.8 billion, to \$12.4 billion, due to the consolidation of TFCF and Hulu, partially offset by lower marketing costs. The decrease in marketing costs reflected lower spending at the theatrical distribution and theme parks and resorts businesses, partially offset by increased spend for Disney+.

Depreciation and amortization costs increased 28%, or \$1.2 billion, to \$5.3 billion due to the amortization of intangible assets arising from the acquisition of TFCF and consolidation of Hulu and, to a lesser extent, higher depreciation for new attractions at our domestic parks and resorts.

Restructuring and Impairment Charges

Restructuring and impairment charges of \$5.7 billion for fiscal 2020 were due to \$4,953 million of impairment charges for goodwill and intangible assets at our International Channels business and \$782 million of restructuring

costs. Restructuring costs were primarily for severance costs and contract termination charges in connection with the acquisition and integration of TFCF and severance in connection with the reduction-in-force at our Parks, Experiences and Products segment.

Restructuring and impairment charges of \$1.2 billion in fiscal 2019 were primarily for severance and equity-based compensation costs in connection with the acquisition and integration of TFCF.

[TABLE OF CONTENTS](#)

Other Income, net

(in millions)	2020	2019	% Change Better (Worse)
DraftKings Gain	\$ 973	\$ —	nm
Gain on sale of an investment	65	—	nm
Hulu Gain	—	4,794	nm
Insurance recoveries related to legal matters	—	46	nm
Gain recognized in connection with the acquisition of TFCF	—	28	nm
Charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition	—	(511)	nm
Other income, net	<u>\$ 1,038</u>	<u>\$ 4,357</u>	(76) %

In fiscal 2020, the Company recognized a non-cash gain of \$973 million to adjust its investment in DraftKings, Inc. to fair value (DraftKings gain). In addition, the Company recognized a gain of \$65 million on the sale of an investment.

In fiscal 2019, the Company recognized the \$4,794 million Hulu gain, recorded insurance recoveries of \$46 million in connection with the settlement of legal matters, and recorded a gain of \$28 million on the deemed settlement of preexisting relationships with TFCF pursuant to acquisition accounting guidance. In addition, the Company recorded a charge of \$511 million for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition.

Interest Expense, net

(in millions)	2020	2019	% Change Better (Worse)
Interest expense	\$ (1,647)	\$ (1,246)	(32) %
Interest income, investment income and other	156	268	(42) %
Interest expense, net	<u>\$ (1,491)</u>	<u>\$ (978)</u>	(52) %

The increase in interest expense was due to higher average debt balances, partially offset by lower average interest rates.

The decrease in interest income, investment income and other was due to a lower benefit from pension and postretirement benefit costs, other than service cost and higher net investment impairments, partially offset by higher imputed interest income on long-term receivables for film and television program sales driven by the consolidation of TFCF.

Equity in the Income (Loss) of Investees

Equity in the income (loss) of investees reflected income of \$651 million in the current year compared to a loss of \$103 million in the prior year. The change reflected the comparison to impairments in the prior year on our investment in Vice Group Holding Inc. and on an investment in a cable channel at A+E Television Networks and lower equity losses from Hulu as a result of our consolidation of Hulu following the TFCF acquisition.

Effective Income Tax Rate

	2020	2019	Change Better (Worse)
Effective income tax rate - continuing operations	(40.1)%	21.7%	(61.8) ppt

The change in effective income tax rate is due to the fiscal 2020 impairment of International Channels goodwill, which is not tax deductible, and foreign losses in fiscal 2020 for which we are unable to recognize a tax benefit.

Noncontrolling Interests

(in millions)	2020	2019	% Change Better (Worse)
Net income from continuing operations attributable to noncontrolling interests	\$ (390)	\$ (472)	17%

The decrease in net income from continuing operations attributable to noncontrolling interests was due to lower results at Hong Kong Disneyland Resort and Shanghai Disney Resort, partially offset by a higher adverse impact from the accretion of the Hulu redeemable noncontrolling interest due to the consolidation of Hulu.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

[TABLE OF CONTENTS](#)

Discontinued Operations

Net income from discontinued operations in fiscal 2019 reflected the operations of the RSNs.

Certain Items Impacting Comparability

Results for fiscal 2020 were impacted by the following:

- Goodwill and intangible asset impairments of \$4,953 million and restructuring charges of \$782 million
- Amortization expense of \$2,846 million related to TFCF and Hulu intangible assets and fair value step-up on film and television costs
- The DraftKings gain of \$973 million
- A gain of \$65 million on the sale of an investment

Results for fiscal 2019 were impacted by the following:

- The Hulu Gain of \$4,794 million
- A benefit of \$74 million consisting of \$46 million from insurance recoveries related to a legal matter and a gain of \$28 million recognized on the settlement of preexisting relationships with TFCF pursuant to acquisition accounting guidance
- A benefit of \$34 million from U.S. federal income tax legislation enacted in fiscal 2018
- Amortization expense of \$1,595 million related to TFCF and Hulu intangible assets and fair value step-up on film and television costs
- Restructuring and impairment charges of \$1,183 million
- Impairments of \$538 million on equity investments
- A charge of \$511 million for the extinguishment of a portion of debt originally assumed in the TFCF acquisition

A summary of the impact of these items on EPS is as follows:

(in millions, except per share data)	Pre-Tax Income (Loss)	Tax Benefit (Expense) ⁽¹⁾	After-Tax Income (Loss)	EPS Favorable (Adverse) ⁽²⁾
Year Ended October 3, 2020:				
Restructuring and impairment charges	\$ (5,735)	\$ 571	\$ (5,164)	\$ (2.86)
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	(2,846)	662	(2,184)	(1.17)
DraftKings gain	973	(227)	746	0.41
Gain on sale of an investment	65	(15)	50	0.03
Total	<u>\$ (7,543)</u>	<u>\$ 991</u>	<u>\$ (6,552)</u>	<u>\$ (3.59)</u>
Year Ended September 28, 2019:				
Hulu Gain	\$ 4,794	\$ (1,103)	\$ 3,691	\$ 2.22
Insurance recoveries and gains on the settlement of preexisting relationships	74	(17)	57	0.03
Benefit from the Tax Act	—	34	34	0.02
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	(1,595)	355	(1,240)	(0.74)
Restructuring and impairment charges	(1,183)	273	(910)	(0.55)
Impairment of equity investments	(538)	123	(415)	(0.25)
Charge for the extinguishment of debt	(511)	118	(393)	(0.24)
Total	<u>\$ 1,041</u>	<u>\$ (217)</u>	<u>\$ 824</u>	<u>\$ 0.50</u>

⁽¹⁾ Tax benefit/expense adjustments are determined using the tax rate applicable to the individual item affecting comparability.

⁽²⁾ EPS is net of noncontrolling interest share, where applicable. Total may not equal the sum of the column due to rounding.

⁽³⁾ Includes amortization of intangibles related to TFCF equity investees.

[TABLE OF CONTENTS](#)

BUSINESS SEGMENT RESULTS — 2020 vs. 2019

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other costs, and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

Our Media Networks segment primarily generates revenue from affiliate fees, advertising (excluding addressable ad sales) and the sale and distribution of television programs in TV/SVOD markets. Significant expenses include amortization of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs.

Our Parks, Experiences and Products segment primarily generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise at our theme parks and resorts, charges for room nights at hotels, sales of cruise vacations, sales and rentals of vacation club properties, royalties from licensing intellectual properties and the sale of branded merchandise. Revenues are also generated from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort. Significant expenses include operating labor, costs of goods sold, infrastructure costs, depreciation and other operating expenses. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation. Other operating expenses include costs for such items as supplies, commissions and entertainment offerings.

Our Studio Entertainment segment primarily generates revenue from the distribution of films in the theatrical, home entertainment and TV/SVOD markets, stage play ticket sales and licensing of our intellectual properties for use in live entertainment productions. Significant expenses include amortization of production, participations and residuals costs, marketing and sales costs, distribution expenses and costs of sales.

Our Direct-to-Consumer & International segment primarily generates revenue from subscription fees for our DTC streaming services, affiliate fees and advertising sales (including addressable ad sales). Significant expenses include operating expenses, selling general and administrative costs and depreciation and amortization. Operating expenses include programming and production costs (including programming, production and branded digital content obtained from other Company segments), technology support costs, operating labor and distribution costs.

The Company evaluates the performance of its operating segments based on segment operating income, and management uses total segment operating income as a measure of the overall performance of the operating businesses. Total segment operating income is not a financial measure defined by GAAP, should be reviewed in conjunction with the relevant GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company believes that information about total 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 income (loss) from continuing operations before income taxes to total segment operating income:

(in millions)	2020	2019	% Change Better (Worse)
Income (loss) from continuing operations before income taxes	\$ (1,743)	\$ 13,923	nm
Add/(subtract):			
Corporate and unallocated shared expenses	817	987	17 %
Restructuring and impairment charges	5,735	1,183	>(100) %
Other income, net	(1,038)	(4,357)	(76) %
Interest expense, net	1,491	978	(52) %
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	2,846	1,595	(78) %
Impairment of equity investments	—	538	100 %
Total segment operating income	\$ 8,108	\$ 14,847	(45) %

⁽¹⁾ Includes amortization of intangibles related to TFCF equity investees

TABLE OF CONTENTS

The following is a summary of segment revenue and operating income:

(in millions)	2020	2019	% Change Better (Worse)
Revenues:			
Media Networks	\$ 28,393	\$ 24,827	14 %
Parks, Experiences and Products	16,502	26,225	(37) %
Studio Entertainment	9,636	11,127	(13) %
Direct-to-Consumer & International	16,967	9,386	81 %
Eliminations	(6,110)	(1,958)	>(100) %
	<u>\$ 65,388</u>	<u>\$ 69,607</u>	(6) %
Segment operating income (loss):			
Media Networks	\$ 9,022	\$ 7,479	21 %
Parks, Experiences and Products	(81)	6,758	nm
Studio Entertainment	2,501	2,686	(7) %
Direct-to-Consumer & International	(2,806)	(1,835)	(53) %
Eliminations	(528)	(241)	>(100) %
	<u>\$ 8,108</u>	<u>\$ 14,847</u>	(45) %

Media Networks

Operating results for the Media Networks segment are as follows:

	Year Ended		% Change Better (Worse)
(in millions)	October 3, 2020	September 28, 2019	
Revenues			
Affiliate fees	\$ 15,018	\$ 13,433	12 %
Advertising	6,374	6,965	(8) %
TV/SVOD distribution and other	7,001	4,429	58 %
Total revenues	28,393	24,827	14 %
Operating expenses	(17,387)	(15,499)	(12) %
Selling, general, administrative and other	(2,514)	(2,361)	(6) %
Depreciation and amortization	(207)	(191)	(8) %
Equity in the income of investees	737	703	5 %
Operating Income	\$ 9,022	\$ 7,479	21 %

Revenues

The increase in affiliate fees was due to increases of 8% from higher contractual rates, 6% from the consolidation of TFCF and 2% from the benefit of an additional week in the current year, partially offset by a decrease of 4% from fewer subscribers. The subscriber decline was net of a benefit from the ACC Network which launched in August 2019.

The decline in advertising revenues was due to decreases of \$392 million at Cable Networks, from \$3,503 million to \$3,111 million and \$199 million at Broadcasting, from \$3,462 million to \$3,263 million. Cable Networks

advertising revenue reflected a decrease of 22% from lower impressions reflecting lower average viewership due to the impact COVID-19 had on live sports events. This decrease was partially offset by increases of 7% from the consolidation of TFCF, 4% from the benefit of an additional week of operations, which included MLB and NBA events, and 2% from higher rates. Broadcasting advertising revenue reflected decreases of 9% from lower network impressions reflecting lower average viewership and 3% from the owned television stations. These decreases were partially offset by increases of 3% from higher network rates, 2% from the benefit of an additional week of operations and 2% from the consolidation of TFCF.

The increase in TV/SVOD distribution and other revenue of \$2,572 million was due to the consolidation of TFCF, which consisted primarily of program sales, and higher program sales at Disney Television Studios, Disney Channel and FX. The increase in Disney Television Studios was primarily due to sales of original titles to Hulu and library titles to Hulu and

TABLE OF CONTENTS

Disney+. The increases at Disney Channel and FX were due to program sales to Disney+ and Hulu, respectively. These increases were partially offset by lower sales to third parties.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$1,857 million from \$14,697 million to \$16,554 million. At Cable Networks, programming and production costs increased \$435 million due to the consolidation of TFCF, contractual increases for college football, NFL and NBA programming, higher program sales and costs for the ACC Network. These increases were partially offset by the deferral of costs for NBA, MLB and college football to fiscal 2021 when these events occurred or are scheduled to occur. At Broadcasting, programming and production costs increased \$1,422 million due to the consolidation of TFCF and higher program sales at Disney Television Studios, partially offset by lower costs driven by production shutdowns and delays as a result of COVID-19.

Selling, general, administrative and other costs increased \$153 million from \$2,361 million to \$2,514 million due to the consolidation of TFCF, partially offset by lower marketing costs at the ABC Television Network, FX Networks and ESPN due to the impact of COVID-19.

Equity in the Income of Investees

Income from equity investees increased \$34 million, from \$703 million to \$737 million, driven by higher income from A+E Television Networks due to lower programming costs and higher program sales, partially offset by lower advertising revenue.

Segment Operating Income

Segment operating income increased 21%, or \$1,543 million, to \$9,022 million due to the consolidation of TFCF and increases at ESPN, the FX Networks, Disney Television Studios and the ABC Television Network.

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

	Year Ended		% Change Better (Worse)
(in millions)	October 3, 2020	September 28, 2019	
Supplemental revenue detail			
Cable Networks	\$ 17,966	\$ 16,486	9 %
Broadcasting	10,427	8,341	25 %
	<u>\$ 28,393</u>	<u>\$ 24,827</u>	14 %
Supplemental operating income detail			
Cable Networks	\$ 6,283	\$ 5,425	16 %
Broadcasting	2,002	1,351	48 %
Equity in the income of investees	737	703	5 %
	<u>\$ 9,022</u>	<u>\$ 7,479</u>	21 %

Items Excluded from Segment Operating Income Related to Media Networks

The following table presents supplemental information for items related to the Media Network segment that are excluded from segment operating income:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (1,305)	\$ (684)	(91) %
Restructuring and impairment charges	(51)	(105)	51 %
Impairment of equity investments	—	(184)	— %

⁽¹⁾ In the current year, amortization of step-up on film and television costs was \$695 million and amortization of intangible assets was \$610 million. In the prior year, amortization of step-up on film and television costs was \$359 million and amortization of intangible assets was \$325 million.

[TABLE OF CONTENTS](#)

Parks, Experiences and Products

Operating results for the Parks, Experiences and Products segment are as follows:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Revenues			
Theme park admissions	\$ 4,038	\$ 7,540	(46) %
Parks & Experiences merchandise, food and beverage	3,441	5,963	(42) %
Resorts and vacations	3,402	6,266	(46) %
Merchandise licensing and retail	4,185	4,519	(7) %
Parks licensing and other	1,436	1,937	(26) %
Total revenues	16,502	26,225	(37) %
Operating expenses	(11,485)	(14,015)	18 %
Selling, general, administrative and other	(2,642)	(3,133)	16 %
Depreciation and amortization	(2,437)	(2,306)	(6) %
Equity in the loss of investees	(19)	(13)	(46) %
Operating Income	\$ (81)	\$ 6,758	nm

Revenues

The decrease in theme park admissions revenue was due to a decrease of 49% from lower attendance, partially offset by an increase of 3% from higher average ticket prices. Our parks were closed for a significant portion of the fiscal year due to COVID-19, and those that reopened were operating at significantly reduced capacity.

Parks & Experiences merchandise, food and beverage revenue was lower compared to the prior year due to a decrease of 48% from lower volumes, partially offset by an increase of 4% from higher average guest spending.

The decrease in resorts and vacations revenue was due to decreases of 22% from lower occupied room nights and 15% from fewer passenger cruise days driven by the suspension of cruise ship sailings.

Merchandise licensing and retail revenue was lower due to decreases of 4% from retail and 3% from merchandise licensing. The decrease in revenues at retail was driven by the closure of our retail stores for a significant portion of the fiscal year as a result of COVID-19 and the prior-year sale of rights to a video game, partially offset by higher online sales. The decrease at merchandise licensing was primarily due to lower minimum guarantee shortfall recognition and a decrease in sales of merchandise based on Toy Story, Avengers and Disney Classics, partially offset by higher sales of Frozen merchandise. Merchandise licensing revenues for the current year were adversely impacted by COVID-19.

The decrease in parks licensing and other revenue was primarily due to lower sponsorship revenue and a decrease in royalties from Tokyo Disney Resort, which was closed or operating at reduced capacity for a significant portion of the fiscal year.

TABLE OF CONTENTS

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽¹⁾		Total	
	Fiscal 2020	Fiscal 2019	Fiscal 2020	Fiscal 2019	Fiscal 2020	Fiscal 2019
<u>Parks</u>						
Increase (decrease)						
Attendance ⁽²⁾	(47) %	— %	(53) %	(7) %	(49) %	(2) %
Per Capita Guest Spending ⁽³⁾	8 %	7 %	(3) %	13 %	7 %	8 %
<u>Hotels</u>						
Occupancy ⁽⁴⁾	43 %	90 %	35 %	81 %	41 %	88 %
Available Room Nights (in thousands) ⁽⁵⁾	11,114	10,030	3,207	3,182	14,321	13,212
Per Room Guest Spending ⁽⁶⁾	\$367	\$353	\$312	\$316	\$356	\$345

⁽¹⁾ Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the average foreign exchange rate for the same period in the prior year.

⁽²⁾ Attendance is used to analyze volume trends at our theme parks and is based on the number of unique daily entries, i.e. a person visiting multiple theme parks in a single day is counted only once. Our attendance count includes complimentary entries but excludes entries by children under the age of three.

⁽³⁾ Per capita guest spending is used to analyze guest spending trends and is defined as total revenue from ticket sales and sales of food, beverage and merchandise in our theme parks, divided by total theme park attendance.

⁽⁴⁾ Occupancy is used to analyze the usage of available capacity at hotels and is defined as the number of room nights occupied by guests as a percentage of available hotel room nights.

⁽⁵⁾ Available hotel room nights are defined as the total number of room nights that are available at our hotels and at DVC properties located at our theme parks and resorts that are not utilized by DVC members. Available hotel room nights include rooms temporarily taken out of service.

⁽⁶⁾ Per room guest spending is used to analyze guest spending at our hotels and is defined as total revenue from room rentals and sales of food, beverage and merchandise at our hotels, divided by total occupied hotel room nights.

Costs and Expenses

Operating expenses include operating labor, which decreased \$1,304 million from \$6,174 million to \$4,870 million, cost of sales and distribution costs, which decreased \$716 million from \$2,918 million to \$2,202 million, and infrastructure costs, which decreased \$47 million from \$2,469 million to \$2,422 million. The decrease in operating labor was due to furloughs in response to lower volumes and the benefit of government credits for certain employee costs, partially offset by inflation and new guest offerings. Lower cost of goods sold and distribution costs were due to lower volumes. The decrease in infrastructure costs was due to lower operations support costs reflecting reduced volumes, partially offset by the write-down of assets at our retail stores and higher costs for new guest offerings. Other operating expenses, which include costs for such items as supplies, commissions/fees and entertainment offerings, decreased \$463 million, from \$2,454 million to \$1,991 million, due to lower volumes, partially offset by higher charges for capital project abandonments.

Selling, general, administrative and other costs decreased \$491 million from \$3,133 million to \$2,642 million due to marketing and general and administrative cost reduction initiatives to mitigate the impacts of COVID-19.

Depreciation and amortization increased \$131 million from \$2,306 million to \$2,437 million, primarily due to new attractions at our domestic parks and resorts.

Segment Operating Income

Segment operating income decreased \$6,839 million, to a loss of \$81 million due to decreases at our domestic and international parks and experiences and, to a lesser extent, our retail and merchandise licensing businesses.

[TABLE OF CONTENTS](#)

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment:

	Year Ended		% Change Better (Worse)
(in millions)	October 3, 2020	September 28, 2019	
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 10,226	\$ 17,369	(41) %
International	2,020	4,223	(52) %
Consumer Products	4,256	4,633	(8) %
	<u>\$ 16,502</u>	<u>\$ 26,225</u>	(37) %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ (623)	\$ 4,412	nm
International	(1,073)	507	nm
Consumer Products	1,615	1,839	(12) %
	<u>\$ (81)</u>	<u>\$ 6,758</u>	nm

Items Excluded from Segment Operating Income Related to Parks, Experiences and Products

The following table presents supplemental information for items related to the Parks, Experiences and Products segment that are excluded from segment operating income:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Restructuring and impairment charges	\$ (265)	\$ (13)	>(100) %
Amortization of TFCF intangible assets	(8)	(4)	(100) %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Revenues			
Theatrical distribution	\$ 2,134	\$ 4,726	(55) %
Home entertainment	1,528	1,734	(12) %
TV/SVOD distribution and other	5,974	4,667	28 %
Total revenues	9,636	11,127	(13) %
Operating expenses	(4,619)	(5,187)	11 %
Selling, general, administrative and other	(2,369)	(3,119)	24 %
Depreciation and amortization	(146)	(135)	(8) %
Equity in the loss of investees	(1)	—	nm
Operating Income	<u>\$ 2,501</u>	<u>\$ 2,686</u>	(7) %

Revenues

The decrease in theatrical distribution revenue was due to fewer significant releases, which included the impact of theater closures as a result of COVID-19, partially offset by the consolidation of TFCF. Significant titles in the current year included *Frozen II*, *Star Wars: The Rise of Skywalker* and *Maleficent: Mistress Of Evil*. Significant titles in the prior year included *Avengers: Endgame*, *The Lion King*, *Captain Marvel*, *Toy Story 4*, *Aladdin*, *Ralph Breaks the Internet*, *Mary Poppins Returns* and *Dumbo*.

TABLE OF CONTENTS

Lower home entertainment revenue was due to decreases of 21% from lower unit sales of both new releases and catalog titles and 4% from lower average net effective pricing, partially offset by an increase of 14% from the consolidation of TFCF. New release titles in the current year included *Frozen II*, *Star Wars: The Rise Of Skywalker*, *The Lion King* and *Toy Story 4*, whereas the prior year included *Avengers: Endgame*, *Incredibles 2*, *Captain Marvel*, *Ant-Man And The Wasp*, *Ralph Breaks The Internet*, *Avengers: Infinity War*, *Bohemian Rhapsody* and *Aladdin*. The decrease in average net effective pricing was primarily due to a lower mix of new release titles.

Higher TV/SVOD distribution and other revenue was due to increases of 21% from TV/SVOD distribution and 14% from the consolidation of TFCF, partially offset by a decrease of 8% from stage plays reflecting the impact of theater closures in response to COVID-19. The increase in TV/SVOD distribution was due to sales of content to Disney+, partially offset by lower sales to third parties in the pay and free television windows.

Costs and Expenses

Operating expenses include amortization of production, participation and residual costs, which decreased \$119 million, from \$3,762 million to \$3,643 million, primarily due to lower theatrical distribution and home entertainment revenue, partially offset by higher TV/SVOD distribution revenue and the consolidation of TFCF. Operating expenses also include cost of goods sold and distribution costs, which decreased \$449 million, from \$1,425 million to \$976 million. Lower cost of goods sold and distribution costs were primarily due to decreases in theatrical and stage play distribution costs due to fewer theatrical releases and stage play performances, partially offset by the consolidation of TFCF.

Selling, general, administrative and other costs decreased \$750 million from \$3,119 million to \$2,369 million due to lower theatrical and home entertainment marketing costs, partially offset by the consolidation of TFCF.

The increase in depreciation and amortization was due to the consolidation of TFCF.

Segment Operating Income

Segment operating income decreased 7%, or \$185 million to \$2,501 million due to lower theatrical and stage play results, partially offset by an increase in TV/SVOD distribution results.

Items Excluded from Segment Operating Income Related to Studio Entertainment

The following table presents supplemental information for items related to the Studio Entertainment segment that are excluded from segment operating income:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (291)	\$ (206)	(41) %
Restructuring and impairment charges	(114)	(219)	48 %

⁽¹⁾ In the current year, amortization of step-up on film and television costs was \$184 million and amortization of intangible assets was \$107 million. In the prior year, amortization of step-up on film and television costs was \$179 million and amortization of intangible assets was \$27 million.

[TABLE OF CONTENTS](#)

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Revenues			
Subscription fees	\$ 7,645	\$ 2,115	>100 %
Affiliate fees	3,673	2,768	33 %
Advertising	4,477	3,542	26 %
TV/SVOD distribution and other	1,172	961	22 %
Total revenues	16,967	9,386	81 %
Operating expenses	(15,072)	(8,540)	(76) %
Selling, general, administrative and other	(4,201)	(2,116)	(99) %
Depreciation and amortization	(460)	(325)	(42) %
Equity in the loss of investees	(40)	(240)	83 %
Operating Loss	\$ (2,806)	\$ (1,835)	(53) %

Revenues

The increase in subscription fees was due to the launch of Disney+ starting in November 2019, the consolidation of Hulu, subscriber growth at Hulu, and to a lesser extent, increased subscribers at ESPN+.

The increase in affiliate fees was due to an increase of 44% from the consolidation of TFCF, partially offset by decreases of 9% from fewer subscribers driven by the expiration of certain carriage agreements and channel closures, both primarily in Europe, and 3% from an unfavorable foreign exchange impact.

The increase in advertising revenues was due to an increase of 30% from higher addressable advertising sales, partially offset by a decrease of 4% from our International Channels. Higher addressable advertising sales were due to the consolidation of Hulu and, to a lesser extent, TFCF and higher impressions, partially offset by lower rates. The increase in impressions was due to growth at Hulu, partially offset by the timing of cricket programming and the impact of lower impressions at our other digital platforms. The decrease in rates was primarily due to lower rates at Hulu. The decrease in advertising revenues at our International Channels was driven by lower impressions, partially offset by the consolidation of TFCF. The decrease in impressions reflected the impact of COVID-19, including a shift in the timing of Indian Premier League (IPL) cricket matches to fiscal 2021, and the comparison to the prior-year broadcast of International Cricket Council World Cup (ICC WC) matches. The ICC WC is held every four years.

Growth in TV/SVOD distribution and other revenue was due to higher Ultimate Fighting Championship (UFC) pay-per-view fees, the consolidation of TFCF and, to a lesser extent, Hulu and Disney+ Premier Access revenues from *Mulan*. These increases were partially offset by the comparison to the sub-licensing of ICC WC rights to third-party broadcasters in the prior year and lower revenue from streaming technology services.

The following table presents the number of paid subscribers⁽¹⁾ (in millions) for Disney+, ESPN+ and Hulu as of:

	October 3, 2020	September 28, 2019	% Change Better (Worse)
Disney+ ⁽³⁾	73.7	—	nm
ESPN+	10.3	3.5	>100 %
Hulu			
SVOD Only	32.5	25.6	27 %
Live TV + SVOD	4.1	2.9	41 %
Total Hulu	36.6	28.5	28 %

TABLE OF CONTENTS

The following table presents the average monthly revenue per paid subscriber⁽²⁾ for the fiscal year ended:

	October 3, 2020	September 28, 2019	% Change Better (Worse)
Disney+ ⁽³⁾ ⁽⁴⁾	\$ 4.80	\$ —	nm
ESPN+ ⁽⁵⁾	\$ 4.35	\$ 5.12	(15) %
Hulu ⁽⁶⁾			
SVOD Only	\$ 12.24	\$ 13.09	(6) %
Live TV + SVOD	\$ 67.24	\$ 55.98	20 %

⁽¹⁾ A subscriber for which we recognized subscription revenue. A subscriber ceases to be a paid subscriber as of their effective cancellation date or as a result of a failed payment method. A subscription bundle is considered a paid subscriber for each service included in the bundle. Subscribers include those who receive the service through wholesale arrangements in which we receive a fee for the distribution of Disney+ to each subscriber to an existing content distribution tier. When we aggregate the total number of paid subscribers across our DTC services, whether acquired individually, through a wholesale arrangement or via the bundle, we refer to them as paid subscriptions.

⁽²⁾ Revenue per paid subscriber is calculated based upon the average of the monthly average paid subscribers for each month in the period. The monthly average paid subscribers is calculated as the sum of the beginning of the month and end of the month paid subscriber count, divided by two. Disney+ average monthly revenue per paid subscriber for the fiscal year ended October 3, 2020 is calculated using a daily average of paid subscribers for the period beginning at launch and ending on the last day of the period. The average revenue per subscriber is net of discounts provided to both wholesale and bundled subscribers, annual subscriptions and other limited term promotional offers. The bundled discount is allocated to each service based on the relative retail price of each service on a standalone basis. In general, wholesale arrangements have a lower average monthly revenue per paid subscriber than subscribers that we acquire directly or through third party platforms like Apple.

⁽³⁾ Disney+ Hotstar launched on April 3, 2020 in India (as a conversion of the preexisting Hotstar service) and on September 5, 2020 in Indonesia, and is included in the number of paid subscribers and average monthly revenue per paid subscriber. The average monthly revenue per paid subscriber for Disney+ Hotstar in India and Indonesia is significantly lower than the average monthly revenue per paid subscriber in North America and Europe.

⁽⁴⁾ Excludes Disney+ Premier Access revenue.

⁽⁵⁾ Excludes Pay-Per-View revenue.

⁽⁶⁾ Hulu's average monthly revenue per paid subscriber for the period September 30, 2018 to March 19, 2019 is not reflected in the Company's prior-year revenues, but is included in the average monthly revenue per paid subscriber reported in the table. Includes advertising revenue (including amounts generated during free trial subscription periods).

The average monthly revenue per paid subscriber for ESPN+ decreased from \$5.12 to \$4.35 due to the introduction of a bundled subscription package offering of Disney+, ESPN+ and Hulu beginning in November 2019 and lower per-subscriber advertising revenue, partially offset by an increase in retail pricing in August 2020. The bundled offering has a lower retail price than the aggregate standalone retail prices of the individual services.

The average monthly revenue per paid subscriber for the Hulu SVOD Only service decreased from \$13.09 to \$12.24 driven by a decrease in retail pricing, lower per-subscriber advertising revenue and the introduction of the bundled offering, partially offset by a lower mix of promotional and wholesale subscribers. The average monthly revenue per paid subscriber for the Hulu Live TV + SVOD service increased from \$55.98 to \$67.24 due to an

increase in retail pricing in December 2019 and higher per-subscriber Live TV advertising and premium add-on revenue, partially offset by the introduction of the bundled offering.

Costs and Expenses

Operating expenses include a \$5,381 million increase in programming and production costs, from \$6,925 million to \$12,306 million, and a \$1,151 million increase in other operating expenses, from \$1,615 million to \$2,766 million. Programming and production costs include the costs of content provided by other segments. The increase in programming and production costs was due to the consolidation of Hulu and TFCF, the launch of Disney+ and higher costs at Hulu, partially offset by lower costs for sports programming. The increase in costs at Hulu was driven by higher subscriber-based fees for programming on the Live TV service. Lower costs for sports programming were primarily due to the comparison to the ICC WC in the prior year and the shift in the timing of IPL, partially offset by higher costs for UFC programming rights. Other operating expenses, which include technical support and distribution costs, increased due to the launch of Disney+ and the consolidation of Hulu and TFCF.

TABLE OF CONTENTS

Selling, general, administrative and other costs increased \$2,085 million, from \$2,116 million to \$4,201 million, due to the launch of Disney+ and the consolidation of Hulu and TFCF.

Depreciation and amortization increased \$135 million, from \$325 million to \$460 million, due to the consolidation of Hulu and TFCF and the launch of Disney+.

Equity in the Loss of Investees

Loss from equity investees in the prior year of \$240 million improved by \$200 million to a loss of \$40 million, due to the consolidation of Hulu. In the current year, Hulu's results are reported in revenues and expenses. In the prior year, prior to March 20, 2019, the Company recognized its ownership share of Hulu's results in equity in the loss of investees.

Segment Operating Loss

Segment operating loss increased from \$1,835 million to \$2,806 million, due to costs associated with the launch of Disney+, the consolidation of Hulu and a decrease at our International Channels. These decreases were partially offset by the consolidation of TFCF and improved results at ESPN+ and Hulu.

The following table presents supplemental revenue and operating income (loss) detail for the Direct-to-Consumer & International segment:

(in millions)	Year Ended	
	October 3, 2020	September 28, 2019
<i>Supplemental revenue detail</i>		
Direct-to-Consumer services	\$ 10,444	\$ 3,347
International Channels	5,413	4,727
Other ⁽¹⁾	1,110	1,312
	<u>\$ 16,967</u>	<u>\$ 9,386</u>
<i>Supplemental operating income (loss) detail</i>		
Direct-to-Consumer services	(3,294)	(1,849)
International Channels	872	649
Other ⁽¹⁾	(344)	(395)
Equity in the loss of investees	(40)	(240)
	<u>\$ (2,806)</u>	<u>\$ (1,835)</u>

- ⁽¹⁾ Primarily addressable ad sales related to domestic Media Networks branded properties (addressable ad sales related to our Direct-to-Consumer services, principally Hulu, are reflected in "Direct-to-Consumer services")

Items Excluded from Segment Operating Loss Related to Direct-to-Consumer & International

The following table presents supplemental information for items related to the Direct-to-Consumer & International segment that are excluded from segment operating loss:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (1,242)	\$ (701)	(77) %
Hulu Gain	—	4,822	(100) %
Restructuring and impairment charges ⁽²⁾	(5,229)	(456)	>(100) %
Impairment of equity investments	—	(354)	100 %

⁽¹⁾ In the current year, amortization of intangible assets was \$1,196 million, amortization of intangible assets related to TFCF equity investees was \$26 million and amortization of step-up on film and television costs was \$20 million. In the prior year, amortization of intangible assets was \$687 million and amortization of intangible assets related to TFCF equity investees was \$15 million.

⁽²⁾ The current year includes goodwill and intangible asset impairments at our International Channels business (\$4,953 million).

[TABLE OF CONTENTS](#)

Eliminations

Intersegment content transactions are as follows:

(in millions)	Year Ended		% Change Better (Worse)
	October 3, 2020	September 28, 2019	
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (188)	\$ (106)	(77) %
Content transactions with Direct-to-Consumer & International	(2,108)	(272)	>(100) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(3,814)	(1,580)	>(100) %
Total	<u>\$ (6,110)</u>	<u>\$ (1,958)</u>	>(100) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ 3	\$ (19)	nm
Content transactions with Direct-to-Consumer & International	(158)	(80)	(98) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(373)	(142)	>(100) %
Total	<u>\$ (528)</u>	<u>\$ (241)</u>	>(100) %

Revenues

The increase in revenue eliminations was due to sales of Media Networks content to Hulu and Disney+ and sales of Studio Entertainment content to Disney+. The increase in Media Networks sales to Hulu was due to higher sales of original titles, driven by *Little Fires Everywhere* and *Mrs. America*, and library titles. Higher Media Networks sales also included an increase in affiliate fees received from Hulu for networks in the Hulu Live TV + SVOD service. Media Networks sales to Disney+ were due to sales of library series, including *The Simpsons* and Disney Channel titles, and original series. Studio Entertainment content sold to Disney+ included original titles *Noelle*, *Lady and the Tramp*, and *Artemis Fowl* and theatrically released titles *Frozen II*, *The Lion King*, *Toy Story 4* and *Star Wars: The Rise of Skywalker*.

Operating Income

The increase in the impact from eliminations was due to sales of Media Networks content to Hulu and Disney+ and sales of Studio Entertainment content to Disney+.

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses are as follows:

(in millions)	2020	2019	% Change Better (Worse)
Corporate and unallocated shared expenses	\$ (817)	\$ (987)	17%

The decrease in corporate and unallocated shared expenses was due to lower costs related to TFCF and lower compensation costs, partially offset by the absence of a benefit from amortization of a deferred gain on a sale leaseback due to the adoption of new lease accounting guidance. The decrease in costs related to TFCF was due to lower acquisition and integration costs, partially offset by the consolidation of TFCF.

RESTRUCTURING ACTIVITIES

See Note 19 to the Consolidated Financial Statements for information regarding the Company's restructuring activities in connection with the acquisition of TFCF and from a workforce reduction plan, primarily at the Parks, Experiences and Products segment.

[TABLE OF CONTENTS](#)

LIQUIDITY AND CAPITAL RESOURCES

The change in cash, cash equivalents and restricted cash is as follows:

(in millions)	2020	2019
Cash provided by operations - continuing operations	\$ 7,616	\$ 5,984
Cash used in investing activities - continuing operations	(3,850)	(15,096)
Cash provided by (used in) financing activities - continuing operations	8,480	(464)
Cash provided by operations - discontinued operations	2	622
Cash provided by investing activities - discontinued operations	213	10,978
Cash used in financing activities - discontinued operations	—	(626)
Impact of exchange rates on cash, cash equivalents and restricted cash	38	(98)
Change in cash, cash equivalents and restricted cash	<u>\$ 12,499</u>	<u>\$ 1,300</u>

Operating Activities

Continuing operations

Cash provided by operating activities for fiscal 2020 increased 27% or \$1.6 billion to \$7.6 billion, due to lower tax payments, driven by the payment of approximately \$7.6 billion of tax obligations that arose from the spin-off of Fox Corporation in connection with the TFCF acquisition and the sale of the RSNs acquired with TFCF in the prior year, and higher current year operating cash flow at Media Networks. These increases were partially offset by lower operating cash flow at Parks, Experiences and Products and Direct-to-Consumer & International. The increase at Media Networks was due to higher operating cash receipts driven by an increase in revenue. Lower operating cash flows at Parks, Experiences and Products were due to lower cash receipts driven by decreased revenues, partially offset by lower cash disbursements. Lower cash disbursements were due to lower operating expenses. The decrease at Direct-to-Consumer & International was due to higher film and television spending and an increase in operating cash disbursements due to higher operating expenses, partially offset by higher operating cash receipts driven by revenues from the consolidation of TFCF and Hulu and the launch of Disney+.

Depreciation expense is as follows:

(in millions)	2020	2019
Media Networks		
Cable Networks	\$ 120	\$ 107
Broadcasting	83	84
Total Media Networks	<u>203</u>	<u>191</u>
Parks, Experiences and Products		
Domestic	1,634	1,474
International	694	724
Total Parks, Experiences and Products	<u>2,328</u>	<u>2,198</u>
Studio Entertainment	87	74
Direct-to-Consumer & International	348	214
Corporate	174	167
Total depreciation expense	<u>\$ 3,140</u>	<u>\$ 2,844</u>

Amortization of intangible assets is as follows:

(in millions)	2020	2019
Media Networks	\$ 4	\$ —
Parks, Experiences and Products	109	108
Studio Entertainment	59	61
Direct-to-Consumer & International	112	111
TFCF and Hulu	1,921	1,043
Total amortization of intangible assets	<u>\$ 2,205</u>	<u>\$ 1,323</u>

TABLE OF CONTENTS

Produced and licensed content costs

The Company's Studio Entertainment, Media Networks and Direct-to-Consumer & International segments incur costs to license and produce film and television programming. Film and television production costs include all internally produced content such as live-action and animated 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 and cable networks, television stations and DTC services. 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 2020 and 2019 are as follows:

(in millions)	2020	2019
Beginning balances:		
Production and programming assets	\$ 27,407	\$ 9,202
Programming liabilities	(4,061)	(1,178)
	23,346	8,024
Spending:		
Television program licenses and rights	12,077	10,517
Film and television production	8,104	7,104
	20,181	17,621
Amortization:		
Television program licenses and rights	(11,241)	(10,608)
Film and television production	(9,337)	(6,471)
	(20,578)	(17,079)
Change in film and television production and programming costs	(397)	542
Film and television production costs from the TFCF acquisition and consolidation of Hulu, net of programming liabilities assumed	—	14,769
Other non-cash activity	145	11
Ending balances:		
Production and programming assets	27,193	27,407
Programming liabilities	(4,099)	(4,061)
	\$ 23,094	\$ 23,346

Discontinued operations

Cash provided by operating activities for discontinued operations in fiscal 2019 reflected the operations of the RSNs.

TABLE OF CONTENTS

Investing Activities

Continuing operations

Investing activities 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 for fiscal 2020 and 2019 are as follows:

(in millions)	2020	2019
Media Networks		
Cable Networks	\$ 61	\$ 93
Broadcasting	51	81
Parks, Experiences and Products		
Domestic	2,145	3,294
International	759	852
Studio Entertainment	77	88
Direct-to-Consumer & International	594	258
Corporate	335	210
	<u>\$ 4,022</u>	<u>\$ 4,876</u>

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

Capital expenditures for the Parks, Experiences and Products segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The decrease in capital expenditures at our domestic parks and resorts in fiscal 2020 compared to fiscal 2019 was primarily due to lower spend on *Star Wars: Galaxy's Edge* at both the Walt Disney World and Disneyland resorts. Capital spending in fiscal 2020 also reflected the suspension of certain capital projects as a result of COVID-19.

Capital expenditures at Direct-to-Consumer & International primarily reflect investments in technology. The increase in fiscal 2020 compared to fiscal 2019 was due to spending on technology to support our streaming services.

Capital expenditures at Corporate primarily reflect investments in facilities, information technology infrastructure and equipment. The increase in fiscal 2020 compared to fiscal 2019 was due to higher spending on facilities.

The Company currently expects its fiscal 2021 capital expenditures will be approximately \$0.6 billion higher than fiscal 2020 capital expenditures of \$4.0 billion due to increased spending on facilities at Corporate and spending on technology at Direct-to-Consumer & International, partially offset by lower investments at our domestic parks and resorts, in part reflecting a reduction in spending in response to COVID-19.

Other Investing Activities

The fiscal 2019 spending of \$9.9 billion on acquisitions reflects \$35.7 billion of cash paid to acquire TFCF less \$25.7 billion of cash acquired in the transaction (See Note 4 to the Consolidated Financial Statements). Cash provided by other investing activities of \$172 million in fiscal 2020 reflects the proceeds from the sale of an investment while cash used in other investing activities of \$319 million in fiscal 2019 reflects contributions of \$347 million to Hulu prior to the consolidation of Hulu.

Discontinued operations

Cash provided by investing activities from discontinued operations in fiscal 2019 reflects the sale of the RSNs.

Financing Activities

Continuing operations

Cash provided by financing activities was \$8.5 billion in fiscal 2020 compared to cash used in financing activities of \$0.5 billion in fiscal 2019. Cash provided by financing activities in fiscal 2020 was due to borrowings, partially offset by dividend payments and settlement of acquisition related obligations. The increase in cash provided by financing activities in fiscal 2020 compared to fiscal 2019 was from higher cash proceeds from net borrowings (\$11.2 billion in fiscal 2020 compared to \$3.7 billion in fiscal 2019).

TABLE OF CONTENTS

Discontinued operations

Cash used in financing activities by discontinued operations in fiscal 2019 was due to redemption of noncontrolling interests of the RSNs.

Borrowings activities and other

During the year ended October 3, 2020, the Company's borrowing activity was as follows:

(in millions)	September 28, 2019	Borrowings	Payments	Other Activity	October 3, 2020
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 1,934	\$ —	\$ (1,961)	\$ 27	\$ —
Commercial paper with original maturities greater than three months	3,408	11,500	(12,893)	8	2,023
U.S. dollar denominated notes ⁽²⁾	39,424	16,968	(3,405)	(251)	52,736
Asia Theme Parks borrowings	1,114	175	(88)	102	1,303
Foreign currency denominated debt and other ⁽³⁾	1,106	977	(40)	523	2,566
	<u>\$ 46,986</u>	<u>\$ 29,620</u>	<u>\$ (18,387)</u>	<u>\$ 409</u>	<u>\$ 58,628</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

⁽²⁾ The other activity is primarily due to the amortization of purchase price adjustments on debt assumed in the TFCF acquisition and debt issuance fees.

⁽³⁾ The other activity is due to market value adjustments for debt with qualifying hedges.

See Note 9 to the Consolidated Financial Statements for information regarding the Company's bank facilities. The Company may use commercial paper borrowings up to the amount of its unused \$12.25 billion bank facilities maturing in March 2021, March 2023 and March 2025, unused availability under the \$5.0 billion bank facility maturing in April 2021, incremental term debt issuances and operating cash flows, to retire or refinance other borrowings before or as they come due.

See Note 12 to the Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2020 and 2019. The Company did not repurchase any of its shares in fiscal 2020 or 2019.

The Company's operating cash flow and access to the capital markets can be impacted by factors outside of its control, including COVID-19, which has affected our segment operations in a number of ways, and as a result, had an adverse impact on the Company's operating cash flows. We have taken a number of measures to mitigate the impact on the Company's financial position. We have significantly increased the Company's cash balances through the issuance of senior notes in March and May 2020. In addition, we entered into an additional \$5.0 billion credit facility in April 2020, bringing the total capacity of our bank facilities to \$17.25 billion. See Significant Developments for the impact COVID-19 had on our operations and mitigating measures.

Despite the impact of COVID-19, we believe that the Company's financial condition remains strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity under current bank facilities, taken together, provide adequate resources to fund ongoing operating requirements and upcoming debt maturities as well as future capital expenditures related to the expansion of existing businesses and development of new projects, although certain of these activities have been scaled back or suspended in light of COVID-19. In addition to measures the Company has already taken in response to COVID-19, there are a number of additional mitigating actions the Company may take in the future such as not declaring dividends (which the Board of Directors did not declare with respect to fiscal 2020 operations); reducing, or not making certain payments, such as some contributions to our pension and postretirement medical plans; raising additional financing; further suspending capital spending; reducing film and television content investments; or implementing additional furloughs or reductions in force.

The Company's borrowing costs can also be impacted by short- and long-term debt ratings assigned by nationally recognized rating agencies, which are based, in significant part, on the Company's performance as measured by certain credit metrics such as leverage and interest coverage ratios. As of October 3, 2020, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, Standard and Poor's long- and short-term debt ratings for the Company were A- and A-2, respectively, and Fitch's long- and short-term debt ratings for the Company were A- and F2, respectively. In addition, Fitch has placed the Company's long-term debt rating on Negative Outlook. On November 18, 2020, Standard and Poor's lowered the Company's long-term rating to BBB+ and placed the Company's long-term ratings on Negative Outlook. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on October 3, 2020, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

TABLE OF CONTENTS

The duration of business closures and other impacts related to COVID-19, and the corresponding duration of the impacts to our operating cash flows, are subject to substantial uncertainty. These impacts to our operating cash flows may require us to rely more heavily on external funding sources, such as debt and other types of financing.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On March 20, 2019, as part of the acquisition of TFCF, The Walt Disney Company (“TWDC”) became the ultimate parent of TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company) (“Legacy Disney”). Legacy Disney and TWDC are collectively referred to as “Obligor Group”, and individually, as a “Guarantor”. Concurrent with the close of the TFCF acquisition, \$16.8 billion of TFCF’s assumed public debt (which then constituted 96% of such debt) was exchanged for senior notes of TWDC (the “exchange notes”) issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the “Securities Act”), pursuant to an Indenture, dated as of March 20, 2019, between TWDC, Legacy Disney, as guarantor, and Citibank, N.A., as trustee (the “TWDC Indenture”) and guaranteed by Legacy Disney. On November 26, 2019, \$14.0 billion of the outstanding exchange notes were exchanged for new senior notes of TWDC registered under the Securities Act, issued pursuant to the TWDC Indenture and guaranteed by Legacy Disney. In addition, contemporaneously with the closing of the March 20, 2019 exchange offer, TWDC entered into a guarantee of the registered debt securities issued by Legacy Disney under the Indenture dated as of September 24, 2001 between Legacy Disney and Wells Fargo Bank, National Association, as trustee (the “2001 Trustee”) (as amended by the first supplemental indenture among Legacy Disney, as issuer, TWDC, as guarantor, and the 2001 Trustee, as trustee).

Other subsidiaries of the Company do not guarantee the registered debt securities of either TWDC or Legacy Disney (such subsidiaries are referred to as the “non-Guarantors”). The par value and carrying value of total outstanding and guaranteed registered debt securities of the Obligor Group at October 3, 2020 was as follows:

(in millions)	TWDC		Legacy Disney	
	Par Value	Carrying Value	Par Value	Carrying Value
Registered debt with unconditional guarantee	\$ 38,646	\$ 41,077	\$ 12,541	\$ 12,751

The guarantees by TWDC and Legacy Disney are full and unconditional and cover all payment obligations arising under the guaranteed registered debt securities. The guarantees may be released and discharged upon (i) as a general matter, the indebtedness for borrowed money of the consolidated subsidiaries of TWDC in aggregate constituting no more than 10% of all consolidated indebtedness for borrowed money of TWDC and its subsidiaries (subject to certain exclusions), (ii) upon the sale, transfer or disposition of all or substantially all of the equity interests or all or substantially all, or substantially as an entirety, the assets of Legacy Disney to a third party, and (iii) other customary events constituting a discharge of a guarantor’s obligations. In addition, in the case of Legacy Disney’s guarantee of registered debt securities issued by TWDC, Legacy Disney may be released and discharged from its guarantee at any time Legacy Disney is not a borrower, issuer or guarantor under certain material bank facilities or any debt securities.

Operations are conducted almost entirely through the Company’s subsidiaries. Accordingly, the Obligor Group’s cash flow and ability to service its debt, including the public debt, are dependent upon the earnings of the Company’s subsidiaries and the distribution of those earnings to the Obligor Group, whether by dividends, loans or otherwise. Holders of the guaranteed registered debt securities have a direct claim only against the Obligor Group.

Set forth below are summarized financial information for the Obligor Group on a combined basis after elimination of (i) intercompany transactions and balances between TWDC and Legacy Disney and (ii) equity in the earnings from and investments in any subsidiary that is a non-Guarantor. This summarized financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 13-01, “Financial Disclosures about Guarantors and Issuers of Guaranteed Securities” and is not intended to present the financial position or results of operations of the Obligor Group in accordance with U.S. GAAP.

Results of operations (in millions)	Fiscal Year Ended October 3, 2020
Revenues	\$ —
Costs and expenses	—
Net income (loss) from continuing operations	(1,158)
Net income (loss)	(1,158)
Net income (loss) attributable to TWDC shareholders	(1,158)

TABLE OF CONTENTS

Balance Sheet (in millions)	September 28,	
	October 3, 2020	2019
Current assets	\$ 12,899	\$ 1,145
Noncurrent assets	2,076	1,398
Current liabilities	6,155	9,405
Noncurrent liabilities (excluding intercompany to non-Guarantors)	57,809	41,728
Intercompany payables to non-Guarantors	146,748	143,574

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 October 3, 2020 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 based on their contractual maturities. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements, as referenced in the table:

(in millions)	Payments Due by		
	Total	Less than 1 Year	1-3 Years
Borrowings (Note 9) ⁽¹⁾	\$ 87,273	\$ 7,718	\$ 8,743
Operating lease commitments (Note 16)	4,211	840	1,129
Finance lease obligations (Note 16)	720	56	107
Sports programming commitments (Note 15)	40,578	9,492	12,649
Broadcast programming commitments (Note 15)	5,800	2,551	2,013
Total programming commitments	46,378	12,043	14,662
Other ⁽²⁾	12,390	3,051	3,279
Total contractual obligations ⁽³⁾	<u>\$ 150,972</u>	<u>\$ 23,708</u>	<u>\$ 27,920</u>

⁽¹⁾ Excludes market value adjustments, which increased borrowings by \$509 million. Includes interest payments based on contractual terms for fixed rate debt and on current interest rates for variable rate debt. In 2023, the Company has the ability to call a debt instrument prior to its scheduled maturity, which if exercised by the Company would reduce future interest payments by \$1.0 billion.

⁽²⁾ Primarily contracts for the construction of three new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

⁽³⁾ Contractual commitments include the following:

Liabilities recorded on the balance sheet	\$ 65,524
Commitments not recorded on the balance sheet	85,448
	<u>\$ 150,972</u>

The Company also has obligations with respect to its pension and postretirement medical benefit plans. See Note 11 to the Consolidated Financial Statements.

Contingent Commitments and Contractual Guarantees

See Notes 4, 7 and 15 to the Consolidated Financial Statements for information regarding the Company's contingent commitments and contractual guarantees.

Legal and Tax Matters

As disclosed in Notes 10 and 15 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal matters.

[TABLE OF CONTENTS](#)

CRITICAL 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.

Produced and Acquired/Licensed Content Costs

At the beginning of fiscal 2020, the Company adopted on a prospective basis, new Financial Accounting Standards Board (FASB) guidance that updates the accounting for film and television content costs. Under that new guidance, we amortize and test for impairment capitalized film and television production costs based on whether the content is predominantly monetized individually or as a group. See Note 8 to the Consolidated Financial Statements for further discussion.

Production costs that are classified as individual are amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues).

With respect to produced films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues is theatrical performance. Revenues derived from other markets subsequent to the theatrical release are generally highly correlated with theatrical performance. Theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film's release and determination of the theatrical performance, the Company's estimates of revenues from succeeding windows, including intersegment content transactions, and markets are revised based on historical relationships and an analysis of current market trends.

With respect to capitalized television production costs that are classified as individual, the most sensitive factors affecting estimates of Ultimate Revenues are program ratings of the content on our licensees' platforms. Program ratings, which are an indication of market acceptance, directly affect the program's ability to generate advertising and subscriber revenues and are correlated with the license fees we can charge for the content in subsequent windows and for subsequent seasons.

Ultimate Revenues are reassessed each reporting period and the impact of any changes on amortization of production cost is accounted for as if the change occurred at the beginning of the current fiscal year. If our estimate of Ultimate Revenues decreases, amortization of costs may be accelerated or result in an impairment. Conversely, if our estimate of Ultimate Revenues increases, cost amortization may be slowed.

Produced content costs that are part of a group and acquired/licensed content costs are amortized based on projected usage typically resulting in an accelerated or straight-line amortization pattern. The determination of projected usage requires judgement and is reviewed periodically for changes. If projected usage changes we may need to accelerate or slow the recognition of amortization expense.

The amortization of multi-year sports rights is based on our projections of revenues over the contract period, which include advertising revenue and an allocation of affiliate revenue (relative value). If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. If estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. Refer to Note 2 to the Consolidated Financial Statements for our revenue recognition policies.

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, which we evaluate 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. A lower discount rate increases the present value of benefit obligations and increases pension and postretirement medical expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. We reduced our discount rate to 2.82% at the end of fiscal 2020 from 3.22% at the end of fiscal 2019 to reflect market interest rate conditions at our fiscal 2020 year-end measurement date. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2021 by approximately \$351 million and would increase the projected benefit obligation at October 3, 2020 by approximately \$4.0 billion. A one

TABLE OF CONTENTS

percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by approximately \$303 million and \$3.4 billion, 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. Our expected return on plan assets is 7.00%. A lower expected rate of return on plan assets will increase pension and postretirement medical expense. A one percentage point change in the long-term asset return assumption would impact fiscal 2021 annual expense by approximately \$164 million.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2020, the Company performed a qualitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we apply what we believe to be the most appropriate valuation methodology for each of our reporting units. We generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. The projected cash flows of our reporting units reflect intersegment revenues and expenses for the sale and use of intellectual property. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the discount rates used to calculate the present value of future cash flows. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires consideration of recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair value of an indefinite-lived intangible asset to its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the Company's intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of the estimated undiscounted future cash flows expected to be generated over the useful life of an asset group to the

carrying amount of the asset group. An asset group is generally established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment is measured as the difference between the fair value of the asset group and the carrying amount of the asset group. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows and the discount rate used to determine fair values.

[TABLE OF CONTENTS](#)

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

The Company recorded non-cash impairment charges of \$5.2 billion and \$0.6 billion in fiscal 2020 and 2019, respectively.

The fiscal 2020 impairment charges primarily related to impairments of MVPD agreement intangibles assets (\$1.9 billion) and goodwill (\$3.1 billion) at the International Channels' business as discussed below under "Impacts of COVID-19 on Accounting Policies and Estimates."

The fiscal 2019 charges primarily related to impairments of investments accounted for under the equity method of accounting recorded in "Equity in the income (loss) of investees" in the Consolidated Statements of Operations.

Allowance for Credit Losses

We evaluate our allowance for credit losses and estimate collectability of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual companies with which we do business. In times of domestic or global economic turmoil, including COVID-19, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we are also involved in other contingent matters for which we accrue estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 15 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

Impacts of COVID-19 on Accounting Policies and Estimates

In light of the currently unknown ultimate duration and severity of COVID-19, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply our significant accounting policies. As COVID-19 continues to develop, we may make changes to these estimates and judgments over time, which could result in meaningful impacts to our financial statements in future periods. A more detailed discussion of the impact of COVID-19 on the Accounting Policies and Estimates follows.

Produced and Acquired/Licensed Content Costs

Certain of our completed or in progress film and television productions have had their initial release dates delayed or canceled. The duration of the delay, market conditions when we release the content, or a change in our

release strategy (e.g. bypassing certain distribution windows) could have an impact on Ultimate Revenues, which may accelerate amortization or result in an impairment of capitalized film and television production costs.

Given the ongoing uncertainty around the resumption and continuation of live sporting events, the amount and timing of revenues derived from the broadcast of these events may differ from the projections of revenues that support our amortization pattern of the rights costs we pay for these events. Such changes in revenues could result in an acceleration or slowing of the amortization of our sports rights costs.

TABLE OF CONTENTS

Revenue Recognition

Certain of our affiliate contracts contain commitments with respect to the content to be aired on our television networks (e.g. live sports or original content). If there are delays or cancellations of live sporting events or disruptions to film and television content production activities, we may need to assess the impact on our contractual obligations and adjust the revenue that we recognize related to these contracts.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

Given the ongoing impacts of COVID-19 across our businesses, the projected cash flows that we use to assess the fair value of our businesses and assets for purposes of impairment testing are subject to greater uncertainty than normal. If in the future we reduce our estimate of cash flow projections, we may need to impair some of these assets.

Our International Channels reporting unit, which is part of the Direct-to-Consumer & International segment, comprises the Company's international television networks. Our international television networks primarily derive revenues from affiliate fees charged to MVPDs for the right to deliver our programming under multi-year licensing agreements and the sales of advertising time/space on the networks. A majority of the operations in this reporting unit were acquired in the TFCF acquisition and therefore the fair value of these businesses approximated the carrying value at the date of the acquisition of TFCF.

The International Channels business has been negatively impacted by the COVID-19 pandemic resulting in decreased viewership and lower advertising revenue related to the availability of content, including the deferral or cancellation of certain live sporting events. The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our film and television content from licensing of linear channels to use on our DTC services because the International Channels reporting unit valuation does not include the value derived from this shift, which is reflected in other reporting units. In addition, the industry shift to DTC, including by us and many of our distributors, who are pursuing their own DTC strategies, has changed the competitive dynamics for the International Channels business and resulted in unfavorable affiliation renewal terms for certain of our distribution agreements.

In the third quarter of fiscal 2020, we assessed the International Channels' long-lived assets and goodwill for impairment and recorded impairments of \$1.9 billion primarily related to MVPD agreement intangible assets and \$3.1 billion related to goodwill.

See Note 19 to the Consolidated Financial Statements for discussion of the impairment tests performed in the third quarter of fiscal 2020.

Risk Management Contracts

The Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

Changes to our hedged cash flows from a decrease in projected revenues of the Company or reductions of projected usage of commodities as compared to our projections when we entered into hedges may cause us to recognize gains or losses on our hedging instruments in our income statement prior to when the hedged transaction was projected to occur.

New Accounting Pronouncements

See Note 20 to the Consolidated Financial Statements for information regarding new accounting pronouncements.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for "forward-looking statements" made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-

looking,” including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. Such statements may, for example, express expectations, projections, estimates or future impacts; actions that we may take (or not take); or developments beyond our control, including changes in domestic or global economic conditions. All forward-looking statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward-looking matters. Actual results may differ materially from those expressed or implied. Significant factors affecting these expectations are set forth under Item 1A – Risk Factors of this Report on Form 10-K as well as in this Item 7 - Management’s Discussion and Analysis and Item 1 - Business.

[TABLE OF CONTENTS](#)

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow 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 U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel oil and gasoline.

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

Value at Risk (VAR)

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

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

VAR on a combined basis increased to \$323 million at October 3, 2020 from \$322 million at September 28, 2019.

TABLE OF CONTENTS

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

Fiscal 2020	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Commodity Sensitive Financial Instruments	Combined Portfolio
Year end fiscal 2020 VAR	\$ 304	\$ 29	\$ 81	\$ 1	\$ 323
Average VAR	439	37	32	3	448
Highest VAR	718	57	81	5	742
Lowest VAR	221	19	1	1	223
Year end fiscal 2019 VAR	317	28	1	2	322

The VAR for Hong Kong Disneyland Resort and Shanghai Disney Resort is immaterial as of October 3, 2020 and accordingly has been excluded from the above table.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page 70.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of October 3, 2020, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report set forth on page 71 is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended October 3, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Section 16(a) Beneficial Ownership Reporting Compliance," "Committees," "Governing Documents," "Director Selection Process" and "Election of Directors" in the Company's Proxy Statement for the 2021 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions "Director Compensation," "Compensation Discussion and Analysis" and "Compensation Tables" in the 2021 Proxy Statement (other than the "Compensation Committee Report," which is deemed furnished herein by reference) is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information appearing under the caption "Equity Compensation Plans" in the 2021 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2021 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2021 Proxy Statement is hereby incorporated by reference.

[TABLE OF CONTENTS](#)

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements and Schedules

See Index to Financial Statements and Supplemental Data on page 70.

(2) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit	Location
1.1 Underwriting Agreement, dated March 19, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and BofA Securities, Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, as representatives of the several underwriters named therein	Exhibit 1.1 to the Current Report on Form 8-K of the Company filed March 23, 2020
1.2 Underwriting Agreement, dated March 26, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Merrill Lynch Canada Inc., HSBC Securities (Canada) Inc. and RBC Dominion Securities Inc.	Exhibit 1.1 to the Current Report on Form 8-K of the company filed March 30, 2020
1.3 Underwriting Agreement, dated May 11, 2020, among The Walt Disney Company, TWDC Enterprises 18 Corp. and BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC and Morgan Stanley & Co. LLC, as representatives of the several underwriters named therein.	Exhibit 1.1 to the Current Report on form 8-K of the Company filed May 13, 2020
2.1 Amended and Restated Agreement and Plan of Merger, dated as of June 20, 2018, among Twenty-First Century Fox, Inc., The Walt Disney Company, TWDC Holdco 613 Corp., WDC Merger Enterprises I, Inc., and WDC Merger Enterprises II, Inc.*	Exhibit 2.1 to the Current Report on Form 8-K of Legacy Disney filed June 21, 2018
2.2 Equity Purchase Agreement, dated as of May 3, 2019, among The Walt Disney Company, Fox Cable Networks, LLC and Diamond Sports Group, LLC*	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed May 3, 2019
3.1 Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 19, 2019	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.2 Certificate of Amendment to the Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.3 Amended and Restated Bylaws of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.3 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.4 Amended and Restated Certificate of Incorporation of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.5 Amended and Restated Bylaws of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.6 Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed November 30, 2018
4.1 Senior Debt Securities Indenture, dated as of September 24, 2001, between TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed September 24, 2001
4.2 First Supplemental Indenture, dated as of March 20, 2019, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
4.3 Indenture, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, and	Exhibit 4.1 to the Current Report on Form 8-K of the Company filed March 20, 2019

[TABLE OF CONTENTS](#)

Exhibit		Location
4.4	Registration Rights Agreement, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, TWDC Enterprises 18 Corp., as guarantor, and Citigroup Global Markets Inc., J.P. Morgan Securities LLC, BNP Paribas Securities Corp., HSBC Securities (USA) Inc. and RBC Capital Markets, LLC, as dealer managers	Exhibit 4.5 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.5	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request	
4.6	Description of Registrant’s Securities	Exhibit 4.6 to the Form 10-K of the Company for the fiscal year ended September 28, 2019
10.1	Amended and Restated Voting Agreement, dated as of June 20, 2018, among The Walt Disney Company, Murdoch Family Trust, and Cruden Financial Services LLC	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 21, 2018
10.2	Employment Agreement dated as of February 24, 2020 between the Company and Robert Chapek †	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.3	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Form 10-K of Legacy Disney for the fiscal year ended October 1, 2011
10.4	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed July 1, 2013
10.5	Amendment dated October 2, 2014 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 3, 2014
10.6	Amendment dated March 22, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 23, 2017
10.7	Amendment dated December 13, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 14, 2017
10.8	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.9	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated March 4, 2019 †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 4, 2019
10.10	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011 and as previously amended, between the Company and Robert A. Iger, dated February 24, 2020 †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed February 25, 2020
10.11	Employment Agreement, dated as of September 27, 2013 between the Company and Alan N. Braverman †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 2, 2013

[TABLE OF CONTENTS](#)

Exhibit		Location
10.15	Amendment dated October 8, 2019 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman †	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed October 11, 2019
10.16	Employment Agreement dated August 15, 2017 and effective between the Company and Jayne Parker †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.17	Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 30, 2015
10.18	Amendment dated August 15, 2017 to the Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy †	Exhibit 10.4 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.19	Employment Agreement, dated as of September 27, 2018 between the Company and Zenia Mucha †	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.20	Voluntary Non-Qualified Deferred Compensation Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 23, 2014
10.21	Description of Directors Compensation	Exhibit 10.2 to the Form 10-Q of Legacy Disney for the quarter ended June 30, 2018
10.22	Form of Indemnification Agreement for certain officers and directors †	Annex C to the Proxy Statement for the 1987 annual meeting of DEI
10.23	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended June 29, 2019
10.24	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEI, dated Feb. 23, 1995
10.25	Amended and Restated 2002 Executive Performance Plan †	Annex A to the Proxy Statement for the 2013 Annual Meeting of the Registrant
10.26	Management Incentive Bonus Program †	The portions of the tables labeled “Performance based Bonus” in the sections of the Proxy Statement for the 2020 annual meeting titled “Fiscal 2019 Total Direct Compensation” and “Compensation Process” and the section of the Proxy Statement titled “Performance Goals”
10.27	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of Legacy Disney
10.28	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan †	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 1, 2006
10.29	Amended and Restated 2011 Stock Incentive Plan †	Annex B to Proxy Statement of registrant filed January 17, 2020
10.30	Disney Key Employees Retirement Savings Plan †	Exhibit 10.1 to the Form 10-Q of Legacy Disney for the quarter ended July 2, 2011
10.31	Amendments dated April 30, 2015 to the Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan, Amended and Restated Benefit Equalization Plan of ABC, Inc. and Disney Key Employees Retirement Savings Plan †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.32	Group Personal Excess Liability Insurance Plan †	Exhibit 10(x) to the Form 10-K of Legacy Disney for the fiscal year ended September 30,

[TABLE OF CONTENTS](#)

Exhibit		Location
10.36	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests/ Section 162(m) Vesting Requirement) †	Exhibit 10.11 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.37	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests) †	Exhibit 10.10 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.38	Form of Non-Qualified Stock Option Award Agreement †	Exhibit 10.12 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.39	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test/ Section 162(m) Vesting Requirements) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.40	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test) as Amended and Restated November 30, 2018 by and between the Company and Robert A. Iger †	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.41	Performance-Based Stock Unit Award (Section 162(m) Vesting Requirement) for Robert A. Iger dated as of December 13, 2017 †	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.42	Form of Performance-Based Restricted Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/ROIC Tests) †	Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended December 28, 2019
10.43	Disney Savings and Investment Plan as Amended and Restated Effective January 1, 2015 †	Exhibit 10.30 to the Form 10-K of Legacy Disney for the fiscal year ended September 30, 2017
10.44	First Amendment dated December 19, 2016 to the Disney Savings and Investment Plan as amended and restated effective January 1, 2015 †	Exhibit 10.31 to the Form 10-K of Legacy Disney for the fiscal year ended September 30, 2017
10.45	Second Amendment dated December 3, 2012 to the Disney Savings and Investment Plan †	Exhibit 10.2 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2012
10.46	Third Amendment dated December 18, 2014 to the Disney Savings and Investment Plan †	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.47	Fourth Amendment dated April 30, 2015 to the Disney Savings and Investment Plan †	Exhibit 10.5 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.48	Disney Hourly Savings and Investment Plan Amended and Restated Effective January 1, 2015 †	Exhibit 4.8 to the Form S-8 Registration Statement of the Company filed March 20, 2019
10.49	First Amendment to the Disney Hourly Savings and Investment Plan as Amended and Restated Effective January 1, 2015 †	Exhibit 4.9 to the Form S-8 Registration Statement of the Company filed March 20, 2019
10.50	Twenty-First Century Fox, Inc. 2013 Long-Term Incentive Plan †	Exhibit 10.1 to the Form 8-K of TFCF filed October 18, 2013
10.51	Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed March 9, 2018
10.52	First Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 26, 2018
10.53	Five-Year Credit Agreement dated as of March 6, 2020	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 11, 2020
10.54	364-Day Credit Agreement dated as of March 6, 2020	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 11, 2020

TABLE OF CONTENTS

Exhibit		Location
21	Subsidiaries of the Company	Filed herewith
22	List of Guarantor Subsidiaries	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
99	Waiver of Rights to Extension Bonus, dated as of December 20, 2019, by Robert A. Iger †	Exhibit 99 to the Form 10-Q of the Company for the quarter ended December 28, 2019
101	The following materials from the Company's Annual Report on Form 10-K for the year ended October 3, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	Filed herewith

* Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

** A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

† Management contract or compensatory plan or arrangement.

ITEM 16. Form 10-K Summary

None.

[TABLE OF CONTENTS](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WALT DISNEY COMPANY

(Registrant)

Date: November 25, 2020

By: /s/ ROBERT A. Chapek

(Robert A. Chapek,
Chief Executive Officer and Director)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>Principal Executive Officer</i>		
<u>/s/ ROBERT A. CHAPEK</u> (Robert A. Chapek)	Chief Executive Officer and Director	November 25, 2020
<i>Principal Financial and Accounting Officers</i>		
<u>/s/ CHRISTINE M. MCCARTHY</u> (Christine M. McCarthy)	Senior Executive Vice President and Chief Financial Officer	November 25, 2020
<u>/s/ BRENT A. WOODFORD</u> (Brent A. Woodford)	Executive Vice President- Controllershship, Financial Planning and Tax	November 25, 2020
<i>Directors</i>		
<u>/s/ SUSAN E. ARNOLD</u> (Susan E. Arnold)	Director	November 25, 2020
<u>/s/ MARY T. BARRA</u> (Mary T. Barra)	Director	November 25, 2020
<u>/s/ SAFRA A. CATZ</u> (Safra A. Catz)	Director	November 25, 2020
<u>/s/ FRANCIS A. DESOUZA</u> (Francis A. deSouza)	Director	November 25, 2020
<u>/s/ MICHAEL FROMAN</u> (Michael Froman)	Director	November 25, 2020
<u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Executive Chairman, Chairman of the Board and Director	November 25, 2020
<u>/s/ MARIA ELENA LAGOMASINO</u> (Maria Elena Lagomasino)	Director	November 25, 2020
<u>/s/ MARK G. PARKER</u> (Mark G. Parker)	Director	November 25, 2020
<u>/s/ DERICA W. RICE</u> (Derica W. Rice)	Director	November 25, 2020

[TABLE OF CONTENTS](#)

THE WALT DISNEY COMPANY AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

	Page
Management's Report on Internal Control Over Financial Reporting	<u>71</u>
Report of Independent Registered Public Accounting Firm	<u>72</u>
Consolidated Financial Statements of The Walt Disney Company and Subsidiaries	
Consolidated Statements of Operations for the Years Ended October 3, 2020, September 28, 2019 and September 29, 2018	<u>74</u>
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended October 3, 2020, September 28, 2019 and September 29, 2018	<u>75</u>
Consolidated Balance Sheets as of October 3, 2020 and September 28, 2019	<u>76</u>
Consolidated Statements of Cash Flows for the Years Ended October 3, 2020, September 28, 2019 and September 29, 2018	<u>77</u>
Consolidated Statements of Shareholders' Equity for the Years Ended October 3, 2020, September 28, 2019 and September 29, 2018	<u>78</u>
Notes to Consolidated Financial Statements	<u>79</u>
Quarterly Financial Summary (unaudited)	<u>133</u>

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of October 3, 2020.

The effectiveness of our internal control over financial reporting as of October 3, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

[TABLE OF CONTENTS](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Walt Disney Company and its subsidiaries (the “Company”) as of October 3, 2020 and September 28, 2019, and the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity and cash flows for each of the three years in the period ended October 3, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of October 3, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 3, 2020 and September 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended October 3, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 3, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in fiscal year 2020.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TABLE OF CONTENTS

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill – Interim Impairment Assessment for International Channels Reporting Unit

As described in Notes 2, 4 and 19 to the consolidated financial statements, the Company's consolidated goodwill balance was \$77.7 billion as of October 3, 2020. Management tests goodwill for impairment on an annual basis, and if current events or circumstances require, on an interim basis. In the third quarter of fiscal 2020, management performed an impairment test of the International Channels' goodwill. The carrying value of the International Channels exceeded the fair value and management recorded a non-cash impairment charge of \$3.1 billion to fully impair the International Channels reporting unit goodwill. The fair value was determined using a discounted cash flow analysis. The determination of fair value required management to make assumptions and estimates about how market participants would value the International Channels. The more sensitive inputs used in the discounted cash flow analysis include future revenue growth and projected margins as well as the discount rates used to calculate the present value of future cash flows.

The principal considerations for our determination that performing procedures relating to the goodwill interim impairment assessment of the International Channels reporting unit is a critical audit matter are the significant judgment required of management when determining the fair value of the International Channels reporting unit, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's significant assumptions related to future revenue growth, projected margins, and the discount rates used in the fair value measurement of the International Channels reporting unit. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill interim impairment assessment, including controls over the valuation of the International Channels reporting unit. These procedures also included, among others, testing management's process for determining the fair value estimates, which included (i) evaluating the appropriateness of the discounted cash flow model; (ii) testing the completeness and accuracy of underlying data used in the model; and (iii) evaluating the significant assumptions used by management related to the future revenue growth, projected margins and discount rates. Evaluating management's assumptions related to future revenue growth and projected margins involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discount rates.

Amortization of Produced Content Cost – Predominantly Monetized as a Group

As described in Note 8 to the consolidated financial statements, the Company produces content for its Direct-to-Consumer ("DTC") streaming services and linear television networks. The Company generally classifies the content that is initially intended for use on their DTC services or on their linear television networks as group assets. Production costs predominantly monetized as a group are amortized based on projected usage (which may be, for example, derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern. For the year ended October 3, 2020, the Company recognized \$5.0 billion of amortization expense related to produced content cost predominantly monetized as a group, which is primarily included in "Cost of services" in the Consolidated Statements of Operations.

The principal considerations for our determination that performing procedures relating to amortization of produced content costs predominantly monetized as a group is a critical audit matter are the high degree of auditor

subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimate of projected usage used in the amortization calculation.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to amortization of produced content costs predominantly monetized as a group including controls over the estimation of projected usage. These procedures also included, among others, evaluating the content amortization method and testing the completeness and accuracy of the historical viewership data used to calculate the estimate of projected usage.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

November 25, 2020

We have served as the Company's auditor since 1938.

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	2020	2019	2018
Revenues:			
Services	\$ 59,265	\$ 60,579	\$ 50,869
Products	6,123	9,028	8,565
Total revenues	65,388	69,607	59,434
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(39,406)	(36,493)	(27,528)
Cost of products (exclusive of depreciation and amortization)	(4,474)	(5,568)	(5,198)
Selling, general, administrative and other	(12,369)	(11,549)	(8,860)
Depreciation and amortization	(5,345)	(4,167)	(3,011)
Total costs and expenses	(61,594)	(57,777)	(44,597)
Restructuring and impairment charges	(5,735)	(1,183)	(33)
Other income, net	1,038	4,357	601
Interest expense, net	(1,491)	(978)	(574)
Equity in the income (loss) of investees	651	(103)	(102)
Income (loss) from continuing operations before income taxes	(1,743)	13,923	14,729
Income taxes on continuing operations	(699)	(3,026)	(1,663)
Net income (loss) from continuing operations	(2,442)	10,897	13,066
Income (loss) from discontinued operations, net of income tax benefit (expense) of \$10, (\$39) and \$0, respectively	(32)	687	—
Net income (loss)	(2,474)	11,584	13,066
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(390)	(472)	(468)
Net income from discontinued operations attributable to noncontrolling interests	—	(58)	—
Net income (loss) attributable to The Walt Disney Company (Disney)	\$ (2,864)	\$ 11,054	\$ 12,598
Earnings (loss) per share attributable to Disney ⁽¹⁾ :			
Diluted			
Continuing operations	\$ (1.57)	\$ 6.26	\$ 8.36
Discontinued operations	(0.02)	0.38	—
	\$ (1.58)	\$ 6.64	\$ 8.36
Basic			
Continuing operations	\$ (1.57)	\$ 6.30	\$ 8.40
Discontinued operations	(0.02)	0.38	—
	\$ (1.58)	\$ 6.68	\$ 8.40
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,808	1,666	1,507
Basic	1,808	1,656	1,499

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	2020	2019	2018
Net income (loss)	\$ (2,474)	\$ 11,584	\$ 13,066
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	(251)	(37)	214
Pension and postretirement medical plan adjustments	(1,476)	(2,446)	434
Foreign currency translation and other	115	(396)	(289)
Other comprehensive income (loss)	(1,612)	(2,879)	359
Comprehensive income (loss)	(4,086)	8,705	13,425
Net income from continuing operations attributable to noncontrolling interests	(390)	(530)	(468)
Other comprehensive income (loss) attributable to noncontrolling interests	(93)	65	72
Comprehensive income (loss) attributable to Disney	\$ (4,569)	\$ 8,240	\$ 13,029

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	October 3, 2020	September 28, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17,914	\$ 5,418
Receivables	12,708	15,481
Inventories	1,583	1,649
Licensed content costs and advances	2,171	4,597
Other current assets	875	979
Total current assets	35,251	28,124
Produced and licensed content costs	25,022	22,810
Investments	3,903	3,224
Parks, resorts and other property		
Attractions, buildings and equipment	62,111	58,589
Accumulated depreciation	(35,517)	(32,415)
	26,594	26,174
Projects in progress	4,449	4,264
Land	1,035	1,165
	32,078	31,603
Intangible assets, net	19,173	23,215
Goodwill	77,689	80,293
Other assets	8,433	4,715
Total assets	\$ 201,549	\$ 193,984
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 16,801	\$ 17,762
Current portion of borrowings	5,711	8,857
Deferred revenue and other	4,116	4,722
Total current liabilities	26,628	31,341
Borrowings	52,917	38,129
Deferred income taxes	7,288	7,902
Other long-term liabilities	17,204	13,760
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	9,249	8,963
Equity		
Preferred stock	—	—
Common stock, \$.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares	54,497	53,907
Retained earnings	38,315	42,494
Accumulated other comprehensive loss	(8,322)	(6,617)
Treasury stock, at cost, 19 million shares	(907)	(907)
Total Disney Shareholders' equity	83,583	88,877
Noncontrolling interests	4,680	5,012
Total equity	88,263	93,889
Total liabilities and equity	\$ 201,549	\$ 193,984

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2020	2019	2018
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	\$ (2,442)	\$ 10,897	\$ 13,066
Depreciation and amortization	5,345	4,167	3,011
Goodwill and intangible asset impairments	4,953	—	—
Net gain on investments, acquisitions and dispositions	(920)	(4,733)	(560)
Deferred income taxes	(392)	117	(1,573)
Equity in the (income) loss of investees	(651)	103	102
Cash distributions received from equity investees	774	754	775
Net change in produced and licensed content costs and advances	397	(542)	(523)
Net change in operating lease right of use assets / liabilities	31	—	—
Equity-based compensation	525	711	393
Other	641	154	441
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	1,943	55	(720)
Inventories	14	(223)	(17)
Other assets	(157)	932	(927)
Accounts payable and other liabilities	(2,293)	191	235
Income taxes	(152)	(6,599)	592
Cash provided by operations - continuing operations	7,616	5,984	14,295
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	(4,022)	(4,876)	(4,465)
Acquisitions	—	(9,901)	(1,581)
Other	172	(319)	710
Cash used in investing activities - continuing operations	(3,850)	(15,096)	(5,336)
FINANCING ACTIVITIES			
Commercial paper borrowings (payments), net	(3,354)	4,318	(1,768)
Borrowings	18,120	38,240	1,056
Reduction of borrowings	(3,533)	(38,881)	(1,871)
Dividends	(1,587)	(2,895)	(2,515)
Repurchases of common stock	—	—	(3,577)
Proceeds from exercise of stock options	305	318	210
Contributions from / sales of noncontrolling interests	94	737	399
Acquisition of noncontrolling and redeemable noncontrolling interests	—	(1,430)	—
Other	(1,565)	(871)	(777)
Cash provided by (used in) financing activities - continuing operations	8,480	(464)	(8,843)
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Cash provided by operations - discontinued operations	2	622	—
Cash provided by investing activities - discontinued operations	213	10,978	—
Cash used in financing activities - discontinued operations	—	(626)	—
Cash provided by discontinued operations	215	10,974	—
Impact of exchange rates on cash, cash equivalents and restricted cash	38	(98)	(25)
Change in cash, cash equivalents and restricted cash	12,499	1,300	91
Cash, cash equivalents and restricted cash, beginning of year	5,455	4,155	4,064

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

Equity Attributable to Disney								
			Accumulated Other Comprehensive			Total Disney	Non- controlling Interests ⁽¹⁾	Total Equity
	Shares	Common Stock	Retained Earnings	Income (Loss)	Treasury Stock	Equity		
Balance at September 30, 2017	1,517	\$ 36,248	\$ 72,606	\$ (3,528)	\$ (64,011)	\$ 41,315	\$ 3,689	\$ 45,004
Comprehensive income	—	—	12,598	431	—	13,029	425	13,454
Equity compensation activity	6	518	—	—	—	518	—	518
Common stock repurchases	(35)	—	—	—	(3,577)	(3,577)	—	(3,577)
Dividends	—	14	(2,529)	—	—	(2,515)	—	(2,515)
Contributions	—	—	—	—	—	—	488	488
Distributions and other	—	(1)	4	—	—	3	(543)	(540)
Balance at September 29, 2018	1,488	\$ 36,779	\$ 82,679	\$ (3,097)	\$ (67,588)	\$ 48,773	\$ 4,059	\$ 52,832
Comprehensive income	—	—	11,054	(2,814)	—	8,240	371	8,611
Equity compensation activity	7	912	—	—	—	912	—	912
Dividends	—	18	(2,913)	—	—	(2,895)	—	(2,895)
Contributions	—	—	—	—	—	—	737	737
Acquisition of TFCF	307	33,774	—	—	—	33,774	10,408	44,182
Adoption of new accounting guidance:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	192	—	—	192	—	192
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Retirement of treasury stock	—	(17,563)	(49,118)	—	66,681	—	—	—
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	(7,770)	(7,770)
Redemption of noncontrolling interest	—	—	—	—	—	—	(1,430)	(1,430)
Sales of the RSNs	—	—	—	—	—	—	(744)	(744)
Distributions and other	—	(13)	3	—	—	(10)	(619)	(629)
Balance at September 28, 2019	1,802	\$ 53,907	\$ 42,494	\$ (6,617)	\$ (907)	\$ 88,877	\$ 5,012	\$ 93,889
Comprehensive income (loss)	—	—	(2,864)	(1,705)	—	(4,569)	198	(4,371)
Equity compensation								

⁽¹⁾ Excludes redeemable noncontrolling interest

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions, except where noted and per share amounts)

1 Description of the Business and Segment Information

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI). In October 2020, the Company announced a strategic reorganization of our media and entertainment businesses to accelerate the growth of our direct-to-consumer (DTC) strategy. The operations of the Media Networks, Studio Entertainment and DTCI segments were reorganized into four groups: three content groups (Studios, General Entertainment and Sports), which are focused on developing and producing content that will be used across all of our traditional and DTC platforms and a distribution group, which is focused on distribution and commercialization activities across these platforms and which has full accountability for media and entertainment operating results globally.

The terms “Company”, “we”, “our” and “us” are used in this report to refer collectively to the parent company and the subsidiaries through which various businesses are conducted. The term “TWDC” is used to refer to the parent company.

Impact of COVID-19

During fiscal 2020 and continuing into fiscal 2021, the world has been, and continues to be, impacted by the novel coronavirus (COVID-19) pandemic. COVID-19 and measures to prevent its spread impacted our segments in a number of ways, most significantly at Parks, Experiences and Products where our theme parks were closed or operating at significantly reduced capacity for a significant portion of the year, cruise ship sailings and guided tours were suspended since late in the second quarter and retail stores were closed for a significant portion of the year. We also had an adverse impact on our merchandise licensing business. Our Studio Entertainment segment has delayed, or in some cases, shortened or cancelled, theatrical releases, and stage play performances have been suspended since late in the second quarter. We also had adverse impacts on advertising sales at Media Networks and Direct-to-Consumer & International. Since March 2020, we have experienced significant disruptions in the production and availability of content, including the shift of key live sports programming from our third quarter to the fourth quarter and into fiscal 2021 as well as the suspension of production of most film and television content since late in the second quarter, although some film and television production resumed in the fourth quarter.

The impact of these disruptions and the extent of their adverse impact on our financial and operating results will be dictated by the length of time that such disruptions continue, which will, in turn, depend on the currently unknowable duration and severity of the impacts of COVID-19, and among other things, the impact of governmental actions imposed in response to COVID-19 and individuals’ and companies’ risk tolerance regarding health matters going forward. As some of our businesses have reopened, we have incurred additional costs to address government regulations and the safety of our employees, talent and guests.

In fiscal 2020, the Company recorded goodwill and intangible asset impairments totaling \$5.0 billion, in part due to the negative impact COVID-19 has had on the International Channels business (see Note 19).

Acquisition of TFCF

On March 20, 2019, the Company acquired Twenty-First Century Fox, Inc., a diversified global media and entertainment company, which was subsequently renamed TFCF Corporation (TFCF). Prior to the acquisition, TFCF and a newly-formed subsidiary of TFCF (New Fox) entered into a separation agreement, pursuant to which TFCF transferred to New Fox a portfolio of TFCF’s news, sports and broadcast businesses and certain other assets. TFCF retained all of the assets and liabilities not transferred to New Fox, the most significant of which were the Twentieth Century Fox film and television studios, certain cable networks (primarily FX and National Geographic), TFCF’s international television businesses (including Star) and TFCF’s 30% interest in Hulu LLC (Hulu). Under the terms of

the agreement governing the acquisition, the Company will generally phase-out Fox brands by 2024, but has perpetual rights to certain Fox brands, including Twentieth Century Fox and Fox Searchlight, although these have been rebranded to Twentieth Century Studios and Searchlight Pictures, respectively.

As a result of the acquisition, the Company's ownership in Hulu LLC (Hulu) increased from 30% to 60% (67% as of October 3, 2020 and September 28, 2019). The acquired TFCF operations and Hulu have been consolidated since the acquisition.

In order to obtain regulatory approval for the acquisition, the Company agreed to sell TFCF's domestic regional sports networks (RSNs) (sold in August 2019 for approximately \$11 billion) and sports media operations in Brazil and Mexico. In addition, the Company agreed to divest its interest in certain European cable channels that were controlled by A+E Television Networks (A+E) (sold in April 2019 for an amount that was not material). In the third quarter of fiscal 2020, the Company

TABLE OF CONTENTS

received regulatory approval to retain the sports media operation in Brazil. The RSNs and sports media operation in Mexico, along with certain other businesses to be divested, are presented as discontinued operations in the Consolidated Statements of Operations. At October 3, 2020 and September 28, 2019, the assets and liabilities of the businesses held for sale are not material and are included in other assets and other liabilities in the Consolidated Balance Sheets. The sports media operation in Brazil was previously presented as discontinued operations, with its assets and liabilities considered held for sale, but is now reported as continuing operations in the current and prior periods. The impact on the previously reported Consolidated Statements of Operations, Consolidated Balance Sheets and Consolidated Statements of Cash Flows was not material.

See Note 4 for additional information on these transactions.

DESCRIPTION OF THE BUSINESS

Media Networks

Significant operations:

- Disney, ESPN, Freeform, FX and National Geographic branded domestic cable networks
- ABC branded broadcast television network and eight owned domestic television stations
- Television production and distribution
- A 50% equity investment in A+E

Significant revenues:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. Hulu, YouTube TV) service providers) (MVPDs) and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Advertising - Sales of advertising time/space on our domestic networks and related platforms (“ratings-based ad sales”, which excludes advertising on digital platforms that is not ratings-based) and the sale of advertising time on our domestic television stations. Ratings-based ad sales are generally determined using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms is reported by DTCI
- TV/SVOD distribution - Licensing fees and other revenues from the right to use our television programs and productions and revenue from content transactions with other Company segments (“program sales”)

Significant expenses:

- Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

Parks, Experiences and Products

Significant operations:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (48% ownership interest); Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:

- Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world, for use on merchandise, published materials and games
- Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in Media Networks)

Significant revenues:

- Theme park admissions - Sales of tickets for admission to our theme parks
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties

TABLE OF CONTENTS

- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from intellectual property licensing
 - Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as, to wholesalers (including books, comic books and magazines)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities and real estate rent and sales. In addition, we earn royalties on Tokyo Disney Resort revenues

Significant expenses:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, property taxes, utilities and fuel, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

Studio Entertainment

Significant operations:

- Motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Studios, Marvel, Lucasfilm, Pixar, Searchlight Pictures and Blue Sky Studios banners
- Development, production and licensing of live entertainment events on Broadway and around the world (stage plays)
- Music production and distribution
- Post-production services through Industrial Light & Magic and Skywalker Sound

Significant revenues:

- Theatrical distribution - Rentals from licensing our motion pictures to theaters
- Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
- TV/SVOD distribution and other - Licensing fees and other revenue from the right to use our motion picture productions, revenue from content transactions with other Company segments, ticket sales from stage plays, fees from licensing our intellectual properties for use in live entertainment productions, revenue from licensing our music and revenue from post-production services

Significant expenses:

- Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales
- Selling, general and administrative costs
- Depreciation and amortization

Direct-to-Consumer & International

Significant operations:

- Direct-to-consumer (DTC) video streaming services, which include Disney+ / Disney+Hotstar, ESPN+ and Hulu. Disney+ launched in November 2019 in the U.S. and 4 other countries and has expanded to select Western European countries in the Spring of 2020. In April, our Hotstar service in India was converted to Disney+Hotstar, and in June 2020, current subscribers of the Disney Deluxe service in Japan were converted to Disney+. In September 2020, Disney+ was launched in additional European countries and Disney+Hotstar was launched in Indonesia. In November 2020, Disney+ was launched in Latin America. The Company also plans to launch a general entertainment DTC video streaming service under the Star brand outside the U.S. in calendar year 2021
- Branded international television networks and channels, which include Disney, ESPN, Fox, National Geographic and Star (International Channels)

- Other digital content distribution platforms and services including branded apps and websites, the Disney Movie Club and Disney Digital Network and streaming technology support services
- Equity investments:
 - A 50% ownership interest in Endemol Shine Group, which was sold on July 2, 2020
 - A 20% ownership interest (49% economic interest) in Seven TV, which operates an advertising-supported, free-to-air Disney Channel in Russia
 - A 30% effective ownership interest in Tata Sky Limited, which operates a direct-to-home satellite distribution platform in India

TABLE OF CONTENTS

- An approximate 24% effective ownership interest (14% fully diluted) in Vice Group Holding Inc. (Vice), which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by Vice and 50% by A+E

Significant revenues:

- Subscription fees - Fees charged to customers/subscribers for our DTC services
- Advertising - Sales of advertising time/space on our International Channels and sales of non-ratings-based advertising time/space on digital media platforms (“addressable ad sales”) across the Company. In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups
- Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
- TV/SVOD distribution - Program sales, sub-licensing fees for sports programming rights and fees charged to customers to view our sports programming (“pay-per-view”) and Premier Access content

Significant expenses:

- Operating expenses consisting primarily of programming and production costs (including amortization of content obtained from other Company segments), technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

SEGMENT INFORMATION

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and purchase accounting amortization for TFCF and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the TFCF acquisition. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption.

Intersegment content transactions are presented “gross” (i.e. the segment producing the content reports revenue and profit from intersegment transactions, and the required eliminations are reported on a separate “Eliminations” line when presenting a summary of our segment results). Other intersegment transactions are reported “Net” (i.e. revenue from another segment is recorded as a reduction of costs). Studio Entertainment revenues and operating income include an allocation of Parks, Experiences and Products revenues, which is meant to reflect royalties on revenue generated by Parks, Experiences and Products on merchandise based on intellectual property from Studio Entertainment films.

As it relates to film and television content that is produced by our Media Networks and Studio Entertainment segments that will be used on our DTC services, there are four broad categories of content:

- Content produced for exclusive DTC use, “Originals”;
- New Studio Entertainment theatrical releases following the theatrical and home entertainment windows, “Studio Pay 1”;
- New Media Networks episodic television series following their initial airing on our linear networks, “Media Pay 1”; and
- Content in all other windows, “Library”.

The intersegment transfer price, for purposes of segment financial reporting pursuant to ASC 280 Segment Reporting, is generally cost plus a margin for Originals and Media Pay 1 content and generally based on comparable

transactions for Studio Pay 1 and Library content. Imputed title by title intersegment license fees that may be necessary for other purposes are established as required by those purposes.

Intersegment revenue is recognized upon availability of the content to the DTC service except with respect to Library content for which revenue is recognized ratably over the license period.

Our DTC services generally amortize intersegment content costs for Originals and Studio Pay 1 content on an accelerated basis and for Media Pay 1 and Library content on a straight line basis.

When the DTC amortization timing is different than the timing of revenue recognition at Studio Entertainment or Media Networks, the difference results in an operating income impact in the elimination segment, which nets to zero over the DTC amortization period.

[TABLE OF CONTENTS](#)

The following tables provide select segment and regional financial information:

	2020	2019	2018
<i>Revenues</i>			
Media Networks	\$ 28,393	\$ 24,827	\$ 21,922
Parks, Experiences and Products			
Third parties	17,038	26,786	25,257
Intersegment	(536)	(561)	(556)
	16,502	26,225	24,701
Studio Entertainment			
Third parties	9,100	10,566	9,509
Intersegment	536	561	556
	9,636	11,127	10,065
Direct-to-Consumer & International	16,967	9,386	3,414
Eliminations ⁽¹⁾	(6,110)	(1,958)	(668)
Total consolidated revenues	\$ 65,388	\$ 69,607	\$ 59,434
<i>Segment operating income (loss)</i>			
Media Networks	\$ 9,022	\$ 7,479	\$ 7,338
Parks, Experiences and Products	(81)	6,758	6,095
Studio Entertainment	2,501	2,686	3,004
Direct-to-Consumer & International	(2,806)	(1,835)	(738)
Eliminations ⁽¹⁾	(528)	(241)	(10)
Total segment operating income ⁽²⁾	\$ 8,108	\$ 14,847	\$ 15,689
<i>Reconciliation of segment operating income to income from continuing operations before income taxes</i>			
Segment operating income	\$ 8,108	\$ 14,847	\$ 15,689
Corporate and unallocated shared expenses	(817)	(987)	(744)
Restructuring and impairment charges	(5,735)	(1,183)	(33)
Other income, net	1,038	4,357	601
Interest expense, net	(1,491)	(978)	(574)
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	(2,846)	(1,595)	—
Impairment of equity investments ⁽⁴⁾	—	(538)	(210)
Income (loss) from continuing operations before income taxes	\$ (1,743)	\$ 13,923	\$ 14,729
<i>Capital expenditures</i>			
Media Networks			
Cable Networks	\$ 61	\$ 93	\$ 96
Broadcasting	51	81	107
Parks, Experiences and Products			
Domestic	2,145	3,294	3,223
International	759	852	677
Studio Entertainment	77	88	96
Direct-to-Consumer & International	594	258	107
Corporate	335	210	159
Total capital expenditures	\$ 4,022	\$ 4,876	\$ 4,465

[TABLE OF CONTENTS](#)

	2020	2019	2018
<i>Depreciation expense</i>			
Media Networks	\$ 203	\$ 191	\$ 199
Parks, Experiences and Products			
Domestic	1,634	1,474	1,449
International	694	724	768
Studio Entertainment	87	74	55
Direct-to-Consumer & International	348	214	106
Depreciation expense included in segment operating income	2,966	2,677	2,577
Corporate	174	167	181
Total depreciation expense	\$ 3,140	\$ 2,844	\$ 2,758
<i>Amortization of intangible assets</i>			
Media Networks	\$ 4	\$ —	\$ —
Parks, Experiences and Products	109	108	110
Studio Entertainment	59	61	64
Direct-to-Consumer & International	112	111	79
Amortization of intangible assets included in segment operating income	284	280	253
TFCF and Hulu intangible assets	1,921	1,043	—
Total amortization of intangible assets	\$ 2,205	\$ 1,323	\$ 253

	October 3, 2020	September 28, 2019
<i>Identifiable assets⁽⁵⁾</i>		
Media Networks	\$ 62,220	\$ 63,519
Parks, Experiences and Products	42,320	41,978
Studio Entertainment	32,811	34,323
Direct-to-Consumer & International	45,538	48,606
Corporate ⁽⁶⁾	19,691	6,025
Eliminations	(1,031)	(467)
Total consolidated assets	\$ 201,549	193,984

	2020	2019	2018
<i>Revenues</i>			
Americas	\$ 51,992	\$ 53,805	\$ 46,877
Europe	7,333	8,006	7,026
Asia Pacific	6,063	7,796	5,531
	\$ 65,388	\$ 69,607	\$ 59,434
<i>Segment operating income</i>			
Americas	\$ 5,819	\$ 10,247	\$ 11,898
Europe	1,273	2,433	1,922
Asia Pacific	1,016	2,167	1,869
	\$ 8,108	\$ 14,847	\$ 15,689

TABLE OF CONTENTS

	October 3, 2020	September 28, 2019
<i>Long-lived assets</i> ⁽⁷⁾		
Americas	\$ 141,674	\$ 138,674
Europe	7,672	10,793
Asia Pacific	12,235	12,703
	<u>\$ 161,581</u>	<u>\$ 162,170</u>

⁽¹⁾ Intersegment content transactions are as follows:

	2020	2019	2018
Revenues:			
Studio Entertainment:			
Content transactions with Media Networks	\$ (188)	\$ (106)	\$ (169)
Content transactions with Direct-to-Consumer & International	(2,108)	(272)	(28)
Media Networks:			
Content transactions with Direct-to-Consumer & International	(3,814)	(1,580)	(471)
Total	<u>\$ (6,110)</u>	<u>\$ (1,958)</u>	<u>\$ (668)</u>
Operating Income:			
Studio Entertainment:			
Content transactions with Media Networks	\$ 3	\$ (19)	\$ (8)
Content transactions with Direct-to-Consumer & International	(158)	(80)	—
Media Networks:			
Content transactions with Direct-to-Consumer & International	(373)	(142)	(2)
Total	<u>\$ (528)</u>	<u>\$ (241)</u>	<u>\$ (10)</u>

⁽²⁾ Equity in the income (loss) of investees is as follows:

	2020	2019	2018
Media Networks	\$ 737	\$ 703	\$ 711
Parks, Experiences and Products	(19)	(13)	(23)
Studio Entertainment	(1)	—	—
Direct-to-Consumer & International	(40)	(240)	(580)
Equity in the income of investees included in segment operating income	677	450	108
Impairment of equity investments	—	(538)	(210)
Amortization of TFCF intangible assets related to equity investees	(26)	(15)	—
Equity in the income (loss) of investees	<u>\$ 651</u>	<u>\$ (103)</u>	<u>\$ (102)</u>

- ⁽³⁾ For fiscal 2020, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,921 million, \$899 million and \$26 million respectively. For fiscal 2019, amortization of intangible assets, fair value step-up on film and television costs and intangibles related to TFCF equity investees were \$1,043 million, \$537 million and \$15 million, respectively.
- ⁽⁴⁾ Impairment of equity investments for fiscal 2019 primarily reflects the impairments of Vice Group Holding Inc. and of an investment in a cable channel at A+E Television Networks (\$353 million and \$170 million, respectively). Impairment of equity investments for fiscal 2018 reflects impairments of Vice Group Holding Inc. and Villages Nature (\$157 million and \$53 million, respectively).

TABLE OF CONTENTS

(5) Equity method investments included in identifiable assets by segment are as follows:

	October 3, 2020	September 28, 2019
Media Networks	\$ 2,002	\$ 2,018
Parks, Experiences and Products	3	3
Studio Entertainment	2	8
Direct-to-Consumer & International	570	821
Corporate	55	72
	<u>\$ 2,632</u>	<u>\$ 2,922</u>

Intangible assets included in identifiable assets by segment are as follows:

	October 3, 2020	September 28, 2019
Media Networks	\$ 7,242	\$ 7,861
Parks, Experiences and Products	3,066	3,177
Studio Entertainment	2,031	2,140
Direct-to-Consumer & International	6,814	9,962
Corporate	20	75
	<u>\$ 19,173</u>	<u>\$ 23,215</u>

(6) Primarily fixed assets and cash and cash equivalents.

(7) Long-lived assets are total assets less: current assets, long-term receivables, deferred taxes, financial investments and the fair value of derivative instruments.

2 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships with or makes investments in other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia Theme Parks in its financial statements.

Reporting Period

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year occurs, the Company reports the additional week in the fourth quarter. Fiscal 2019 and 2018 were fifty-two week years. Fiscal 2020 is a fifty-three week year, which began on September 29, 2019 and ended on October 3, 2020.

Reclassifications

Certain reclassifications have been made in the fiscal 2019 and fiscal 2018 financial statements and notes to conform to the fiscal 2020 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

TABLE OF CONTENTS

Revenues and Costs from Services and Products

The Company generates revenue from the sale of both services and tangible products and revenues and operating costs are classified under these two categories in the Consolidated Statements of Operations. Certain costs related to both the sale of services and tangible products are not specifically allocated between the service or tangible product revenue streams but are instead attributed to the principal revenue stream. The cost of services and tangible products exclude depreciation and amortization.

Significant service revenues include:

- Affiliate fees
- Advertising revenues
- Subscription fees to our DTC streaming services
- Revenue from the licensing and distribution of film and television properties
- Admissions to our theme parks, charges for room nights at hotels and sales of cruise vacation packages
- Licensing of intellectual property for use on consumer merchandise, published materials and in multi-platform games

Significant operating costs related to the sale of services include:

- Amortization of programming and production costs and participations and residuals costs
- Distribution costs
- Operating labor
- Facilities and infrastructure costs

Significant tangible product revenues include:

- The sale of food, beverage and merchandise at our retail locations
- The sale of DVDs and Blu-ray discs
- The sale of books, comic books and magazines

Significant operating costs related to the sale of tangible products include:

- Costs of goods sold
- Amortization of programming and production costs and participations and residuals costs
- Distribution costs
- Operating labor
- Retail occupancy costs

Revenue Recognition

At the beginning of fiscal 2019, the Company adopted Financial Accounting Standards Board (FASB) guidance that replaced the existing accounting guidance for revenue recognition with a single comprehensive five-step model ("new revenue guidance"). The core principle is to recognize revenue upon the transfer of control of goods or services to customers at an amount that reflects the consideration expected to be received. We adopted the new revenue guidance using the modified retrospective method; therefore, results for reporting periods beginning after September 30, 2018 are presented under the new revenue guidance, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting. Upon adoption, we recorded a net reduction of \$116 million to opening fiscal 2019 retained earnings.

The most significant changes to the Company's revenue recognition policies resulting from the adoption of the new revenue guidance are as follows:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company now defers more revenue to future windows than under the previous accounting guidance.

- For licenses of character images, brands and trademarks with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual amounts earned based on a percentage of the licensee's underlying sales ("shortfall") is now recognized straight-line over the remaining license period once an expected shortfall is probable. Previously, shortfalls were recognized at the end of the contract period.
- For licenses that include multiple television and film titles with a minimum guaranteed license fee across all titles that earns out against the aggregate fees based on the licensee's underlying sales, the Company now allocates the minimum guaranteed license fee to each title at contract inception and recognizes the allocated license fee as revenue when the title is made available to the customer. License fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee across all titles is exceeded, license fees are recognized as earned based on the licensee's underlying sales. Previously,

TABLE OF CONTENTS

license fees were recognized as earned based on the licensee's underlying sales with any shortfalls recognized at the end of the contract period.

- For renewals or extensions of license agreements for television and film content, revenues are now recognized when the licensed content becomes available under the renewal or extension. Previously, revenues were recognized when the agreement was renewed or extended.

The impact on the Consolidated Statement of Operations for fiscal 2019 due to the adoption of the new revenue guidance was as follows:

	Results Assuming Historical Accounting	Impact of New Revenue Guidance	Reported
Revenues	\$ 69,262	\$ 345	\$ 69,607
Cost and Expenses	(57,523)	(254)	(57,777)
Income Taxes	(3,005)	(21)	(3,026)
Net Income	11,514	70	11,584

The most significant impact was at the Studio Entertainment reflecting a change in the timing of revenue recognition related to film content licensing agreements with multiple availability windows.

The Company generates revenue from the sale of both services and products. The Company has four broad categories of service revenues: licenses of rights to use our intellectual property ("IP"), sales to guests at our Parks and Experiences businesses, sales of advertising time/space and subscriptions to DTC services. The Company's primary product revenues include the sale of food, beverage and merchandise at our parks, resorts and retail stores and the sale of film and television productions in physical formats (DVD and Blu-ray).

The new revenue guidance defines two types of IP licenses: IP that has "standalone functionality," which is called functional IP, and all other IP, which is called symbolic IP. Revenue related to the license of functional IP is generally recognized upon delivery (availability) of the IP to the customer. The substantial majority of the Company's film and television content distribution activities at the Media Networks, Studio Entertainment and DTCI segments is considered licensing of functional IP. Revenue related to the license of symbolic IP is generally recognized over the term of the license. The Company's primary revenue stream derived from symbolic IP is the licensing of trade names, characters and visual and literary properties at the Parks, Experiences and Products segment.

More detailed information about the revenue recognition policies for our key revenues is as follows:

- Affiliate fees - Fees charged to affiliates (i.e., MVPDs or television stations) for the right to deliver our television network programming on a continuous basis to their customers are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming.

For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term.

If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded.

Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

- Subscription fees - Fees charged to customers/subscribers and wholesale distributors for our streaming services are recognized ratably over the term of the subscription.

- Advertising - Sales of advertising time/space on our television networks, digital platforms and television stations are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the guaranteed number of impressions is not met (“ratings shortfall”), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.
- Theme park admissions - Sales of theme park tickets are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- Resorts and vacations - Sales of hotel room nights and cruise vacations and rentals of vacation club properties are recognized as revenue as the services are provided to the guest. Sales of vacation club properties are recognized as revenue upon the later of when title transfers to the customer or when construction activity is deemed complete.

TABLE OF CONTENTS

- Merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts, cruise ships and Disney Stores are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- TV/SVOD distribution licensing - Fixed license fees charged for the right to use our television and film productions are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue as earned based on the contractual royalty rate applied to the licensee sales.

For TV/SVOD licenses that include multiple titles with a fixed license fee across all titles, each title is considered a separate performance obligation. The fixed license fee is allocated to each title at contract inception and the allocated license fee is recognized as revenue when the title is available for use by the licensee.

When the license contains a minimum guaranteed license fee across all titles, the license fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee is exceeded, revenue is recognized as earned based on the licensee's underlying sales.

TV/SVOD distribution contracts may limit the licensee's use of a title to certain defined periods of time during the contract term. In these instances, each period of availability is generally considered a separate performance obligation. For these contracts, the fixed license fee is allocated to each period of availability at contract inception based on relative standalone selling price using management's best estimate. Revenue is recognized at the start of each availability period when the content is made available for use by the licensee.

When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.

- Theatrical distribution licensing - Fees charged for licensing of our films to theatrical distributors are recognized as revenue based on the contractual royalty rate applied to the distributor's underlying sales from exhibition of the film.
- Merchandise licensing - Fees charged for the use of our trade names and characters in connection with the sale of a licensee's products are recognized as revenue as earned based on the contractual royalty rate applied to the licensee's underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual royalties earned ("shortfall") is recognized straight-line over the remaining license period once an expected shortfall is probable.
- Home entertainment - Sales of our films to retailers and distributors in physical formats (DVD and Blu-ray) are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our films in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes - Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling - Fees collected from customers for shipping and handling are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The allowance for doubtful accounts is estimated based on our analysis of trends in overall receivables aging, specific identification of certain receivables that are at risk of not being paid, past collection experience and current economic trends.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2020, 2019 and 2018 was \$4.7 billion, \$4.3 billion and \$2.8 billion, respectively. The increase in advertising expense for fiscal 2020 compared to fiscal 2019 was primarily due to the consolidation of TFCF and Hulu, partially offset by lower advertising expense at Studio Entertainment and Parks, Experience and Products segments reflecting the impact of COVID-19 on these segments. The increase in advertising expense for fiscal 2019 compared to fiscal 2018 was primarily due to the consolidation of TFCF and Hulu.

Cash and Cash Equivalents

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

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. The Company's restricted cash balances are primarily made up of cash posted as collateral for certain derivative instruments.

TABLE OF CONTENTS

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statement of Cash Flows.

	October 3, 2020	September 28, 2019	September 29, 2018
Cash and cash equivalents	\$ 17,914	\$ 5,418	\$ 4,150
Restricted cash included in:			
Other current assets	3	26	1
Other assets	37	11	4
Total cash, cash equivalents and restricted cash in the statement of cash flows	<u>\$ 17,954</u>	<u>\$ 5,455</u>	<u>\$ 4,155</u>

Investments

Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at that value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value.

Translation Policy

Generally, the U.S. dollar is the functional currency for our international film and television distribution and licensing businesses and the branded International Channels. Generally, the local currency is the functional currency for the Asia Theme Parks, Disneyland Paris, the branded International Channels that primarily source and exploit their content locally (primarily Star branded channels in India and international sports channels) and international locations of The Disney Stores.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss) (AOCI).

Inventories

Inventory primarily includes vacation timeshare units, merchandise, food, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, food, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or net realizable value.

Film and Television Content Costs

At the beginning of fiscal 2020, the Company adopted new FASB guidance that updates the accounting for film and television content costs. See Note 8 for discussion of the new guidance and the Company's accounting policy for capitalization and amortization of film and television content costs.

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of October 3, 2020 and September 28, 2019, capitalized software costs, net of accumulated depreciation, totaled \$778 million and \$927 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software up to 10 years.

TABLE OF CONTENTS

Parks, Resorts and Other Property

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method, generally over estimated useful lives as follows:

Attractions, buildings and improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Land improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less

Leases

At the beginning of fiscal 2020, the Company adopted new FASB guidance that requires lessees to record the present value of operating lease payments as right-of-use assets and lease liabilities on the balance sheet. See Note 16 for discussion of the new guidance and the Company's accounting policy.

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis.

Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. To test goodwill for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires consideration of recent market transactions, macroeconomic conditions, and changes in projected future cash flows of the reporting unit.

The quantitative assessment compares the fair value of each goodwill reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

In fiscal 2020, the Company performed a qualitative assessment of goodwill for impairment.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The projected cash flows of our reporting units reflect intersegment revenues and expenses for the sale and use of intellectual property as if it was licensed to an unrelated third party. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses as well as the discount rates used to calculate the present value of future cash flows.

In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

To test its other indefinite-lived intangible assets for impairment, the Company first performs a qualitative assessment to determine if it is more likely than not that the carrying amount of each of its indefinite-lived intangible assets exceeds its fair value. If it is, a quantitative assessment is required. Alternatively, the Company may bypass the qualitative assessment and perform a quantitative impairment test.

The qualitative assessment requires the consideration of factors such as recent market transactions, macroeconomic conditions, and changes in projected future cash flows.

The quantitative assessment compares the fair values of indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks.

Amortizable intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred.

TABLE OF CONTENTS

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying amount of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying amount of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying amount of each asset is above its fair value. For assets held for sale, to the extent the carrying amount is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

The Company recorded non-cash impairment charges of \$5.2 billion, \$0.6 billion, and \$0.2 billion in fiscal 2020, 2019 and 2018, respectively.

The fiscal 2020 impairment charges primarily related to impairments of MVPD agreement intangibles assets (\$1.9 billion) and goodwill (\$3.1 billion) at the International Channels' business. See Note 19 to the Consolidated Financial Statements for additional discussion on these impairment charges.

The fiscal 2019 and 2018 charges primarily related to impairments of investments accounted for under the equity method of accounting recorded in "Equity in the income (loss) of investees" in the Consolidated Statements of Operations.

The Company expects its aggregate annual amortization expense for amortizable intangible assets for fiscal 2021 through 2025 to be as follows:

2021	\$ 2,055
2022	1,995
2023	1,808
2024	1,570
2025	1,471

Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedges and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company primarily enters into two types of derivatives: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating rate debt).

The Company designates and assigns the derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged occur or are no longer expected to occur, the Company recognizes the gain or loss on the designated derivatives.

The Company's hedge positions are measured at fair value on the balance sheet. 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 swaps to be paid or received under the agreements as interest

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

The Company enters into derivatives that are not designated as hedges and do not qualify for hedge accounting. These derivatives are intended to offset certain economic exposures of the Company and are carried at fair value with changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 9 and 18).

Income Taxes

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is

TABLE OF CONTENTS

more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Redeemable Noncontrolling Interests

The Company consolidates the results of certain subsidiaries that are less than 100% owned and for which the noncontrolling interest shareholders have rights to require the Company to purchase their interests in these subsidiaries. The most significant of these are BAMTech and Hulu.

BAMTech provides streaming technology services to third parties and is owned 75% by the Company, 15% by Major League Baseball (MLB) and 10% by the National Hockey League (NHL), both of which have the right to sell their interests to the Company in the future.

MLB has the right to sell its interest to the Company and the Company has the right to buy MLB's interest starting five years from and ending ten years after the Company's September 25, 2017 acquisition date of BAMTech at the greater of fair value or a guaranteed floor value (\$563 million accreting at 8% annually for eight years from the date of acquisition). The NHL can sell its interest to the Company in fiscal 2021 for \$350 million. The Company has the right to acquire the NHL interest in fiscal 2021 for \$500 million.

The MLB and NHL interests are required to be recorded at a minimum value equal to the greater of (i) their acquisition date fair value adjusted for their share (if any) of earnings, losses, or dividends ("adjusted value") or (ii) an accreted value from the date of the acquisition to the applicable redemption date ("accreted value"). As the accreted value is generally always higher than the adjusted value, the MLB and NHL interests are not allocated their portion of BAMTech losses. Therefore, the MLB and NHL interests are accreted to the estimated redemption value as of the earliest redemption date. As of October 3, 2020, the guaranteed floor value for the MLB interest, accreted from the date of acquisition was \$710 million. The NHL previously had a right to sell its interest to the Company in fiscal 2020 for \$300 million, which expired unexercised in the fourth quarter. As the NHL's remaining right to sell its interest to the Company in fiscal 2021 is for \$350 million, the Company began accreting the NHL interest to \$350 million. As of October 3, 2020, the accreted value of the NHL interest was \$313 million.

As part of the TFCF acquisition, the Company acquired TFCF's 30% interest in Hulu increasing our ownership in Hulu to 60%. Subsequent to the acquisition, Hulu redeemed Warner Media LLC's (WM) 10% interest in Hulu. The redemption was funded by the Company and Hulu's remaining noncontrolling interest holder, NBC Universal (NBCU). This resulted in the Company's and NBCU's interests in Hulu increasing to 67% and 33%, respectively.

On May 13, 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU's interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu to the Company, based on NBCU's equity ownership percentage of the greater of Hulu's then fair value or \$27.5 billion.

NBCU's interest will generally not be allocated its portion of Hulu's losses as the redeemable noncontrolling interest is required to be carried at a minimum value. The minimum value is equal to the fair value as of the May 13, 2019 agreement date accreted to the January 2024 estimated redemption value. At October 3, 2020, NBCU's interest in Hulu is recorded in the Company's financial statements at \$8.1 billion.

Adjustments to the carrying amount of redeemable noncontrolling interests increase or decrease income available to Company shareholders and are recorded in "Net income from continuing operations attributable to noncontrolling interests" on the Consolidated Statements of Operations.

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

TABLE OF CONTENTS

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2020	2019	2018
Weighted average number of common and common equivalent shares outstanding (basic)	1,808	1,656	1,499
Weighted average dilutive impact of Awards ⁽¹⁾	—	10	8
Weighted average number of common and common equivalent shares outstanding (diluted)	1,808	1,666	1,507
Awards excluded from diluted earnings per share	35	7	12

⁽¹⁾ Amounts exclude all potential common and common equivalent shares for periods when there is a net loss from continuing operations.

3 Revenues

The following table presents our revenues by segment and major source:

	2020					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 15,018	\$ —	\$ —	\$ 3,673	\$ (762)	\$ 17,929
Advertising	6,374	4	—	4,477	—	10,855
Subscription fees	—	—	—	7,645	—	7,645
Theme park admissions	—	4,038	—	—	—	4,038
Resort and vacations	—	3,402	—	—	—	3,402
Retail and wholesale sales of merchandise, food and beverage	—	4,952	—	—	—	4,952
TV/SVOD distribution licensing	6,489	—	4,557	745	(5,348)	6,443
Theatrical distribution licensing	—	—	2,134	—	—	2,134
Merchandise licensing	—	2,674	536	32	—	3,242
Home entertainment	—	—	1,528	84	—	1,612
Other	512	1,432	881	311	—	3,136
Total revenues	\$ 28,393	\$ 16,502	\$ 9,636	\$ 16,967	\$ (6,110)	\$ 65,388

	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 13,433	\$ —	\$ —	\$ 2,768	\$ (253)	\$ 15,948
Advertising	6,965	6	—	3,542	—	10,513
Subscription fees	—	—	—	2,115	—	2,115
Theme park admissions	—	7,540	—	—	—	7,540
Resort and vacations	—	6,266	—	—	—	6,266
Retail and wholesale sales of merchandise, food and beverage	—	7,716	—	—	—	7,716
TV/SVOD distribution licensing	4,046	—	2,920	482	(1,705)	5,743
Theatrical distribution licensing	—	—	4,726	—	—	4,726
Merchandise licensing	—	2,768	561	51	—	3,380
Home entertainment	—	—	1,734	97	—	1,831
Other	383	1,929	1,186	331	—	3,829
Total revenues	<u>\$ 24,827</u>	<u>\$ 26,225</u>	<u>\$ 11,127</u>	<u>\$ 9,386</u>	<u>\$ (1,958)</u>	<u>\$ 69,607</u>

TABLE OF CONTENTS

2018						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 11,907	\$ —	\$ —	\$ 1,372	\$ —	\$ 13,279
Advertising	6,586	7	—	1,311	—	7,904
Subscription fees	—	—	—	168	—	168
Theme park admissions	—	7,183	—	—	—	7,183
Resort and vacations	—	5,938	—	—	—	5,938
Retail and wholesale sales of merchandise, food and beverage	—	7,365	—	—	—	7,365
TV/SVOD distribution licensing	3,120	—	2,340	105	(668)	4,897
Theatrical distribution licensing	—	—	4,303	—	—	4,303
Merchandise licensing	—	2,566	556	70	—	3,192
Home entertainment	—	—	1,647	103	—	1,750
Other	309	1,642	1,219	285	—	3,455
Total revenues	<u>\$ 21,922</u>	<u>\$ 24,701</u>	<u>\$ 10,065</u>	<u>\$ 3,414</u>	<u>\$ (668)</u>	<u>\$ 59,434</u>

Amounts for fiscal 2018 reflect our historical accounting prior to the adoption of new revenue guidance.

The following table presents our revenues by segment and primary geographical markets:

2020						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Eliminations	Consolidated
Americas	\$ 26,566	\$ 12,524	\$ 5,671	\$ 12,498	\$ (5,267)	\$ 51,992
Europe	1,378	1,982	2,609	2,016	(652)	7,333
Asia Pacific	449	1,996	1,356	2,453	(191)	6,063
Total revenues	<u>\$ 28,393</u>	<u>\$ 16,502</u>	<u>\$ 9,636</u>	<u>\$ 16,967</u>	<u>\$ (6,110)</u>	<u>\$ 65,388</u>

2019						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Eliminations	Consolidated
Americas	\$ 23,767	\$ 19,868	\$ 6,050	\$ 5,759	\$ (1,639)	\$ 53,805
Europe	785	3,135	2,956	1,260	(130)	8,006
Asia Pacific	275	3,222	2,121	2,367	(189)	7,796
Total revenues	<u>\$ 24,827</u>	<u>\$ 26,225</u>	<u>\$ 11,127</u>	<u>\$ 9,386</u>	<u>\$ (1,958)</u>	<u>\$ 69,607</u>

Revenues recognized in the current and prior year from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/SVOD and theatrical distribution licensee sales on titles made available to the licensee in previous reporting periods. For fiscal 2020, \$1.4 billion was recognized related to performance obligations satisfied as of September 28, 2019. For fiscal 2019, \$1.2 billion was recognized related to performance obligations satisfied prior to September 30, 2018.

As of October 3, 2020, revenue for unsatisfied performance obligations expected to be recognized in the future is \$16 billion, which primarily relates to content to be delivered in the future under existing agreements with television station affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately \$7 billion in fiscal 2021, \$4 billion in fiscal 2022, \$2 billion in fiscal 2023 and \$3 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

Payment terms vary by the type and location of our customers and the products or services offered. For certain products or services and customer types, we require payment before the products or services are provided to the customer; in other cases, after appropriate credit evaluations, payment is due in arrears. Advertising contracts, which are generally short term, are billed monthly with payments generally due within 30 days. Payments due under affiliate arrangements are calculated monthly and are generally due within 30 days of month end. Home entertainment terms generally require payment within 60 to 90 days of availability date to the customer. Licensing payment terms vary by contract but are generally collected in advance or over the license term.

TABLE OF CONTENTS

When the timing of the Company's revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears is recognized as accounts receivable. Deferred revenues are recognized as (or when) the Company performs under the contract. Contract assets, accounts receivable and deferred revenues from contracts with customers are as follows:

	October 3, 2020	September 28, 2019
Contract assets	\$ 70	\$ 150
Accounts Receivable		
Current	11,340	12,755
Non-current	1,789	1,962
Allowance for credit losses	(460)	(375)
Deferred revenues		
Current	3,688	4,050
Non-current	513	619

Contract assets primarily relate to certain multi-season TV/SVOD licensing contracts. Activity for fiscal 2020 and 2019 related to contract assets was not material. The allowance for credit losses increased from \$375 million at September 28, 2019 to \$460 million at October 3, 2020 due to additional provisions recorded in fiscal 2020.

For fiscal 2020, the Company recognized revenues of \$3.4 billion, primarily related to theme park admissions and vacation packages, licensing advances and content sales included in the deferred revenue balance at September 28, 2019. For fiscal 2019, the Company recognized revenues of \$2.7 billion primarily related to theme park admissions and vacation packages and licensing and publishing advances included in the deferred revenue balance at September 30, 2018. As a result of COVID-19, the Company has allowed refunds of certain non-refundable deposits that were previously reported as deferred revenue, the most significant of which related to park admission tickets and deposits for vacation packages. Remaining deferred amounts related to these deposits are now classified in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet.

We evaluate our allowance for credit losses and estimate collectability of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual companies with which we do business. In times of domestic or global economic turmoil, including COVID-19, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods.

The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties. These receivables are discounted to present value at an appropriate discount rate at contract inception, and the related revenues are recognized at the discounted amount.

The Company estimates the allowance for credit losses related to receivables from the sale of film and television programs based upon a number of factors, including historical experience and the financial condition of individual companies with whom we do business. The balance of film and television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$1.0 billion as of October 3, 2020. The activity in the allowance for credit loss for fiscal 2020 was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation club properties based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$0.7 billion as of October 3, 2020. The activity in the allowance for credit loss for fiscal 2020 was not material.

4 *Acquisitions*

TFCF Corporation

On March 20, 2019, the Company acquired the outstanding capital stock of TFCF, a diversified global media and entertainment company. The acquisition purchase price totaled \$69.5 billion, of which the Company paid \$35.7 billion in cash and \$33.8 billion in Disney shares (307 million shares at a price of \$110.00 per share).

TABLE OF CONTENTS

We acquired TFCF to enhance the Company's position as a premier, global entertainment company by increasing our portfolio of creative assets and branded content to be monetized through our film and television studio, theme parks and direct-to-consumer offerings.

In connection with the acquisition, outstanding TFCF performance stock units and restricted stock units were either vested upon closing of the acquisition or replaced with new restricted stock units (which require additional service for vesting). The purchase price for TFCF includes \$361 million related to TFCF awards that were settled or replaced in connection with the acquisition, and for fiscal 2019, the Company recognized compensation expense of \$164 million related to awards that were accelerated to vest upon closing of the acquisition. Additionally, compensation expense of \$219 million related to awards that were replaced with new restricted stock units is being recognized over the post-acquisition service period of up to approximately two years.

As part of the TFCF acquisition, the Company acquired TFCF's 30% interest in Hulu increasing our ownership in Hulu to 60%. As a result, the Company began consolidating Hulu and recorded a one-time gain of \$4.8 billion (Hulu Gain) from remeasuring our initial 30% interest to its estimated fair value, which was determined based on a discounted cash flow analysis. On April 15, 2019, Hulu redeemed WM's 10% interest in Hulu for \$1.4 billion. The redemption was funded by the Company and NBCU. This resulted in the Company's and NBCU's interests in Hulu increasing to 67% and 33%, respectively.

NBCU's interest is classified as a redeemable noncontrolling interest on the Company's Consolidated Balance Sheet. See Note 2 for further discussion of NBCU's interest.

Upon closing of the TFCF acquisition, the Company exchanged new Disney notes for outstanding notes issued by 21st Century Fox America, Inc. with a principal balance of \$16.8 billion (see Note 9).

The Company is required to allocate the TFCF purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill.

In determining the fair value of assets acquired and liabilities assumed, the Company primarily used discounted cash flow analyses. Inputs to the discounted cash flow analyses and other aspects of the allocation of purchase price require judgment. The more significant inputs used in the discounted cash flow analyses and other areas of judgment include (i) future revenue growth or attrition rates (ii) projected margins (iii) discount rates used to present value future cash flows (iv) the amount of synergies expected from the acquisition (v) the economic useful life of assets and; (vi) the evaluation of historical tax positions of TFCF.

The following table summarizes our allocation of the purchase price (in billions)⁽¹⁾:

Cash and cash equivalents	\$	25.7
Receivables		5.1
Film and television costs		17.7
Investments		1.0
Intangible assets		17.9
Net assets held for sale		11.4
Accounts payable and other liabilities		(12.5)
Borrowings		(21.7)
Deferred income taxes ⁽²⁾		(5.7)
Other net liabilities acquired		(4.0)
Noncontrolling interests		(10.4)
Goodwill ⁽²⁾		49.8
Fair value of net assets acquired		74.2
Less: Disney's previously held 30% interest in Hulu		(4.7)
Total purchase price	\$	69.5

⁽¹⁾ Total may not equal the sum of the column due to rounding.

⁽²⁾ In the fourth quarter of fiscal 2020, we adjusted the amount of deferred tax liabilities by \$0.6 billion and recorded an offsetting adjustment to increase goodwill for this amount.

Intangible assets primarily consist of MVPD agreements, with a weighted average useful life of 9 years, and advertising networks and trade names, with a weighted average useful life of 16 years.

[TABLE OF CONTENTS](#)

The goodwill reflects the value to Disney of increasing our global portfolio of creative assets and branded content to be monetized through our DTC services, film and television studios and theme parks. The amount of goodwill that is deductible for tax purposes is not material.

The fair value of investments acquired in the acquisition primarily consist of a 30% interest in Tata Sky Limited and a 50% interest in Endemol Shine Group (sold in July 2020 for \$147 million).

The fair value of the assets acquired included current trade receivables of \$5.2 billion. The gross amount due under the contracts is \$5.5 billion.

For fiscal 2019, the Company incurred \$0.3 billion of acquisition-related expenses, of which \$0.2 billion is included in Selling, general, administrative and other, and \$0.1 billion related to financing fees is included in “Interest expense, net” in the Company’s Consolidated Statements of Operations.

The following table summarizes the revenues and net loss from continuing operations (including purchase accounting amortization and excluding restructuring and impairment charges and interest income and expense) of TFCF and Hulu included in the Company’s Consolidated Statements of Operations for fiscal 2020 and fiscal 2019. In addition, the table provides the impact of intercompany eliminations of transactions between the Company, TFCF and Hulu:

	Year Ended	
	October 3, 2020	September 28, 2019
TFCF (before intercompany eliminations):		
Revenues	\$ 12,999	\$ 7,228
Net loss from continuing operations	(245)	(958)
Hulu (before intercompany eliminations):		
Revenues	\$ 7,052	\$ 2,865
Net loss from continuing operations	(1,017)	(695)
Intercompany eliminations:		
Revenues	\$ (2,956)	\$ (1,205)
Net loss from continuing operations	(225)	(151)

The following pro forma summary presents consolidated information of the Company as if the acquisition of TFCF and consolidation of Hulu had occurred on October 1, 2017:

	2019	2018
Revenues	\$ 78,047	\$ 76,468
Net income	7,511	13,733
Net income attributable to Disney	7,206	13,923
Earnings per share attributable to Disney:		
Diluted	\$ 3.68	\$ 7.66
Basic	3.70	7.71

These pro forma results include adjustments for purposes of consolidating the historical financial results of TFCF and Hulu (net of adjustments to eliminate transactions between Disney and TFCF, Disney and Hulu and Hulu and TFCF). These pro formas for fiscal 2019 and 2018 include \$3.1 billion and \$3.4 billion (of which \$0.4 billion and \$0.8 billion related to the RSNs), respectively, to reflect the incremental amortization as a result of recording film and television programming and production costs and finite lived intangible assets at fair value. Interest expense of \$0.4 billion and \$0.5 billion is included to reflect the cost of borrowings to finance the TFCF acquisition for fiscal 2019 and 2018, respectively. The pro forma results also include \$0.9 billion and \$0.6 billion of net income

attributable to Disney for fiscal 2019 and 2018, respectively, related to TFCF businesses that have been or will be divested (see Note 1).

Additionally, fiscal 2018 pro forma results include the Hulu Gain, compensation expense of \$0.2 billion related to TFCF equity and cash awards that were accelerated to vest upon closing of the acquisition, and \$0.4 billion of acquisition-related expenses. These amounts were recognized by Disney and TFCF in fiscal 2019 but have been excluded from the fiscal 2019 pro forma results.

The pro forma results exclude a \$10.8 billion gain on sale and \$0.5 billion of equity earnings recorded by TFCF in 2019 and 2018, respectively, related to its 39% interest in Sky plc, which was sold by TFCF in October 2018.

[TABLE OF CONTENTS](#)

These pro forma results do not represent financial results that would have been realized had the acquisition actually occurred on October 1, 2017, nor are they intended to be a projection of future results.

Goodwill

The changes in the carrying amount of goodwill are as follows:

	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Total
Balance at Sept. 29, 2018	\$ 15,989	\$ 4,487	\$ 7,094	\$ 3,699	\$ 31,269
Acquisitions ⁽¹⁾	17,434	1,048	10,711	19,892	49,085
Dispositions	—	—	—	—	—
Other, net	—	—	(8)	(53)	(61)
Balance at Sept. 28, 2019	\$ 33,423	\$ 5,535	\$ 17,797	\$ 23,538	\$ 80,293
Acquisitions ⁽²⁾	568	15	98	51	732
Dispositions	—	—	—	—	—
Impairments (See Note 19)	—	—	—	(3,074)	(3,074)
Currency translation adjustments and other, net	—	—	(100)	(162)	(262)
Balance at Oct. 3, 2020	\$ 33,991	\$ 5,550	\$ 17,795	\$ 20,353	\$ 77,689

⁽¹⁾ Represents the acquisition of TFCF and consolidation of Hulu.

⁽²⁾ Reflects updates to allocation of purchase price for the acquisition of TFCF.

5 Other Income

Other income, net is as follows:

	2020	2019	2018
DraftKings gain	\$ 973	\$ —	\$ —
Gain on sale of an investment	65	—	—
Hulu gain (see Note 4)	—	4,794	—
Insurance recoveries related to legal matters	—	46	38
Charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition (see Note 9)	—	(511)	—
Gain on sale of real estate, property rights and other	—	28	563
Other income, net	\$ 1,038	\$ 4,357	\$ 601

The Company recognized a non-cash gain to adjust its investment in DraftKings, Inc. to fair value (DraftKings gain).

6 Investments

Investments consist of the following:

	October 3, 2020	September 28, 2019
Investments, equity basis	\$ 2,632	\$ 2,922
Investments, other	1,271	302
	<u>\$ 3,903</u>	<u>\$ 3,224</u>

Investments, Equity Basis

The Company's significant equity investments primarily consist of media investments and include A+E (50% ownership), CTV Specialty Television, Inc. (30% ownership), Endemol Shine Group (50% ownership until sale of the interest in July 2020), Seven TV (20% ownership) and Tata Sky Limited (30% ownership).

TABLE OF CONTENTS

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Results of Operations:</i>			
Revenues	\$ 7,849	\$ 9,405	\$ 9,085
Net income (loss)	1,187	133	(152)
	<u>October 3, 2020</u>	<u>September 28, 2019</u>	<u>September 29, 2018</u>
<i>Balance Sheet</i>			
Current assets	\$ 4,133	\$ 3,350	\$ 4,542
Non-current assets	6,776	9,666	9,998
	<u>\$ 10,909</u>	<u>\$ 13,016</u>	<u>\$ 14,540</u>
Current liabilities	\$ 2,224	\$ 2,182	\$ 3,197
Non-current liabilities	3,784	5,452	4,840
Redeemable preferred stock	—	—	1,362
Shareholders' equity	4,901	5,382	5,141
	<u>\$ 10,909</u>	<u>\$ 13,016</u>	<u>\$ 14,540</u>

As of October 3, 2020, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately \$0.9 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

The Company enters into transactions in the ordinary course of business with our equity investees, primarily related to the licensing of television and film programming. Revenues from these transactions were \$0.3 billion, \$0.5 billion and \$0.8 billion in fiscal 2020, 2019 and 2018, respectively. The Company defers a portion of its profits from transactions with investees and recognizes the deferred amounts as the investee expenses the programming cost. The portion that is deferred reflects our ownership interest in the investee.

Investments, Other

As of October 3, 2020, the Company has \$1.1 billion of securities recorded at fair value and \$215 million of net book value related to non-publicly traded securities without a readily determinable fair value. At September 28, 2019, the Company held \$290 million of non-publicly traded securities without a readily determinable fair value. Securities held at fair value at September 28, 2019 were not material.

In fiscal 2020, the Company recognized \$973 million of unrealized gains on securities recorded at fair value in "Other income, net" in the Consolidated Statements of Operations. Realized gains on securities in fiscal 2020 were not material. In fiscal 2019 and 2018, realized gains, unrealized gains and losses and impairments on securities were not material. All other gains and losses on securities are reported in "Interest expense, net" in the Consolidated Statements of Operations.

7 International Theme Parks

The Company has a 48% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (together, the Asia Theme Parks), which are both VIEs consolidated in the Company's financial statements. See Note 2 for the Company's policy on consolidating VIEs. In addition, the Company has 100% ownership of Disneyland Paris. The Asia Theme Parks and Disneyland Paris are collectively referred to as the International Theme Parks.

TABLE OF CONTENTS

The following table summarizes the carrying amounts of the Asia Theme Parks' assets and liabilities included in the Company's Consolidated Balance Sheets:

	October 3, 2020	September 28, 2019
Cash and cash equivalents	\$ 372	\$ 655
Other current assets	91	102
Total current assets	463	757
Parks, resorts and other property	6,720	6,608
Other assets	191	9
Total assets	\$ 7,374	\$ 7,374
Current liabilities	\$ 486	\$ 447
Borrowings - long-term	1,213	1,114
Other long-term liabilities	403	189
Total liabilities	\$ 2,102	\$ 1,750

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Consolidated Statement of Operations for fiscal 2020:

Revenues	\$ 1,805
Costs and expenses	(3,032)
Equity in the loss of investees	(19)

Asia Theme Parks' royalty and management fees of \$74 million for fiscal 2020 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's fiscal 2020 Consolidated Statement of Cash Flows were \$637 million used in operating activities, \$756 million used in investing activities and \$172 million generated from financing activities. Approximately a quarter of the cash flows used in operating activities, half of the cash flows used in investing activities and all of the cash flows generated from financing activities were for the Asia Theme Parks.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 52% and a 48% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of \$145 million and \$97 million, respectively. The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$271 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. There is no outstanding balance under the line of credit at October 3, 2020.

Hong Kong Disneyland is undergoing a multi-year expansion estimated to cost HK \$10.9 billion (\$1.4 billion). The Company and HKSAR have agreed to fund the expansion on an equal basis through equity contributions, which totaled \$188 million and \$160 million in fiscal 2020 and 2019, respectively. To date, the Company and HKSAR have funded a total of \$526 million.

HKSAR has the right to receive additional shares over time to the extent Hong Kong Disneyland Resort exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped

on both an annual and cumulative basis and could decrease the Company's equity interest by up to an additional 6 percentage points over a period no shorter than 12 years. Assuming HK \$10.9 billion is contributed in the expansion, the impact to the Company's equity interest would be limited to 4 percentage points.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling \$863 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. The Company has also provided Shanghai Disney Resort with a \$157

TABLE OF CONTENTS

million line of credit bearing interest at 8%. As of October 3, 2020, the total amount outstanding under the line of credit was \$65 million. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.6 billion yuan (approximately \$1.1 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. As of October 3, 2020, the total amount outstanding under the line of credit was \$0.6 billion yuan (approximately \$90 million).

8 *Produced and Acquired/Licensed Content Costs and Advances*

At the beginning of fiscal 2020, the Company adopted, on a prospective basis, new Financial Accounting Standards Board (FASB) guidance that updates the accounting for film and television content costs. Therefore, reporting periods beginning after September 29, 2019 are presented under the new guidance, while prior periods continue to be reported in accordance with our historical accounting. The new guidance does the following:

- Allows for the classification of acquired/licensed television content rights as long-term assets. Previously, we reported a portion of these rights in current assets. The Company has classified approximately \$3 billion of these rights as long-term in the Q1 2020 balance sheet. Advances for live programming rights made prior to the live event continue to be reported in current assets.
- Aligns the capitalization of production costs for episodic television content with the capitalization of production costs for theatrical content. Previously, theatrical content production costs could be fully capitalized while episodic television production costs were generally limited to the amount of contracted revenues. This change did not have a material impact on the Company's financial statements for fiscal year 2020.
- Introduces the concept of "predominant monetization strategy" to classify capitalized content costs for purposes of amortization and impairment as follows:
 - Individual - lifetime value is predominantly derived from third-party revenues that are directly attributable to the specific film or television title (e.g. theatrical revenues or sales to third-party television programmers).
 - Group - lifetime value is predominantly derived from third-party revenues that are attributable only to a bundle of titles (e.g. subscription revenue for a DTC service or affiliate fees for a cable television network).

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which we derive third-party revenues from use of the content. Imputed title by title intersegment license fees that may be necessary for other purposes are established as required by those purposes.

For these accounting purposes, we generally classify content that is initially intended for use on our DTC services or on our linear television networks as group assets. Content initially intended for theatrical release or for sale to third-party licensees, we generally classify as individual assets. Because the new accounting guidance is applied prospectively, the predominant monetization strategy for content released prior to the beginning of fiscal 2020 is determined based on the expected means of monetization over the remaining life of the content. Thus for example, film titles that were released theatrically and in home entertainment prior to fiscal year 2020 and are now distributed on Disney+ are generally considered group content.

The classification of content as individual or group only changes if there is a significant change to the title's monetization strategy relative to its initial assessment (e.g. content that was initially intended for license to a third-party is instead used on an owned DTC service).

Production costs for content that is predominantly monetized individually will continue to be amortized based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues). For

film productions, Ultimate Revenues include revenues from all sources, which may include intersegment license fees, that will be earned within ten years from the date of the initial release for theatrical films. For episodic television series, Ultimate Revenues include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. Participations and residuals are expensed over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues for each production.

Production costs that are predominantly monetized as a group are amortized based on projected usage (which may be, for example, derived from historical viewership patterns), typically resulting in an accelerated or straight-line amortization pattern. Participations and residuals are generally expensed in line with the pattern of usage.

Licensed rights to film and television content and other programs for broadcast on our linear networks or distribution on our DTC services are expensed on an accelerated or straight-line basis over their useful life or over the number of times the program is expected to be aired, as appropriate. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. If annual contractual

TABLE OF CONTENTS

payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season.

Acquired film and television libraries are generally amortized on a straight-line basis over 20 years from the date of acquisition. Acquired film and television libraries include content that was initially released three years prior to its acquisition, except it excludes the prior seasons of episodic television programming still in production at the date of its acquisition.

The costs of produced and licensed film and television content are subject to regular recoverability assessments. For content that is predominantly monetized individually, the unamortized costs are compared to the estimated fair value. The fair value is determined based on a discounted cash flow analysis of the cash flows directly attributable to the title. To the extent the unamortized costs exceed the fair value, an impairment charge is recorded for the excess. For content that is predominantly monetized as a group, the aggregate unamortized costs of the group are compared to the present value of the discounted cash flows using the lowest level for which identifiable cash flows are independent of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual titles based on the relative carrying value of each title in the group. If there are no plans to continue to use an individual film or television program that is part of a group, the unamortized cost of the individual title is written-off immediately. Licensed content is included as part of the group within which it is monetized for purposes of assessing recoverability.

Total capitalized produced, licensed and acquired library content by predominant monetization strategy is as follows:

	As of October 3, 2020		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced and acquired library content			
Theatrical film costs			
Released, less amortization	\$ 3,000	\$ 2,601	\$ 5,601
Completed, not released	522	210	732
In-process	3,322	259	3,581
In development or pre-production	262	16	278
	<u>\$ 7,106</u>	<u>\$ 3,086</u>	<u>10,192</u>
Television costs			
Released, less amortization	\$ 2,090	\$ 5,584	\$ 7,674
Completed, not released	33	510	543
In-process	263	1,831	2,094
In development or pre-production	6	87	93
	<u>\$ 2,392</u>	<u>\$ 8,012</u>	<u>10,404</u>
Licensed content - Programming rights and advances			6,597
Total produced, licensed and acquired library content			<u>\$ 27,193</u>
Current portion			\$ 2,171
Non-current portion			\$ 25,022

Amortization of produced, licensed and acquired library content is as follows:

	Year Ended October 3, 2020		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Theatrical film costs	\$ 1,711	\$ 962	\$ 2,673
Television costs	2,594	4,070	6,664
Total produced and acquired library content costs	<u>\$ 4,305</u>	<u>\$ 5,032</u>	9,337
Licensed content - Programming rights and advances			11,241
Total produced, licensed and acquired library content costs ⁽¹⁾			<u>\$ 20,578</u>

⁽¹⁾ Primarily included in “Costs of services” in the Consolidated Statements of Operations.

[TABLE OF CONTENTS](#)

Amortization of produced, licensed and acquired library content for the year ended September 28, 2019 was \$17.1 billion.

Total expected amortization by fiscal year of completed (released and not released) produced, licensed and acquired library content on the balance sheet as of October 3, 2020 is as follows:

	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Produced content			
Theatrical film costs			
Released			
2021	\$ 731	\$ 460	\$ 1,191
2022	347	387	734
2023	195	207	402
Completed, not released			
2021	488	8	496
Television costs			
Released			
2021	\$ 893	\$ 1,476	\$ 2,369
2022	460	892	1,352
2023	286	570	856
Completed, not released			
2021	4	182	186
Licensed content - Television programming rights and advances			
2021	\$ —	\$ 3,882	\$ 3,882
2022	—	1,338	1,338
2023	—	606	606

Approximately \$2.3 billion of accrued participations and residual liabilities will be paid in fiscal 2021.

At October 3, 2020, acquired film and television libraries have remaining unamortized costs of \$3.7 billion, which are generally being amortized straight-line over a weighted-average remaining period of approximately 18 years.

9 Borrowings

The Company's borrowings, including the impact of interest rate and cross-currency swaps, are summarized as follows:

	October 3, 2020					
	Oct. 3, 2020	Sept. 28, 2019	Stated Interest Rate ⁽¹⁾	Pay Floating Interest rate and Cross- Currency Swaps ⁽²⁾	Effective Interest Rate ⁽³⁾	Swap Maturities
Commercial paper	\$ 2,023	\$ 5,342	—	\$ —	0.96%	
U.S. dollar denominated notes ⁽⁴⁾	52,736	39,424	3.81%	13,875	3.08%	2021-2031
Foreign currency denominated debt	1,983	1,044	2.99%	1,920	2.47%	2027
Other ⁽⁵⁾	583	62		—		
	57,325	45,872	3.64%	15,795	2.98%	
Asia Theme Parks borrowings	1,303	1,114	2.11%	—	5.51%	
Total borrowings	58,628	46,986	3.57%	15,795	3.04%	
Less current portion	5,711	8,857	3.24%	750	2.76%	
Total long-term borrowings	\$ 52,917	\$ 38,129		\$ 15,045		

⁽¹⁾ The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are the rates in effect at October 3, 2020; these rates are not necessarily an indication of future interest rates.

⁽²⁾ Amounts represent notional values of interest rate and cross-currency swaps outstanding as of October 3, 2020.

⁽³⁾ The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance premiums, discounts and costs.

⁽⁴⁾ Includes net debt issuance discounts, costs and purchase accounting adjustments totaling a net premium of \$2.2 billion and a net premium of \$2.5 billion at October 3, 2020 and September 28, 2019, respectively.

⁽⁵⁾ Includes market value adjustments for debt with qualifying hedges, which increase borrowings by \$509 million and \$31 million at October 3, 2020 and September 28, 2019, respectively.

Commercial Paper

At October 3, 2020, the Company's bank facilities, which are with a syndicate of lenders, were as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2021	\$ 5,250	\$ —	\$ 5,250
Facility expiring April 2021	5,000	—	5,000
Facility expiring March 2023	4,000	—	4,000
Facility expiring March 2025	3,000	—	3,000
Total	\$ 17,250	\$ —	\$ 17,250

These bank facilities (other than the facility expiring April 2021) support commercial paper borrowings. All of the facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, or a fixed spread in the case of the facility expiring in April 2021, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard & Poor's. The spread above LIBOR can range from 0.18% to 1.80%. The bank facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default. The bank facilities contain only one financial covenant, which is interest coverage of three times earnings before interest, taxes, depreciation and amortization, including both intangible amortization and amortization of our film and television production and programming costs. On October 3, 2020 the financial covenant was met by a significant margin. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of October 3, 2020, the Company has \$988 million of outstanding letters of credit, of which none were issued under this facility.

TABLE OF CONTENTS

Commercial paper activity is as follows:

	Commercial paper with original maturities less than three months, net ⁽¹⁾	Commercial paper with original maturities greater than three months	Total
Balance at Sept. 29, 2018	\$ 50	\$ 955	\$ 1,005
Additions	1,881	6,889	8,770
Payments	—	(4,452)	(4,452)
Other Activity	3	16	19
Balance at Sept. 28, 2019	\$ 1,934	\$ 3,408	\$ 5,342
Additions	—	11,500	11,500
Payments	(1,961)	(12,893)	(14,854)
Other Activity	27	8	35
Balance at Oct. 3, 2020	\$ —	\$ 2,023	\$ 2,023

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

U.S. Dollar Denominated Notes

At October 3, 2020, the Company had \$52.7 billion of U.S. dollar denominated notes with maturities ranging from 1 to 76 years. The debt outstanding includes \$51.2 billion of fixed rate notes, which have stated interest rates that range from 1.65% to 9.50% and \$1.5 billion of floating rate notes that bear interest at U.S. LIBOR plus or minus a spread. At October 3, 2020, the effective rate on the floating rate notes was 0.61%.

On March 20, 2019, the Company assumed public debt with a fair value of \$21.2 billion (principal balance of \$17.4 billion) upon completion of the TFCF acquisition. On March 20, 2019, 96% (principal balance of \$16.8 billion) of the assumed debt was exchanged for senior notes of TWDC, with essentially the same terms. In September 2019, the Company repurchased previously exchanged debt with a carrying value of approximately \$3.5 billion (principal balance of approximately \$2.7 billion) and TFCF debt with a carrying value of approximately \$280 million (principal balance of approximately \$260 million) for \$4.3 billion and recognized a charge of \$511 million in "Other income, net" in the fiscal 2019 Consolidated Statement of Operations.

Foreign Currency Denominated Debt

In fiscal 2018, the Company issued Canadian \$1.3 billion (\$0.9 billion) of fixed rate senior notes, which bears interest at 2.76% and matures in October 2024. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable rate U.S. dollar denominated borrowing indexed to LIBOR.

On March 30, 2020, the Company issued Canadian \$1.3 billion (\$1.0 billion) of fixed rate senior notes, which bear interest at 3.057% and mature in March 2027. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable rate U.S. dollar denominated borrowing indexed to LIBOR.

RSN Debt

On March 20, 2019, as part of the TFCF acquisition, the Company assumed \$1.1 billion of debt related to one of the RSNs. In August 2019, the RSN was sold and the buyer has assumed the outstanding debt obligation.

Credit Facilities to Acquire TFCF

On March 20, 2019, the Company borrowed \$31.1 billion under two 364-day unsecured bridge loan facilities with a bank syndicate to fund the cash component of the TFCF acquisition. On March 21, 2019, the Company repaid

one bridge loan facility in the amount of \$16.1 billion, utilizing cash acquired in the TFCF transaction, and terminated the facility. The remaining 364-day unsecured bridge loan facility in the amount of \$15.0 billion was repaid and terminated during the fourth quarter of fiscal 2019 using the after-tax proceeds from the divestiture of the RSNs and proceeds from new borrowings.

Cruise Ship Credit Facilities

The Company has credit facilities to finance up to 80% of the contract price of three new cruise ships, which were originally scheduled to be delivered in 2021, 2022 and 2023. The impact of COVID-19 on the shipyard has resulted in a delay to the delivery of the cruise ships, which are now scheduled to be delivered in 2022, 2024 and 2025. As a result, the Company revised the availability periods for the credit facilities. Under the facilities, \$1.0 billion in financing is available beginning in October 2021, \$1.1 billion is available beginning in August 2023 and \$1.1 billion is available beginning in August 2024. Each tranche of financing may be utilized for a period of 18 months from the initial availability date. If utilized, the interest rates will

TABLE OF CONTENTS

be fixed at 3.48%, 3.80% and 3.74%, respectively, and the loan and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

Asia Theme Parks Borrowings

HKSAR provided Hong Kong Disneyland Resort with loans totaling HK\$0.8 billion (\$97 million). The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025.

Shendi has provided Shanghai Disney Resort with loans totaling 7.6 billion yuan (approximately \$1.1 billion) bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. As of October 3, 2020 the total amount outstanding under the line of credit was 0.6 billion yuan (approximately \$90 million).

Total borrowings, excluding market value adjustments and debt issuance premiums, discounts and costs, have the following scheduled maturities:

Fiscal Year:	Before Asia	Asia	Total
	Theme Parks Consolidation	Theme Parks	
2021	\$ 5,620	\$ 92	\$ 5,712
2022	3,858	—	3,858
2023	1,242	—	1,242
2024	2,869	—	2,869
2025	3,640	—	3,640
Thereafter	37,387	1,211	38,598
	<u>\$ 54,616</u>	<u>\$ 1,303</u>	<u>\$ 55,919</u>

The Company capitalizes interest on assets constructed for its parks and resorts and on certain film and television productions. In fiscal 2020, 2019 and 2018, total interest capitalized was \$157 million, \$222 million and \$125 million, respectively. Interest expense, net of capitalized interest, for fiscal 2020, 2019 and 2018 was \$1,647 million, \$1,246 million and \$682 million, respectively.

10 *Income Taxes*

U.S. Tax Cuts and Jobs Act

In December 2017, new federal income tax legislation, the “Tax Cuts and Jobs Act” (Tax Act), was signed into law. The most significant impacts on the Company are as follows:

- Effective January 1, 2018, the U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0%. Because of our fiscal year end, the Company’s fiscal 2018 statutory federal tax rate was 24.5% and is 21.0% in fiscal 2019 and thereafter.
- The Company remeasured its U.S. federal deferred tax assets and liabilities at the rate that the Company expects to be in effect when those deferred taxes will be realized (either 24.5% for fiscal 2018 or 21.0% thereafter) (Deferred Remeasurement). In fiscal 2018, the Company recognized a benefit of approximately \$2.2 billion from the Deferred Remeasurement.
- A one-time tax was due on certain accumulated foreign earnings (Deemed Repatriation Tax), payable over eight years beginning in fiscal 2018. The effective tax rate was generally 15.5% on the portion of the earnings held in cash and cash equivalents and 8% on the remainder. In fiscal 2018, the Company

recognized a charge for the Deemed Repatriation Tax of approximately \$0.4 billion. Generally there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.

- The Company will generally be eligible to claim an immediate deduction for investments in qualified fixed assets acquired and film and television productions commenced after September 27, 2017 and placed in service by the end of fiscal 2022. The immediate deduction phases out for assets placed in service in fiscal years 2023 through 2027.
- The domestic production activity deduction was eliminated in fiscal 2019 and thereafter.
- Starting in fiscal 2019, certain foreign derived income may be taxed in the U.S. at an effective rate of approximately 13% (which increases to approximately 16% in 2025) rather than the general statutory rate of 21%.

TABLE OF CONTENTS

- Starting in fiscal 2019, certain foreign earnings may be taxed at a minimum effective rate of approximately 13% (which increases to approximately 16% in 2025). The Company's policy is to expense the tax on these earnings in the period the earnings are taxable in the U.S.

Provision for Income Taxes and Deferred Tax Assets and Liabilities

	2020	2019	2018
Income (Loss) Before Income Taxes			
Domestic (including U.S. exports)	\$ 4,706	\$ 12,389	\$ 12,914
Foreign subsidiaries ⁽¹⁾	(6,449)	1,534	1,815
Total income (loss) from continuing operations	(1,743)	13,923	14,729
Income (loss) from discontinued operations	(42)	726	—
	<u>\$ (1,785)</u>	<u>\$ 14,649</u>	<u>\$ 14,729</u>

⁽¹⁾ Includes goodwill and intangible asset impairment in fiscal 2020.

Income Tax Expense (Benefit)

Current	2020	2019	2018
Federal	\$ 95	\$ 14	\$ 2,240
State	148	112	362
Foreign ⁽¹⁾	731	824	642
	<u>974</u>	<u>950</u>	<u>3,244</u>
Deferred			
Federal ⁽²⁾	279	1,829	(1,577)
State	(29)	259	(20)
Foreign ⁽³⁾	(525)	(12)	16
	<u>(275)</u>	<u>2,076</u>	<u>(1,581)</u>
Income tax expense from continuing operations	699	3,026	1,663
Income tax expense from discontinued operations	(10)	39	—
	<u>\$ 689</u>	<u>\$ 3,065</u>	<u>\$ 1,663</u>

⁽¹⁾ Includes foreign withholding taxes.

⁽²⁾ Includes the Tax Act Deferred Remeasurement in fiscal 2018.

⁽³⁾ Includes the tax effect of the intangible impairment in fiscal 2020.

TABLE OF CONTENTS

	October 3, 2020	September 28, 2019
Components of Deferred Tax (Assets) and Liabilities		
Deferred tax assets		
Net operating losses and tax credit carryforwards ⁽¹⁾	\$ (3,137)	\$ (2,181)
Accrued liabilities	(2,952)	(2,575)
Lease liabilities	(825)	(23)
Other	(652)	(540)
Total deferred tax assets	(7,566)	(5,319)
Deferred tax liabilities		
Depreciable, amortizable and other property	8,574	7,710
Investment in U.S. entities	1,956	2,258
Right-of-use assets	740	—
Licensing revenues	189	573
Investment in foreign entities	266	146
Other	390	212
Total deferred tax liabilities	12,115	10,899
Net deferred tax liability before valuation allowance	4,549	5,580
Valuation allowance	2,410	1,912
Net deferred tax liability	\$ 6,959	\$ 7,492

⁽¹⁾ As of October 3, 2020 and September 28, 2019, includes approximately \$1.4 billion and \$1.0 billion, respectively, of International Theme Park net operating losses and approximately \$0.7 billion and \$0.2 billion, respectively of foreign tax credits in the U.S. The International Theme Park net operating losses are primarily in France and, to a lesser extent, Hong Kong and China. Losses in France and Hong Kong have an indefinite carryforward period and losses in China have a five-year carryforward period. Foreign tax credits in the U.S. have a ten-year carryforward period.

The following table details the change in valuation allowance for fiscal 2020, 2019 and 2018 (in billions):

	Balance at Beginning of Period	Charges to Tax Expense	Changes Due to TFCF Acquisition	Balance at End of Period
Year ended October 3, 2020	\$ 1.9	\$ 0.6	\$ (0.1)	\$ 2.4
Year ended September 28, 2019	1.4	(0.1)	0.6	1.9
Year ended September 29, 2018	1.7	(0.3)	—	1.4

Reconciliation of the effective income tax rate to the federal rate for continuing operations

	2020	2019	2018
Federal income tax rate	21.0 %	21.0 %	24.5 %
State taxes, net of federal benefit	3.4	2.2	1.9
Foreign derived income	—	(1.1)	—
Domestic production activity deduction	—	—	(1.4)
Goodwill impairment	(41.1)	—	—
Earnings in jurisdictions taxed at rates different from the statutory U.S. federal rate	(13.2)	0.1	(1.1)
Legislative changes	4.4	(0.3)	(11.5)
Valuation allowance	(14.6)	0.1	0.4
Other, including tax reserves and related interest	—	(0.3)	(1.5)
	<u>(40.1 %)</u>	<u>21.7 %</u>	<u>11.3 %</u>

TABLE OF CONTENTS

Unrecognized tax benefits

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

	2020	2019	2018
Balance at the beginning of the year	\$ 2,952	\$ 648	\$ 832
Increases due to acquisitions	34	2,728	—
Increases for current year tax positions	26	84	64
Increases for prior year tax positions	134	143	48
Decreases in prior year tax positions	(99)	(61)	(135)
Settlements with taxing authorities	(307)	(590)	(161)
Balance at the end of the year	<u>\$ 2,740</u>	<u>\$ 2,952</u>	<u>\$ 648</u>

The fiscal year-end 2020, 2019 and 2018 balances include \$2.1 billion, \$2.4 billion and \$0.5 billion, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

At October 3, 2020, September 28, 2019 and September 29, 2018, the Company had \$1.1 billion, \$1.0 billion and \$0.2 billion, respectively, in accrued interest and penalties related to unrecognized tax benefits. During fiscal 2020, 2019 and 2018, the Company recorded additional interest and penalties of \$211 million, \$802 million (of which the substantial majority is due to the acquisition of TFCF) and \$47 million, respectively, and recorded reductions in accrued interest and penalties of \$101 million, \$96 million and \$100 million, respectively, as a result of audit settlements and other prior-year adjustments. The Company's policy is to report interest and penalties as a component of income tax expense.

The Company is no longer subject to U.S. federal examination for years prior to 2017 for The Walt Disney Company and for years prior to 2014 for TFCF. The Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2008.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of certain tax matters, which could include payments on those tax matters. These resolutions and payments could reduce our unrecognized tax benefits by \$334 million.

Intra-Entity Transfers of Assets Other Than Inventory

At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance that requires recognition of the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs instead of when the asset is ultimately sold to an outside party. In the first quarter of fiscal 2019, the Company recorded a \$0.2 billion deferred tax asset with an offsetting increase to retained earnings.

Other

In fiscal 2020, 2019 and 2018, the Company recognized income tax benefits of \$64 million, \$41 million and \$52 million, respectively for the excess of equity-based compensation deductions over amounts recorded based on the grant date fair value.

11 Pension and Other Benefit Programs

The Company maintains pension and postretirement medical benefit plans covering certain of its employees not covered by union or industry-wide plans. The Company has defined benefit pension plans that cover employees hired prior to January 1, 2012. For employees hired after this date, the Company has a defined contribution plan. Benefits under these pension plans are generally based on years of service and/or compensation and generally require 3 years

of vesting service. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits.

In addition, the Company has a defined benefit plan for TFCF employees for which benefits stopped accruing in June 2017.

Defined Benefit Plans

The Company measures the actuarial value of its benefit obligations and plan assets for its defined benefit pension and postretirement medical benefit plans at September 30 and adjusts for any plan contributions or significant events between September 30 and our fiscal year end.

In connection with our fiscal 2019 acquisition of TFCF, we assumed net pension and postretirement obligations of \$237 million (\$824 million in obligations and \$587 million in plan assets).

TABLE OF CONTENTS

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the defined benefit pension and postretirement medical benefit plans:

	Pension Plans		Postretirement Medical Plans	
	October 3, 2020	September 28, 2019	October 3, 2020	September 28, 2019
Projected benefit obligations				
Beginning obligations	\$ (18,531)	\$ (14,500)	\$ (1,946)	\$ (1,609)
Acquisition of TFCF	—	(759)	—	(65)
Service cost	(410)	(345)	(10)	(8)
Interest cost	(527)	(592)	(56)	(67)
Actuarial loss ⁽¹⁾	(1,958)	(2,923)	(127)	(234)
Plan amendments and other	1	32	(12)	(11)
Benefits paid	662	534	47	48
Curtailments	3	22	—	—
Ending obligations	<u>\$ (20,760)</u>	<u>\$ (18,531)</u>	<u>\$ (2,104)</u>	<u>\$ (1,946)</u>
Fair value of plans' assets				
Beginning fair value	\$ 14,878	\$ 12,728	\$ 762	\$ 731
Acquisition of TFCF	—	587	—	—
Actual return on plan assets	770	690	38	33
Contributions	664	1,461	9	37
Benefits paid	(662)	(534)	(47)	(48)
Expenses and other	(52)	(54)	9	9
Ending fair value	<u>\$ 15,598</u>	<u>\$ 14,878</u>	<u>\$ 771</u>	<u>\$ 762</u>
Underfunded status of the plans	<u>\$ (5,162)</u>	<u>\$ (3,653)</u>	<u>\$ (1,333)</u>	<u>\$ (1,184)</u>
Amounts recognized in the balance sheet				
Non-current assets	\$ 20	\$ 5	\$ —	\$ —
Current liabilities	(59)	(54)	(5)	(5)
Non-current liabilities	(5,123)	(3,604)	(1,328)	(1,179)
	<u>\$ (5,162)</u>	<u>\$ (3,653)</u>	<u>\$ (1,333)</u>	<u>\$ (1,184)</u>

⁽¹⁾ The actuarial loss for both fiscal 2020 and 2019 was primarily due to a reduction in the discount rate from the rate that was used in the preceding fiscal year.

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2020	2019	2018	2020	2019	2018
Service cost	\$ 410	\$ 345	\$ 350	\$ 10	\$ 8	\$ 10
Other costs (benefits):						
Interest cost	527	592	489	56	67	60
Expected return on plan assets	(1,084)	(978)	(901)	(57)	(56)	(53)
Amortization of prior-year service costs	13	13	13	—	—	—
Recognized net actuarial loss	544	260	348	14	—	14
Total other costs (benefits)	—	(113)	(51)	13	11	21
Net periodic benefit cost	\$ 410	\$ 232	\$ 299	\$ 23	\$ 19	\$ 31

In fiscal 2019, the Company adopted new FASB accounting guidance on the presentation of the components of net periodic pension and postretirement benefit cost (“net periodic benefit cost”). This guidance requires the Company to present the service cost component of net periodic benefit cost in the same line items on the statement of operations as other compensation costs of the related employees (i.e. “Costs and expenses” in the Consolidated Statements of Operations). All of the other components of net periodic benefit cost (“other costs/benefits”) are presented as a component of “Interest expense,

TABLE OF CONTENTS

net” in the Consolidated Statements of Operations. The other costs/benefits in fiscal 2018 were not material and are reported in “Costs and expenses”.

In fiscal 2021, we expect pension and postretirement medical costs to increase by \$143 million to \$576 million due to the impacts of updated mortality assumptions and a lower discount rate.

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2020	2019	2018	2020	2019	2018
Discount rate used to determine the fiscal year-end benefit obligation	2.82 %	3.22 %	4.31 %	2.80 %	3.22 %	4.31 %
Discount rate used to determine the interest cost component of net periodic benefit cost	2.94 %	4.09 %	3.46 %	2.95 %	4.10 %	3.49 %
Rate of return on plan assets	7.00 %	7.25 %	7.50 %	7.00 %	7.25 %	7.50 %
Weighted average rate of compensation increase to determine the fiscal year-end benefit obligation	3.20 %	3.20 %	3.20 %	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	7.00 %	7.00 %	7.00 %
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	4.25 %	4.25 %	4.25 %
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2034	2033	2032

AOCI, before tax, as of October 3, 2020 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Prior service cost	\$ 27	\$ —	\$ 27
Net actuarial loss	8,915	429	9,344
Total amounts included in AOCI	8,942	429	9,371
Prepaid (accrued) pension cost	(3,780)	904	(2,876)
Net balance sheet liability	\$ 5,162	\$ 1,333	\$ 6,495

Plan Funded Status

The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$19.5 billion, \$18.1 billion and \$14.4 billion, respectively, as of October 3, 2020 and \$17.5 billion, \$16.1 billion and \$13.9 billion, respectively, as of September 28, 2019.

For pension plans with projected benefit obligations in excess of plan assets, the projected benefit obligation and aggregate fair value of plan assets were \$19.8 billion and \$14.6 billion, respectively, as of October 3, 2020 and \$18.5 billion and \$14.8 billion respectively, as of September 28, 2019.

The Company's total accumulated pension benefit obligations at October 3, 2020 and September 28, 2019 were \$19.1 billion and \$17.0 billion, respectively. Approximately 98% was vested as of both October 3, 2020 and September 28, 2019.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$2.1 billion and \$0.8 billion, respectively, at October 3, 2020 and \$1.9 billion and \$0.8 billion, respectively, at September 28, 2019.

Plan Assets

A significant portion of the assets of the Company's defined benefit plans are managed in third-party master trusts. The investment policy and allocation of the assets in the master trusts were approved by the Company's Investment and

TABLE OF CONTENTS

Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments	30%	60%
Fixed income investments	20%	40%
Alternative investments	10%	30%
Cash & money market funds	—%	10%

The primary investment objective for the assets within the master trusts is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Investments are monitored to assess whether returns are commensurate with risks taken.

The long-term asset allocation policy for the master trusts was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trusts are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers pursuant to investment management agreements that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts.

Fair Value Measurements of Plan Assets

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories of the fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Investments that are valued using the net asset value (NAV) (or its equivalent) practical expedient are excluded from the fair value hierarchy disclosure.

The following is a description of the valuation methodologies used for assets reported at fair value. The methodologies used at October 3, 2020 and September 28, 2019 are the same.

Level 1 investments are valued based on reported market prices on the last trading day of the fiscal year. Investments in common and preferred stocks are valued based on an exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in government and federal agency bonds, corporate bonds and mortgage-backed securities (MBS) and asset-backed securities are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates or foreign currency exchange rates.

TABLE OF CONTENTS

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of October 3, 2020				Plan Asset Mix
	Level 1	Level 2	Total		
Cash	\$ 207	\$ —	\$ 207		1%
Common and preferred stocks ⁽¹⁾	3,308	—	3,308		20%
Mutual funds	1,154	—	1,154		7%
Government and federal agency bonds, notes and MBS	2,326	354	2,680		16%
Corporate bonds	—	935	935		6%
Other mortgage- and asset-backed securities	—	106	106		1%
Derivatives and other, net	(2)	7	5		—%
Total investments in the fair value hierarchy	<u>\$ 6,993</u>	<u>\$ 1,402</u>	<u>\$ 8,395</u>		
Assets valued at NAV as a practical expedient:					
Common collective funds			3,993		24%
Alternative investments			3,375		21%
Money market funds and other			606		4%
Total investments at fair value			<u>\$ 16,369</u>		100%

Description	As of September 28, 2019				Plan Asset Mix
	Level 1	Level 2	Total		
Cash	\$ 197	\$ —	\$ 197		1%
Common and preferred stocks ⁽¹⁾	3,468	—	3,468		22%
Mutual funds	1,140	—	1,140		7%
Government and federal agency bonds, notes and MBS	2,042	404	2,446		16%
Corporate bonds	—	580	580		4%
Other mortgage- and asset-backed securities	—	127	127		1%
Derivatives and other, net	(6)	(21)	(27)		—%
Total investments in the fair value hierarchy	<u>\$ 6,841</u>	<u>\$ 1,090</u>	<u>\$ 7,931</u>		
Assets valued at NAV as a practical expedient:					
Common collective funds			3,691		24%
Alternative investments			2,725		17%
Money market funds and other			1,293		8%
Total investments at fair value			<u>\$ 15,640</u>		100%

- ⁽¹⁾ Includes 2.9 million shares of Company common stock valued at \$355 million (2% of total plan assets) and 2.9 million shares valued at \$373 million (2% of total plan assets) at October 3, 2020 and September 28, 2019, respectively.

Uncalled Capital Commitments

Alternative investments held by the master trust include interests in funds that have rights to make capital calls to the investors. In such cases, the master trust would be contractually obligated to make a cash contribution at the time of the capital call. At October 3, 2020, the total committed capital still uncalled and unpaid was \$1.0 billion.

Plan Contributions

During fiscal 2020, the Company made \$673 million of contributions to its pension and postretirement medical plans. The Company currently expects to make approximately \$500 million to \$600 million in pension and postretirement medical plan contributions in fiscal 2021. Final minimum funding requirements for fiscal 2021 will be determined based on a January 1, 2021 funding actuarial valuation, which is expected to be received during the fourth quarter of fiscal 2021.

[TABLE OF CONTENTS](#)

Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans ⁽¹⁾
2021	\$ 678	\$ 59
2022	661	63
2023	691	67
2024	729	72
2025	771	76
2026 – 2030	4,433	446

⁽¹⁾ Estimated future benefit payments are net of expected Medicare subsidy receipts of \$85 million.

Assumptions

Assumptions, such as discount rates, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

Discount Rate — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. The Company measures service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows.

Long-term rate of return on plan assets — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	6 % to 10 %
Debt Securities	2 % to 4 %
Alternative Investments	6 % to 11 %

Healthcare cost trend rate — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. The 2020 actuarial valuation assumed a 7.00% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over fourteen years until reaching 4.25%.

Sensitivity — A one percentage point (ppt) change in the discount rate and expected long-term rate of return on plan assets would have the following effects on the projected benefit obligations for pension and postretirement medical plans as of October 3, 2020 and on cost for fiscal 2021:

	Discount Rate		Expected Long-Term Rate of Return On Assets
Increase (decrease)	Benefit Expense	Projected Benefit Obligations	Benefit Expense
1 ppt decrease	\$ 351	\$ 3,988	\$ 164
1 ppt increase	(303)	(3,380)	(164)

Multiemployer Benefit Plans

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

TABLE OF CONTENTS

- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.
- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our contributions to multiemployer pension and health and welfare benefit plans:

	2020	2019	2018
Pension plans	\$ 221	\$ 189	\$ 144
Health & welfare plans	217	218	172
Total contributions	<u>\$ 438</u>	<u>\$ 407</u>	<u>\$ 316</u>

Defined Contribution Plans

The Company has defined contribution retirement plans for domestic employees who began service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 3% to 9% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. The Company has savings and investment plans that allow eligible employees to contribute up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's contribution up to plan limits. In fiscal 2020, 2019 and 2018, the costs of these defined contribution plans were \$217 million, \$208 million and \$162 million, respectively. The Company also has defined contribution retirement plans for employees in our international operations. The costs of these defined contribution plans were \$25 million, \$25 million and \$21 million in fiscal years 2020, 2019 and 2018, respectively.

12 *Equity*

The Company paid the following dividends in fiscal 2020, 2019 and 2018:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Second Quarter of Fiscal 2020	Second Half 2019
\$0.88	\$1.6 billion	Fourth Quarter of Fiscal 2019	First Half 2019
\$0.88	\$1.3 billion	Second Quarter of Fiscal 2019	Second Half 2018
\$0.84	\$1.2 billion	Fourth Quarter of Fiscal 2018	First Half 2018
\$0.84	\$1.3 billion	Second Quarter of Fiscal 2018	Second Half 2017

The Board of Directors did not declare a dividend with respect to fiscal year 2020 operations.

As a result of the acquisition of TFCF, TWDC became the parent entity of both TFCF and TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company and referred to herein as Legacy Disney). TWDC issued 307 million shares of common stock to acquire TFCF (see Note 4), and all the outstanding shares of Legacy Disney (other than shares of Legacy Disney held in treasury that were not held on behalf of a third party) were converted on a one-for-one basis into new publicly traded shares of TWDC.

In March 2019, Legacy Disney terminated its share repurchase program, and 1.4 billion treasury shares were canceled, which resulted in a decrease to common stock and retained earnings of \$17.6 billion and \$49.1 billion, respectively. The cost of treasury shares canceled was allocated to common stock based on the ratio of treasury

shares to total shares outstanding, with the excess allocated to retained earnings. At October 3, 2020, TWDC held 19 million treasury shares.

TWDC's authorized share capital consists of 4.6 billion common shares at \$0.01 par value and 100 million preferred shares at \$0.01 par value, both of which represent the same authorized capital structure in effect prior to the completion of the TFCF acquisition and as of September 29, 2018. As of September 29, 2018, Legacy Disney had 40 thousand preferred series B shares authorized with \$0.01 par value, which were eliminated in fiscal 2019.

In fiscal 2018, the Company repurchased 35 million shares of its common stock for \$3.6 billion.

[TABLE OF CONTENTS](#)

The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

	Market Value Adjustments ⁽¹⁾	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, before tax</u>				
Balance at September 30, 2017	\$ (93)	\$ (4,906)	\$ (523)	\$ (5,522)
Unrealized gains (losses) arising during the period	259	203	(204)	258
Reclassifications of net (gains) losses to net income	35	380	—	415
Balance at September 29, 2018	\$ 201	\$ (4,323)	\$ (727)	\$ (4,849)
Unrealized gains (losses) arising during the period	136	(3,457)	(359)	(3,680)
Reclassifications of net (gains) losses to net income	(185)	278	—	93
Reclassifications to retained earnings	(23)	—	—	(23)
Balance at September 28, 2019	\$ 129	\$ (7,502)	\$ (1,086)	\$ (8,459)
Unrealized gains (losses) arising during the period	(57)	(2,468)	(2)	(2,527)
Reclassifications of net (gains) losses to net income	(263)	547	—	284
Balance at October 3, 2020	\$ (191)	\$ (9,423)	\$ (1,088)	\$ (10,702)

	Market Value Adjustments ⁽¹⁾	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>Tax on AOCI</u>				
Balance at September 30, 2017	\$ 39	\$ 1,839	\$ 116	\$ 1,994
Unrealized gains (losses) arising during the period	(68)	(47)	(13)	(128)
Reclassifications of net (gains) losses to net income	(12)	(102)	—	(114)
Balance at September 29, 2018	\$ (41)	\$ 1,690	\$ 103	\$ 1,752
Unrealized gains (losses) arising during the period	(31)	797	28	794
Reclassifications of net (gains) losses to net income	43	(64)	—	(21)
Reclassifications to retained earnings ⁽²⁾	—	(667)	(16)	(683)
Balance at September 28, 2019	\$ (29)	\$ 1,756	\$ 115	\$ 1,842
Unrealized gains (losses) arising during the period	8	572	24	604
Reclassifications of net (gains) losses to net income	61	(127)	—	(66)
Balance at October 3, 2020	\$ 40	\$ 2,201	\$ 139	\$ 2,380

[TABLE OF CONTENTS](#)

	Market Value Adjustments ⁽¹⁾	Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
<u>AOCI, after tax</u>				
Balance at September 30, 2017	\$ (54)	\$ (3,067)	\$ (407)	\$ (3,528)
Unrealized gains (losses) arising during the period	191	156	(217)	130
Reclassifications of net (gains) losses to net income	23	278	—	301
Balance at September 29, 2018	\$ 160	\$ (2,633)	\$ (624)	\$ (3,097)
Unrealized gains (losses) arising during the period	105	(2,660)	(331)	(2,886)
Reclassifications of net (gains) losses to net income	(142)	214	—	72
Reclassifications to retained earnings ⁽²⁾	(23)	(667)	(16)	(706)
Balance at September 28, 2019	\$ 100	\$ (5,746)	\$ (971)	\$ (6,617)
Unrealized gains (losses) arising during the period	(49)	(1,896)	22	(1,923)
Reclassifications of net (gains) losses to net income	(202)	420	—	218
Balance at October 3, 2020	\$ (151)	\$ (7,222)	\$ (949)	\$ (8,322)

⁽¹⁾ Primarily reflects market value adjustments for cash flow hedges.

⁽²⁾ At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and reclassified \$691 million from AOCI to retained earnings. In addition, at the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Recognition and Measurement of Financial Assets and Liabilities, and reclassified \$24 million (\$15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

Details about AOCI components reclassified to net income are as follows:

Gains (losses) in net income:	Affected line item in the Consolidated Statements of Operations:	2020	2019	2018
Market value adjustments, primarily cash flow hedges	Primarily revenue	\$ 263	\$ 185	\$ (35)
Estimated tax	Income taxes	(61)	(43)	12
		<u>202</u>	<u>142</u>	<u>(23)</u>
Pension and postretirement medical expense	Cost and expenses	—	—	(380)
	Interest expense, net	(547)	(278)	—
Estimated tax	Income taxes	127	64	102
		<u>(420)</u>	<u>(214)</u>	<u>(278)</u>
Total reclassifications for the period		<u>\$ (218)</u>	<u>\$ (72)</u>	<u>\$ (301)</u>

13 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market or performance conditions (Performance RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the market price at the date of grant and become exercisable ratably over a four-year period from the grant date. The contractual terms for our outstanding stock option grants are 10 years. At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. RSUs generally vest ratably over four years and Performance RSUs generally fully vest after three years, subject to achieving market or performance conditions. Equity-based award grants

TABLE OF CONTENTS

generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

Each share granted subject to a stock option award reduces the number of shares available under the Company's stock incentive plans by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. As of October 3, 2020, the maximum number of shares available for issuance under the Company's stock incentive plans (assuming all the awards are in the form of stock options) was approximately 160 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 77 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the first half of the year, the Company awards stock options and restricted stock units to a broad-based group of management, technology and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being canceled due to the termination of the option holder) in computing the value of the option.

The weighted average assumptions used in the option-valuation model were as follows:

	2020	2019	2018
Risk-free interest rate	1.8%	2.8%	2.4%
Expected volatility	23%	23%	23%
Dividend yield	1.36%	1.61%	1.57%
Termination rate	5.8%	4.8%	4.8%
Exercise multiple	1.83	1.75	1.75

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively. The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market or performance conditions will be met.

Compensation expense related to stock options and RSUs is as follows:

	2020	2019	2018
Stock option	\$ 101	\$ 84	\$ 87
RSUs ⁽¹⁾	424	627	306
Total equity-based compensation expense ⁽²⁾	525	711	393
Tax impact	(118)	(161)	(99)
Reduction in net income	\$ 407	\$ 550	\$ 294
Equity-based compensation expense capitalized during the period	\$ 87	\$ 81	\$ 70

- ⁽¹⁾ Fiscal 2019 includes a \$164 million charge for acceleration of TFCF performance RSUs converted to Company RSUs in connection with the TFCF acquisition (see Note 4).
- ⁽²⁾ Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

[TABLE OF CONTENTS](#)

The following table summarizes information about stock option transactions in fiscal 2020 (shares in millions):

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	23	\$ 90.05
Awards forfeited	(1)	127.94
Awards granted	4	147.04
Awards exercised	(3)	80.17
Outstanding at end of year	23	\$ 101.41
Exercisable at end of year	13	\$ 84.50

The following tables summarize information about stock options vested and expected to vest at October 3, 2020 (shares in millions):

Vested			
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0 — \$ 50	2	\$ 40.54	1.2
\$ 51 — \$ 80	3	61.03	2.7
\$ 81 — \$ 110	4	98.65	5.3
\$ 111 — \$ 140	4	112.32	6.5
	13		

Expected to Vest			
Range of Exercise Prices	Number of Options ⁽¹⁾	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 100 — \$ 125	5	\$ 110.06	7.6
\$ 126 — \$ 150	4	147.84	9.2
	9		

⁽¹⁾ Number of options expected to vest is total unvested options less estimated forfeitures.

The following table summarizes information about RSU transactions in fiscal 2020 (shares in millions):

	Units	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	12	\$ 110.84
Granted ⁽¹⁾	6	142.77
Vested	(5)	108.13
Forfeited	(1)	117.25
Unvested at end of year ⁽²⁾⁽³⁾	12	\$ 128.56

⁽¹⁾ Includes 0.2 million Performance RSUs.

⁽²⁾ Includes 1.4 million Performance RSUs.

⁽³⁾ Excludes Performance RSUs issued in September 2018 and December 2019, for which vesting is subject to service conditions and the number of units vesting is subject to the discretion of the CEO. At October 3, 2020, the maximum number of these Performance RSUs that could be issued upon vesting is 0.1 million.

The weighted average grant-date fair values of options granted during fiscal 2020, 2019 and 2018 were \$36.19, \$28.76 and \$28.01, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during fiscal 2020, 2019 and 2018 totaled \$989 million, \$646 million and \$585 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at October 3, 2020 were \$514 million and \$63 million, respectively.

TABLE OF CONTENTS

As of October 3, 2020, unrecognized compensation cost related to unvested stock options and RSUs was \$140 million and \$850 million, respectively. That cost is expected to be recognized over a weighted-average period of 1.6 years for stock options and 1.9 years for RSUs.

Cash received from option exercises for fiscal 2020, 2019 and 2018 was \$305 million, \$318 million and \$210 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSUs vesting for fiscal 2020, 2019 and 2018 was approximately \$220 million, \$145 million and \$160 million, respectively.

14 *Detail of Certain Balance Sheet Accounts*

	October 3, 2020	September 28, 2019
<i>Current receivables</i>		
Accounts receivable	\$ 11,299	\$ 12,930
Other	1,835	2,894
Allowance for doubtful accounts	(426)	(343)
	<u>\$ 12,708</u>	<u>\$ 15,481</u>
<i>Parks, resorts and other property</i>		
Attractions, buildings and improvements	\$ 31,279	\$ 29,509
Furniture, fixtures and equipment	22,976	21,265
Land improvements	6,828	6,649
Leasehold improvements	1,028	1,166
	<u>62,111</u>	<u>58,589</u>
Accumulated depreciation	(35,517)	(32,415)
Projects in progress	4,449	4,264
Land	1,035	1,165
	<u>\$ 32,078</u>	<u>\$ 31,603</u>
<i>Intangible assets</i>		
Character/franchise intangibles, copyrights and trademarks	\$ 10,572	\$ 10,577
MVPD agreements	8,098	9,900
Other amortizable intangible assets	4,309	4,291
Accumulated amortization	(5,598)	(3,393)
Net amortizable intangible assets	<u>17,381</u>	<u>21,375</u>
Indefinite lived intangible assets	1,792	1,840
	<u>\$ 19,173</u>	<u>\$ 23,215</u>

Accounts payable and other accrued liabilities

Accounts payable	\$ 12,663	\$ 13,778
Payroll and employee benefits	2,925	3,010
Other	1,213	974
	<u>\$ 16,801</u>	<u>\$ 17,762</u>

Other long-term liabilities

Pension and postretirement medical plan liabilities	\$ 6,451	\$ 4,783
Other	10,753	8,977
	<u>\$ 17,204</u>	<u>\$ 13,760</u>

15 *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for broadcast rights for sports, films and other programming, totaling approximately \$46.4 billion, including approximately \$3.1 billion for available programming as of October 3, 2020, and approximately \$40.6 billion related to sports programming rights, primarily for college football (including bowl games and the College Football Playoff) and basketball, NBA, NFL, UFC, MLB, Cricket, US Open Tennis, Top Rank Boxing, the PGA Championship and various soccer rights.

The Company has entered into operating leases for various real estate and equipment needs, including office space for general and administrative purposes, production facilities, retail outlets and distribution centers for consumer products, land and content broadcast equipment. In addition, the Company has non-cancelable financing leases, primarily for land and broadcast equipment. See Note 16 for discussion of the Company's operating and financing lease commitments.

The Company also has contractual commitments for the construction of three new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

Contractual commitments for broadcast programming rights and other commitments including cruise ships and creative talent totaled \$58.8 billion at October 3, 2020, payable as follows:

Fiscal Year:	Broadcast Programming	Other	Total
2021	\$ 12,043	\$ 3,051	\$ 15,094
2022	8,632	2,291	10,923
2023	6,030	988	7,018
2024	4,972	1,263	6,235
2025	5,058	1,060	6,118
Thereafter	9,643	3,737	13,380
	<u>\$ 46,378</u>	<u>\$ 12,390</u>	<u>\$ 58,768</u>

Certain broadcast programming rights have payments that are variable based primarily on revenues and are not included in the table above.

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds, which mature in 2037. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of October 3, 2020, the remaining debt service obligation guaranteed by the Company was \$232 million. To the extent that tax revenues exceed the debt service payments subsequent to the Company funding a shortfall, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

16 *Leases*

At the beginning of fiscal 2020, the Company adopted new lease accounting guidance issued by the FASB. The most significant change requires lessees to record the present value of operating lease payments as right-of-use assets and lease liabilities on the balance sheet. The new guidance continues to require lessees to classify leases between operating and finance leases (formerly “capital leases”).

We adopted the new guidance using the modified retrospective method at the beginning of fiscal year 2020. Reporting periods beginning after September 29, 2019 are presented under the new guidance, while prior periods continue to be reported

TABLE OF CONTENTS

in accordance with our historical accounting. The Company adopted the new guidance by applying practical expedients that permit us not to reassess our prior conclusions concerning whether:

- Any of our existing arrangements contain a lease;
- Our existing lease arrangements are operating or finance leases;
- To capitalize indirect costs; and
- Existing land easements are leases.

The adoption of the new guidance resulted in the recognition of approximately \$3.7 billion of right-of-use assets and lease liabilities, which were measured by the present value of the remaining minimum lease payments. In accordance with the guidance, the Company elected to exclude from the measurement of the right-of-use asset and lease liability leases with a remaining term of one year (“Short-term leases”).

The present value of the lease payments was calculated using the Company’s incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

At adoption, in the Consolidated Balance Sheet we also reclassified:

- Deferred rent of approximately \$0.3 billion for operating leases at the end of fiscal year 2019 from “Accounts payable and other accrued liabilities” (current portion) and “Other long-term liabilities” (non-current portion) to “Other assets” (right-of-use asset);
- A deferred sale leaseback gain of approximately \$0.3 billion from “Deferred revenue and other” (current portion) and “Other long-term liabilities” (non-current portion) to “Retained earnings”; and
- Capitalized lease assets of approximately \$0.2 billion from “Parks, resorts and other property” to “Other assets” related to finance leases.

Lessee Arrangements

The Company’s operating leases primarily consist of real estate and equipment, including office space for general and administrative purposes, production facilities, retail outlets and distribution centers for consumer products, land and content broadcast equipment. The Company also has finance leases, primarily for land and broadcast equipment.

We determine whether a new contract is a lease at contract inception or for a modified contract at the modification date. Our leases may require us to make fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use asset and lease liability. Fixed non-lease costs, for example common-area maintenance costs, are included in the measurement of the right-of-use asset and lease liability as the Company does not separate lease and non-lease components.

Some of our leases include renewal and/or termination options. If it is reasonably certain that a renewal or termination option will be exercised, the exercise of the option is considered in calculating the term of the lease. As of October 3, 2020, our operating leases have a weighted-average remaining lease term of approximately 10 years, and our finance leases have a weighted-average remaining lease term of approximately 23 years. The weighted-average incremental borrowing rate is 2.5% and 6.3%, for our operating leases and finance leases, respectively. Additionally, as of October 3, 2020, the Company had signed non-cancelable lease agreements with total estimated future lease payments of approximately \$277 million that had not yet commenced and therefore are not included in the measurement of the right-of-use asset and lease liability.

TABLE OF CONTENTS

The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	October 3, 2020
Right-of-use assets ⁽¹⁾	
Operating leases	\$ 3,687
Finance leases	361
Total right-of-use assets	4,048
Short-term lease liabilities ⁽²⁾	
Operating leases	747
Finance leases	37
	784
Long-term lease liabilities ⁽³⁾	
Operating leases	2,640
Finance leases	271
	2,911
Total lease liabilities	\$ 3,695

⁽¹⁾ Included in "Other assets" in the Consolidated Balance Sheet. Includes approximately \$0.6 billion of long-term prepaid rent that was presented as a right-of-use asset upon adoption.

⁽²⁾ Included in "Accounts payable and other accrued liabilities" in the Consolidated Balance Sheet.

⁽³⁾ Included in "Other long-term liabilities" in the Consolidated Balance Sheet.

The components of lease expense for the year ended October 3, 2020 are as follows:

Finance lease cost	
Amortization of right-of-use assets	\$ 37
Interest on lease liabilities	16
Operating lease cost	899
Variable fees and other ⁽¹⁾	491
Total lease cost	\$ 1,443

⁽¹⁾ Includes variable lease payments related to our operating and finance leases and costs of Short-term leases, net of sublease income.

Rental expense for operating leases during fiscal 2019 and 2018, including common-area maintenance and contingent rentals, was \$1.1 billion and \$0.9 billion, respectively.

Cash paid during the year ended October 3, 2020 for amounts included in the measurement of lease liabilities as of the beginning of the reporting period is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 879
Operating cash flows for finance leases	16
Financing cash flows for finance leases	37
Total	\$ 932

[TABLE OF CONTENTS](#)

Future minimum lease payments, as of October 3, 2020, are as follows:

	Operating	Financing
Fiscal year:		
2021	\$ 840	\$ 56
2022	635	56
2023	494	51
2024	367	40
2025	310	35
Thereafter	1,565	482
Total undiscounted future lease payments	4,211	720
Less: Imputed interest	(824)	(412)
Total reported lease liability	<u>\$ 3,387</u>	<u>\$ 308</u>

Future minimum lease payments under non-cancelable operating leases and non-cancelable capital leases at September 28, 2019, presented based on our historical accounting prior to the adoption of the new lease guidance, are as follows:

	Operating Leases	Capital Leases
Fiscal year:		
2020	\$ 982	\$ 19
2021	849	20
2022	670	19
2023	532	17
2024	407	16
Thereafter	2,491	458
Total minimum obligations	<u>\$ 5,931</u>	549
Less: amount representing interest		(398)
Present value of net minimum obligations		<u>\$ 151</u>

17 Fair Value Measurement

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 11 for definitions of fair value measures and the Levels within the fair value hierarchy.

Description	Fair Value Measurement at October 3, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ —	\$ 1,057	\$ —	\$ 1,057
Derivatives				
Interest rate	—	515	—	515
Foreign exchange	—	505	—	505
Other	—	1	—	1
Liabilities				
Derivatives				
Interest rate	—	(4)	—	(4)
Foreign exchange	—	(549)	—	(549)
Other	—	(22)	—	(22)
Total recorded at fair value	\$ —	\$ 1,503	\$ —	\$ 1,503
Fair value of borrowings	\$ —	\$ 63,370	\$ 1,448	\$ 64,818

Description	Fair Value Measurement at September 28, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 13	\$ —	\$ —	\$ 13
Derivatives				
Interest rate	—	89	—	89
Foreign exchange	—	771	—	771
Other	—	1	—	1
Liabilities				
Derivatives				
Interest rate	—	(93)	—	(93)
Foreign exchange	—	(544)	—	(544)
Other	—	(4)	—	(4)
Total recorded at fair value	13	220	—	233
Fair value of borrowings	\$ —	\$ 48,709	\$ 1,249	\$ 49,958

The fair values of Level 2 investments are based on quoted market prices, adjusted for trading restrictions.

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit

risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates.

Level 2 borrowings, which include commercial paper, U.S. dollar denominated notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

The Company also has assets that are required to be recorded at fair value on a non-recurring basis. These assets are evaluated when certain triggering events occur (including a decrease in estimated future cash flows) that indicate the asset

[TABLE OF CONTENTS](#)

should be evaluated for impairment. In the third quarter of fiscal 2020, the Company recorded impairment charges for goodwill and intangible assets as disclosed in Note 19. The fair value of these assets reflected the estimated discounted future cash flows, which is a Level 3 valuation technique (see Note 19 for a discussion of the more significant inputs used in our discounted cash flow analysis).

Credit Concentrations

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of October 3, 2020, in the event of nonperformance by any single derivative counterparty. The Company generally enters into derivative transactions only with counterparties that have a credit rating of A- or better and requires collateral in the event credit ratings fall below A- or aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have below investment grade credit ratings and maintains short-term liquidity needs in high quality money market funds. As of October 3, 2020, the Company's balances with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents were 26% of total cash and cash equivalents. At October 3, 2020, the Company did not have balances (excluding money market funds) with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents.

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at October 3, 2020 due to the wide variety of customers and markets in which the Company's products are sold, the dispersion of our customers across geographic areas and the diversification of the Company's portfolio among financial institutions.

18 *Derivative Instruments*

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

The Company's derivative positions measured at fair value are summarized in the following tables:

As of October 3, 2020

	Current Assets	Other Assets	Other Current Liabilities	Other Long- Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 184	\$ 132	\$ (77)	\$ (273)
Interest rate	—	515	(4)	—
Other	1	—	(15)	(4)
Derivatives not designated as hedges				
Foreign exchange	53	136	(98)	(101)
Interest Rate	—	—	—	—
Other	—	—	(3)	—
Gross fair value of derivatives	238	783	(197)	(378)
Counterparty netting	(143)	(378)	184	338
Cash collateral (received) paid	(26)	(142)	—	9
Net derivative positions	<u>\$ 69</u>	<u>\$ 263</u>	<u>\$ (13)</u>	<u>\$ (31)</u>

TABLE OF CONTENTS

	As of September 28, 2019			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 302	\$ 241	\$ (67)	\$ (244)
Interest rate	—	89	(82)	—
Other	1	—	(3)	(1)
Derivatives not designated as hedges				
Foreign exchange	65	163	(107)	(126)
Interest Rate	—	—	—	(11)
Gross fair value of derivatives	368	493	(259)	(382)
Counterparty netting	(231)	(345)	258	318
Cash collateral (received) paid	(55)	(6)	—	7
Net derivative positions	\$ 82	\$ 142	\$ (1)	\$ (57)

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of October 3, 2020 and September 28, 2019, the total notional amount of the Company's pay-floating interest rate swaps was \$15.8 billion and \$9.9 billion, respectively.

The following table summarizes fair value hedge adjustments to hedged borrowings:

	Carrying Amount of Hedged Borrowings ⁽¹⁾		Fair Value Adjustments Included in Hedged Borrowings ⁽¹⁾	
	October 3, 2020	September 28, 2019	October 3, 2020	September 28, 2019
Borrowings:				
Current	\$ 753	\$ 1,121	\$ 4	\$ (3)
Long-term	16,229	9,562	505	34
	<u>\$ 16,982</u>	<u>\$ 10,683</u>	<u>\$ 509</u>	<u>\$ 31</u>

⁽¹⁾ Includes \$34 million and \$37 million of gains on terminated interest rate swaps as of October 3, 2020 and September 28, 2019, respectively.

The following amounts are included in "Interest expense, net" in the Consolidated Statements of Operations:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Gain (loss) on:			
Pay-floating swaps	\$ 479	\$ 337	\$ (230)
Borrowings hedged with pay-floating swaps	(479)	(337)	230
Benefit (expense) associated with interest accruals on pay-floating swaps	28	(58)	(15)

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at October 3, 2020 or at September 28, 2019, and gains and losses related to pay-fixed swaps recognized in earnings for fiscal 2020, 2019 and 2018 were not material.

TABLE OF CONTENTS

To facilitate its interest rate risk management activities, the Company sold options in November 2016, October 2017 and April 2018 to enter into future pay-floating interest rate swaps indexed to LIBOR for \$2.0 billion in future borrowings. The Company repurchased these options in July 2020 for \$2 million. The fair values of these contracts were \$1 million and \$11 million at June 27, 2020 and September 28, 2019, respectively. The options were not designated as hedges and did not qualify for hedge accounting; accordingly, changes in their fair value were recorded in earnings. Gains and losses on the options for fiscal 2020, 2019 and 2018 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of October 3, 2020 and September 28, 2019, the notional amounts of the Company's net foreign exchange cash flow hedges were \$4.6 billion and \$6.3 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months total \$106 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI:

	2020	2019
Gain (loss) recognized in Other Comprehensive Income	\$ (63)	\$ 156
Gain (loss) reclassified from AOCI into the Statement of Operations ⁽¹⁾	269	183

⁽¹⁾ Primarily recorded in revenue.

The Company designates cross currency swaps as fair value hedges of foreign currency denominated borrowings. The impact of the designated exposure is recorded to "Interest Expense, net" to offset the foreign currency impact of the foreign currency denominated borrowing. The non-hedged exposure is recorded to AOCI and is amortized over the life of the cross currency swap. As of October 3, 2020, the total notional amount of the Company's designated cross currency swaps was Canadian \$1.3 billion (\$979 million). There were no designated cross currency swaps as of September 28, 2019. Fiscal 2020, gains and losses on cross currency swaps and related hedged items were not material, and there were no gains or losses in fiscal 2019 and 2018.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at October 3, 2020 and September 28, 2019 were \$3.5 billion and \$3.8 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities by the corresponding line item in which they are recorded in the Consolidated Statements of Operations:

	Costs and Expenses			Interest expense, net			Income Tax Expense		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Net gains (losses) on foreign currency denominated assets and liabilities	\$ 10	\$ (188)	\$ (146)	\$ 1	\$ 16	\$ 39	\$ (35)	\$ 50	\$ 29
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(56)	123	104	—	(19)	(46)	33	(51)	(19)
Net gains (losses)	<u>\$ (46)</u>	<u>\$ (65)</u>	<u>\$ (42)</u>	<u>\$ 1</u>	<u>\$ (3)</u>	<u>\$ (7)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ 10</u>

TABLE OF CONTENTS

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices, and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at October 3, 2020 and September 28, 2019 and related gains or losses recognized in earnings were not material for fiscal 2020, 2019 and 2018.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount and fair value of these contracts at October 3, 2020 and September 28, 2019 were not material. The related gains or losses recognized in earnings were not material for fiscal 2020, 2019 and 2018.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company's credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty's credit rating. If the Company's or the counterparty's credit ratings were to fall below investment grade, such counterparties or the Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were \$53 million and \$65 million at October 3, 2020 and September 28, 2019, respectively.

19 Restructuring and Impairment Charges

Goodwill and Intangible Asset Impairment

Our International Channels reporting unit, which is part of the Direct-to-Consumer & International segment, comprises the Company's international television networks. Our international television networks primarily derive revenues from affiliate fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top service providers) (MVPDs) for the right to deliver our programming under multi-year licensing agreements and the sales of advertising time/space on the networks. A majority of the operations in this reporting unit were acquired in the TFCF acquisition, and therefore the fair value of these businesses approximated the carrying value at the date of the acquisition of TFCF.

The International Channels business has been negatively impacted by the COVID-19 pandemic resulting in decreased viewership and lower advertising revenue related to the availability of content, including the deferral of certain live sporting events. The Company's increased focus on DTC distribution in international markets is expected to negatively impact the International Channels business as we shift the primary means of monetizing our film and television content from licensing of linear channels to use on our DTC services because the International Channels reporting unit valuation does not include the value derived from this shift, which is reflected in other reporting units. In addition, the industry shift to DTC, including by us and many of our distributors, who are pursuing their own DTC strategies, has changed the competitive dynamics for the International Channels business and resulted in unfavorable renewal terms for certain of our distribution agreements.

Due to these circumstances, in the third quarter of fiscal 2020, we tested the International Channels' goodwill and long-lived assets (including intangible assets) for impairment.

The impairment test requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment is measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets.

We determined the appropriate asset groups for our International Channels to be the regions in which they operate. We estimated the projected undiscounted cash flows over the remaining useful life of an asset group. The more significant inputs used in determining our estimate of the projected undiscounted cash flows included future revenue growth and projected margins as well as the estimate of the remaining useful life of an asset group.

If the carrying value of an asset group exceeded the estimated undiscounted cash flows, the impairment loss is the excess of the carrying value over the fair value. The determination of fair value requires us to make assumptions and estimates about

[TABLE OF CONTENTS](#)

how market participants would value the asset groups. The most sensitive factors affecting the fair value of an asset group are the future revenue growth and projected margins for these businesses as well as the discount rates used to calculate the present value of future cash flows.

In the third quarter of fiscal 2020, we recorded a non-cash impairment charge primarily on our MVPD agreement intangible assets of \$1.9 billion. As of October 3, 2020, the remaining balance of the International Channels MVPD agreement intangible assets is approximately \$3.0 billion.

We tested the International Channels reporting unit goodwill for impairment on an interim basis by comparing the fair value of the International Channels reporting unit to its carrying value. The fair value was determined using a discounted cash flow analysis. The determination of fair value requires us to make assumptions and estimates about how market participants would value the International Channels. The more sensitive inputs used in the discounted cash flow analysis include future revenue growth and projected margins as well as the discount rates used to calculate the present value of future cash flows. Given the ongoing impacts of COVID-19, the projected cash flows and underlying assumptions are subject to greater uncertainty than normal.

In the third quarter of fiscal 2020, the carrying value of the International Channels exceeded the fair value, and we recorded a non-cash impairment charge of \$3.1 billion to fully impair the International Channels reporting unit goodwill.

The \$1.9 billion impairment of our MVPD relationships and \$3.1 billion impairment of goodwill are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Operations.

TFCF Integration

In fiscal 2019, the Company implemented a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of TFCF. The restructuring plan is substantially complete as of the end of fiscal 2020. In connection with this plan, during fiscal 2020, the Company recorded \$0.5 billion of restructuring charges, which included \$0.4 billion of severance (including employee contract terminations). To date, we have recorded restructuring charges of \$1.7 billion, including \$1.2 billion related to severance and \$0.3 billion of equity based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the TFCF acquisition. These charges are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Operations. With the TFCF integration efforts nearly complete, the Company expects that total severance and other restructuring charges will remain at approximately \$1.7 billion.

The changes in restructuring reserves related to the TFCF integration for fiscal 2019 and 2020 are as follows:

Balance at September 29, 2018	\$	—
Additions in fiscal 2019:		
Media Networks		90
Parks, Experiences and Products		11
Studio Entertainment		197
Direct-to-Consumer & International		426
Corporate		182
Total additions in fiscal 2019		906
Payments in fiscal 2019		(230)
Balance at September 28, 2019		676
Additions in fiscal 2020:		
Media Networks		26
Parks, Experiences and Products		9
Studio Entertainment		92
Direct-to-Consumer & International		264
Corporate		62
Total additions in fiscal 2020		453
Payments in fiscal 2020		(772)
Balance at October 3, 2020	\$	357

Other

In the fourth quarter of fiscal 2020, the Company approved a workforce reduction plan, primarily at the Parks, Experiences and Products segment, which we expect to be completed by the end of fiscal 2021. The Company recorded

\$287 million of restructuring charges for severance related to this plan in fiscal 2020. These charges are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Operations.

20 *New Accounting Pronouncements*

Accounting Pronouncements Adopted in Fiscal 2020

- Leases - See Note 16
- Improvements to Accounting for Costs of Films and License Agreements for Program Materials - See Note 8

Facilitation of the Effects of Reference Rate Reform

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships, and other transactions affected by the transition from the use of LIBOR to an alternative reference rate. We are currently evaluating our contracts and hedging relationships that reference LIBOR and the potential effects of adopting this new guidance. The guidance can be adopted immediately and is applicable to contracts entered into on or before December 31, 2022.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance which simplifies the accounting for income taxes. The guidance amends the rules for recognizing deferred taxes for investments, performing intraperiod tax allocations and calculating income taxes in interim periods. It also reduces complexity in certain areas, including the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating taxes to members of a consolidated group. The guidance is effective at the beginning of the Company’s 2022 fiscal year (with early adoption permitted). We currently do not expect the new guidance will have a material impact on our financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued new accounting guidance which modifies existing guidance related to the measurement of credit losses on financial instruments, including trade and loan receivables. The new guidance requires the allowance for credit losses to be measured based on expected losses over the life of the asset rather than incurred losses. The guidance is effective at the beginning of the Company’s 2021 fiscal year. The adoption will not have a material impact on our financial statements.

[TABLE OF CONTENTS](#)

QUARTERLY FINANCIAL SUMMARY
(in millions, except per share data)

(unaudited)	Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾
2020				
Revenues	\$ 20,877	\$ 18,025	\$ 11,779	\$ 14,707
Income (loss) from continuing operations before income taxes	2,626	1,051	(4,840)	(580)
Segment operating income ⁽⁹⁾	3,996	2,407	1,099	606
Net income (loss) from continuing operations	2,168	528	(4,509)	(629)
Net income (loss) attributable to Disney	2,107	460	(4,721)	(710)
Loss from discontinued operations, net of tax	(21)	(8)	(3)	—
Earnings (loss) per share:				
Diluted - continuing operations	\$ 1.17 ⁽²⁾	\$ 0.26 ⁽³⁾	\$ (2.61) ⁽⁵⁾	\$ (0.39) ⁽⁷⁾
Diluted - total	1.16	0.25	(2.61)	(0.39)
Basic - continuing operations	1.18	0.26	(2.61)	(0.39)
Basic - total	1.17	0.25	(2.61)	(0.39)
2019				
Revenues	\$ 15,303	\$ 14,924	\$ 20,262	\$ 19,118
Income from continuing operations before income taxes	3,431	7,236	2,009	1,247
Segment operating income ⁽⁹⁾	3,655	3,815	3,952	3,425
Net income from continuing operations	2,786	5,589	1,616	906
Net income attributable to Disney	2,788	5,452	1,760	1,054
Income from discontinued operations, net of tax	—	22	366	299
Earnings per share:				
Diluted - continuing operations	\$ 1.86	\$ 3.53 ⁽⁴⁾	\$ 0.79 ⁽⁶⁾	\$ 0.43 ⁽⁸⁾
Diluted - total	1.86	3.55	0.97	0.58
Basic - continuing operations	1.87	3.55	0.79	0.43
Basic	1.87	3.56	0.98	0.58

⁽¹⁾ On March 20, 2019, the Company began consolidating the results of TFCF and Hulu (see Note 4). As a result, revenues and operating results in fiscal 2020 and the third and fourth quarter of fiscal 2019 reflected the impact of this transaction.

⁽²⁾ Results included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.30 on diluted earnings (loss) per share (EPS)) and restructuring and impairment charges (adverse impact of \$0.06 on EPS).

⁽³⁾ Results included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.27 on EPS) and restructuring and impairment charges (adverse impact of \$0.06 on EPS).

⁽⁴⁾ Results included the Hulu gain (favorable impact of \$2.46 on EPS), restructuring and impairment charges (adverse impact of \$0.33 on EPS), an impairment in our investment in Vice (adverse impact of \$0.18 on EPS), and amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.05 on EPS).

⁽⁵⁾ Results included goodwill and intangible asset impairments at our International Channels business (adverse impact of \$2.53 on EPS), amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television

costs (adverse impact of \$0.28 on EPS), restructuring and impairment charges (adverse impact of \$0.04 on EPS), and the DraftKings gain (favorable impact of \$0.16 on EPS).

- (6) Results included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.34 on EPS), restructuring and impairment charges (adverse impact of \$0.09 on EPS), equity investment impairments (adverse impact of \$0.08 on EPS), and an adjustment to the Hulu gain (adverse impact of \$0.05 on EPS).
- (7) Results included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.30 on EPS), restructuring and impairment charges (adverse impact of \$0.17 on EPS), the DraftKings gain (favorable impact of \$0.25 on EPS), and a non-cash gain on the sale of an investment (favorable impact of \$0.03 on EPS).
- (8) Results included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs (adverse impact of \$0.30 on EPS), a charge for the settlement of a portion of the debt originally assumed in the TFCF acquisition (adverse impact of \$0.22 on EPS), and restructuring and impairment charges (adverse impact of \$0.13), and a gain on the deemed settlement of preexisting relationships with TFCF as part of the accounting for the acquisition (favorable impact of \$0.01 on EPS).
- (9) Segment operating results reflect earnings before the corporate and unallocated shared expenses, restructuring and impairment charges, other income, net, interest expense, net, income taxes and noncontrolling interests.

133

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 28, 2019

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-38842

twdcimagea02a15.jpg

Delaware

State or Other Jurisdiction of
Incorporation or Organization

83-0940635

I.R.S. Employer Identification

500 South Buena Vista Street
Burbank, California 91521

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	DIS	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates (based on the closing price on the last business day of the registrant’s most recently completed second fiscal quarter as reported on the New York Stock Exchange-Composite Transactions) was \$199.5 billion. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant’s common stock have been deemed, solely for the purpose of the foregoing calculation, to be “affiliates” of the registrant.

There were 1,802,398,289 shares of common stock outstanding as of November 13, 2019.

Documents Incorporated by Reference

Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2020 annual meeting of the Company’s shareholders.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
PART I	
ITEM 1. <u>Business</u>	<u>1</u>
ITEM 1A. <u>Risk Factors</u>	<u>18</u>
ITEM 1B. <u>Unresolved Staff Comments</u>	<u>25</u>
ITEM 2. <u>Properties</u>	<u>25</u>
ITEM 3. <u>Legal Proceedings</u>	<u>26</u>
ITEM 4. <u>Mine Safety Disclosures</u>	<u>26</u>
<u>Executive Officers of the Company</u>	<u>26</u>
PART II	
ITEM 5. <u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>27</u>
ITEM 6. <u>Selected Financial Data</u>	<u>28</u>
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>60</u>
ITEM 8. <u>Financial Statements and Supplementary Data</u>	<u>61</u>
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>61</u>
ITEM 9A. <u>Controls and Procedures</u>	<u>61</u>
ITEM 9B. <u>Other Information</u>	<u>62</u>
PART III	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>63</u>
ITEM 11. <u>Executive Compensation</u>	<u>63</u>

ITEM 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>63</u>
ITEM 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>63</u>
ITEM 14.	<u>Principal Accounting Fees and Services</u>	<u>63</u>
PART IV		
ITEM 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>64</u>
ITEM 16.	<u>Form 10-K Summary</u>	<u>67</u>
	<u>SIGNATURES</u>	<u>68</u>
	<u>Consolidated Financial Information — The Walt Disney Company</u>	<u>69</u>

TABLE OF CONTENTS

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in four business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI).

For convenience, the terms “Company”, “we” and “our” are used to refer collectively to the parent company and the subsidiaries through which businesses are conducted.

The Company employed approximately 223,000 people as of September 28, 2019.

On March 20, 2019, the Company acquired the outstanding capital stock of Twenty-First Century Fox, Inc., which was subsequently renamed TFCF Corporation, a diversified global media and entertainment company. Prior to the acquisition, TFCF and a newly-formed subsidiary of TFCF (New Fox) entered into a separation agreement, pursuant to which TFCF transferred to New Fox a portfolio of TFCF’s news, sports and broadcast businesses and certain other assets. TFCF retained all of the assets and liabilities not transferred to New Fox, the most significant of which were the Twentieth Century Fox film and television studios, certain cable networks (primarily FX and National Geographic), TFCF’s international television businesses (including Star) and TFCF’s 30% interest in Hulu LLC (Hulu). Under the terms of the agreement governing the acquisition, the Company will generally phase-out Fox brands by 2024, but has perpetual rights to certain Fox brands, including the Twentieth Century Fox and Fox Searchlight brands.

As a result of the acquisition, the Company’s ownership interest in Hulu increased to 60%, and the Company started consolidating the results of Hulu as of the acquisition date. In May 2019, the Company increased its ownership interest in Hulu to 67%, with NBC Universal (NBCU) owning the remaining 33%. Also in May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. In order to obtain regulatory approval for the acquisition of TFCF, the Company agreed to sell TFCF’s regional sports networks (RSN) and sports media operations in Brazil and Mexico. The sale of the RSNs was completed in August 2019.

See Notes 4, 12 and 19 of the Consolidated Financial Statements for additional information on the TFCF, Hulu and RSNs transactions.

In November 2019, the Company launched Disney+, a subscription based direct-to-consumer video streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming. The service was launched in the U.S. and four other countries, with further launches in other countries planned throughout 2020 and 2021.

MEDIA NETWORKS

Significant operations:

- Disney, ESPN, Freeform, FX and National Geographic branded domestic cable networks
- ABC branded broadcast television network and eight owned domestic television stations
- Television production and distribution
- National Geographic magazines
- A 50% equity investment in A+E Television Networks (A+E)

Significant revenues:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (OTT) (e.g. Hulu, YouTube TV) service providers (MVPDs) and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Advertising - Sales of advertising time/space on our domestic networks and related platforms (“ratings-based ad sales”, which excludes advertising on digital platforms that is not ratings-based), and the sale of advertising time on our domestic television stations. Ratings-based ad sales are generally determined

using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms is reported by DTCL.

- TV/SVOD distribution - Licensing fees and other revenues from the right to use our television programs and productions and revenue from content transactions with other Company segments (“program sales”)

Significant expenses:

- Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

TABLE OF CONTENTS

Domestic Cable Networks

Our domestic cable networks produce their own programs and also acquire programming rights from our television and theatrical production operations and third parties. The majority of the domestic cable networks' revenue is derived from affiliate fees and advertising sales. Generally, the Company's cable networks provide programming under multi-year licensing agreements with MVPDs that include contractually specified rates on a per subscriber basis. The amounts that we can charge to MVPDs for our cable network programming is largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand. We also sell programs developed by our cable networks worldwide to television broadcasters, to subscription video-on-demand (SVOD) services (such as Netflix, Hulu and Amazon) and in home entertainment formats (such as DVD, Blu-ray and electronic home video license). In fiscal 2020, we expect a significant portion of our programs to be licensed to DTCL.

The Company's significant domestic cable channels and the number of subscribers (in millions) as estimated by Nielsen Media Research as of September 2019 ⁽¹⁾ (except where noted) are as follows:

	Estimated Subscribers
Disney	
Disney Channel	86
Disney Junior	66
Disney XD	68
ESPN	
ESPN	83
ESPN2	83
ESPNU	61
ESPNEWS	58
SEC Network ⁽²⁾	59
Freeform	85
FX	
FX	87
FXM	56
FXX	84
National Geographic	
National Geographic	86
National Geographic Wild	59

⁽¹⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

⁽²⁾ Because Nielsen Media Research does not measure this channel, estimated subscribers are according to SNL Kagan as of December 2018.

Disney

Branded television channels include Disney Channel, Disney Junior and Disney XD. Programming for these channels includes internally developed and acquired programming. The Disney branded channels also provide programming for video-on-demand services and through the DisneyNOW App and website, both of which are operated by DTCL.

Disney Channel - the domestic Disney Channel airs original series and movie programming 24 hours a day targeted to kids ages 2 to 14. Disney Channel develops and produces shows for exhibition on its channel, including live-action comedy series, animated programming and preschool series, as well as original movies. Disney Channel also airs programming and content from Disney's theatrical film and television programming library.

Disney Junior - the domestic Disney Junior channel airs programming 24 hours a day targeted to kids ages 2 to 7 and their parents and caregivers. The channel features animated and live-action programming that blends Disney's storytelling and characters with learning. Disney Junior also airs as a programming block on the Disney Channel.

TABLE OF CONTENTS

Disney XD - the domestic Disney XD channel airs programming 24 hours a day to kids ages 6 to 11. The channel features a mix of live-action and animated programming.

ESPN

ESPN is a multimedia sports entertainment company owned 80% by the Company and 20% by Hearst Corporation (Hearst). ESPN operates nine 24-hour domestic television sports channels: ESPN and ESPN2 (both of which are sports channels dedicated to professional and college sports as well as sports news and original programming), ESPNU (which is devoted to college sports), ESPNEWS (which simulcasts weekday ESPN Radio programming, re-airs select ESPN studio shows and airs a variety of other programming), SEC Network (which is dedicated to Southeastern Conference college athletics), ESPN Classic (which airs rebroadcasts of famous sporting events, sports documentaries and sports-themed movies), Longhorn Network (which is dedicated to The University of Texas athletics), ESPN Deportes (which airs professional and college sports, as well as studio shows in Spanish), and ACC Network (which is dedicated to Atlantic Coast Conference college athletics). ESPN programs the sports schedule on the ABC Television Network, which is branded ESPN on ABC.

ESPN holds rights for various professional and college sports programming including college football (including bowl games and the College Football Playoff) and basketball, the National Basketball Association (NBA), the National Football League (NFL), Major League Baseball (MLB), US Open Tennis, the Professional Golfers' Association (PGA) Championship, various soccer rights, the Wimbledon Championships and the Masters golf tournament.

ESPN provides programming for the following, which are operated by DTCL:

- ESPN.com - which delivers sports news, information and video on internet-connected devices, with approximately 20 editions in three languages globally. In the U.S., ESPN.com also features live video streams of ESPN channels to authenticated MVPD subscribers. Non-subscribers have limited access to certain content.
- ESPN App - which delivers scores, news, highlights, short form video, podcasts and live audio, with fourteen editions in three languages globally. In the U.S., the ESPN App also features live video streams of ESPN's linear channels and exclusive events to authenticated MVPD subscribers. Non-subscribers have limited access to certain content. The ESPN App is available for download on various internet-connected devices.
- ESPN+ - which is a multi-sports subscription offering available through ESPN.com and the ESPN App

ESPN also operates the following:

- ESPN Radio - which distributes talk and play-by-play programming in the U.S. ESPN Radio network programming is carried on approximately 400 terrestrial stations, including four ESPN owned stations in New York, Los Angeles, Chicago and Dallas, and on satellite and internet radio
- ESPN owns and operates the following events: ESPYs (annual awards show); X Games (winter and summer action sports competitions); and a portfolio of collegiate sporting events including: bowl games, basketball games, softball games and post-season award shows.

Freeform

Freeform is a channel targeted to viewers ages 18 to 34. Freeform produces original live-action programming, acquires programming rights from our television and theatrical production businesses and from third parties, and features branded holiday programming events such as "25 Days of Christmas". Freeform content is also available through video-on-demand services and through the Freeform App and website, both of which are operated by DTCL.

FX

Branded television channels include FX, FXM and FXX. Programming for these channels includes internally developed and acquired programming. Internally produced programming for the 2019/2020 season includes two returning and three new one-hour dramas, five returning and three new half-hour comedies, and one returning non-scripted series.

FX - is a general entertainment channel that airs original series, acquired television series and motion picture programming including content from the Company's film and television libraries.

FXM - is a television channel that primarily airs motion pictures from the Company's library or motion pictures acquired from third parties.

FXX - is a general entertainment channel targeted to young adults that airs acquired television series and motion picture programming as well as content from the Company's film and television libraries. The channel also airs original television series.

TABLE OF CONTENTS

National Geographic

National Geographic operates branded television channels (National Geographic, Nat Geo Wild and Nat Geo Mundo (collectively the National Geographic Channels)) and publishes the National Geographic magazines. The National Geographic Channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture. National Geographic is owned 73% by the Company and 27% by the National Geographic Society.

Broadcasting

Our broadcasting business includes a domestic broadcast network, television production and distribution operations, and eight owned domestic television stations.

Domestic Broadcast Television Network

The Company operates the ABC Television Network (ABC), which as of September 28, 2019, had affiliation agreements with approximately 240 local television stations reaching almost 100% of U.S. television households. ABC broadcasts programs in the primetime, daytime, late night, news and sports “dayparts”.

ABC produces its own programs and also acquires programming rights from third parties as well as entities that are owned by or affiliated with the Company. ABC derives the majority of its revenues from advertising sales and affiliate fees. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand for time on broadcast networks. ABC also receives fees from affiliated television stations for the right to broadcast ABC programming.

ABC network programming is available digitally on internet-connected devices to authenticated MVPD subscribers. Non-subscribers have more limited access to on-demand episodes.

ABC provides online access to in-depth worldwide news and certain other programming through various Company operated and third party distribution platforms.

Television Production and Distribution

ABC Studios, Twentieth Century Fox Television (TCFTV) and Fox 21 Television Studios (Fox21) produce the majority of the Company’s general entertainment television programs. Program development is carried out in collaboration with writers, producers and creative teams, with a focus on one-hour dramas and half-hour comedies, primarily for primetime broadcasts.

Primetime programming produced either for our networks or for third-party television networks for the 2019/2020 television season includes:

- ABC Studios - nine returning and five new one-hour dramas, four returning and two new half-hour comedies, and three returning and two new non-scripted series
- TCFTV and Fox21 - thirteen returning and ten new one-hour dramas, ten returning and ten new half-hour comedies, and one new non-scripted series

The Company also produces *Jimmy Kimmel Live* for late night and a variety of primetime specials, as well as syndicated, news and daytime programming.

We distribute the Company’s productions worldwide to television broadcasters and SVOD services and on home entertainment formats. The Company has a significant library of television programming spanning approximately 70 years of production history. Series with over four seasons include approximately 65 one-hour dramas and 40 half-hour comedies.

Domestic Television Stations

The Company owns eight television stations, six of which are located in the top ten television household markets in the U.S. The television stations derive the majority of their revenues from advertising sales. The stations also receive affiliate fees from MVPDs. All of our television stations are affiliated with ABC and collectively reach approximately 20% of the nation’s television households. Generally, each owned station broadcasts three digital channels: the first consists of local, ABC and syndicated programming; the second is the Live Well Network; and the third is the LAFF Network.

TABLE OF CONTENTS

The stations we own are as follows:

TV Station	Market	Television Market Ranking ⁽¹⁾
WABC	New York, NY	1
KABC	Los Angeles, CA	2
WLS	Chicago, IL	3
WPVI	Philadelphia, PA	4
KTRK	Houston, TX	7
KGO	San Francisco, CA	8
WTVD	Raleigh-Durham, NC	25
KFSN	Fresno, CA	54

⁽¹⁾ Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2019

Equity Investments

The Company has investments in media businesses that are accounted for under the equity method, and the Company's share of the financial results for these investments is reported as "Equity in the income (loss) of investees, net" in the Company's Consolidated Statements of Income. The Company's significant equity investments reported in the Media Networks segment are as follows:

A+E

A+E is owned 50% by the Company and 50% by Hearst. A+E operates a variety of cable channels:

- A&E – which offers entertainment programming including original reality and scripted series
- HISTORY – which offers original series and event-driven specials
- Lifetime and Lifetime Real Women – which offer female-focused programming
- Lifetime Movie Network (LMN) – which offers female-focused movies
- FYI – which offers contemporary lifestyle programming

A+E also has a 50% ownership interest in Viceland, a channel offering lifestyle-oriented documentaries and reality series aimed at millennial audiences.

A+E programming is available in approximately 200 countries and territories. A+E's networks are distributed internationally under multi-year licensing agreements with MVPDs. A+E programming is also sold to international television broadcasters and SVOD services.

The number of domestic subscribers (in millions) for A+E channels as estimated by Nielsen Media Research as of September 2019⁽¹⁾ is as follows:

	Estimated Subscribers
A&E	85
HISTORY	86
Lifetime	85
LMN	63
FYI	51
Viceland	64

⁽¹⁾ Estimates include traditional MVPD and the majority of digital OTT subscriber counts.

ESPN holds a 30% equity interest in CTV Specialty Television, Inc., which owns television channels in Canada, including The Sports Networks (TSN) 1-5, Le Réseau des Sports (RDS), RDS2, RDS Info, ESPN Classic Canada, Discovery Canada and Animal Planet Canada.

[TABLE OF CONTENTS](#)

Competition and Seasonality

The Company's Media Networks businesses compete for viewers primarily with other broadcast and cable networks, independent television stations and other media, such as online video services and video games. With respect to the sale of advertising time, we compete with other television networks and radio stations, independent television stations, MVPDs and other advertising media such as digital content, newspapers, magazines and billboards. Our television and radio stations primarily compete for audiences and advertisers in local market areas.

The Company's Media Networks businesses face competition from other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for the distribution of its various programming services that are as favorable as those currently in place.

The Company's Media Networks businesses also compete with other media and entertainment companies, independent production companies, SVOD providers and direct-to-consumer services for the acquisition of sports rights, talent, show concepts, scripted and other programming, and exhibition outlets.

The Company's internet websites and digital products compete with other websites and entertainment products.

Advertising revenues at Media Networks are subject to seasonal advertising patterns and changes in viewership levels. Revenues are typically somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are generally collected ratably throughout the year.

Federal Regulation

Television and radio broadcasting are subject to extensive regulation by the Federal Communications Commission (FCC) under federal laws and regulations, including the Communications Act of 1934, as amended. Violation of FCC regulations can result in substantial monetary fines, limited renewals of licenses and, in egregious cases, denial of license renewal or revocation of a license. FCC regulations that affect our Media Networks segment include the following:

- *Licensing of television and radio stations.* Each of the television and radio stations we own must be licensed by the FCC. These licenses are granted for periods of up to eight years, and we must obtain renewal of licenses as they expire in order to continue operating the stations. We (and the acquiring entity in the case of a divestiture) must also obtain FCC approval whenever we seek to have a license transferred in connection with the acquisition or divestiture of a station. The FCC may decline to renew or approve the transfer of a license in certain circumstances and may delay renewals while permitting a licensee to continue operating. Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed, there can be no assurance that this will be the case in the future.
- *Television and radio station ownership limits.* The FCC imposes limitations on the number of television stations and radio stations we can own in a specific market, on the combined number of television and radio stations we can own in a single market and on the aggregate percentage of the national audience that can be reached by television stations we own. Currently:
 - FCC regulations may restrict our ability to own more than one television station in a market, depending on the size and nature of the market. We do not own more than one television station in any market.
 - Federal statutes permit our television stations in the aggregate to reach a maximum of 39% of the national audience. Pursuant to the most recent decision by the FCC as to how to calculate compliance with this limit, our eight stations reach approximately 20% of the national audience.
 - FCC regulations in some cases impose restrictions on our ability to acquire additional radio or television stations in the markets in which we own radio stations. We do not believe any such limitations are material to our current operating plans.
-

Dual networks. FCC rules currently prohibit any of the four major broadcast television networks — ABC, CBS, Fox and NBC — from being under common ownership or control.

- *Regulation of programming.* The FCC regulates broadcast programming by, among other things, banning “indecent” programming, regulating political advertising and imposing commercial time limits during children’s programming. Penalties for broadcasting indecent programming can be over \$400 thousand per indecent utterance or image per station.

Federal legislation and FCC rules also limit the amount of commercial matter that may be shown on broadcast or cable channels during programming designed for children 12 years of age and younger. In addition, broadcast channels are

TABLE OF CONTENTS

generally required to provide an average of three hours per week of programming that has as a “significant purpose” meeting the educational and informational needs of children 16 years of age and younger. FCC rules also give television station owners the right to reject or refuse network programming in certain circumstances or to substitute programming that the licensee reasonably believes to be of greater local or national importance.

- *Cable and satellite carriage of broadcast television stations.* With respect to cable systems operating within a television station’s Designated Market Area, FCC rules require that every three years each television station elect either “must carry” status, pursuant to which cable operators generally must carry a local television station in the station’s market, or “retransmission consent” status, pursuant to which the cable operator must negotiate with the television station to obtain the consent of the television station prior to carrying its signal. Under the Satellite Home Viewer Improvement Act and its successors, including most recently the STELA Reauthorization Act (STELAR), which also requires the “must carry” or “retransmission consent” election, satellite carriers are permitted to retransmit a local television station’s signal into its local market with the consent of the local television station. The ABC owned television stations have historically elected retransmission consent. Portions of these satellite laws are set to expire on December 31, 2019.
- *Cable and satellite carriage of programming.* The Communications Act and FCC rules regulate some aspects of negotiations regarding cable and satellite retransmission consent, and some cable and satellite companies have sought regulation of additional aspects of the carriage of programming on cable and satellite systems. New legislation, court action or regulation in this area could have an impact on the Company’s operations.

The foregoing is a brief summary of certain provisions of the Communications Act, other legislation and specific FCC rules and policies. Reference should be made to the Communications Act, other legislation, FCC rules and public notices and rulings of the FCC for further information concerning the nature and extent of the FCC’s regulatory authority.

FCC laws and regulations are subject to change, and the Company generally cannot predict whether new legislation, court action or regulations, or a change in the extent of application or enforcement of current laws and regulations, would have an adverse impact on our operations.

PARKS, EXPERIENCES AND PRODUCTS

Significant operations:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (47% ownership interest); and Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort.
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in Media Networks).

Significant revenues:

- Theme park admissions - Sales of tickets for admission to our theme parks

- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from intellectual property licensing
 - Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as, to wholesalers
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities and real estate rent and sales. In addition, we earn royalties on Tokyo Disney Resort revenues.

TABLE OF CONTENTS

Significant expenses:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

Significant capital investments:

- In recent years, over 75% of the Company's capital spend has been at our parks and experiences business, which is principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The various investment plans discussed in the "Parks & Experiences" section are based on management's current expectations. Actual investment may differ.

Parks & Experiences

Walt Disney World Resort

The Walt Disney World Resort is located approximately 20 miles southwest of Orlando, Florida, on approximately 25,000 acres of land. The resort includes theme parks (the Magic Kingdom, Epcot, Disney's Hollywood Studios and Disney's Animal Kingdom); hotels; vacation club properties; a retail, dining and entertainment complex (Disney Springs); a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities designed to attract visitors for an extended stay.

The Walt Disney World Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of attractions and restaurants in each of the theme parks are sponsored or operated by other corporations under multi-year agreements.

Magic Kingdom — The Magic Kingdom consists of six themed areas: Adventureland, Fantasyland, Frontierland, Liberty Square, Main Street USA and Tomorrowland. Each land provides a unique guest experience featuring themed attractions, live Disney character interactions, restaurants, refreshment areas and merchandise shops. Additionally, there are daily parades and a nighttime fireworks event.

Epcot — Epcot consists of two major themed areas: Future World and World Showcase. Future World dramatizes certain historical developments and addresses the challenges facing the world today through pavilions devoted to showcasing science and technology innovations, communication, transportation, use of imagination, nature and food production, the ocean environment and space. World Showcase presents a community of nations focusing on the culture, traditions and accomplishments of people around the world. Countries represented with pavilions include Canada, China, France, Germany, Italy, Japan, Mexico, Morocco, Norway, the United Kingdom and the United States. Both areas feature themed attractions, restaurants and merchandise shops. Epcot also features a nighttime entertainment event. Epcot is undergoing a multi-year transformation, which is scheduled to open in phases beginning in 2020.

Disney's Hollywood Studios — Disney's Hollywood Studios consists of eight themed areas: Animation Courtyard, Commissary Lane, Echo Lake, Grand Avenue, Hollywood Boulevard, *Star Wars*: Galaxy's Edge, which opened in August 2019, Sunset Boulevard and Toy Story Land. The areas provide behind-the-scenes glimpses of Hollywood-style action through various shows and attractions and offer themed food service and merchandise facilities. The park also features nighttime entertainment events.

Disney's Animal Kingdom — Disney's Animal Kingdom consists of a 145-foot tall Tree of Life centerpiece surrounded by five themed areas: Africa, Asia, DinoLand USA, Discovery Island and Pandora - The World of Avatar. Each themed area contains attractions, entertainment, restaurants and merchandise shops. The park features more than 300 species of live mammals, birds, reptiles and amphibians and 3,000 varieties of vegetation. Disney's Animal Kingdom also features a nighttime entertainment event.

Hotels, Vacation Club Properties and Other Resort Facilities — As of September 28, 2019, the Company owned and operated 18 resort hotels and vacation club facilities at the Walt Disney World Resort, with approximately

24,000 rooms and 3,200 vacation club units. Resort facilities include 500,000 square feet of conference meeting space and Disney's Fort Wilderness camping and recreational area, which offers approximately 800 campsites. The Company is constructing Reflections - A Disney Lakeside Lodge, which is a nature-inspired resort with more than 900 rooms and vacation club units opening in 2022. The Company also announced plans to build the new *Star Wars*: Galactic Starcruiser hotel at Walt Disney World Resort.

TABLE OF CONTENTS

Disney Springs is an approximately 120-acre retail, dining and entertainment complex and consists of four areas: Marketplace, The Landing, Town Center and West Side. The areas are home to more than 150 venues including the 64,000-square-foot World of Disney retail store and NBA Experience. Most of the Disney Springs facilities are operated by third parties that pay rent to the Company.

Nine independently-operated hotels with approximately 6,000 rooms are situated on property leased from the Company.

ESPN Wide World of Sports Complex is a 230-acre center that hosts professional caliber training and competitions, festival and tournament events and interactive sports activities. The complex, which welcomes both amateur and professional athletes, accommodates multiple sporting events, including baseball, basketball, football, soccer, softball, tennis and track and field. It also includes a stadium, as well as, two venues, which are designed for cheerleading, dance competitions and other indoor sports.

Other recreational amenities and activities available at the Walt Disney World Resort include three championship golf courses, miniature golf courses, full-service spas, tennis, sailing, water skiing, swimming, horseback riding and a number of other sports and leisure time activities. The resort also includes two water parks: Disney's Blizzard Beach and Disney's Typhoon Lagoon.

Disneyland Resort

The Company owns 486 acres and has rights under a long-term lease for use of an additional 55 acres of land in Anaheim, California. The Disneyland Resort includes two theme parks (Disneyland and Disney California Adventure), three resort hotels and a retail, dining and entertainment complex (Downtown Disney).

The Disneyland Resort is marketed through a variety of international, national and local advertising and promotional activities. A number of the attractions and restaurants in the theme parks are sponsored or operated by other corporations under multi-year agreements.

Disneyland — Disneyland consists of nine themed areas: Adventureland, Critter Country, Fantasyland, Frontierland, Main Street USA, Mickey's Toontown, New Orleans Square, *Star Wars*: Galaxy's Edge, which opened in May 2019, and Tomorrowland. These areas feature themed attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and nighttime fireworks and entertainment events.

Disney California Adventure — Disney California Adventure is adjacent to Disneyland and includes seven themed areas: Buena Vista Street, Cars Land, Grizzly Peak, Hollywood Land, Pacific Wharf, Paradise Gardens Park and Pixar Pier. These areas include attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, Disney California Adventure offers a nighttime entertainment event. The Company is constructing a new themed area, Avengers Campus, that is scheduled to open in 2020.

Hotels, Vacation Club Units and Other Resort Facilities — Disneyland Resort includes three Company owned and operated hotels and vacation club facilities with approximately 2,400 rooms, 50 vacation club units and 180,000 square feet of conference meeting space.

Downtown Disney is a themed 15-acre retail, entertainment and dining complex with approximately 30 venues located adjacent to both Disneyland and Disney California Adventure. Most of the Downtown Disney facilities are operated by third parties that pay rent to the Company.

Aulani, a Disney Resort & Spa

Aulani, a Disney Resort & Spa, is a Company-operated family resort on a 21-acre oceanfront property on Oahu, Hawaii featuring approximately 350 hotel rooms, an 18,000-square-foot spa and 12,000 square feet of conference meeting space. The resort also has approximately 480 vacation club units.

Disneyland Paris

Disneyland Paris is located on a 5,510-acre development in Marne-la-Vallée, approximately 20 miles east of Paris, France. The land is being developed pursuant to a master agreement with French governmental authorities. Disneyland Paris includes two theme parks (Disneyland Park and Walt Disney Studios Park); seven themed resort hotels; two convention centers; a shopping, dining and entertainment complex (Disney Village); and a 27-hole golf

facility. Of the 5,510 acres comprising the site, approximately half have been developed to date, including a planned community (Val d'Europe) and an eco-tourism destination (Villages Nature).

TABLE OF CONTENTS

Disneyland Park — Disneyland Park consists of five themed areas: Adventureland, Discoveryland, Fantasyland, Frontierland and Main Street USA. These areas include themed attractions, shows, restaurants, merchandise shops and refreshment stands. Disneyland Park also features a daily parade and a nighttime entertainment event.

Walt Disney Studios Park — Walt Disney Studios Park includes four themed areas: Backlot, Front Lot, Production Courtyard and Toon Studio. These areas each include themed attractions, shows, restaurants, merchandise shops and refreshment stands. The Company has announced plans for a multi-year expansion of Walt Disney Studios Park that will roll out in phases beginning in 2021 and add three new themed areas based on Marvel, Frozen and Star Wars.

Hotels and Other Facilities — Disneyland Paris operates seven resort hotels, with approximately 5,800 rooms and 210,000 square feet of conference meeting space. In addition, eight on-site hotels that are owned and operated by third parties provide approximately 2,575 rooms.

Disney Village is a 500,000-square-foot retail, dining and entertainment complex located between the theme parks and the hotels. A number of the Disney Village facilities are operated by third parties that pay rent to Disneyland Paris.

Val d'Europe is a planned community near Disneyland Paris that is being developed in phases. Val d'Europe currently includes a regional train station, hotels and a town center consisting of a shopping center as well as office, commercial and residential space. Third parties operate these developments on land leased or purchased from Disneyland Paris.

Villages Nature is a European eco-tourism resort that consists of recreational facilities, restaurants and 900 vacation units. The resort is a 50% joint venture between Disneyland Paris and Pierre & Vacances-Center Parcs, who manages the venture.

Hong Kong Disneyland Resort

The Company owns a 47% interest in Hong Kong Disneyland Resort and the Government of the Hong Kong Special Administrative Region (HKSAR) owns a 53% interest. The resort is located on 310 acres on Lantau Island and is in close proximity to the Hong Kong International Airport and the Hong Kong-Zhuhai-Macau Bridge. Hong Kong Disneyland Resort includes one theme park and three themed resort hotels. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort. The Company is entitled to receive royalties and management fees based on the operating performance of Hong Kong Disneyland Resort.

Hong Kong Disneyland — Hong Kong Disneyland consists of seven themed areas: Adventureland, Fantasyland, Grizzly Gulch, Main Street USA, Mystic Point, Tomorrowland and Toy Story Land. These areas feature themed attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and a nighttime entertainment event. The park is in the midst of a multi-year expansion project that will add a number of new guest offerings and transform the Sleeping Beauty Castle.

Hotels — Hong Kong Disneyland Resort includes three themed hotels with a total of 1,750 rooms and approximately 16,000 square feet of conference meeting space.

Shanghai Disney Resort

The Company owns a 43% interest in Shanghai Disney Resort, and Shanghai Shendi (Group) Co., Ltd (Shendi) owns a 57% interest. The resort is located in the Pudong district of Shanghai on approximately 1,000 acres of land, which includes the Shanghai Disneyland theme park; two themed resort hotels; a retail, dining and entertainment complex (Disneytown); and an outdoor recreation area. A management company, in which the Company has a 70% interest and Shendi has a 30% interest, is responsible for operating the resort and receives a management fee based on the operating performance of Shanghai Disney Resort. The Company is also entitled to royalties based on the resort's revenues.

Shanghai Disneyland — Shanghai Disneyland consists of seven themed areas: Adventure Isle, Fantasyland, Gardens of Imagination, Mickey Avenue, Tomorrowland, Toy Story Land and Treasure Cove. These areas feature themed attractions, shows, restaurants, merchandise shops and refreshment stands. Additionally, there are daily parades and a nighttime fireworks event. In January 2019, the Company announced plans to build an eighth themed area based on the animated film *Zootopia*.

Hotels and Other Facilities - Shanghai Disneyland Resort includes two themed hotels with a total of 1,220 rooms. Disneytown is an 11-acre outdoor complex of dining, shopping and entertainment venues located adjacent to Shanghai Disneyland. Most Disneytown facilities are operated by third parties that pay rent to Shanghai Disney Resort.

Tokyo Disney Resort

Tokyo Disney Resort is located on 494 acres of land, six miles east of downtown Tokyo, Japan. The Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd. (OLC), a

TABLE OF CONTENTS

third-party Japanese corporation. The resort includes two theme parks (Tokyo Disneyland and Tokyo DisneySea, which are both undergoing expansion); four Disney-branded hotels; six other hotels (operated by third parties other than OLC); a retail, dining and entertainment complex (Ikspiari); and Bon Voyage, a Disney-themed merchandise location.

Tokyo Disneyland — Tokyo Disneyland consists of seven themed areas: Adventureland, Critter Country, Fantasyland, Tomorrowland, Toontown, Westernland and World Bazaar.

Tokyo DisneySea — Tokyo DisneySea, adjacent to Tokyo Disneyland, is divided into seven “ports of call,” including American Waterfront, Arabian Coast, Lost River Delta, Mediterranean Harbor, Mermaid Lagoon, Mysterious Island and Port Discovery.

Hotels and Other Resort Facilities — Tokyo Disney Resort includes four Disney-branded hotels with a total of more than 2,400 rooms and a monorail, which links the theme parks and resort hotels with Ikspiari. OLC is currently constructing a 475-room Disney-branded hotel at Tokyo DisneySea, and a 600-room Toy Story themed hotel opening in 2021.

Disney Vacation Club

DVC offers ownership interests in 15 resort facilities located at the Walt Disney World Resort; Disneyland Resort; Aulani; Vero Beach, Florida; and Hilton Head Island, South Carolina. Available units are offered for sale under a vacation ownership plan and are operated as hotel rooms when not occupied by vacation club members. The Company’s vacation club units range from deluxe studios to three-bedroom grand villas. Unit counts in this document are presented in terms of two-bedroom equivalents. DVC had approximately 4,000 vacation club units as of September 28, 2019 and is scheduled to open an additional 300 units at Disney’s Riviera Resort at Walt Disney World Resort in December 2019. The Company has also announced plans to build Reflections - A Disney Lakeside Lodge, which will include vacation club units.

Disney Cruise Line

Disney Cruise Line is a four-ship vacation cruise line, which operates out of ports in North America and Europe. The *Disney Magic* and the *Disney Wonder* are approximately 85,000-ton 875-stateroom ships, and the *Disney Dream* and the *Disney Fantasy* are approximately 130,000-ton 1,250-stateroom ships. The ships cater to families, children, teenagers and adults, with distinctly-themed areas and activities for each group. Many cruise vacations include a visit to Disney’s Castaway Cay, a 1,000-acre private Bahamian island.

The Company is expanding its cruise business by adding three new ships. The first ship, the *Disney Wish*, is scheduled for delivery in late 2021 and is expected to set sail beginning in January 2022. The other two ships are scheduled to be delivered in calendar 2022 and 2023. Each new ship can be powered by liquefied natural gas and will be approximately 140,000 tons with 1,250 staterooms.

In fiscal 2019, the Company finalized an agreement with the Government of The Bahamas to create and manage a destination at Lighthouse Point on the island of Eleuthera, which is scheduled to open in late 2022 or 2023.

Adventures by Disney

Adventures by Disney offers guided tour packages predominantly at non-Disney sites around the world. Adventures by Disney offered approximately 40 different tour packages during 2019.

National Geographic Expeditions

National Geographic Expeditions offers guided tour packages around the world that explore cultures, landscapes and history. National Geographic offered approximately 2,500 different tour packages during 2019 (including the period prior to the Company’s acquisition of TFCF).

Walt Disney Imagineering

Walt Disney Imagineering provides master planning, real estate development, attraction, entertainment and show design, engineering support, production support, project management and research and development for the Company’s Parks, Experiences and Products operations.

Consumer Products

Licensing

The Company's merchandise licensing operations cover a diverse range of product categories, the most significant of which are: toys, apparel, home décor and furnishings, accessories, health and beauty, food, stationery, footwear and consumer

TABLE OF CONTENTS

electronics. The Company licenses characters from its film, television and other properties for use on third-party products in these categories and earns royalties, which are usually based on a fixed percentage of the wholesale or retail selling price of the products. Some of the major properties licensed by the Company include: Mickey and Minnie, Star Wars, Avengers, Frozen, Disney Princess, Toy Story, Spider-Man, Disney Channel characters, Cars, Winnie the Pooh and Disney Classics.

Retail

The Company sells Disney-, Marvel-, Pixar- and Lucasfilm-branded products through retail stores operated under The Disney Store name and through internet sites in North America, Western Europe, Japan and China. The stores are generally located in leading shopping malls and other retail complexes. The Company owns and operates approximately 200 stores in North America, approximately 60 permanent stores and 20 pop-up stores in Europe, approximately 50 stores in Japan and two stores in China. Internet sites are branded shopDisney and shopMarvel in the United States, shopDisney in Europe and store.Disney in Japan.

The Company creates, distributes and publishes a variety of products in multiple countries and languages based on the Company's branded franchises. The products include children's books, comic books, digital comics and ebooks, learning products and storytelling apps.

The Company also operates Disney English, which develops and delivers an English language learning curriculum for Chinese children using Disney content in approximately 25 learning centers in six cities across China.

Competition and Seasonality

The Company's theme parks and resorts as well as Disney Cruise Line and Disney Vacation Club compete with other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry may be influenced by various factors that are not directly controllable, such as economic conditions including business cycle and exchange rate fluctuations, the political environment, travel industry trends, amount of available leisure time, oil and transportation prices, weather patterns and natural disasters. The licensing and retail business compete with other licensors, retailers and publishers of character, brand and celebrity names, as well as other licensors, publishers and developers of game software, online video content, internet websites, other types of home entertainment and retailers of toys and kids merchandise.

All of the theme parks and the associated resort facilities are operated on a year-round basis. Typically, theme park attendance and resort occupancy fluctuate based on the seasonal nature of vacation travel and leisure activities, the opening of new guest offerings and pricing and promotional offers. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods. The licensing, specialty retail, and wholesale businesses are influenced by seasonal consumer purchasing behavior, which generally results in higher revenues during the Company's first and fourth fiscal quarter, and by the timing and performance of theatrical and game releases, and cable programming broadcasts.

STUDIO ENTERTAINMENT

Significant operations:

- Motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Fox, Marvel, Lucasfilm, Pixar, Fox Searchlight Pictures and Blue Sky Studios banners
- Development, production and licensing of live entertainment events on Broadway and around the world (stage plays)
- Music production and distribution
- Post-production services, which include visual and audio effects through Industrial Light & Magic and Skywalker Sound

Significant revenues:

- Theatrical distribution - Rentals from licensing our motion pictures to theaters
- Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
-

TV/SVOD distribution and other - Licensing fees and other revenue from the right to use our motion picture productions, revenue from content transactions with other Company segments, ticket sales from stage plays, fees from licensing our intellectual properties for use in live entertainment productions, revenue from licensing our music, and revenue from post-production services

Significant expenses:

- Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales
- Selling, general and administrative costs

TABLE OF CONTENTS

- Depreciation and amortization

Prior to the Company's acquisition of Marvel in fiscal 2010, Marvel had licensed Spider-Man rights to Sony Pictures Entertainment (Sony). Sony incurs the costs to produce and distribute Spider-Man films, and the Company licenses the merchandise rights to third parties. The Company pays Sony a licensing fee based on each film's box office receipts, subject to specified limits. The Company distributes all other Marvel-produced films with the exception of *The Incredible Hulk*, which is distributed by Universal Pictures.

Theatrical Market

We produce and distribute full-length live-action films and animated films. In the domestic theatrical market, we generally distribute and market our filmed products directly. In most major international markets, we distribute our filmed products directly while in other markets our films are distributed by independent companies or joint ventures. During fiscal 2020, we expect to release approximately 25 of our own produced feature films. Cumulatively through September 28, 2019 the Company has released approximately 1,000 full-length live-action features and 100 full-length animated features.

The Company incurs significant marketing and advertising costs before and throughout the theatrical release of a film in an effort to generate public awareness of the film, to increase the public's intent to view the film and to help generate consumer interest in the subsequent home entertainment and other ancillary markets. These costs are expensed as incurred, which may result in a loss on a film in the theatrical markets, including in periods prior to the theatrical release of the film.

Home Entertainment Market

In the domestic market, we distribute home entertainment releases directly under each of our motion picture banners. In international markets, we distribute home entertainment releases under our motion picture banners both directly and through independent distribution companies.

Domestic and international home entertainment distribution typically starts three to six months after the theatrical release in each market. Home entertainment releases are distributed in physical (DVD and Blu-ray) and electronic formats. Electronic formats may be released up to four weeks ahead of the physical release. Physical formats are generally sold to retailers, such as Walmart and Target and electronic formats are sold through e-tailers, such as Apple and Amazon.

As of September 28, 2019, we have approximately 2,400 active produced and acquired film titles, including 2,200 live-action titles and 200 animated titles, in the domestic home entertainment marketplace and approximately 2,300 active produced and acquired titles, including 2,000 live-action titles and 300 animated titles, in the international marketplace.

Concurrently with physical home entertainment distribution, we license titles to video-on-demand service providers for electronic delivery to consumers for a specified rental period.

Television Market

In the television market, we license our films to cable and broadcast networks, television stations and other video service providers, which may provide the content to viewers on television or a variety of internet-connected devices. The television market is comprised of multiple pay TV and free TV windows, which can have license periods of various lengths following the home entertainment window. In fiscal 2020, our Walt Disney Pictures, Marvel, Lucasfilm and Pixar branded films will generally be licensed to DTCI for use on Disney+ after the theatrical and home entertainment windows.

With the acquisition of TFCF, the Company's library of film titles available for distribution increased by approximately 2,000.

Disney Music Group

The Disney Music Group (DMG) commissions new music for the Company's motion pictures and television programs and develops, produces, markets and distributes the Company's music worldwide either directly or through license agreements. DMG also licenses the songs and recording copyrights to third parties for printed music, records,

audio-visual devices, public performances and digital distribution and produces live musical concerts. DMG includes Walt Disney Records, Hollywood Records, Disney Music Publishing and Disney Concerts.

Disney Theatrical Group

Disney Theatrical Group develops, produces and licenses live entertainment events on Broadway and around the world, including *The Lion King*, *Aladdin*, *Frozen*, *The Little Mermaid*, *Beauty and the Beast*, *The Hunchback of Notre Dame*, *Mary Poppins* (a co-production with Cameron Mackintosh Ltd), *Newsies* and *TARZAN*®.

[TABLE OF CONTENTS](#)

Disney Theatrical Group also licenses the Company's intellectual property to Feld Entertainment, the producer of *Disney On Ice* and *Marvel Universe Live!*.

Competition and Seasonality

The Studio Entertainment businesses compete with all forms of entertainment. A significant number of companies produce and/or distribute theatrical and television films, exploit products in the home entertainment market, provide pay television and SVOD programming services, produce music and sponsor live theater. We also compete to obtain creative and performing talents, story properties and advertiser support that are essential to the success of our Studio Entertainment businesses.

The success of Studio Entertainment operations is heavily dependent upon public taste and preferences. In addition, Studio Entertainment operating results fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

DIRECT-TO-CONSUMER & INTERNATIONAL

Significant operations:

- Branded international television networks and channels, which include Disney, ESPN, Fox, National Geographic and Star (International Channels)
- Direct-to-consumer (DTC) streaming services, which include Disney +, ESPN+, Hotstar and Hulu
- Other digital content distribution platforms and services
- Equity investments:
 - A 50% ownership interest in Endemol Shine Group
 - A 20% ownership interest (49% economic interest) in Seven TV
 - A 30% effective ownership interest in Tata Sky
 - A 21% effective ownership interest in Vice Group Holdings, Inc. (Vice). Vice operates Viceland, which is owned 50% by Vice and 50% by A+E.

Significant revenues:

- Advertising - Sales of advertising time/space on our International Channels and sales of non-ratings based advertising time/space on digital media platforms ("addressable ad sales") across the Company. In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups
- Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
- Subscription fees - Fees charged to customers/subscribers for our streaming and technology services

Significant expenses:

- Operating expenses consisting primarily of programming and production costs (including amortization of digital content obtained from other Company segments), technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

International Channels

Our International Channels produce local programs or acquire rights from our domestic studios and from third parties. Our International Channels derive the majority of their revenues from advertising sales and affiliate fees.

Generally, channels provide programming under multi-year agreements with MVPDs that include contractually determined rates on a per subscriber basis. The amounts that we can charge to MVPDs for our channels are largely dependent on the quality and quantity of programming that we can provide and the competitive market for programming services. The ability to sell advertising time and the rates received are primarily dependent on the size and nature of the audience that a channel can deliver to the advertiser as well as overall advertiser demand.

TABLE OF CONTENTS

The Company's significant International Channels and the number of subscribers (in millions) based on internal management reports as of September 2019 is as follows:

	Estimated Subscribers
Disney	
Disney Channel	227
Disney Junior	162
Disney XD	131
ESPN ⁽¹⁾	65
Fox ⁽¹⁾	220
National Geographic ⁽¹⁾	316
Star ⁽¹⁾	221

- ⁽¹⁾ Reflects each unique subscriber that has access to one or more of these branded channels. If a subscriber to each ESPN branded channel was counted, the total estimated subscribers is 142 million as of September 2019. Subscribers for ESPN at September 2018 were counted on this basis.

Disney

DTCI operates approximately 100 Disney branded television channels outside of the U.S., which are broadcast in approximately 35 languages and 165 countries/territories. Branded channels include Disney Channel, Disney Junior, Disney XD, Disney Cinemagic, Disney Cinema and Disney International HD. Disney content is also available on third-party video-on-demand services and online on our apps and websites. Programming for these channels includes Disney branded programming acquired from our domestic studios, programming acquired from third parties and internally developed local programming.

ESPN

DTCI operates approximately 15 ESPN branded television channels outside of the U.S. (primarily in Latin America and Australia), which are broadcast in three languages (English, Spanish and Portuguese) and approximately 55 countries/territories. ESPN holds international rights for various professional sports programming including English Premier League, La Liga, multiple UEFA leagues, various other soccer rights, various tennis rights and the NFL.

Fox

The DTCI segment operates approximately 190 Fox branded channels outside of the U.S., which are broadcast in approximately 40 languages and in 95 countries/territories. Branded channels include Fox Channel, Fox Life, Fox Crime, Fox Traveler, FX and Fox Sports. Content is also available on third-party video-on-demand services and online on our apps and websites. Programming for these channels includes internally developed local programming and programming acquired from our domestic studios and from third parties.

Fox Sports generally distributes Spanish-language sports programming services in Latin America that feature local and international soccer events, motorsports programming, combat sports and U.S. sports leagues (such as NFL and MLB). Fox Sports Premium, a pay television service in Argentina, airs the matches of the professional football league in Argentina. In order to obtain regulatory approval for the acquisition of TFCF, the Company agreed to sell TFCF's sports media operations in Brazil and Mexico.

The Company has a 51% direct ownership interest in Eredivisie Media & Marketing CV (EMM), a media company that holds the media and sponsorship rights of the Dutch Premier League for soccer.

National Geographic

The DTCI segment operates approximately 80 National Geographic branded channels outside of the U.S., which are broadcast in approximately 45 languages and 90 countries/territories. Branded channels include National Geographic Channel, Nat Geo Wild and Nat Geo Kids. These channels air scripted and documentary programming on such topics as natural history, adventure, science, exploration and culture. Content is also available on third-party video-on-demand services and online on our apps and websites. Programming for these channels includes programming acquired from our domestic studios, internally developed local programming and programming acquired from third parties.

TABLE OF CONTENTS

Star

Star develops, produces and broadcasts approximately 80 channels in ten languages in India and throughout Asia, the United Kingdom, Continental Europe, the Middle East and parts of Africa. Programming for these channels includes internally developed local programming and acquired programming, as well as content from Star's extensive library of film and television programs. Star holds rights for various sports programming including cricket, for which Star has the global distribution rights to certain events, soccer, tennis and field hockey.

Other India Channels

DTCI operates UTV, Bindass and Hungama branded channels in India. UTV Action and UTV Movies offer Bollywood movies as well as Hollywood, Asian and Indian regional movies dubbed in Hindi. Bindass is a youth entertainment channel. Hungama is targeted to kids and features a mix of animated series and movies.

Direct-to-Consumer Services (DTC)

Our DTC businesses consist of streaming based subscription services across general entertainment, family and sports programming. The majority of DTC revenue is derived from subscription fees and advertising sales. The services are offered to customers through mobile and connected devices and third-party distributors and the customers are generally billed a monthly or annual subscription fee.

Disney+

Disney+ is a subscription based direct-to-consumer video streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming. It offers approximately 7,500 series and 500 movies from the Company's library of television and film programming. In the first year, there will be over 30 exclusive original series and over 15 exclusive original movies and specials produced by the Company's film and television studios. Some of the originals available at launch include *The Mandalorian*, the first live-action Star Wars series; *Lady and the Tramp*, a live-action retelling of the classic animated feature; *High School Musical: The Musical: The Series*, a new series related to the Disney Channel franchise; and *The World According to Jeff Goldblum*, an unscripted series from National Geographic.

Disney+ launched in November 2019 in the U.S. and four other countries and further launches are planned in Western Europe in spring 2020, Latin America in fall 2021, Eastern Europe starting in late 2020 and continuing in 2021, and various Asia-Pacific territories throughout 2020 and 2021.

ESPN+

ESPN+ is a multi-sports subscription service available through ESPN.com and the ESPN app. ESPN+ offers thousands of live events, on-demand content and original programming not available on ESPN's other networks. Live events available through the service include mixed martial arts, soccer, hockey, boxing, baseball, college sports, esports and cricket. ESPN+ is currently the exclusive distributor for UFC pay-per-view events in the U.S. Based on internal management reports, the estimated number of paid ESPN+ subscribers as of September 2019 was approximately three million.

Hotstar

Hotstar is operated by Star and streams local and international television shows, movies, sports, news and original series in nine languages and incorporates gaming and social features. Hotstar has exclusive streaming rights to Home Box Office, Inc. original programming in India and also carries content from Disney, Fox and Showtime Networks. Hotstar is also available in the U.S., UK and Canada.

Hulu

Hulu aggregates acquired and original television and film entertainment content for distribution to internet-connected devices. Hulu offers a subscription-based service with limited commercial announcements and a subscription-based service with no commercial announcements. In addition, Hulu operates a digital OTT MVPD service, which offers linear streams of broadcast and cable channels, including the major broadcast networks. Based on internal management reports, the estimated number of paid Hulu subscribers as of September 2019 was approximately 29 million.

Prior to the TFCF acquisition, the Company owned 30% of Hulu and reported Hulu as an equity investment. As a result of the acquisition, the Company's ownership interest in Hulu increased to 60%, and the Company started consolidating the results of Hulu. In May 2019, the Company increased its ownership interest in Hulu to 67%, with NBCU owning the remaining 33%. Also in May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu (see Note 4 of the Consolidated Financial Statements for additional information).

Other Digital Content Distribution Platforms and Services

DTCI operates branded apps and websites, the Disney Movie Club and Disney Digital Network and provides streaming technology support services.

TABLE OF CONTENTS

Branded Apps and Websites

DTCI operates apps and websites, which include ESPN, ABC, Disney, Freeform, FX and Nat Geo branded apps and websites. DTCI sells advertising on these apps and websites, which are programmed with content licensed from the Media Networks.

Disney Movie Club

The Disney Movie Club sells DVD/Blu-ray discs directly to consumers in the United States and Canada.

Disney Digital Network (DDN)

DDN develops online video content, primarily for distribution on YouTube, and provides online marketing services.

Streaming Technology Services

BAMTech LLC (BAMTech) provides streaming technology services to third parties. BAMTech is owned 75% by the Company, 15% by MLB and 10% by the National Hockey League (NHL), both of which have the right to sell their shares to the Company in the future.

BAMTech also operates the Company's DTC sports business, which includes ESPN+ as well as DTC services for NHL, PGA and Major League Soccer programming. Hearst has a 20% interest in the Company's DTC sports business.

Equity Investments

The significant equity investments reported in the Direct-to-Consumer & International segment are as follows:

Endemol Shine Group

Endemol Shine Group produces both scripted and non-scripted content for distribution across multiple platforms. On October 25, 2019, the Company entered into a definitive agreement with Banijay Group to sell its 50% interest in Endemol Shine Group. Completion of the transaction is subject to customary closing conditions, including approval from the European Commission. We expect the sale to close in fiscal 2021.

Seven TV

Seven TV operates an advertising-supported, free-to-air Disney Channel in Russia. The Company has a 20% ownership interest and a 49% economic interest in the business.

Tata Sky

The Company has a 30% effective interest in Tata Sky Limited, which is a digital MVPD in India.

Vice

The Company has an approximate 20% effective ownership in Vice Group Holdings, Inc. (Vice), which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by A+E and 50% by Vice.

Competition and Seasonality

The Company's DTC and International Channel businesses compete for viewers primarily with other television and cable networks, television stations and other media, such as online video services and video games. With respect to the sale of advertising time, we compete with other television networks, television stations, MVPDs and other advertising media such as digital content, newspapers, magazines and billboards.

The Company's International Channels face competition from other networks for carriage by MVPDs. The Company's contractual agreements with MVPDs are renewed or renegotiated from time to time in the ordinary course of business. Consolidation and other market conditions in the cable, satellite and telecommunication distribution industry and other factors may adversely affect the Company's ability to obtain and maintain contractual terms for distribution that are as favorable as those currently in place.

The Company's DTC and International Channels also compete with other media and entertainment companies, SVOD providers and DTC services for the acquisition of sports rights, talent, show concepts, and scripted and other programming.

Internet websites and digital products operated by the segment compete with other websites and entertainment products.

Revenues fluctuate based on the timing of releases and performance of our digital media content, viewership levels on our cable channels and digital platforms, changes in subscriber levels and the demand for sports and other content.

[TABLE OF CONTENTS](#)

INTERCOMPANY ELIMINATIONS

Intersegment content transactions are presented “gross” (i.e. the segment producing the content reports revenue and profit from intersegment transactions in a manner similar to the reporting of third-party transactions, and the required eliminations are reported on a separate “Eliminations” line when presenting a summary of our segment results). Generally, timing of revenue recognition is similar to the reporting of third-party transactions, except that intersegment sales of library content are generally recognized over time.

Significant intersegment content transactions include the following:

- Hulu licenses content from the Company’s television studios through various arrangements including fixed and variable licensing fees and a percentage of addressable ad sales. Hulu also licenses the linear stream of our broadcast and cable channels.
- Disney+ and our International Channels license content from the Company’s film and television studios.
- Our broadcast and cable channels license content from the Company’s film studios.

The Company defers profits on intersegment sales of content until the acquiring business expenses the content.

INTELLECTUAL PROPERTY PROTECTION

The Company’s businesses throughout the world are affected by its ability to exploit and protect against infringement of its intellectual property, including trademarks, trade names, copyrights, patents and trade secrets. Important intellectual property includes rights in the content of motion pictures, television programs, electronic games, sound recordings, character likenesses, theme park attractions, books and magazines. Risks related to the protection and exploitation of intellectual property rights are set forth in Item 1A – Risk Factors.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available without charge on our website, www.disney.com/investors, as soon as reasonably practicable after they are filed electronically with the U.S. Securities and Exchange Commission (SEC). We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

ITEM 1A. Risk Factors

For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this report, the most significant factors affecting our operations include the following:

Changes in U.S., global, or regional economic conditions could have an adverse effect on the profitability of some or all of our businesses.

A decline in economic activity in the U.S. and other regions of the world in which we do business can adversely affect demand for any of our businesses, thus reducing our revenue and earnings. Past declines in economic conditions reduced spending at our parks and resorts, purchases of and prices for advertising on our broadcast and cable networks and owned stations, performance of our home entertainment releases, and purchases of Company-branded consumer products, and similar impacts can be expected should such conditions recur. A decline in economic conditions could also reduce attendance at our parks and resorts, prices that MVPDs pay for our cable programming or subscription levels for our cable programming or direct-to-consumer products. Economic conditions can also impair the ability of those with whom we do business to satisfy their obligations to us. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs. A decline in economic conditions could impact implementation of our expansion plans. Changes in exchange rates for foreign currencies may reduce international demand for our products or increase our labor or supply costs in non-U.S. markets, or reduce the U.S. dollar value of revenue we receive and expect to receive from other markets. Economic or political conditions in a country could also reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

[TABLE OF CONTENTS](#)

Misalignment with public and consumer tastes and preferences for entertainment and consumer products could negatively impact demand for our entertainment offerings and products and adversely affect the profitability of any of our businesses.

Our businesses create entertainment, travel and consumer products whose success depends substantially on consumer tastes and preferences that change in often unpredictable ways. The success of our businesses depends on our ability to consistently create filmed entertainment and television programming, which may be distributed among other ways through broadcast, cable, internet or cellular technology, theme park attractions, hotels and other resort facilities and travel experiences and consumer products that meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content. The success of our theme parks and experiences, as well as our theatrical releases, depends on demand for public or out-of-home entertainment experiences. Many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside the U.S., and their success therefore depends on our ability to successfully predict and adapt to changing consumer tastes and preferences outside as well as inside the U.S. Moreover, we must often invest substantial amounts in film production, television programming, other content production, acquisition of sports rights, theme park attractions, cruise ships or hotels and other resort facilities before we know the extent to which these products will earn consumer acceptance. If our entertainment offerings and products do not achieve sufficient consumer acceptance, our revenue from advertising sales (which are based in part on ratings for the programs in which advertisements air), affiliate fees, subscription fees, theatrical film receipts, the license of rights to other distributors, theme park admissions, hotel room charges and merchandise, food and beverage sales, sales of licensed consumer products or from sales of our other consumer products and services, may decline or fail to grow to the extent we anticipate when making investment decisions and thereby adversely affect the profitability of one or more of our businesses.

Changes in technology and in consumer consumption patterns may affect demand for our entertainment products, the revenue we can generate from these products or the cost of producing or distributing products.

The media entertainment and internet businesses in which we participate increasingly depend on our ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources and nature of competing content offerings, the time and manner in which consumers acquire and view some of our entertainment products and the options available to advertisers for reaching their desired audiences. This trend has impacted the business model for certain traditional forms of distribution, as evidenced by the industry-wide decline in ratings for broadcast television, the reduction in demand for home entertainment sales of theatrical content, the development of alternative distribution channels for broadcast and cable programming and declines in subscriber levels for traditional cable channels, including for a number of our networks. In order to respond to these developments, we regularly consider and from time to time implement changes to our business models, most recently by developing DTC products for certain sports programming on ESPN+ (launched in 2018) and for filmed entertainment and other programming on Disney+ (launched in November 2019) and increasing our stake in Hulu (assumed full operational control in May 2019). There can be no assurance that our DTC offerings and other efforts will successfully respond to these changes, and we expect to forgo revenue from traditional sources. There can be no assurance that the DTC model and other business models we may develop will ultimately be as profitable as our existing business models.

The success of our businesses is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.

The value to us of our intellectual property rights is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our intellectual property may decrease, or the cost of obtaining and maintaining rights may increase.

The unauthorized use of our intellectual property may increase the cost of protecting rights in our intellectual property or reduce our revenues. The convergence of computing, communication, and entertainment devices, increased broadband internet speed and penetration, increased availability and speed of mobile data transmission and increasingly sophisticated attempts to obtain unauthorized access to data systems have made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of intellectual property rights more challenging. The unauthorized distribution and access to entertainment content generally continues to be a significant challenge for intellectual property rights holders. Inadequate laws or weak enforcement mechanisms to protect entertainment industry intellectual property in one

country can adversely affect the results of the Company's operations worldwide, despite the Company's efforts to protect its intellectual property rights. These developments require us to devote substantial resources to protecting our intellectual property against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content.

TABLE OF CONTENTS

With respect to intellectual property developed by the Company and rights acquired by the Company from others, the Company is subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in intellectual property may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from the intellectual property that is the subject of challenged rights.

Protection of electronically stored data is costly and if our data is compromised in spite of this protection, we may incur additional costs, lost opportunities and damage to our reputation.

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. Data maintained in digital form is subject to the risk of unauthorized access, modification and exfiltration. We develop and maintain information security systems in an effort to prevent this, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Accordingly, despite our efforts, unauthorized access, modification and exfiltration of data cannot be eliminated entirely, and the risks associated with a potentially material incident remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where we believe appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our information security systems or data are compromised in a material way, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be damaged resulting in loss of business or morale, and we may incur costs to remediate possible harm to our customers and employees and/or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident.

A variety of uncontrollable events may reduce demand for our products and services, impair our ability to provide our products and services or increase the cost of providing our products and services.

Demand for our products and services, particularly our theme parks and resorts, is highly dependent on the general environment for travel and tourism. The environment for travel and tourism, as well as demand for other entertainment products, can be significantly adversely affected in the U.S., globally or in specific regions as a result of a variety of factors beyond our control, including: adverse weather conditions arising from short-term weather patterns or long-term change, catastrophic events or natural disasters (such as excessive heat or rain, hurricanes, typhoons, floods, tsunamis and earthquakes); health concerns; international, political or military developments; and terrorist attacks. These events and others, such as fluctuations in travel and energy costs and computer virus attacks, intrusions or other widespread computing or telecommunications failures, may also damage our ability to provide our products and services or to obtain insurance coverage with respect to these events. An incident that affected our property directly would have a direct impact on our ability to provide goods and services and could have an extended effect of discouraging consumers from attending our facilities. Moreover, the costs of protecting against such incidents reduces the profitability of our operations.

For example, events in Hong Kong have impacted profitability of our Hong Kong operations and may continue to do so there and elsewhere, and past hurricanes have impacted profitability of Walt Disney World Resort in Florida and future hurricanes may also do so.

In addition, we derive affiliate fees and royalties from the distribution of our programming, sales of our licensed goods and services by third parties, and the management of businesses operated under brands licensed from the Company, and we are therefore dependent on the successes of those third parties for that portion of our revenue. A wide variety of factors could influence the success of those third parties and if negative factors significantly impacted a sufficient number of those third parties, the profitability of one or more of our businesses could be adversely affected.

We obtain insurance against the risk of losses relating to some of these events, generally including physical damage to our property and resulting business interruption, certain injuries occurring on our property and some liabilities for alleged breach of legal responsibilities. When insurance is obtained it is subject to deductibles, exclusions, terms, conditions and limits of liability. The types and levels of coverage we obtain vary from time to time depending on our view of the likelihood of specific types and levels of loss in relation to the cost of obtaining coverage for such types and levels of loss and we may experience material losses not covered by our insurance.

Changes in our business strategy or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses.

As changes in our business environment occur we may adjust our business strategies to meet these changes or we may otherwise decide to restructure our operations or particular businesses or assets. In addition, external events including changing technology, changing consumer patterns, acceptance of our theatrical offerings and changes in macroeconomic conditions may

TABLE OF CONTENTS

impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write down the value of assets. We also make investments in existing or new businesses, including investments in international expansion of our business and in new business lines. In recent years, such investments have included expansion and renovation of certain of our theme parks, expansion of our fleet of cruise ships and investments related to direct-to-consumer offerings. Some of these investments may have short-term returns that are negative or low and the ultimate business prospects of the businesses related to these investments may be uncertain. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring.

Increased competitive pressures may reduce our revenues or increase our costs.

We face substantial competition in each of our businesses from alternative providers of the products and services we offer and from other forms of entertainment, lodging, tourism and recreational activities. This includes, among other types, competition for human resources, programming and other resources we require in operating our business. For example:

- Our studio operations and media businesses compete to obtain creative, performing and business talent, sports and other programming, story properties, advertiser support and market share with other studio operations, broadcast and cable networks, SVOD providers and other new sources of broadband delivered content.
- Our broadcast and cable networks and stations and direct-to-consumer offerings compete for the sale of advertising time with other broadcast, cable and satellite services, as well as with newspapers, magazines, billboards and radio stations. In addition, we increasingly face competition for advertising sales from internet and mobile delivered content, which offer advertising delivery technologies that are more targeted than can be achieved through traditional means.
- Our cable networks compete for carriage of their programming with other programming providers.
- Our theme parks and resorts compete for guests with all other forms of entertainment, lodging, tourism and recreation activities.
- Our studio operations compete for customers with all other forms of entertainment.
- Our interactive media operations compete with other licensors and publishers of console, online and mobile games and other types of home entertainment.
- Our direct-to-consumer businesses compete for customers with competitors' direct-to-consumer offerings, all other forms of media and all other forms of entertainment, as well as for technology, creative, performing and business talent and for content. Competition in each of these areas may increase as a result of technological developments and changes in market structure, including consolidation of suppliers of resources and distribution channels. Increased competition may divert consumers from our creative or other products, or to other products or other forms of entertainment, which could reduce our revenue or increase our marketing costs. Competition for the acquisition of resources can increase the cost of producing our products and services or deprive us of talent necessary to produce high quality creative material. Such competition may also reduce, or limit growth in, prices for our products and services, including advertising rates and subscription fees at our media networks, parks and resorts admissions and room rates, and prices for consumer products from which we derive license revenues.

Our results may be adversely affected if long-term programming or carriage contracts are not renewed on sufficiently favorable terms.

We enter into long-term contracts for both the acquisition and the distribution of media programming and products, including contracts for the acquisition of programming rights for sporting events and other programs, and contracts for the distribution of our programming to content distributors. As these contracts expire, we must renew or renegotiate the contracts, and if we are unable to renew them on acceptable terms, we may lose programming rights or distribution rights. Even if these contracts are renewed, the cost of obtaining programming rights may increase (or increase at faster rates than our historical experience) or programming distributors, facing pressures resulting from increased subscription fees and alternative distribution challenges, may demand terms (including pricing and the breadth of distribution) that reduce our revenue from distribution of programs (or increase revenue at slower rates

than our historical experience). Moreover, our ability to renew these contracts on favorable terms may be affected by recent consolidation in the market for program distribution and the entrance of new participants in the market for distribution of content on digital platforms. With respect to the acquisition of programming rights, particularly sports programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including the strength of advertising markets, subscription levels and rates for programming, effectiveness of marketing efforts and the size of viewer audiences. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of producing and distributing the programming.

[TABLE OF CONTENTS](#)

Changes in regulations applicable to our businesses may impair the profitability of our businesses.

Our broadcast networks and television stations are highly regulated, and each of our other businesses is subject to a variety of U.S. and overseas regulations. These regulations include:

- U.S. FCC regulation of our television and radio networks, our national programming networks and our owned television stations. See Item 1 — Business — Media Networks, Federal Regulation.
- Federal, state and foreign privacy and data protection laws and regulations.
- Regulation of the safety and supply chain of consumer products and theme park operations.
- Environmental protection regulations.
- Imposition by foreign countries of trade restrictions, restrictions on the manner in which content is currently licensed and distributed, ownership restrictions, currency exchange controls or motion picture or television content requirements, investment obligations or quotas.
- Domestic and international labor laws, tax laws or currency controls.

Changes in any of these regulations or regulatory activities in any of these areas may require us to spend additional amounts to comply with the regulations, or may restrict our ability to offer products and services in ways that are profitable. For example, in January 2019 India implemented regulation and tariffs impacting certain bundling of channels.

Our operations outside the United States may be adversely affected by the operation of laws in those jurisdictions.

Our operations in non-U.S. jurisdictions are in many cases subject to the laws of the jurisdictions in which they operate rather than U.S. law. Laws in some jurisdictions differ in significant respects from those in the U.S. These differences can affect our ability to react to changes in our business, and our rights or ability to enforce rights may be different than would be expected under U.S. law. Moreover, enforcement of laws in some overseas jurisdictions can be inconsistent and unpredictable, which can affect both our ability to enforce our rights and to undertake activities that we believe are beneficial to our business. In addition, the business and political climate in some jurisdictions may encourage corruption, which could reduce our ability to compete successfully in those jurisdictions while remaining in compliance with local laws or United States anti-corruption laws applicable to our businesses. As a result, our ability to generate revenue and our expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations.

Damage to our reputation or brands may negatively impact our business across segments and regions.

Our reputation and globally recognizable brands are integral to the success of our businesses. Because our brands engage consumers across our segments, damage to our reputation or brands in one business may have an impact on our other businesses. Because some of our brands are globally recognized, brand damage may not be locally contained. Maintenance of the reputation of our Company and brands depends on many factors including the quality of our offerings, maintenance of trust with our customers and our ability to successfully innovate. Significant negative claims or publicity regarding the Company or its operations, products, management, employees, practices, business partners and culture may damage our brands or reputation, even if such claims are untrue. Damage to our reputation or brands may impact our sales, business opportunities and profitability.

Risks that impact our business as a whole may also impact the success of our direct-to-consumer (DTC) business.

We may not successfully execute on our direct-to-consumer strategy. Consumers may not be willing to pay for an expanding set of DTC services, potentially exacerbated by an economic downturn. We face competition for creative talent and may not be successful in recruiting and retaining talent. Government regulation, including revised foreign content and ownership regulations, may impact the implementation of our DTC business plans. Poor quality broadband infrastructure in certain markets may impact our customers' access to our DTC products and may diminish our customers' experience with our DTC products. These and other risks may impact the profitability and success of our DTC businesses.

Turmoil in the financial markets could increase our cost of borrowing and impede access to or increase the cost of financing our operations and investments.

Past disruptions in the U.S. and global credit and equity markets made it difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing and if they recur, our cost of borrowing could increase and it may be more difficult to obtain financing for our operations or investments. In addition, our borrowing costs can be affected by short- and long-term debt ratings assigned by independent rating agencies that are based, in part, on the Company's performance as measured by credit metrics such as interest coverage and leverage ratios. A decrease in these ratings would likely increase our cost of borrowing and/or make it more difficult for us to obtain financing. Past disruptions in the global financial markets also impacted some of the financial institutions with which we do business. A similar decline in the financial stability of financial institutions could affect our ability to secure credit-worthy counterparties for our interest rate and foreign currency hedging programs, could affect our ability to settle existing contracts and could also affect the ability of our business customers to obtain financing and thereby to satisfy their obligations to us.

TABLE OF CONTENTS

Labor disputes may disrupt our operations and adversely affect the profitability of any of our businesses.

A significant number of employees in various parts of our businesses are covered by collective bargaining agreements, including employees of our theme parks and resorts as well as writers, directors, actors, production personnel and others employed in our media networks and studio operations. In addition, the employees of licensees who manufacture and retailers who sell our consumer products, and employees of providers of programming content (such as sports leagues) may be covered by labor agreements with their employers. In general, a labor dispute involving our employees or the employees of our licensees or retailers who sell our consumer products or providers of programming content may disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs.

The seasonality of certain of our businesses and timing of certain of our product offerings could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations and variations in connection with the timing of our product offerings, including as follows:

- Revenues in our Media Networks segment are subject to seasonal advertising patterns, changes in viewership levels and timing of program sales. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate fees are typically recognized ratably throughout the year. Effective at the beginning of fiscal 2019, the Company adopted ASC 606, which changed the timing of affiliate revenue recognition for certain contracts, which may result in higher revenue in our first fiscal quarter.
- Revenues in our Parks and Resorts segment fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarters. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts.
- Revenues in our Studio Entertainment segment fluctuate due to the timing and performance of releases in the theatrical, home entertainment and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.
- Direct-to-Consumer & International revenues fluctuate based on: changes in subscriber levels; the timing and performance of releases of our digital media content; viewership levels on our cable channels and digital platforms; and the demand for sports and our content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons and content production schedules.

Accordingly, if a short-term negative impact on our business occurs during a time of high seasonal demand (such as hurricane damage to our parks during the summer travel season), the effect could have a disproportionate effect on the results of that business for the year.

Sustained increases in costs of pension and postretirement medical and other employee health and welfare benefits may reduce our profitability.

With approximately 223,000 employees, our profitability is substantially affected by costs of pension benefits and current and postretirement medical benefits. We may experience significant increases in these costs as a result of macro-economic factors, which are beyond our control, including increases in the cost of health care. In addition, changes in investment returns and discount rates used to calculate pension expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs in some years. These macroeconomic factors as well as a decline in the fair value of pension and postretirement medical plan assets may put upward pressure on the cost of providing pension and postretirement medical benefits and may increase future funding requirements. Although we have actively sought to control increases in these costs, there can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

The Alteration or Discontinuation of LIBOR may adversely affect our borrowing costs.

Certain of our interest rate derivatives and a portion of our indebtedness bear interest at variable interest rates, primarily based on LIBOR, which may be subject to regulatory guidance and/or reform that could cause interest rates

under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. At this time, it is not possible to predict the effect any discontinuance, modification or other reforms to LIBOR or any other reference rate, or the establishment of alternative reference rates will have on the Company. However, if LIBOR ceases to exist or if the methods of calculating LIBOR change from their current form, the Company’s borrowing costs may be adversely affected.

[TABLE OF CONTENTS](#)

Risk Factors Related to the TFCF Acquisition

The TFCF acquisition may not be accretive, and may be dilutive, to our earnings per share, which may negatively affect the market price of our common stock.

The TFCF acquisition is not currently accretive to our earnings per share. Our expectations regarding the timeframe in which the TFCF acquisition may become accretive to our earnings per share, excluding the impact of purchase accounting, may not be realized. In addition, we could fail to realize all of the benefits anticipated in the TFCF acquisition or experience delays or inefficiencies in realizing such benefits. Such factors could, combined with the issuance of shares of our common stock in connection with the TFCF acquisition, result in the TFCF acquisition continuing to be dilutive to our earnings per share, which could negatively affect the market price of our common stock.

Although we expect that the TFCF acquisition will result in synergies and other benefits to us, we may not realize those benefits because of challenges inherently associated with integration, performance and the achievement of synergies.

The Company and TFCF were operated independently until completion of the TFCF acquisition, and there can be no assurances that our businesses can be combined in a manner that allows for the achievement of substantial benefits. For a discussion of TFCF's contribution to the Company in fiscal 2019, see Management's Discussion and Analysis. If we are delayed or not able to successfully integrate TFCF's businesses with ours, pursue our direct-to-consumer strategy successfully, or realize the strategic value of the TFCF assets, the anticipated benefits and cost savings of the TFCF acquisition may not be realized fully or may take longer than expected to be realized. Further, it is possible that there could be loss of key employees, loss of customers, disruption of ongoing businesses or unexpected issues, higher than expected costs and an overall post-acquisition process that takes longer than originally anticipated. Specifically, the following issues, among others, must be addressed in the integration of TFCF businesses in order to realize the anticipated benefits of the TFCF acquisition so the combined company performs as we hope:

- combining the companies' corporate functions;
- combining the businesses of the Company and TFCF in a manner that permits us to achieve the synergies anticipated to result from the TFCF acquisition, the failure of which would result in the anticipated benefits of the TFCF acquisition not being realized in the time frame currently anticipated or at all;
- maintaining existing agreements with customers, distributors, providers, talent and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers, talent and vendors;
- determining whether and how to address possible differences in corporate cultures and management philosophies;
- integrating the companies' administrative and information technology infrastructure; and
- developing products and technology that allow value to be unlocked in the future.

The TFCF acquisition was announced in December 2017 and closed March 2019, with integration activities currently ongoing. The pursuit of the TFCF acquisition, preparation for the integration of TFCF and integration of TFCF have placed a significant burden on our management and internal resources and the integration of TFCF may continue to do so. This may disrupt our ongoing business and the business of the combined company.

Consummation of the TFCF acquisition has increased our exposure to the risks of operating internationally.

We are a diversified entertainment company that offers entertainment, travel and consumer products worldwide. Although many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside of the U.S., the combination with TFCF has increased the importance of international operations to our future operations, growth and prospects. The risks of operating internationally that we face have increased following the completion of the TFCF acquisition.

The TFCF acquisition and integration may result in additional costs and expenses.

We have incurred and expect to continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the TFCF acquisition and integration. We may also incur accounting

and other costs in the integration of the businesses of TFCF that were not anticipated at the time of the acquisition, including costs for which we have established reserves or which may lead to reserves in the future. Such costs could negatively impact the Company's free cash flow.

Our consolidated indebtedness has increased substantially following completion of the TFCF acquisition. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.

Our consolidated indebtedness as of September 29, 2018 was approximately \$20.9 billion. With the completion of the TFCF acquisition, our consolidated indebtedness as of September 28, 2019 was approximately \$47.0 billion. The increased indebtedness could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. The increased levels of indebtedness could also reduce funds available for capital expenditures, share

TABLE OF CONTENTS

repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. Our financial flexibility may be further constrained by the issuance of shares of common stock in the TFCF acquisition, because of dividend payments.

ITEM 1B. Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of fiscal 2019 and that remain unresolved.

ITEM 2. Properties

The Walt Disney World Resort, Disneyland Resort, retail store locations leased by the Company and other properties of the Company and its subsidiaries are described in Item 1 under the caption *Parks, Experiences and Products*. Film and television library properties are described in Item 1 under the caption *Media Networks* and *Studio Entertainment*. Television stations owned by the Company are described in Item 1 under the caption *Media Networks*.

The Company and its subsidiaries own and lease properties throughout the world. In addition to the properties noted above, the table below provides a brief description of other significant properties and the related business segment.

Location	Property / Approximate Size	Use	Business Segment⁽¹⁾
Burbank, CA & surrounding cities ⁽²⁾	Land (201 acres) & Buildings (4,695,000 ft ²)	Owned Office/Production/Warehouse (includes 236,000 ft ² sublet to third-party tenants)	Corp/Studio/Media/PEP/DTCI
Burbank, CA & surrounding cities ⁽²⁾	Buildings (1,459,000 ft ²)	Leased Office/Warehouse	Corp/Studio/Media/PEP/DTCI
Los Angeles, CA	Land (22 acres) & Buildings (600,000 ft ²)	Owned Office/Production/Technical	Media/Studio/DTCI
Los Angeles, CA	Buildings (2,679,000 ft ²)	Leased Office/Production/Technical/Theater (includes 188,000 ft ² sublet to third-party tenants)	Media/Studio
New York, NY	Buildings (529,000 ft ²)	Owned Office/Production/Technical	Media/Corp
New York, NY	Buildings (2,731,000 ft ²)	Leased Office/Production/Theater/Warehouse (includes 676,000 ft ² sublet to third-party tenants)	Corp/Studio/Media/PEP/DTCI
Bristol, CT	Land (117 acres) & Buildings (1,175,000 ft ²)	Owned Office/Production/Technical	Media/Studio
Bristol, CT	Buildings (512,000 ft ²)	Leased Office/Warehouse/Technical	Media/Studio
Emeryville, CA	Land (20 acres) & Buildings (430,000 ft ²)	Owned Office/Production/Technical	Studio
Emeryville, CA	Buildings (80,000 ft ²)	Leased Office/Storage	Studio/Media
San Francisco, CA	Buildings (691,000 ft ²)	Leased Office/Production/Technical/Theater (includes 57,000 ft ² sublet to third-party tenants)	Studio/Media/PEP/DTCI
USA & Canada	Land and Buildings (Multiple sites and sizes)	Owned and Leased Office/Production/Transmitter/Theaters/Warehouse	Corp/Studio/Media/PEP/DTCI

Hammersmith, England	Building (284,000 ft ²)	Leased Office	Corp/Studio/Media/ PEP/DTCI
Europe, Asia, Australia & Latin America	Buildings (Multiple sites and sizes)	Leased Office/Warehouse/Retail/ Residential	Studio/Media/ PEP/DTCI
⁽¹⁾ Corp – Corporate, PEP – Parks, Experiences and Products, DTCI – Direct-To-Consumer & International			
⁽²⁾ Surrounding cities include Glendale, CA, North Hollywood, CA and Sun Valley, CA			

TABLE OF CONTENTS

ITEM 3. Legal Proceedings

As disclosed in Note 15 to the Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 15 relating to certain legal matters is incorporated herein by reference.

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

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Company

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below. Each of the executive officers has been employed by the Company for more than five years.

At September 28, 2019, the executive officers of the Company were as follows:

Name	Age	Title	Executive Officer Since
Robert A. Iger	68	Chairman and Chief Executive Officer ⁽¹⁾	2000
Alan N. Braverman	71	Senior Executive Vice President, General Counsel and Secretary	2003
Christine M. McCarthy	64	Senior Executive Vice President and Chief Financial Officer ⁽²⁾	2005
M. Jayne Parker	58	Senior Executive Vice President and Chief Human Resources Officer ⁽³⁾	2009
Zenia B. Mucha	63	Senior Executive Vice President Corporate Communications ⁽⁴⁾	2018

(1) Mr. Iger was appointed Chairman of the Board and Chief Executive Officer effective March 13, 2012. He was President and Chief Executive Officer from October 2, 2005 through that date.

(2) Ms. McCarthy was appointed Senior Executive Vice President and Chief Financial Officer effective June 30, 2015. She was previously Executive Vice President, Corporate Real Estate, Alliances and Treasurer of the Company from 2000 to 2015.

(3) Ms. Parker was appointed Senior Executive Vice President and Chief Human Resources Officer effective August 20, 2017. She was previously Executive Vice President and Chief Human Resources Officer from 2009.

(4) Ms. Mucha was appointed Senior Executive Vice President Corporate Communications effective August 2016. She was previously Executive Vice President Corporate Communications from March 2005.

PART II**ITEM 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is listed on the New York Stock Exchange under the ticker symbol "DIS".

See Note 12 of the Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2019 and 2018. The Board of Directors has not declared a dividend related to the second half of fiscal 2019 as of the date of this report.

As of September 28, 2019, the approximate number of common shareholders of record was 850,000.

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended September 28, 2019:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
June 30, 2019 – July 31, 2019	176,029	\$ 142.64	—	n/a
August 1, 2019 – August 31, 2019	32,319	136.28	—	n/a
September 1, 2019 – September 28, 2019	23,293	135.13	—	n/a
Total	<u>231,641</u>	141.00	<u>—</u>	n/a

⁽¹⁾ 231,641 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

⁽²⁾ Not applicable as the Company no longer has a stock repurchase plan or program.

TABLE OF CONTENTS

ITEM 6. Selected Financial Data

(in millions, except per share data)

	2019 ⁽¹⁾	2018 ⁽²⁾	2017 ⁽³⁾	2016 ⁽⁴⁾	2015 ⁽⁵⁾
Statements of income					
Revenues	\$ 69,570	\$ 59,434	\$ 55,137	\$ 55,632	\$ 52,465
Net income from continuing operations	10,913	13,066	9,366	9,790	8,852
Net income from continuing operations attributable to Disney	10,441	12,598	8,980	9,391	8,382
Per common share					
Earnings attributable to Disney					
Continuing Operations - Diluted	\$ 6.27	\$ 8.36	\$ 5.69	\$ 5.73	\$ 4.90
Continuing Operations - Basic	6.30	8.40	5.73	5.76	4.95
Dividends ⁽⁶⁾	1.76	1.68	1.56	1.42	1.81
Balance sheets					
Total assets	\$ 193,984	\$ 98,598	\$ 95,789	\$ 92,033	\$ 88,182
Long-term obligations	60,852	24,797	26,710	24,189	19,142
Disney shareholders' equity	88,877	48,773	41,315	43,265	44,525
Statements of cash flows					
Cash provided (used) by - continuing operations:					
Operating activities	\$ 5,984	\$ 14,295	\$ 12,343	\$ 13,136	\$ 11,385
Investing activities	(15,096)	(5,336)	(4,111)	(5,758)	(4,245)
Financing activities	(464)	(8,843)	(8,959)	(7,220)	(5,801)

- (1) On March 20, 2019, the Company acquired TFCF for cash and Disney shares (see Note 4 to the Consolidated Financial Statements). TFCF and Hulu's financial results have been consolidated since the date of acquisition and had a number of adverse impacts on fiscal 2019 results, the most significant of which were amortization expense related to recognition of TFCF and Hulu intangible assets and fair value step-up on film and television costs (\$0.74 per diluted share), an impact from shares issued upon the TFCF acquisition (\$0.74 per diluted share), restructuring and impairment charges (\$0.55 per diluted share) and TFCF and Hulu operating results (\$0.27 per diluted share). Additional impacts included a non-cash gain from remeasuring our initial 30% interest in Hulu to fair value (\$2.22 per diluted share), equity investment impairments (\$0.25 per diluted share) and a charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition (\$0.24 per diluted share). Cash provided by continuing operating activities reflected payments for tax obligations that arose from the spin-off of Fox Corporation in connection with the TFCF acquisition and the sale of the RSNs acquired with TFCF and cash used in continuing investing activities reflected a cash payment of \$35.7 billion paid to acquire TFCF, offset by the \$25.7 billion in cash and cash equivalents assumed in the TFCF acquisition.
- (2) Fiscal 2018 results include a net benefit from the Tax Act (\$1.11 per diluted share) and the benefit from a reduction in the Company's fiscal 2018 U.S. federal statutory income tax rate (\$0.75 per diluted share) (see Note 10 to the Consolidated Financial Statements). In addition, fiscal 2018 included gains on the sales of real estate and property rights (\$0.28 per diluted share) and an adverse impact from equity investment impairments (\$0.11 per diluted share).
- (3) Fiscal 2017 results include a non-cash net gain in connection with the acquisition of a controlling interest in BAMTech (\$0.10 per diluted share) (see Note 4 to the Consolidated Financial Statements).
- (4) Fiscal 2016 results include the Company's share of a net gain recognized by A+E in connection with an acquisition of an interest in Vice (\$0.13 per diluted share).

(5)

Fiscal 2015 results include the write-off of a deferred tax asset as a result of a recapitalization at Disneyland Paris (\$0.23 per diluted share).

- ⁽⁶⁾ In fiscal 2015, the Company began paying dividends on a semiannual basis. Accordingly, fiscal 2015 includes dividend payments related to fiscal 2014 and the first half of fiscal 2015.

[TABLE OF CONTENTS](#)
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CONSOLIDATED RESULTS
(in millions, except per share data)

				% Change Better/(Worse)	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Revenues:					
Services	\$ 60,542	\$ 50,869	\$ 46,843	19 %	9 %
Products	9,028	8,565	8,294	5 %	3 %
Total revenues	69,570	59,434	55,137	17 %	8 %
Costs and expenses:					
Cost of services (exclusive of depreciation and amortization)	(36,450)	(27,528)	(25,320)	(32)%	(9)%
Cost of products (exclusive of depreciation and amortization)	(5,568)	(5,198)	(4,986)	(7)%	(4)%
Selling, general, administrative and other	(11,541)	(8,860)	(8,176)	(30)%	(8)%
Depreciation and amortization	(4,160)	(3,011)	(2,782)	(38)%	(8)%
Total costs and expenses	(57,719)	(44,597)	(41,264)	(29)%	(8)%
Restructuring and impairment charges	(1,183)	(33)	(98)	>(100)%	66 %
Other income, net	4,357	601	78	>100 %	>100 %
Interest expense, net	(978)	(574)	(385)	(70)%	(49)%
Equity in the income (loss) of investees, net	(103)	(102)	320	(1)%	nm
Income from continuing operations before income taxes	13,944	14,729	13,788	(5)%	7 %
Income taxes from continuing operations	(3,031)	(1,663)	(4,422)	(82)%	62 %
Net income from continuing operations	10,913	13,066	9,366	(16)%	40 %
Income from discontinued operations (includes income tax expense of \$35, \$0 and \$0, respectively)	671	—	—	nm	nm
Net income	11,584	13,066	9,366	(11)%	40 %
Less: Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(472)	(468)	(386)	(1)%	(21)%
Less: Net income from discontinued operations attributable to noncontrolling interests	(58)	—	—	nm	nm
Net income attributable to Disney	\$ 11,054	\$ 12,598	\$ 8,980	(12)%	40 %
Earnings per share attributable to Disney:					
Diluted					
Continuing operations	\$ 6.27	\$ 8.36	\$ 5.69	(25)%	47 %

Discontinued operations	<u>0.37</u>	<u>—</u>	<u>—</u>	nm	nm
	<u>\$ 6.64</u>	<u>\$ 8.36</u>	<u>\$ 5.69</u>	) (21 %	47 %
Basic					
Continuing operations	\$ 6.30	\$ 8.40	\$ 5.73	) (25 %	47 %
Discontinued operations	<u>0.37</u>	<u>—</u>	<u>—</u>	nm	nm
	<u>\$ 6.68</u>	<u>\$ 8.40</u>	<u>\$ 5.73</u>	) (20 %	47 %
Weighted average number of common and common equivalent shares outstanding:					
Diluted	<u>1,666</u>	<u>1,507</u>	<u>1,578</u>		
Basic	<u>1,656</u>	<u>1,499</u>	<u>1,568</u>		

[TABLE OF CONTENTS](#)

Organization of Information

Management's Discussion and Analysis provides a narrative on the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Consolidated Results and Non-Segment Items
- Business Segment Results — 2019 vs. 2018
- Business Segment Results — 2018 vs. 2017
- Corporate and Unallocated Shared Expenses
- Restructuring in Connection With the Acquisition of TFCF
- Significant Developments
- Liquidity and Capital Resources
- Contractual Obligations, Commitments and Off Balance Sheet Arrangements
- Critical Accounting Policies and Estimates
- Forward-Looking Statements

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

The Company's financial results for fiscal 2019 are presented in accordance with new accounting guidance for revenue recognition (ASC 606) that we adopted at the beginning of fiscal 2019. Prior period results have not been restated to reflect this change in accounting guidance. Segment operating income for fiscal 2019 includes a \$91 million benefit from the adoption of ASC 606 primarily due to the timing of recognition of TV/SVOD distribution revenue at Studio Entertainment. Further information about our adoption of ASC 606 is provided in Note 3 to the Consolidated Financial Statements.

2019 vs. 2018

As discussed in Note 4 to the Consolidated Financial Statements, the Company acquired TFCF on March 20, 2019. Additionally, in connection with the acquisition of TFCF, we acquired a controlling interest in Hulu. The Company began consolidating the results of TFCF and Hulu effective March 20, 2019.

Revenues for fiscal 2019 increased 17%, or \$10.1 billion, to \$69.6 billion; net income attributable to Disney decreased 12%, or \$1.5 billion, to \$11.1 billion; and diluted earnings per share from continuing operations attributable to Disney (EPS) decreased 25%, or \$2.09 to \$6.27. The decrease in EPS was due to the comparison to a benefit in fiscal 2018 from U.S. federal income tax legislation (Tax Act), which was enacted in fiscal 2018 (See Note 10 to the Consolidated Financial Statements), amortization expense on intangibles and the fair value step-up on film and television costs from the TFCF acquisition and consolidation of Hulu, an increase in shares outstanding and restructuring costs incurred in connection with the acquisition and integration of TFCF. The increase in shares outstanding was due to shares that were issued in connection with the acquisition of TFCF. Additionally, the decrease in EPS reflected lower segment operating income, which included a \$0.5 billion adverse impact from the consolidation of TFCF and Hulu in the current year, the absence of a gain recognized in the prior year on the sale of real estate, a charge in the current year for the extinguishment of debt and higher interest expense. These decreases were partially offset by a non-cash gain recognized in the current year in connection with the acquisition of a controlling interest in Hulu (Hulu Gain) (See Note 4 to the Consolidated Financial Statements). Segment operating income from our legacy operations decreased due to higher losses at Direct-to-Consumer & International and lower results at Media Networks, partially offset by growth at Parks, Experiences and Products.

Revenues

Service revenues for fiscal 2019 increased 19%, or \$9.7 billion, to \$60.5 billion, due to the consolidation of TFCF and Hulu's operations and to a lesser extent, growth at our legacy operations. The increase at our legacy operations was due to higher guest spending at our theme parks and resorts, an increase in affiliate fees, higher theatrical distribution revenue and growth in merchandise licensing. These increases were partially offset by lower ABC Studios program sales. Service revenue reflected an approximate 1 percentage point decrease due to the movement of the U.S. dollar against major currencies including the impact of our hedging program (Foreign Exchange Impact).

Product revenues for fiscal 2019 increased 5%, or \$0.5 billion, to \$9.0 billion, due to the consolidation of TFCF's operations and growth at our legacy operations. The increase at our legacy operations was due to guest spending growth at our theme parks and resorts, partially offset by lower home entertainment volumes. Product revenue reflected an approximate 1 percentage point decrease due to an unfavorable Foreign Exchange Impact.

TABLE OF CONTENTS

Costs and expenses

Cost of services for fiscal 2019 increased 32%, or \$8.9 billion, to \$36.5 billion, due to the consolidation of TFCF and Hulu's operations and higher costs at our legacy operations. The increase in costs at our legacy operations reflected higher programming and production costs, labor cost inflation at our theme parks and resorts and an increase in film cost amortization. Cost of services reflected an approximate 1 percentage point decrease due to a favorable Foreign Exchange Impact.

Cost of products for fiscal 2019 increased 7%, or \$0.4 billion, to \$5.6 billion, due to the consolidation of TFCF's operations and higher costs at our legacy operations. The increase in costs at our legacy operations was due to higher sales of food, beverage and merchandise and labor cost inflation at our theme parks and resorts, partially offset by a decrease in home entertainment volumes. Cost of products reflected an approximate 1 percentage point decrease due to a favorable Foreign Exchange Impact.

Selling, general, administrative and other costs for fiscal 2019 increased 30%, or \$2.7 billion, to \$11.5 billion, due to the consolidation of TFCF and Hulu's operations, and increases in marketing and compensation costs at our legacy operations. Selling, general, administrative and other costs reflected an approximate 2 percentage point decrease due to a favorable Foreign Exchange Impact.

Depreciation and amortization costs increased 38%, or \$1.1 billion, to \$4.2 billion due to amortization of intangible assets arising from the acquisition of TFCF and consolidation of Hulu.

Restructuring and Impairment Charges

The Company recorded \$1.2 billion and \$33 million of restructuring and impairment charges in fiscal 2019 and 2018, respectively. Charges in fiscal 2019 were due to severance in connection with the acquisition and integration of TFCF. Charges in fiscal 2018 were due to severance costs.

Other Income, net

(in millions)	2019	2018	% Change Better/(Worse)
Hulu Gain	\$ 4,794	\$ —	nm
Insurance recoveries related to legal matters	46	38	21 %
Charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition	(511)	—	nm
Gain on sale of real estate, property rights and other	28	563	) (95 %
Other income, net	<u>\$ 4,357</u>	<u>\$ 601</u>	>100 %

In fiscal 2019, the Company recognized a non-cash gain of \$4,794 million in connection with the acquisition of a controlling interest in Hulu.

In fiscal 2019 and fiscal 2018, the Company recorded insurance recoveries of \$46 million and \$38 million, respectively, in connection with the settlement of legal matters.

In fiscal 2019, the Company recorded a charge of \$511 million for the extinguishment of a portion of the debt originally assumed in TFCF acquisition.

In fiscal 2019, the Company recorded a gain of \$28 million on the deemed settlement of preexisting relationships with TFCF pursuant to acquisition accounting guidance. In fiscal 2018, the Company recorded gains of \$560 million in connection with the sales of real estate and property rights in New York City and a \$3 million adjustment to a fiscal 2017 non-cash net gain of \$255 million recorded in connection with the acquisition of a controlling interest in BAMTech.

TABLE OF CONTENTS

Interest Expense, net

(in millions)	2019	2018	% Change Better/(Worse)
Interest expense	\$ (1,246)	\$ (682)	) (83 %)
Interest income, investment income and other	268	108	>100 %
Interest expense, net	\$ (978)	\$ (574)	) (70 %)

The increase in interest expense was due to higher average debt balances as a result of the TFCF acquisition and to a lesser extent, higher average interest rates. These increases were partially offset by higher capitalized interest and a benefit from market value adjustments on pay-floating interest rate swap options.

The increase in interest income, investment income and other for the year was due to a \$102 million benefit related to pension and postretirement benefit costs, other than service cost, and higher interest income on cash balances. The comparable benefit related to pension and postretirement benefit costs of \$30 million in the prior year was reported in “Costs and expenses.” The benefit in the current year was due to the expected return on pension plan assets exceeding interest expense on plan liabilities and amortization of prior net actuarial losses.

Equity in the Loss of Investees

Equity in the loss of investees of \$103 million was comparable to the prior year as higher impairments in the current year were offset by lower equity losses from Hulu as a result of our consolidation of Hulu following the TFCF acquisition.

Effective Income Tax Rate

	2019	2018	Change Better/(Worse)
Effective income tax rate - continuing operations	21.7 %	11.3 %	(10.4) ppt

The increase in the effective income tax rate was due to the impact of the Tax Act, of which the most significant impacts were a \$1.7 billion net benefit (11 percentage points) that was recognized in the prior year, partially offset by a current year benefit from a reduction in the Company’s U.S. statutory federal income tax rate to 21% in fiscal 2019 from 24.5% in fiscal 2018.

Noncontrolling Interests

(in millions)	2019	2018	% Change Better/ (Worse)
Net income from continuing operations attributable to noncontrolling interests	\$ (472)	\$ (468)	) (1 %)

Net income from continuing operations attributable to noncontrolling interests was comparable to the prior year as the accretion of the redeemable noncontrolling interest in Hulu (see Note 4 to the Consolidated Financial Statements) and a lower loss allocation to the noncontrolling interest holders of BAMTech were offset by a higher loss from our direct-to-consumer sports business.

Net income attributable to noncontrolling interests is determined on income after royalties and management fees, financing costs and income taxes, as applicable.

Discontinued Operations

Net income from discontinued operations in fiscal 2019 reflected the operations of the RSNs.

2018 vs. 2017

Revenues for fiscal 2018 increased 8%, or \$4.3 billion, to \$59.4 billion; net income attributable to Disney increased 40%, or \$3.6 billion, to \$12.6 billion; and EPS for the year increased 47%, or \$2.67 to \$8.36. The EPS increase in fiscal 2018 was due to a benefit from the Tax Act, higher segment operating income, a decrease in weighted average shares outstanding as a result of our share repurchase program and gains on the sale of real estate and property rights. These increases were partially

TABLE OF CONTENTS

offset by the comparison to a fiscal 2017 non-cash net gain in connection with the acquisition of a controlling interest in BAMTech, impairments of our Vice and Villages Nature equity method investments in fiscal 2018 and higher net interest and corporate and unallocated shared expenses. The increase in segment operating income was due to growth at our Studio Entertainment, Parks, Experiences and Products and Media Networks segments, partially offset by lower results at our Direct-to-Consumer & International segment. In addition, net income attributable to Disney reflected an approximate 1 percentage point decrease due to an unfavorable Foreign Exchange Impact.

Revenues

Service revenues for fiscal 2018 increased 9%, or \$4.0 billion, to \$50.9 billion, due to higher theatrical distribution revenue, growth in guest spending and volumes at our theme parks and resorts, an increase in affiliate fees, increased TV/SVOD distribution revenue and the consolidation of BAMTech. In September 2017, the Company increased its ownership in BAMTech and began consolidating its results. These increases were partially offset by lower advertising revenue.

Product revenues for fiscal 2018 increased 3%, or \$0.3 billion, to \$8.6 billion, due to guest spending and volume growth at our theme parks and resorts, partially offset by lower home entertainment volumes and a decrease in retail store sales. Product revenue reflected an approximate 1 percentage point increase due to a favorable Foreign Exchange Impact.

Costs and expenses

Cost of services for fiscal 2018 increased 9%, or \$2.2 billion, to \$27.5 billion, due to higher film and television cost amortization driven by an increase in theatrical and TV/SVOD distribution revenue and contractual rate increases for television programming. Costs of services also increased due to the consolidation of BAMTech and higher costs at our theme parks and resorts reflecting cost inflation, higher technology and operations support expenses and a special fiscal 2018 domestic employee bonus.

Cost of products for fiscal 2018 increased 4%, or \$0.2 billion, to \$5.2 billion due to cost inflation and higher guest spending and volumes at our theme parks and resorts. Cost of products reflected an approximate 1 percentage point increase due to an unfavorable Foreign Exchange Impact.

Selling, general, administrative and other costs for fiscal 2018 increased 8%, or \$0.7 billion, to \$8.9 billion, due to higher marketing spend, the consolidation of BAMTech, costs incurred in connection with the TFCF acquisition and an increase in compensation costs.

Depreciation and amortization costs increased 8%, or \$0.2 billion, to \$3.0 billion primarily due to depreciation of new attractions at our theme parks and resorts and the consolidation of BAMTech. Depreciation and amortization costs reflected an approximate 1 percentage point increase due to an unfavorable Foreign Exchange Impact.

Restructuring and Impairment Charges

The Company recorded \$33 million and \$98 million of restructuring and impairment charges in fiscal 2018 and 2017, respectively. Charges in fiscal 2018 were due to severance costs. Charges in fiscal 2017 were due to severance costs and asset impairments.

Other Income, net

(in millions)	2018	2017	% Change Better/(Worse)
Gain on sales of real estate and property rights	\$ 560	\$ —	nm
Insurance recoveries (settlements) related to legal matters	38	(177)	nm
Gain related to the acquisition of BAMTech	3	255	) (99 %
Other income, net	<u>\$ 601</u>	<u>\$ 78</u>	>100 %

In fiscal 2017, the Company recorded a charge of \$177 million in connection with the settlement of a litigation matter, net of committed insurance recoveries, and a gain of \$255 million in connection with the acquisition of a controlling interest in BAMTech.

TABLE OF CONTENTS

Interest Expense, net

(in millions)	2018	2017	% Change Better/(Worse)
Interest expense	\$ (682)	\$ (507)	) (35 %)
Interest and investment income	108	122	) (11 %)
Interest expense, net	<u>\$ (574)</u>	<u>\$ (385)</u>	) (49 %)

The increase in interest expense was due to an increase in average interest rates, higher average debt balances and financing costs related to the acquisition of TFCF.

The decrease in interest and investment income for fiscal 2018 was due to the comparison to gains on investments recognized in fiscal 2017, partially offset by an increase in interest income driven by higher average interest rates.

Equity in the income (loss) of investees, net

Equity in the income of investees decreased \$422 million, to a loss of \$102 million due to higher losses from Hulu, impairments of Vice and Villages Nature equity method investments and lower income from A+E. These decreases were partially offset by a favorable comparison to a loss from BAMTech in fiscal 2017. The decrease at Hulu was driven by higher programming, labor and marketing costs, partially offset by growth in subscription and advertising revenue. The decrease at A+E was due to lower advertising revenue and higher programming costs, partially offset by higher program sales.

Effective Income Tax Rate

	2018	2017	Change Better/ (Worse)
Effective income tax rate	11.3 %	32.1 %	20.8 ppt

The decrease in the effective income tax rate was due to the impact of the Tax Act, which included:

- A net benefit of \$1.7 billion, which reflected a \$2.1 billion benefit from remeasuring our deferred tax balances to the new statutory rate (Deferred Remeasurement), partially offset by a charge of \$0.4 billion for a one-time tax on certain accumulated foreign earnings (Deemed Repatriation Tax). This benefit had an impact of approximately 11.5 percentage points on the effective income tax rate.
- A reduction in the Company's fiscal 2018 U.S. statutory federal income tax rate to 24.5% from 35.0% in fiscal 2017. Net of state tax and other related effects, the reduction in the statutory rate had an impact of approximately 8.2 percentage points on the effective income tax rate.

Noncontrolling Interests

(in millions)	2018	2017	% Change Better/(Worse)
Net income from continuing operations attributable to noncontrolling interests	\$ (468)	\$ (386)	) (21 %)

Net income attributable to noncontrolling interests for fiscal 2018 increased \$82 million to \$468 million due to lower tax expense at ESPN, largely due to the Tax Act, and the impact of the Company's acquisition of the noncontrolling interest in Disneyland Paris in the third quarter of fiscal 2017. These increases were partially offset by losses at BAMTech.

Certain Items Impacting Comparability

Results for fiscal 2019 were impacted by the following:

- The Hulu Gain of \$4.8 billion
- A benefit of \$74 million consisting of \$46 million from insurance recoveries related to a legal matter and a gain of \$28 million recognized on the settlement of preexisting relationships with TFCF pursuant to acquisition accounting guidance
- A benefit of \$34 million from the Tax Act
- Amortization of \$1.6 billion related to TFCF and Hulu intangible assets and fair value step-up on film and television costs

TABLE OF CONTENTS

- Restructuring and impairment charges of \$1.2 billion
- Impairments of \$538 million on equity investments
- A charge of \$511 million for the extinguishment of a portion of debt originally assumed in the TFCF acquisition

Results for fiscal 2018 were impacted by the following:

- A benefit of \$1.7 billion from the Tax Act Deferred Remeasurement, net of the Deemed Repatriation Tax
- A benefit of \$601 million comprising \$560 million in gains from the sales of real estate and property rights, \$38 million from insurance recoveries in connection with the settlement of a fiscal 2017 litigation matter and \$3 million from an adjustment related to a non-cash gain recognized in fiscal 2017 for the acquisition of a controlling interest in BAMTech
- Impairments of \$210 million for Vice and Villages Nature equity investments
- Restructuring and impairment charges of \$33 million

Results for fiscal 2017 were impacted by the following:

- A non-cash net gain of \$255 million in connection with the acquisition of a controlling interest in BAMTech
- A charge, net of committed insurance recoveries, of \$177 million in connection with the settlement of litigation
- Restructuring and impairment charges of \$98 million

A summary of the impact of these items on EPS is as follows:

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/ (Expense) ⁽¹⁾	After-Tax Income/(Loss)	EPS Favorable/ (Adverse) ⁽²⁾
Year Ended September 28, 2019:				
Hulu Gain	\$ 4,794	\$ (1,103)	\$ 3,691	\$ 2.22
Insurance recoveries and gains on the settlement of preexisting relationships	74	(17)	57	0.03
Benefit from the Tax Act	—	34	34	0.02
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs, net of gain ⁽³⁾	(1,595)	355	(1,240)	(0.74)
Restructuring and impairment charges	(1,183)	273	(910)	(0.55)
Impairment of equity investments	(538)	123	(415)	(0.25)
Charge for the extinguishment of debt	(511)	118	(393)	(0.24)
Total	\$ 1,041	\$ (217)	\$ 824	\$ 0.50
Year Ended September 29, 2018:				
Net benefit from the Tax Act	\$ —	\$ 1,701	\$ 1,701	\$ 1.11
Gain from sale of real estate, property rights and other	601	(158)	443	0.30
Impairment of equity investments	(210)	49	(161)	(0.11)
Restructuring and impairment charges	(33)	7	(26)	(0.02)
Total	\$ 358	\$ 1,599	\$ 1,957	\$ 1.28

Year Ended September 30, 2017:								
Settlement of litigation	\$	(177)	\$	65	\$	(112)	\$	(0.07)
Restructuring and impairment charges		(98)		31		(67)		(0.04)
Gain related to the acquisition of BAMTech		255		(93)		162		0.10
Total	\$	(20)	\$	3	\$	(17)	\$	(0.01)

- (1) Tax benefit/expense adjustments are determined using the tax rate applicable to the individual item affecting comparability.
- (2) EPS is net of noncontrolling interest share, where applicable. Total may not equal the sum of the column due to rounding.
- (3) Includes amortization of intangibles related to TFCF equity investees.

[TABLE OF CONTENTS](#)

BUSINESS SEGMENT RESULTS — 2019 vs. 2018

Below is a discussion of the major revenue and expense categories for our business segments. Costs and expenses for each segment consist of operating expenses, selling, general, administrative and other costs, and depreciation and amortization. Selling, general, administrative and other costs include third-party and internal marketing expenses.

Our Media Networks segment generates revenue from affiliate fees, advertising (excluding addressable ad sales) and other revenues, which include the sale and distribution of television programs. Significant expenses include amortization of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs.

Our Parks, Experiences and Products segment generates revenue from the sale of admissions to theme parks, the sale of food, beverage and merchandise at our theme parks and resorts, charges for room nights at hotels, sales of cruise vacations, sales and rentals of vacation club properties, royalties from licensing intellectual properties and sale of branded merchandise. Revenues are also generated from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort. Significant expenses include operating labor, costs of goods sold, infrastructure costs, depreciation and other operating expenses. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation. Other operating expenses include costs for such items as supplies, commissions and entertainment offerings.

Our Studio Entertainment segment generates revenue from the distribution of films in the theatrical, home entertainment and TV/SVOD markets, stage play ticket sales and licensing of our intellectual properties for use in live entertainment productions. Significant expenses include amortization of production, participations and residuals costs, marketing and sales costs, distribution expenses and costs of sales.

Our Direct-to-Consumer & International segment generates revenue from affiliate fees, advertising sales (includes addressable ad sales), subscription fees for our DTC streaming and other services, and fees charged for technology support services. Significant expenses include operating expenses, selling general and administrative costs and depreciation and amortization. Operating expenses include programming and production costs (including programming, production and branded digital content obtained from other Company segments), technology support costs, operating labor and distribution costs.

The Company evaluates the performance of its operating segments based on segment operating income, and management uses total segment operating income as a measure of the overall performance of the operating businesses. Total segment operating income is not a financial measure defined by GAAP, should be reviewed in conjunction with the relevant GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company believes that information about total 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 income from continuing operations before income taxes to total segment operating income.

(in millions)	2019	2018	2017	% Change Better/(Worse)	
				2019 vs. 2018	2018 vs. 2017
Income before income taxes	\$ 13,944	\$ 14,729	\$ 13,788	) (5 %	7 %
Add/(subtract):					
Corporate and unallocated shared expenses	987	744	582	) (33 %	) (28 %
Restructuring and impairment charges	1,183	33	98	) >(100 %	66 %
Other income, net	(4,357)	(601)	(78)	>100 %	>100 %

Interest expense, net	978	574	385	) (70 %	) (49 %
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	1,595	—	—	nm	nm
Impairment of equity investments	538	210	—	) >(100 %	nm
Total segment operating income	\$ 14,868	\$ 15,689	\$ 14,775	) (5 %	6 %

⁽¹⁾ Includes amortization of intangibles related to TFCF equity investees

TABLE OF CONTENTS

The following is a summary of segment revenue and operating income:

				% Change Better/(Worse)	
(in millions)	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Revenues:					
Media Networks	\$ 24,827	\$ 21,922	\$ 21,299	13 %	3 %
Parks, Experiences and Products	26,225	24,701	23,024	6 %	7 %
Studio Entertainment	11,127	10,065	8,352	11 %	21 %
Direct-to-Consumer & International	9,349	3,414	3,075	100 %	11 %
Eliminations	(1,958)	(668)	(613)	) >(100 %	) (9 %
	\$ 69,570	\$ 59,434	\$ 55,137	17 %	8 %
Segment operating income / (loss):					
Media Networks	\$ 7,479	\$ 7,338	\$ 7,196	2 %	2 %
Parks, Experiences and Products	6,758	6,095	5,487	11 %	11 %
Studio Entertainment	2,686	3,004	2,363	) (11 %	27 %
Direct-to-Consumer & International	(1,814)	(738)	(284)	) >(100 %	) (100 %
Eliminations	(241)	(10)	13	) >(100 %	) nm
	\$ 14,868	\$ 15,689	\$ 14,775	) (5 %	6 %

Media Networks

Operating results for the Media Networks segment are as follows:

	Year Ended		% Change Better / (Worse)
(in millions)	September 28, 2019	September 29, 2018	
Revenues			
Affiliate fees	\$ 13,433	\$ 11,907	13 %
Advertising	6,965	6,586	6 %
TV/SVOD distribution and other	4,429	3,429	29 %
Total revenues	24,827	21,922	13 %
Operating expenses	(15,499)	(13,197)	) (17 %
Selling, general, administrative and other	(2,361)	(1,899)	) (24 %
Depreciation and amortization	(191)	(199)	4 %
Equity in the income of investees	703	711	) (1 %
Operating Income	\$ 7,479	\$ 7,338	2 %

Revenues

The increase in affiliate fees was due to increases of 8% from the consolidation of TFCF's operations and 7% from higher contractual rates, partially offset by a decrease of approximately 2 and one-half percent from fewer subscribers.

The increase in advertising revenues was due to increases of \$374 million at Cable Networks, from \$3,129 million to \$3,503 million and \$5 million at Broadcasting, from \$3,457 million to \$3,462 million. Cable Networks advertising revenue reflected increases of 11% from the consolidation of TFCF's operations and 2% from higher impressions reflecting higher units delivered, partially offset by lower average viewership. Broadcasting advertising revenue was comparable to the prior-year period as increases of 7% from higher network rates and 2% from the consolidation of TFCF's operations were offset by a decrease of 9% from average viewership.

TABLE OF CONTENTS

TV/SVOD distribution and other revenue increased \$1,000 million, due to sales of TFCF programs, partially offset by a decrease in ABC Studios program sales. The decrease in ABC Studios program sales reflects the prior-year sales of *Daredevil*, *Luke Cage* and *Iron Fist*, partially offset by the current-year sale of *The Punisher*.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$2,142 million from \$12,555 million to \$14,697 million. At Cable Networks, programming and production costs increased \$1,255 million due to the consolidation of TFCF's operations and contractual rate increases for college sports, NFL, NBA and MLB programming. At Broadcasting, programming and production costs increased \$887 million due to the consolidation of TFCF's operations, partially offset by the impact of lower ABC Studios program sales.

Selling, general, administrative and other costs increased from \$1,899 million to \$2,361 million due to the consolidation of TFCF's operations.

Segment Operating Income

Segment operating income increased 2%, or \$141 million, to \$7,479 million due to the consolidation of TFCF's operations, partially offset by lower income from ABC Studios program sales.

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2019	September 29, 2018	
Revenues			
Cable Networks	\$ 16,486	\$ 14,610	13 %
Broadcasting	8,341	7,312	14 %
	<u>\$ 24,827</u>	<u>\$ 21,922</u>	13 %
Segment operating income			
Cable Networks	\$ 5,425	\$ 5,225	4 %
Broadcasting	1,351	1,402	) (4 %)
Equity in the income of investees	703	711	) (1 %)
	<u>\$ 7,479</u>	<u>\$ 7,338</u>	2 %

Items Excluded from Segment Operating Income Related to Media Networks

The following table presents supplemental information for items related to the Media Network segment that are excluded from segment operating income:

(in millions)	Year Ended		% Change Better/(Worse)
	September 28, 2019	September 29, 2018	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (684)	\$ —	nm
Restructuring and impairment charges	(105)	(2)	>(100) %
Impairment of equity investments	(184)	—	>(100) %

⁽¹⁾ Amortization of step-up on film and television costs was \$359 million and amortization of intangible assets was \$325 million.

TABLE OF CONTENTS

Parks, Experiences and Products

Operating results for the Parks, Experiences and Products segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2019	September 29, 2018	
Revenues			
Theme park admissions	\$ 7,540	\$ 7,183	5 %
Parks & Experiences merchandise, food and beverage	5,963	5,674	5 %
Resorts and vacations	6,266	5,938	6 %
Merchandise licensing and retail	4,519	4,249	6 %
Parks licensing and other	1,937	1,657	17 %
Total revenues	26,225	24,701	6 %
Operating expenses	(14,015)	(13,326)	(5 %)
Selling, general, administrative and other	(3,133)	(2,930)	(7 %)
Depreciation and amortization	(2,306)	(2,327)	1 %
Equity in the loss of investees	(13)	(23)	43 %
Operating Income	\$ 6,758	\$ 6,095	11 %

Revenues

The increase in theme park admissions revenue was due to an increase of 8% from higher average ticket prices, partially offset by decreases of 2% from lower attendance and 1% from an unfavorable Foreign Exchange Impact. The decrease in attendance was due to lower attendance at Shanghai Disney Resort. Attendance at our domestic theme parks was comparable to the prior year.

Parks & Experiences merchandise, food and beverage revenue growth was due to an increase of 6% from higher average guest spending, partially offset by a decrease of 1% from lower volumes.

The increase in resorts and vacations revenue was primarily due to increases of 2% from higher average daily hotel room rates, 1% from an increase in average ticket prices for cruise line sailings and 1% from the consolidation of TFCF's operations.

Merchandise licensing and retail revenue growth was due to increases of 3% from merchandise licensing, 1% from our retail stores, 1% from a favorable Foreign Exchange Impact and 1% from our publishing business due to the consolidation of TFCF's operations. The increase in merchandise licensing revenues was primarily due to higher revenue from products based on Toy Story, an increase in guaranteed shortfall recognition and higher revenues from Avengers and Frozen merchandise. These increases were partially offset by lower revenues from products based on Star Wars and Cars. Higher revenues at our retail stores were due to an increase in online sales.

The increase in parks licensing and other revenue was due to the adoption of ASC 606 and higher real estate sales. The adoption of ASC 606 required certain cost reimbursements from licensees to be recognized as revenue rather than recorded as an offset to operating expenses.

TABLE OF CONTENTS

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽²⁾		Total	
	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018
Parks						
Increase/ (decrease)						
Attendance	— %	4 %	(7 %)	4 %	(2 %)	4 %
Per Capita Guest Spending	7 %	6 %	13 %	5 %	8 %	6 %
Hotels ⁽¹⁾						
Occupancy	90 %	88 %	81 %	84 %	88 %	87 %
Available Room Nights (in thousands)	10,030	10,045	3,182	3,179	13,212	13,224
Per Room Guest Spending	\$353	\$345	\$330	\$315	\$348	\$338

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

⁽²⁾ Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the fiscal 2018 average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$237 million from \$5,937 million to \$6,174 million, cost of sales and distribution costs, which increased \$154 million from \$2,764 million to \$2,918 million, and infrastructure costs, which increased \$99 million from \$2,370 million to \$2,469 million. The increase in operating labor was due to inflation, including the impact of wage increases for union employees, partially offset by the comparison to a special domestic employee bonus that was recognized in fiscal 2018. The increase in cost of sales and distribution costs was driven by higher sales of food, beverage and merchandise at our theme parks and resorts. Higher infrastructure costs were due to an increase in technology spending and costs for new guest offerings, including expenses associated with *Star Wars: Galaxy's Edge*. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased \$199 million, from \$2,255 million to \$2,454 million, due to the recognition of certain cost reimbursements from licensees as revenue rather than recorded as an offset to operating expenses.

Selling, general, administrative and other costs increased \$203 million from \$2,930 million to \$3,133 million primarily due to inflation and higher marketing spend at our parks and resorts.

Segment Operating Income

Segment operating income increased 11%, or \$663 million, to \$6,758 million due to growth at our domestic theme parks and resorts and our consumer products businesses.

TABLE OF CONTENTS

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment to provide continuity with our legacy reporting:

	Year Ended		% Change Better / (Worse)
(in millions)	September 28, 2019	September 29, 2018	
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 17,369	\$ 16,161	7 %
International	4,223	4,135	2 %
Consumer Products	4,633	4,405	5 %
	<u>\$ 26,225</u>	<u>\$ 24,701</u>	6 %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ 4,412	\$ 4,013	10 %
International	507	456	11 %
Consumer Products	1,839	1,626	13 %
	<u>\$ 6,758</u>	<u>\$ 6,095</u>	11 %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2019	September 29, 2018	
Revenues			
Theatrical distribution	\$ 4,726	\$ 4,303	10 %
Home entertainment	1,734	1,647	5 %
TV/SVOD distribution and other	4,667	4,115	13 %
Total revenues	11,127	10,065	11 %
Operating expenses	(5,187)	(4,449)	) (17%
Selling, general, administrative and other	(3,119)	(2,493)	) (25 %
Depreciation and amortization	(135)	(119)	) (13 %
Operating Income	\$ 2,686	\$ 3,004	) (11 %

Revenues

The increase in theatrical distribution revenue was due to the comparison of four significant Disney live-action titles, *Lion King*, *Aladdin*, *Mary Poppins Returns* and *Dumbo* in the current year to no significant Disney live-action titles in the prior year, and the consolidation of TFCF's operations. These increases were partially offset by two Marvel titles, *Avengers: Endgame* and *Captain Marvel* and no Star Wars title in the current year compared to four Marvel titles, *Avengers: Infinity War*, *Black Panther*, *Thor: Ragnarok* and *Ant-Man and the Wasp*, and two Star Wars titles, *Star Wars: The Last Jedi* and *Solo: A Star Wars Story* in the prior year. The current year also included *Toy Story 4* and *Ralph Breaks the Internet*, while the prior year included *Incredibles 2* and *Coco*.

Higher home entertainment revenue was due to an increase of 16% from the consolidation of TFCF's operations, partially offset by decreases of 9% from lower unit sales and 1% from a decrease in net effective pricing at our legacy operations. The decrease in unit sales was due to the release of *Star Wars: The Last Jedi* in the prior year compared to no Star Wars release in the current year. Other significant titles in release included *Avengers:*

Endgame, Incredibles 2, Captain Marvel, Ant-Man and the Wasp, and Ralph Breaks the Internet in the current year and *Avengers: Infinity War, Black Panther, Thor: Ragnarok, Coco* and *Cars 3* in the prior year.

TABLE OF CONTENTS

Higher TV/SVOD distribution and other revenue was due to an increase of 14% from TV/SVOD distribution, partially offset by a decrease of 2% from Lucasfilm's special effects business due to fewer projects. The increase in TV/SVOD distribution was due to the consolidation of TFCF's operations and, to a lesser extent, the impact of the adoption of ASC 606.

Costs and Expenses

Operating expenses include film cost amortization, which increased \$575 million, from \$3,187 million to \$3,762 million, due to the consolidation of TFCF's operations. Operating expenses also include cost of goods sold and distribution costs, which increased \$163 million, from \$1,262 million to \$1,425 million, due to the consolidation of TFCF's operations, partially offset by fewer projects at Lucasfilm's special effects business.

Selling, general, administrative and other costs increased \$626 million from \$2,493 million to \$3,119 million due to the consolidation of TFCF's operations.

The increase in depreciation and amortization was due to the consolidation of TFCF's operations.

Segment Operating Income

Segment operating income decreased 11%, or \$318 million to \$2,686 million due to the consolidation of TFCF's operations and lower home entertainment results, partially offset by decreases in film impairments and write-offs from our legacy operations.

Items Excluded from Segment Operating Income Related to Studio Entertainment

The following table presents supplemental information for items related to the Studio Entertainment segment that are excluded from segment operating income:

(in millions)	Year Ended		% Change Better/(Worse)
	September 28, 2019	September 29, 2018	
Amortization of TFCF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (206)	\$ —	nm
Restructuring and impairment charges	(219)	(8)	>(100) %

⁽¹⁾ Amortization of step-up on film and television costs was \$179 million and amortization of intangible assets was \$27 million.

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 28, 2019	September 29, 2018	
Revenues			
Affiliate fees	\$ 2,740	\$ 1,372	100 %
Advertising	3,534	1,311	>100 %
Subscription fees and other	3,075	731	>100 %
Total revenues	9,349	3,414	>100 %
Operating expenses	(8,497)	(2,384)	>(100) %
Selling, general, administrative and other	(2,108)	(1,003)	>(100) %
Depreciation and amortization	(318)	(185)	(72) %
Equity in the loss of investees	(240)	(580)	59 %
Operating Loss	\$ (1,814)	\$ (738)	>(100) %

Revenues

The increase in affiliate fees was due to the consolidation of TFCF's operations and to a lesser extent, higher rates at our legacy operations, partially offset by an unfavorable Foreign Exchange Impact.

TABLE OF CONTENTS

The increase in advertising revenues was due to increases of \$1,178 million in addressable advertising sales, driven by the consolidation of Hulu's operations, and \$1,045 million at our International Channels, driven by the consolidation of TFCF's operations.

Subscription fees and other revenue increased due to the consolidation of Hulu's operations and, to a lesser extent, the consolidation of TFCF's international program sales and higher subscription fees for ESPN+, which launched in April 2018.

Costs and Expenses

Operating expenses include an increase of \$5,208 million in programming and production costs, from \$1,572 million to \$6,780 million, and an increase of \$905 million in other operating expenses, from \$812 million to \$1,717 million. The increase in programming and production costs was due to the consolidation of Hulu and TFCF's operations and, to a lesser extent, the ramp up of our investment in ESPN+ and the upcoming launch of Disney+. Other operating expenses, which include technical support and distribution costs, increased due to the consolidation of Hulu and TFCF's operations.

Selling, general, administrative and other costs increased \$1,105 million, from \$1,003 million to \$2,108 million, due to the consolidation of TFCF and Hulu's operations.

Depreciation and amortization increased \$133 million, from \$185 million to \$318 million, due to the consolidation of TFCF and Hulu's operations and increased investment in technology.

Equity in the Loss of Investees

Loss from equity investees decreased \$340 million, from \$580 million to \$240 million, due to the consolidation of Hulu.

Segment Operating Loss

Segment operating loss increased from \$738 million to \$1,814 million due to the ramp up of our investment in ESPN+, which launched in April 2018, the consolidation of Hulu's operations and costs associated with the upcoming launch of Disney+, partially offset by the consolidation of TFCF's operations.

The following table presents supplemental revenue and operating income/(loss) detail for the Direct-to-Consumer & International segment. Fiscal 2019 includes revenues and operating income from the consolidation of TFCF and Hulu's operations:

(in millions)	Year Ended		% Change
	September 28, 2019	September 29, 2018	Better / (Worse)
<i>Supplemental revenue detail</i>			
International Channels	\$ 4,690	\$ 1,920	>100 %
Direct-to-Consumer businesses and other	4,659	1,494	>100 %
	<u>\$ 9,349</u>	<u>\$ 3,414</u>	>100 %
<i>Supplemental operating income/(loss) detail</i>			
International Channels	\$ 670	\$ 311	>100 %
Direct-to-Consumer businesses and other	(2,244)	(469)	) >(100 %
Equity in the loss of investees	(240)	(580)	59 %
	<u>\$ (1,814)</u>	<u>\$ (738)</u>	) >(100 %

Items Excluded from Segment Operating Loss Related to Direct-to-Consumer & International

The following table presents supplemental information for items related to the Direct-to-Consumer & International segment that are excluded from segment operating loss:

(in millions)	Year Ended		% Change Better/(Worse)
	September 28, 2019	September 29, 2018	
	\$ (701)	\$ —	nm

Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾			
Hulu Gain	4,822	—	nm
Restructuring and impairment charges	(456)	—	nm
Impairment of equity investments	(354)	(157)	>(100) %

⁽¹⁾ Amortization of intangible assets was \$687 million and amortization of step-up on film and television costs was \$14 million.

TABLE OF CONTENTS

Eliminations

Intersegment content transactions are as follows:

	Year Ended		% Change
(in millions)	September 28, 2019	September 29, 2018	Better/ (Worse)
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (106)	\$ (169)	37 %
Content transactions with Direct-to-Consumer & International	(272)	(28)	>(100) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(1,580)	(471)	>(100) %
Total	\$ (1,958)	\$ (668)	>(100) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ (19)	\$ (8)	>(100) %
Content transactions with Direct-to-Consumer & International	(80)	—	nm
Media Networks:			
Content transactions with Direct-to-Consumer & International	(142)	(2)	>(100) %
Total	\$ (241)	\$ (10)	>(100) %

Revenues and Operating Income

The increase in the impact from eliminations was due to the elimination of sales of ABC Studios and Twentieth Century Fox Television programs to Hulu and the sales of films to Disney+.

BUSINESS SEGMENT RESULTS – 2018 vs. 2017

Media Networks

Operating results for the Media Networks segment are as follows:

	Year Ended		% Change Better / (Worse)
(in millions)	September 29, 2018	September 30, 2017	
Revenues			
Affiliate fees	\$ 11,907	\$ 11,324	5 %
Advertising	6,586	6,938	) (5 %
TV/SVOD distribution and other	3,429	3,037	13 %
Total revenues	21,922	21,299	3 %
Operating expenses	(13,197)	(12,754)	) (3 %
Selling, general, administrative and other	(1,899)	(1,909)	1 %
Depreciation and amortization	(199)	(206)	3 %

Equity in the income of investees	711	766)
			(7%
Operating Income	<u>\$ 7,338</u>	<u>\$ 7,196</u>	2 %

TABLE OF CONTENTS

Revenues

The increase in affiliate fees was due to an increase of 7% from higher contractual rates, partially offset by a decrease of 2% from fewer subscribers.

The decrease in advertising revenues was due to decreases of \$229 million at Cable Networks, from \$3,358 million to \$3,129 million and \$123 million at Broadcasting, from \$3,580 million to \$3,457 million. The decrease at Cable Networks was due to a decrease of 6% from lower impressions as lower average viewership was partially offset by higher units delivered. The decrease at Broadcasting was due to decreases of 7% from lower network impressions and 2% from lower impressions at the owned television stations, both of which were driven by lower average viewership. The decrease was partially offset by an increase of 6% from higher network rates.

TV/SVOD distribution and other revenue increased \$392 million due to higher ABC Studios program sales driven by increased revenue from programs licensed to Hulu and higher sales of *Grey's Anatomy* and *Black-ish*. Additionally, fiscal 2018 included the sales of *Luke Cage*, *Daredevil* and *Jessica Jones* compared to fiscal 2017 sales of *The Punisher* and *The Defenders*.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$486 million from \$12,069 million to \$12,555 million. At Broadcasting, programming and production costs increased \$317 million due to higher program sales and a higher average cost of network programming, including the impact of *American Idol*, *Roseanne* and *The Goldbergs* in fiscal 2018. At Cable Networks, programming and production costs increased \$169 million due to contractual rate increases for college sports, NFL, NBA and MLB programming, partially offset by lower production costs.

Equity in the Income of Investees

Income from equity investees decreased \$55 million from \$766 million to \$711 million due to lower income from A+E driven by decreased advertising revenue and higher programming costs, partially offset by higher program sales.

Segment Operating Income

Segment operating income increased 2%, or \$142 million, to \$7,338 million due to higher program sales and an increase at the Domestic Disney Channels, partially offset by lower income from equity investees.

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

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2018	September 30, 2017	
Revenues			
Cable Networks	\$ 14,610	\$ 14,416	1 %
Broadcasting	7,312	6,883	6 %
	<u>\$ 21,922</u>	<u>\$ 21,299</u>	3 %
Segment operating income			
Cable Networks	\$ 5,225	\$ 5,174	1 %
Broadcasting	1,402	1,256	12 %
Equity in the income of investees	711	766	) (7 %)
	<u>\$ 7,338</u>	<u>\$ 7,196</u>	2 %

[TABLE OF CONTENTS](#)

Parks, Experiences and Products

Operating results for the Parks, Experiences and Products segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2018	September 30, 2017	
Revenues			
Theme park admissions	\$ 7,183	\$ 6,504	10 %
Parks & Experiences merchandise, food and beverage	5,674	5,154	10 %
Resorts and vacations	5,938	5,378	10 %
Merchandise licensing and retail	4,249	4,494	) (5 %)
Parks licensing and other	1,657	1,494	11 %
Total revenues	24,701	23,024	7 %
Operating expenses			
	(13,326)	(12,455)	) (7 %)
Selling, general, administrative and other	(2,930)	(2,896)	) (1 %)
Depreciation and amortization	(2,327)	(2,161)	) (8 %)
Equity in the loss of investees	(23)	(25)	8 %
Operating Income	\$ 6,095	\$ 5,487	11 %

Revenues

The increase in theme park admissions revenue was due to increases of 6% from higher average ticket prices, 4% from attendance growth and 1% from a favorable Foreign Exchange Impact. Attendance growth included a favorable comparison to the fiscal 2017 impacts of Hurricanes Irma and Matthew at Walt Disney World Resort.

Parks & Experiences merchandise, food and beverage revenue growth was due to increases of 5% from higher average guest spending, 3% from volume growth and 2% from a favorable Foreign Exchange Impact. Volume growth included a benefit from the favorable comparison to the fiscal 2017 impacts of Hurricanes Irma and Matthew.

The increase in resorts and vacations revenue was primarily due to increases of 3% from higher average daily hotel room rates, 1% from higher average ticket prices for cruise line sailings, 1% from a favorable Foreign Exchange Impact, 1% from an increase in passenger cruise ship days and 1% from higher occupied hotel room nights. Higher occupied hotel room nights were due to an increase at our international resorts, partially offset by a decrease at our domestic resorts, reflecting fewer available room nights at Walt Disney World Resort due to room refurbishments and conversions to vacation club units.

Merchandise licensing and retail revenues were lower primarily due to decreases of 2% from licensing, 2% from lower retail sales and 1% from an unfavorable Foreign Exchange Impact. The decrease in revenue from licensing was driven by a decrease in licensee settlements and lower revenues from products based on *Frozen*, *Cars* and *Princess*, partially offset by an increase from products based on Mickey and Minnie and *Avengers*. Lower retail revenue was driven by a decrease in comparable store sales at The Disney Stores, partially offset by higher online revenue. The decrease in comparable store sales reflected lower sales of *Star Wars* and *Moana* merchandise in the fiscal 2018, partially offset by higher sales of Mickey and Minnie merchandise.

The increase in parks licensing and other revenue was primarily due to an increase in real estate rental and sponsorship revenues.

TABLE OF CONTENTS

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽²⁾		Total	
	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017
Parks						
Increase/ (decrease)						
Attendance	4 %	2 %	4 %	47 %	4 %	13 %
Per Capita Guest Spending	6 %	2 %	5 %	) (1 %	6 %	) (1 %
Hotels ⁽¹⁾						
Occupancy	88 %	88 %	84 %	80 %	87 %	86 %
Available Room Nights (in thousands)	10,045	10,205	3,179	3,022	13,224	13,227
Per Room Guest Spending	\$345	\$317	\$297	\$289	\$334	\$311

(1) Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverage and merchandise at the hotels. Resort statistics include rentals of Disney Vacation Club units.

(2) Per capita guest spending growth rate is stated on a constant currency basis. Per room guest spending is stated at the fiscal 2017 average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$525 million from \$5,412 million to \$5,937 million, cost of goods sold and distribution costs, which increased \$94 million from \$2,670 million to \$2,764 million and infrastructure costs, which increased \$111 million from \$2,259 million to \$2,370 million. The increase in operating labor was due to inflation, higher volumes, an unfavorable Foreign Exchange Impact and a special fiscal 2018 domestic employee bonus. The increase in cost of goods sold and distribution costs was due to higher volumes and inflation. Higher infrastructure costs were driven by increased technology spending at our theme parks and resorts and inflation. Other operating expenses, which include costs such as supplies, commissions and entertainment offerings increased \$141 million from \$2,114 million to \$2,255 million due to an unfavorable Foreign Exchange Impact, inflation and new guest offerings at our theme parks and resorts.

Selling, general, administrative and other costs increased \$34 million from \$2,896 million to \$2,930 million primarily due to inflation and higher technology spending, partially offset by lower costs at our games business.

Depreciation and amortization increased \$166 million from \$2,161 million to \$2,327 million primarily due to new attractions at our domestic parks and resorts and Hong Kong Disneyland Resort and asset impairments in fiscal 2018.

Segment Operating Income

Segment operating income increased 11%, or \$608 million, to \$6.1 billion due to growth at our domestic and international Parks & Experiences, partially offset by decreases at our merchandise licensing and retail businesses.

TABLE OF CONTENTS

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment to provide continuity with our legacy reporting:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2018	September 30, 2017	
<i>Supplemental revenue detail</i>			
Parks & Experiences			
Domestic	\$ 16,161	\$ 14,812	9 %
International	4,135	3,603	15 %
Consumer Products	4,405	4,609	(4) %
	<u>\$ 24,701</u>	<u>\$ 23,024</u>	7 %
<i>Supplemental operating income detail</i>			
Parks & Experiences			
Domestic	\$ 4,013	\$ 3,464	16 %
International	456	310	47 %
Consumer Products	1,626	1,713	(5) %
	<u>\$ 6,095</u>	<u>\$ 5,487</u>	11 %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2018	September 30, 2017	
Revenues			
Theatrical distribution	\$ 4,303	\$ 2,903	48 %
Home entertainment	1,647	1,677	) (2 %)
TV/SVOD distribution and other	4,115	3,772	9 %
Total revenues	10,065	8,352	21 %
Operating expenses	(4,449)	(3,718)	) (20 %)
Selling, general, administrative and other	(2,493)	(2,156)	) (16 %)
Depreciation and amortization	(119)	(115)	) (3 %)
Operating Income	<u>\$ 3,004</u>	<u>\$ 2,363</u>	27 %

Revenues

The increase in theatrical distribution revenue was due to the release of four Marvel titles in fiscal 2018 compared to two Marvel titles in fiscal 2017. The Marvel titles in fiscal 2018 were *Avengers: Infinity War*, *Black Panther*, *Thor: Ragnarok* and *Ant-Man and the Wasp*, whereas fiscal 2017 included *Guardians of the Galaxy Vol. 2* and *Doctor Strange*. Other significant titles in fiscal 2018 included *Star Wars: The Last Jedi*, *Incredibles 2* and *Coco*, while fiscal 2017 included *Beauty and the Beast*, *Rogue One: A Star Wars Story*, *Pirates of the Caribbean: Dead Men Tell No Tales* and *Moana*.

Lower home entertainment revenue reflected a 5% decrease from lower unit sales, partially offset by an increase of 3% from higher average net effective pricing. Lower unit sales were driven by the success of *Moana* and *Finding Dory* in fiscal 2017 compared to *Coco* and *Cars 3* in fiscal 2018. The decrease was also driven by three live-action titles in fiscal 2017 as compared to two live-action titles in fiscal 2018 and the carryover performance of fiscal

2016 new release titles in fiscal 2017 compared to the carryover performance of fiscal 2017 new release titles in fiscal 2018. These decreases were partially offset by the release of three Marvel titles and two Lucasfilm titles in fiscal 2018 compared to two Marvel titles and one Lucasfilm title in fiscal 2017. The increase in average net effective pricing was due to higher rates and a higher sales mix of Blu-ray discs, partially offset by a lower mix of new release titles.

TV/SVOD distribution and other revenue reflected a 5% increase from TV/SVOD distribution and a 3% increase from stage plays. The increase in TV/SVOD distribution revenue was due to an increase in our free television business driven by

TABLE OF CONTENTS

new international agreements and the sale of *Star Wars: The Force Awakens* in fiscal 2018 with no comparable title in fiscal 2017. Higher stage play revenue was due to the opening of additional productions in fiscal 2018.

Costs and Expenses

Operating expenses include film cost amortization, which increased \$625 million, from \$2,562 million to \$3,187 million and cost of goods sold and distribution costs, which increased \$106 million, from \$1,156 million to \$1,262 million. Higher film cost amortization was due to the impact of higher theatrical distribution revenues. Higher cost of goods sold and distribution costs were due to an increase in stage play production and theatrical distribution costs.

Selling, general, administrative and other costs increased \$337 million from \$2,156 million to \$2,493 million primarily due to higher theatrical marketing costs reflecting more titles released in fiscal 2018 and, to a lesser extent, higher stage play marketing costs due to additional productions in fiscal 2018.

Segment Operating Income

Segment operating income increased 27%, or \$641 million to \$3,004 million due to an increase in theatrical distribution results.

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Year Ended		% Change Better / (Worse)
	September 29, 2018	September 30, 2017	
Revenues			
Affiliate fees	\$ 1,372	\$ 1,335	3 %
Advertising	1,311	1,293	1 %
Subscription fees and other	731	447	64 %
Total revenues	3,414	3,075	11 %
Operating expenses)
	(2,384)	(1,983)	(20 %)
Selling, general, administrative and other)
	(1,003)	(861)	(16 %)
Depreciation and amortization)
	(185)	(94)	(97 %)
Equity in the income of investees)
	(580)	(421)	(38 %)
Operating Income)
	<u>\$ (738)</u>	<u>\$ (284)</u>	>(100 %)

Revenues

The increase in affiliate fees was due to an increase of 5% from higher contractual rates, partially offset by a decrease of 2% from an unfavorable Foreign Exchange Impact.

Advertising revenue increased 1% as higher addressable ad sales were largely offset by lower revenue generated from content distributed on YouTube.

Other revenue increased \$284 million due to the consolidation of BAMTech. In fiscal 2017, the Company acquired a controlling interest in BAMTech and began consolidating its results. The Company's share of BAMTech's results was previously reported in equity in the loss of investees.

Costs and Expenses

Operating expenses included a \$147 million increase in programming and production costs, from \$1,425 million to \$1,572 million and a \$254 million increase in other operating expenses, from \$558 million to \$812 million. The increase in programming and production costs was due to the consolidation of BAMTech, partially offset by lower talent costs for digital programming. Other operating costs, which include technical support and distribution costs, increased due to the consolidation of BAMTech.

Selling, general, administrative and other costs increased \$142 million from \$861 million to \$1,003 million due to the consolidation of BAMTech, partially offset by lower marketing costs at our International Channels.

Depreciation and amortization increased \$91 million from \$94 million to \$185 million due to the consolidation of BAMTech.

TABLE OF CONTENTS

Equity in the Loss of Investees

Loss from equity investees increased \$159 million from a loss of \$421 million to a loss of \$580 million primarily due to a higher loss from our investment in Hulu, partially offset by a favorable comparison to a loss from BAMTech in fiscal 2017. On September 25, 2017, the Company acquired a controlling interest in BAMTech and began consolidating its results. The Company's share of BAMTech's results was previously reported in equity in the loss of investees. The higher loss at Hulu was driven by higher programming, labor and marketing costs, partially offset by growth in subscription and advertising revenue.

Segment Operating Loss

Segment operating loss increased \$454 million, to \$738 million due to the consolidation of BAMTech and a higher loss from Hulu, partially offset by growth at our International Channels.

The following table presents supplemental revenue and operating income/(loss) detail for the Direct-to-Consumer & International segment to provide information on International Channels that were historically reported in the Media Networks segment:

	Year Ended		% Change
(unaudited; in millions)	September 29, 2018	September 30, 2017	Better / (Worse)
Supplemental revenue detail			
International Channels	\$ 1,920	\$ 1,853	4 %
DTC businesses and other	1,494	1,222	22 %
	<u>\$ 3,414</u>	<u>\$ 3,075</u>	11 %
Supplemental operating income/(loss) detail			
International Channels	\$ 311	\$ 233	33 %
DTC businesses and other	(469)	(96)	) >(100 %)
Equity in the loss of investees	<u>(580)</u>	<u>(421)</u>	) (38 %)
	<u>\$ (738)</u>	<u>\$ (284)</u>	) >(100 %)

Eliminations

Intersegment content transactions are as follows:

	Year Ended		% Change
(in millions)	September 29, 2018	September 30, 2017	Better/ (Worse)
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (169)	\$ (137)	(23) %
Content transactions with Direct-to-Consumer & International	(28)	(22)	(27) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(471)	(454)	(4) %
Total	<u>\$ (668)</u>	<u>\$ (613)</u>	(9) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ (8)	\$ 15	nm
Content transactions with Direct-to-Consumer & International	—	—	nm

Media Networks:

Content transactions with Direct-to-Consumer &
International

	(2)	(2)	— %
Total	<u>\$ (10)</u>	<u>\$ 13</u>	nm

[TABLE OF CONTENTS](#)

CORPORATE AND UNALLOCATED SHARED EXPENSES

Corporate and unallocated shared expenses are as follows:

(in millions)	2019	2018	2017	% Change Better/(Worse)	
				2019 vs. 2018	2018 vs. 2017
Corporate and unallocated shared expenses	\$ (987)	\$ (744)	\$ (582)	) (33 %)	) (28 %)

The increases in corporate and unallocated shared expenses from fiscal 2018 to fiscal 2019 and from fiscal 2017 to fiscal 2018 were due to costs incurred in connection with the acquisition of TFCF and higher compensation costs.

RESTRUCTURING IN CONNECTION WITH THE ACQUISITION OF TFCF

As discussed in Note 18 to the Consolidated Financial Statements, in connection with the acquisition of TFCF the Company has begun implementing a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of TFCF. During fiscal 2019, we recorded charges of \$1.2 billion, including \$0.9 billion of severance and related costs in connection with the plan and \$0.3 billion of equity-based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the TFCF acquisition. These charges are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Income. Although our plans are not yet finalized, we anticipate that the total severance and related costs could be on the order of \$1.5 billion. The Company may incur other restructuring costs, such as contract termination costs, but we expect these will not be material. For fiscal 2018, restructuring and impairment charges were not material.

The following table summarizes the changes in restructuring reserves related to TFCF integration efforts in fiscal 2019:

	Beginning Balance	Additions	Payments	Other	Ending Balance
Restructuring reserves	\$ —	\$ 906	\$ (230)	\$ —	\$ 676

SIGNIFICANT DEVELOPMENTS

In November 2019, the Company launched Disney+, a subscription based direct-to-consumer streaming service with Disney, Pixar, Marvel, Star Wars and National Geographic branded programming in the U.S. and four other countries. Further launches are planned for Western Europe in spring 2020, Latin America in fall 2021, Eastern Europe starting in late 2020 and continuing in 2021, and various Asia-Pacific territories throughout 2020 and 2021. As we will use our branded film and television content on the Disney+ service, we expect to forgo licensing revenue from the sale of this content to third parties in TV/SVOD markets. In addition, we anticipate an increase in programming and production investments to create exclusive content for Disney+.

Due to the circumstances in Hong Kong, we have seen a significant decrease in tourism from China and other parts of Asia to Hong Kong Disneyland Resort. If current trends continue, Hong Kong Disneyland Resort's fiscal 2020 operating income could decrease by approximately \$275 million compared to fiscal 2019.

[TABLE OF CONTENTS](#)

LIQUIDITY AND CAPITAL RESOURCES

The change in cash, cash equivalents and restricted cash is as follows:

(in millions)	2019	2018	2017
Cash provided by operations - continuing operations	\$ 5,984	\$ 14,295	\$ 12,343
Cash used in investing activities - continuing operations	(15,096)	(5,336)	(4,111)
Cash used in financing activities - continuing operations	(464)	(8,843)	(8,959)
Cash provided by operations - discontinued operations	622	—	—
Cash provided by investing activities - discontinued operations	10,978	—	—
Cash used in financing activities - discontinued operations	(626)	—	—
Impact of exchange rates on cash, cash equivalents and restricted cash	(98)	(25)	31
Change in cash, cash equivalents and restricted cash	\$ 1,300	\$ 91	\$ (696)

Operating Activities

Continuing operations

Cash provided by operating activities for fiscal 2019 decreased 58% or \$8.3 billion to \$6.0 billion compared to fiscal 2018 due to the payment of approximately \$7.6 billion of tax obligations that arose from the spin-off of Fox Corporation in connection with the TFCF acquisition and the sale of the RSNs acquired with TFCF, higher pension plan contributions and higher interest payments. Lower operating cash flows at our DTIC and Media Networks segments were largely offset by increases at Parks, Experiences and Products and Studio Entertainment. The decreases at DTIC and Media Networks were due to higher film and television spending and operating disbursements, partially offset by higher operating cash receipts driven by increases in revenue. The increases at Studio Entertainment and Parks, Experiences and Products were due to higher operating cash receipts driven by increases in revenue. The increase at Studio Entertainment was partially offset by higher operating cash disbursements driven by higher marketing expenses. The increase at Parks, Experiences and Products was partially offset by higher operating cash disbursements driven by cost inflation and higher marketing expenses.

Cash provided by operating activities for fiscal 2018 increased 16% or \$2.0 billion to \$14.3 billion compared to fiscal 2017 due to a decrease in tax payments resulting from the Tax Act, a decrease in pension plan contributions and higher operating cash flows at Studio Entertainment and Parks, Experiences and Products, partially offset by lower operating cash flows at Media Networks and DTIC and a payment for the rights to develop a real estate property in New York. The increase in operating cash flow at Studio Entertainment was due to higher operating cash receipts driven by an increase in revenue, partially offset by higher operating cash disbursements driven by higher marketing expenses. Parks, Experiences and Products cash flow reflected higher operating cash receipts due to increased revenue, partially offset by higher payments for labor and other costs. Lower operating cash flow at Media Networks was due to higher television production spending. The decrease in operating cash flow at DTIC was due to higher operating cash disbursements.

Depreciation expense is as follows:

(in millions)	2019	2018	2017
Media Networks			
Cable Networks	\$ 107	\$ 111	\$ 122
Broadcasting	84	88	84
Total Media Networks	191	199	206
Parks, Experiences and Products			
Domestic	1,474	1,449	1,371

International	724	768	679
Total Parks, Experiences and Products	2,198	2,217	2,050
Studio Entertainment	74	55	50
Direct-to-Consumer & International	207	106	74
Corporate	167	181	206
Total depreciation expense	\$ 2,837	\$ 2,758	\$ 2,586

TABLE OF CONTENTS

Amortization of intangible assets is as follows:

(in millions)	2019	2018	2017
Media Networks	\$ —	\$ —	\$ —
Parks, Experiences and Products	108	110	111
Studio Entertainment	61	64	65
Direct-to-Consumer & International	111	79	20
TFCF and Hulu	1,043	—	—
Total amortization of intangible assets	\$ 1,323	\$ 253	\$ 196

The Company's Studio Entertainment, Media Networks and DTCI segments incur costs to acquire and produce feature film and television 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 use on the Company's broadcast, cable networks, television stations or DTC services. 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 related to continuing operations for fiscal 2019, 2018 and 2017 are as follows:

(in millions)	2019	2018	2017
Beginning balances:			
Production and programming assets	\$ 9,202	\$ 8,759	\$ 7,547
Programming liabilities	(1,178)	(1,106)	(1,063)
	8,024	7,653	6,484
Spending:			
Television program licenses and rights	10,517	7,770	7,406
Film and television production	7,104	5,590	5,319
	17,621	13,360	12,725
Amortization:			
Television program licenses and rights	(10,608)	(7,966)	(7,595)
Film and television production	(6,471)	(4,871)	(4,055)
	(17,079)	(12,837)	(11,650)
Change in film and television production and programming costs	542	523	1,075
Film and television production costs from the TFCF acquisition and consolidation of Hulu, net of programming liabilities assumed	14,227	—	—
Other non-cash activity	11	(152)	94
Ending balances:			
Production and programming assets	27,407	9,202	8,759
Programming liabilities	(4,061)	(1,178)	(1,106)
	\$ 23,346	\$ 8,024	\$ 7,653

[TABLE OF CONTENTS](#)

Discontinued operations

Cash provided by operating activities for discontinued operations in fiscal 2019 reflected the operations of the RSNs.

Investing Activities

Continuing operations

Investing activities 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 for fiscal 2019, 2018 and 2017 are as follows:

(in millions)	2019	2018	2017
Media Networks			
Cable Networks	\$ 93	\$ 96	\$ 64
Broadcasting	81	107	67
Parks, Experiences and Products			
Domestic	3,294	3,223	2,392
International	852	677	827
Studio Entertainment	88	96	85
Direct-to-Consumer & International	258	107	30
Corporate	210	159	158
	<u>\$ 4,876</u>	<u>\$ 4,465</u>	<u>\$ 3,623</u>

Capital expenditures for the Parks, Experiences and Products segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The increase in capital expenditures at our domestic parks and resorts in fiscal 2019 compared to fiscal 2018 was due to higher spending on new attractions at Walt Disney World Resort, partially offset by lower spending on new attractions at Disneyland Resort, while the increase in fiscal 2018 compared to fiscal 2017 was due to spending on new attractions at Walt Disney World Resort and Disneyland Resort, including *Star Wars: Galaxy's Edge*. The increase in capital expenditures at our international parks and resorts in fiscal 2019 compared to fiscal 2018 was due to higher spending at Disneyland Paris, while the decrease in fiscal 2018 compared to fiscal 2017 was due to lower spending at Shanghai Disney Resort and Hong Kong Disneyland Resort.

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities.

Capital expenditures at DTCI primarily reflect investments in technology. The increase in fiscal 2019 compared to fiscal 2018 and 2018 compared to fiscal 2017 was due to spending on technology to support our DTC services.

Capital expenditures at Corporate primarily reflect investments in corporate facilities, information technology infrastructure and equipment. The increase in fiscal 2019 compared to fiscal 2018 was driven by investments in corporate facilities.

The Company currently expects its fiscal 2020 capital expenditures will be approximately \$0.5 billion higher than fiscal 2019 capital expenditures of \$4.9 billion due to increased spending on technology and facilities at DTCI and Corporate.

Other Investing Activities

The fiscal 2019 spending of \$9.9 billion on acquisitions reflects \$35.7 billion of cash paid to acquire TFCF less \$25.7 billion of cash acquired in the transaction (See Note 4 to the Consolidated Financial Statements). Cash used in other investing activities of \$319 million in fiscal 2019 reflects contributions of \$347 million to Hulu prior to the consolidation of Hulu.

The fiscal 2018 spending of \$1.6 billion on acquisitions was for the September 2017 acquisition of an additional 42% of BAMTech. Cash provided by other investing activities of \$710 million in fiscal 2018 reflected \$1.2 billion of cash received in connection with the sales of real estate and property rights, partially offset by contributions of \$442 million to Hulu.

The fiscal 2017 spending of \$417 million on acquisitions was for the January 2017 acquisition of additional interests in BAMTech net of cash assumed upon the consolidation of BAMTech. Cash used in other investing activities of \$71 million in fiscal 2017 reflected \$266 million of contributions to joint ventures and investment purchases, partially offset by \$173 million of proceeds from investment dispositions.

Discontinued operations

Cash provided by investing activities from discontinued operations in fiscal 2019 reflects the sale of the RSNs.

TABLE OF CONTENTS

Financing Activities

Continuing operations

Cash used in financing activities was \$0.5 billion in fiscal 2019 compared to \$8.8 billion in fiscal 2018. The net use of cash in the current year was due to \$2.9 billion in dividends and \$1.4 billion in acquisitions of noncontrolling interests, partially offset by proceeds from borrowing of \$3.7 billion. The decrease in cash used in financing activities in fiscal 2019 compared to fiscal 2018 was due to a net increase in borrowings in the current year compared to net repayments in the prior year (\$3.7 billion borrowing in fiscal 2019 compared to \$2.6 billion repayment in fiscal 2018) and the absence of common stock repurchases in the current year (compared to \$3.6 billion in fiscal 2018), partially offset by acquisitions of noncontrolling interests in the current year (\$1.4 billion in fiscal 2019).

Cash used in financing activities was \$8.8 billion in fiscal 2018 compared to \$9.0 billion in fiscal 2017. The net use of cash in fiscal 2018 was due to \$3.6 billion of common stock repurchases, \$2.5 billion in dividends and a net repayment of borrowings of \$2.6 billion. Cash used in financing activities was comparable to fiscal 2017 as lower common stock repurchases (\$3.6 billion in fiscal 2018 compared to \$9.4 billion in fiscal 2017) and higher contributions from noncontrolling interest holders of \$0.4 billion was essentially offset by a net repayment of borrowings in fiscal 2018 compared to a net increase in borrowings in fiscal 2017 (\$2.6 billion repayment in fiscal 2018 compared to \$3.7 billion borrowing in fiscal 2017).

Discontinued operations

Cash used in financing activities by discontinued operations in fiscal 2019 was due to redemption of noncontrolling interests of the RSNs.

Borrowings activities and other

During the year ended September 28, 2019, the Company's borrowing activity was as follows:

(in millions)	September 29, 2018	Borrowings	Payments	Borrowings Assumed in Acquisition of TFCF	Other Activity	September 28, 2019
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 50	\$ 1,881	\$ —	\$ —	\$ 3	\$ 1,934
Commercial paper with original maturities greater than three months	955	6,889	(4,452)	—	16	3,408
U.S. dollar denominated notes	18,045	6,930	(7,044)	21,174	319	39,424
Asia Theme Parks borrowings	1,145	—	(47)	—	16	1,114
Foreign currency denominated debt and other ⁽²⁾	679	210	(690)	549	358	1,106
Credit facilities to acquire TFCF	—	31,100	(31,100)	—	—	—
	20,874	47,010	(43,333)	21,723	712	46,986
Liabilities held for sale ⁽³⁾	—	50	(68)	1,069	(1,051)	—
	<u>\$ 20,874</u>	<u>\$ 47,060</u>	<u>\$ (43,401)</u>	<u>\$ 22,792</u>	<u>\$ (339)</u>	<u>\$ 46,986</u>

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

⁽²⁾ The other activity is due to market value adjustments for debt with qualifying hedges.

⁽³⁾ The other activity is due to the sale of the RSNs in fiscal 2019.

See Note 9 to the Consolidated Financial Statements for information regarding the Company's bank facilities. The Company may use commercial paper borrowings up to the amount of its 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.

See Note 12 to the Consolidated Financial Statements for a summary of the Company's dividends and share repurchases in fiscal 2019, 2018 and 2017.

We believe that the Company's financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company's borrowing costs can be impacted by short- and long-term debt ratings assigned by nationally recognized 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

TABLE OF CONTENTS

September 28, 2019, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, Standard and Poor's long- and short-term debt ratings for the Company were A and A-1, and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on September 28, 2019, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF BALANCE SHEET ARRANGEMENTS

The Company has various contractual obligations, which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements but are required to be disclosed 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 28, 2019 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 based on their contractual maturities. Additional details regarding these obligations are provided in the Notes to the Consolidated Financial Statements, as referenced in the table:

(in millions)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Borrowings (Note 9) ⁽¹⁾	\$ 65,888	\$ 10,398	\$ 10,021	\$ 6,516	\$ 38,953
Operating lease commitments (Note 15)	5,931	982	1,519	939	2,491
Capital lease obligations (Note 15)	549	19	39	33	458
Sports programming commitments (Note 15)	43,940	8,878	15,613	9,315	10,134
Broadcast programming commitments (Note 15)	6,474	2,599	2,277	946	652
Total sports and other broadcast programming commitments	50,414	11,477	17,890	10,261	10,786
Other ⁽²⁾	12,918	3,210	3,292	2,218	4,198
Total contractual obligations ⁽³⁾	<u>\$ 135,700</u>	<u>\$ 26,086</u>	<u>\$ 32,761</u>	<u>\$ 19,967</u>	<u>\$ 56,886</u>

⁽¹⁾ Excludes market value adjustments, which reduce recorded borrowings by \$31 million. Includes interest payments based on contractual terms for fixed rate debt and on current interest rates for variable rate debt. In 2023, the Company has the ability to call a debt instrument prior to its scheduled maturity, which if exercised by the Company would reduce future interest payments by \$1.0 billion.

⁽²⁾ Primarily contracts for the construction of three new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

⁽³⁾ Contractual commitments include the following:

Liabilities recorded on the balance sheet	\$ 47,842
Commitments not recorded on the balance sheet	87,858
	<u>\$ 135,700</u>

The Company also has obligations with respect to its pension and postretirement medical benefit plans. See Note 11 to the Consolidated Financial Statements.

Contingent Commitments and Contractual Guarantees

See Notes 4, 7 and 15 to the Consolidated Financial Statements for information regarding the Company's contingent commitments and contractual guarantees.

Legal and Tax Matters

As disclosed in Notes 10 and 15 to the Consolidated Financial Statements, the Company has exposure for certain tax and legal matters.

[TABLE OF CONTENTS](#)

CRITICAL 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 produce films and television series for distribution in the theatrical and television markets and on our DTC streaming services. We expense the production, participation and residual costs over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if our estimate of Ultimate Revenues increases, 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 from the date of the initial theatrical release. For television series, Ultimate Revenues include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from 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 theatrical performance. Revenues derived from other markets subsequent to the theatrical release (e.g. the home entertainment or television markets) have historically been highly correlated with the theatrical performance. Theatrical performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film's release and determination of the 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 level of expected home entertainment sales. Home entertainment sales vary based on the number and quality of competing home entertainment 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 factors affecting estimates of Ultimate Revenues are program ratings and the strength of the advertising market. 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 licensing of program rights worldwide to television distributors, SVOD services and in home entertainment formats. Alternatively, poor ratings may result in cancellation of the program, which would require an immediate write-down of any unamortized production costs. A significant decline in the advertising market would also negatively impact our estimates.

We expense the cost of television broadcast rights for acquired series, movies and other programs based on an accelerated or straight-line basis over the useful life or over the number of times the program is expected to be aired, 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. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated value of each year is based on our projections of revenues over the contract period, which include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. If planned usage patterns or estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

We also acquire, license and produce films and television series for our direct-to-consumer streaming platforms. We expense these costs based on historical and estimated viewing patterns, which may be on an accelerated or straight-line basis, as appropriate.

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 values of 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: primetime, daytime, late night, news and sports (includes broadcast and cable networks). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable network. Individual programs are written off when there are no plans to air or sublicense the program.

TABLE OF CONTENTS

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.

For film and television series that are exploited on our direct-to-consumer streaming services, the unamortized costs are reviewed for impairment on an aggregate basis for each service.

Fixed license fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. TV/SVOD distribution contracts may contain more than one title and/or provide that certain titles are only available for use during defined periods of time during the contract term. In these instances, each title and/or period of availability is generally considered a separate performance obligation. For these contracts, license fees are allocated to each title and period of availability at contract inception based on relative standalone selling price using management's best estimate. Estimates used to determine a performance obligation's standalone selling price impact the timing of revenue recognition, but not the total revenue to be recognized under the arrangements.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. We have updated our revenue recognition policies in conjunction with our adoption of the new revenue recognition guidance as further described in Note 2 to the Condensed Consolidated Financial Statements.

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, which we evaluate 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. A lower discount rate increases the present value of benefit obligations and increases pension expense. The guideline for setting this rate is a high-quality long-term corporate bond rate. We reduced our discount rate to 3.22% at the end of fiscal 2019 from 4.31% at the end of fiscal 2018 to reflect market interest rate conditions at our fiscal 2019 year-end measurement date. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. A one percentage point decrease in the assumed discount rate would increase total benefit expense for fiscal 2020 by approximately \$313 million and would increase the projected benefit obligation at September 28, 2019 by approximately \$3.6 billion. A one percentage point increase in the assumed discount rate would decrease total benefit expense and the projected benefit obligation by approximately \$273 million and \$3.0 billion, 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. Our expected return on plan assets is 7.25%. A lower expected rate of return on pension plan assets will increase pension expense, while a higher expected rate of return on pension plan assets will decrease pension expense. A one percentage point change in the long-term asset return assumption would impact fiscal 2020 annual benefit expense by approximately \$157 million.

Goodwill, Other Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow

analyses are sensitive to our estimates of future revenue growth and margins for these businesses. In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. In addition, the projected cash flows of our reporting units reflect intersegment revenues and expenses for the sale and use of intellectual property as if it was licensed to an unrelated third party. We believe our estimates are consistent with how a marketplace participant would value our reporting units.

TABLE OF CONTENTS

The Company is required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values.

The Company tested its goodwill and other indefinite-lived intangible assets and long-lived assets for impairment. The impairment charges recorded for fiscal 2019, 2018 and 2017 were not material.

For fiscal 2019, the fair value of our International Channels reporting unit exceeds its carrying value by less than 10%. Our International Channels reporting unit comprises the Company's international cable networks that provide programming under multi-year licensing agreements with MVPDs. A majority of the operations in this reporting unit consist of businesses acquired in the TFCF acquisition and therefore the fair value approximates carrying value. Goodwill of this reporting unit is approximately \$3 billion. Changes to key assumptions, market trends, or macroeconomic events could produce test results in the future that differ, and we could be required to record an impairment charge.

The Company has investments in equity securities. For equity securities that do not have a readily determinable fair value, we consider forecasted financial performance of the investee companies, as well as volatility inherent in the external markets for these investments. If these forecasts are not met, impairment charges may be recorded.

The Company tested its investments for impairment and recorded non-cash impairment charges of \$538 million and \$210 million in fiscal 2019 and 2018, respectively. The fiscal 2019 and fiscal 2018 impairment charges were recorded in "Equity in the income (loss) of investees, net" in the Consolidated Statements of Income. The fiscal 2017 impairment charges recorded were not material.

Allowance for Doubtful Accounts

We evaluate our allowance for doubtful accounts and estimate collectability of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual companies with which we do business. In times of domestic or global economic turmoil, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, costs and expenses may decrease in future periods.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these proceedings. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and have been developed in consultation with outside counsel as appropriate. From time to time, we may also be involved in other contingent matters for which we have accrued estimates for a probable and estimable loss. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to legal proceedings or our assumptions regarding other contingent matters. See Note 15 to the Consolidated Financial Statements for more detailed information on litigation exposure.

Income Tax Audits

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. The acquisition of TFCF increased the Company's uncertain tax benefits as the Company assumed the tax liabilities of TFCF. The Company is still obtaining information related to the evaluation of the

[TABLE OF CONTENTS](#)

income tax impact of certain pre-acquisition transactions of TFCF which may result in adjustments to the recorded amount of uncertain tax benefits. Our determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of our tax positions in consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities. The tax benefits ultimately realized by the Company may differ from those recognized in our future financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

New Accounting Pronouncements

See Note 20 to the Consolidated Financial Statements for information regarding new accounting pronouncements.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the SEC and in reports to our shareholders. Such statements may, for example, express expectations or projections about future actions that we may take, including restructuring or strategic initiatives, or about developments beyond our control including changes in domestic or global economic conditions. These statements are made on the basis of management's views and assumptions as of the time the statements are made and we undertake no obligation to update these statements. There can be no assurance, however, that our expectations will necessarily come to pass. Significant factors affecting these expectations are set forth under Item 1A – Risk Factors of this Report on Form 10-K as well as in this Item 7 - Management's Discussion and Analysis and Item 1 - Business.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company's exposure to changes in interest rates, foreign currencies and commodities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company's portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow 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 U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

Our objectives in managing exposure to commodity fluctuations are to use commodity derivatives to reduce volatility of earnings and cash flows arising from commodity price changes. The amounts hedged using commodity swap contracts are based on forecasted levels of consumption of certain commodities, such as fuel, oil and gasoline.

It is the Company's policy to enter into foreign currency and interest rate derivative transactions and other financial instruments only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

TABLE OF CONTENTS

Value at Risk (VAR)

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

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

VAR on a combined basis increased to \$322 million at September 28, 2019 from \$44 million at September 29, 2018 driven by an increase in borrowings and higher interest rate volatility of our debt.

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

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Equity Sensitive Financial Instruments	Commodity Sensitive Financial Instruments	Combined Portfolio
Fiscal 2019					
Year end fiscal 2019 VAR	\$317	\$28	\$1	\$2	\$322
Average VAR	180	25	1	2	63
Highest VAR	317	28	1	2	322
Lowest VAR	39	23	1	1	51
Year end fiscal 2018 VAR	32	32	1	1	44

The VAR for Hong Kong Disneyland Resort and Shanghai Disney Resort is immaterial as of September 28, 2019 and accordingly has been excluded from the above table.

ITEM 8. Financial Statements and Supplementary Data

See Index to Financial Statements and Supplemental Data on page 72.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of September 28, 2019, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report set forth on page 73 is incorporated herein by reference.

[TABLE OF CONTENTS](#)

Changes in Internal Controls

We are in the process of integrating TFCE, which was recently acquired, and Hulu into our overall internal control over financial reporting process. Other than this ongoing integration, there have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended September 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as noted below.

ITEM 9B. Other Information

Costs Associated with Exit or Disposal Activities

The information set forth below is included herein for the purpose of providing disclosure under “Item 2.05 - Costs Associated with Exit or Disposal Activities” of Form 8-K.

The Company previously disclosed a restructuring and integration plan as part of its initiative to realize cost synergies from its acquisition of TFCE, including the Company’s estimate that it will incur severance and related costs on the order of \$1.5 billion. The Company may incur other restructuring costs, such as contract termination costs, but currently expects that these will not be material.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding Section 16(a) compliance, the Audit Committee, the Company's code of ethics, background of the directors and director nominations appearing under the captions "Section 16(a) Beneficial Ownership Reporting Compliance," "Committees," "Governing Documents," "Director Selection Process" and "Election of Directors" in the Company's Proxy Statement for the 2020 annual meeting of Shareholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions "Director Compensation," "Compensation Discussion and Analysis" and "Compensation Tables" in the 2020 Proxy Statement (other than the "Compensation Committee Report," which is deemed furnished herein by reference) is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" and information appearing under the caption "Equity Compensation Plans" in the 2020 Proxy Statement is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain related transactions appearing under the captions "Certain Relationships and Related Person Transactions" and information regarding director independence appearing under the caption "Director Independence" in the 2020 Proxy Statement is hereby incorporated by reference.

ITEM 14. Principal Accounting Fees and Services

Information appearing under the captions "Auditor Fees and Services" and "Policy for Approval of Audit and Permitted Non-Audit Services" in the 2020 Proxy Statement is hereby incorporated by reference.

TABLE OF CONTENTS

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements and Schedules

See Index to Financial Statements and Supplemental Data on page 72.

(2) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit	Location
2.1 Amended and Restated Agreement and Plan of Merger, dated as of June 20, 2018, among Twenty-First Century Fox, Inc., The Walt Disney Company, TWDC Holdco 613 Corp., WDC Merger Enterprises I, Inc., and WDC Merger Enterprises II, Inc.*	Exhibit 2.1 to the Current Report on Form 8-K of Legacy Disney filed June 21, 2018
2.2 Equity Purchase Agreement, dated as of May 3, 2019, among The Walt Disney Company, Fox Cable Networks, LLC and Diamond Sports Group, LLC*	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed May 3, 2019
3.1 Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 19, 2019	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.2 Certificate of Amendment to the Restated Certificate of Incorporation of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.3 Amended and Restated Bylaws of The Walt Disney Company, effective as of March 20, 2019	Exhibit 3.3 to the Current Report on Form 8-K of the Company filed March 20, 2019
3.4 Amended and Restated Certificate of Incorporation of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.5 Amended and Restated Bylaws of TWDC Enterprises 18 Corp., effective as of March 20, 2019	Exhibit 3.2 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
3.6 Certificate of Elimination of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on November 28, 2018	Exhibit 3.1 to the Current Report on Form 8-K of Legacy Disney filed November 30, 2018
4.1 Senior Debt Securities Indenture, dated as of September 24, 2001, between TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed September 24, 2001
4.2 First Supplemental Indenture, dated as of March 20, 2019, among The Walt Disney Company, TWDC Enterprises 18 Corp. and Wells Fargo Bank, N.A., as Trustee	Exhibit 4.1 to the Current Report on Form 8-K of Legacy Disney filed March 20, 2019
4.3 Indenture, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, and TWDC Enterprises 18 Corp., as guarantor, and Citibank, N.A., as trustee	Exhibit 4.1 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.4 Registration Rights Agreement, dated as of March 20, 2019, by and among The Walt Disney Company, as issuer, TWDC Enterprises 18 Corp., as guarantor, and Citigroup Global Markets Inc., J.P. Morgan Securities LLC, BNP Paribas Securities Corp., HSBC Securities (USA) Inc. and RBC Capital Markets, LLC, as dealer managers	Exhibit 4.5 to the Current Report on Form 8-K of the Company filed March 20, 2019
4.5	

Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request

4.6 Description of Registrant's Securities

[Filed herewith](#)

10.1 Amended and Restated Voting Agreement, dated as of June 20, 2018, among The Walt Disney Company, Murdoch Family Trust, and Cruden Financial Services LLC

[Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 21, 2018](#)

TABLE OF CONTENTS

	Exhibit	Location
10.2	Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Form 10-K of Legacy Disney for the fiscal year ended October 1, 2011
10.3	Amendment dated July 1, 2013 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed July 1, 2013
10.4	Amendment dated October 2, 2014 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 3, 2014
10.5	Amendment dated March 22, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 23, 2017
10.6	Amendment dated December 13, 2017 to Amended and Restated Employment Agreement, dated as of October 6, 2011, between the Company and Robert A. Iger	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 14, 2017
10.7	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated November 30, 2018	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.8	Amendment to Amended and Restated Employment Agreement, Dated as of October 6, 2011, as amended, between the Company and Robert A. Iger, dated March 4, 2019	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed March 4, 2019
10.9	Employment Agreement, dated as of September 27, 2013 between the Company and Alan N. Braverman	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed October 2, 2013
10.10	Amendment dated February 4, 2015 to the Employment Agreement dated as of September 27, 2013 between the Company and Alan N. Braverman	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed February 5, 2015
10.11	Amendment dated August 15, 2017 to the Employment Agreement dated as of September 27, 2013 between the Company and Alan N. Braverman	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.12	Amendment dated December 3, 2018 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 4, 2018
10.13	Amendment dated October 8, 2019 to the Employment Agreement, dated as of September 27, 2013, as amended, between the Company and Alan N. Braverman	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed October 11, 2019
10.14	Employment Agreement dated August 15, 2017 and effective between the Company and Jayne Parker	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.15	Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed June 30, 2015
10.16	Amendment dated August 15, 2017 to the Employment Agreement dated as of July 1, 2015 between the Company and Christine M. McCarthy	Exhibit 10.4 to the Current Report on Form 8-K of Legacy Disney filed August 17, 2017
10.17	Employment Agreement, dated as of September 27, 2018 between the Company and Zenia Mucha	Exhibit 10.4 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.18	Voluntary Non-Qualified Deferred Compensation Plan	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 23, 2014

10.19	Description of Directors Compensation	<u>Exhibit 10.2 to the Form 10-Q of Legacy Disney for the quarter ended June 30, 2018</u>
10.20	Form of Indemnification Agreement for certain officers and directors	Annex C to the Proxy Statement for the 1987 annual meeting of DEI
10.21	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors	<u>Exhibit 10.1 to the Form 10-Q of the Company for the quarter ended June 29, 2019</u>

TABLE OF CONTENTS

	Exhibit	Location
10.22	1995 Stock Option Plan for Non-Employee Directors	Exhibit 20 to the Form S-8 Registration Statement (No. 33-57811) of DEL, dated Feb. 23, 1995
10.23	Amended and Restated 2002 Executive Performance Plan	Annex A to the Proxy Statement for the 2013 Annual Meeting of the Registrant
10.24	Management Incentive Bonus Program	The portions of the tables labeled “Performance based Bonus” in the sections of the Proxy Statement for the 2019 annual meeting of Legacy Disney titled “2018 Total Direct Compensation” and “Compensation Process” and the section of the Proxy Statement titled “Performance Goals”
10.25	Amended and Restated 1997 Non-Employee Directors Stock and Deferred Compensation Plan	Annex II to the Proxy Statement for the 2003 annual meeting of Legacy Disney
10.26	Amended and Restated The Walt Disney Company/Pixar 2004 Equity Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 1, 2006
10.27	Amended and Restated 2011 Stock Incentive Plan	Exhibit 10.1 to the Form 8-K of Legacy Disney filed March 16, 2012
10.28	Disney Key Employees Retirement Savings Plan	Exhibit 10.1 to the Form 10-Q of Legacy Disney for the quarter ended July 2, 2011
10.29	Amendments dated April 30, 2015 to the Amended and Restated The Walt Disney Productions and Associated Companies Key Employees Deferred Compensation and Retirement Plan, Amended and Restated Benefit Equalization Plan of ABC, Inc. and Disney Key Employees Retirement Savings Plan	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.30	Group Personal Excess Liability Insurance Plan	Exhibit 10(x) to the Form 10-K of Legacy Disney for the period ended September 30, 1997
10.31	Amended and Restated Severance Pay Plan	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 27, 2008
10.32	Form of Restricted Stock Unit Award Agreement (Time-Based Vesting)	Exhibit 10.8 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.33	Form of Performance-Based Stock Unit Award Agreement (Section 162(m) Vesting Requirement)	Exhibit 10.9 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.34	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests/ Section 162(m) Vesting Requirement)	Exhibit 10.11 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.35	Form of Performance-Based Stock Unit Award Agreement (Three-Year Vesting subject to Total Shareholder Return/EPS Growth Tests)	Exhibit 10.10 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.36	Form of Non-Qualified Stock Option Award Agreement	Exhibit 10.12 to the form 10-Q of Legacy Disney for the quarter ended December 29, 2018
10.37	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test/ Section 162(m) Vesting Requirements) for Robert A. Iger dated as of December 13, 2017	Exhibit 10.3 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017
10.38	Performance-Based Stock Unit Award (Four-Year Vesting subject to Total Shareholder Return Test) as Amended and Restated November 30, 2018 by and between the Company and Robert A. Iger	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 3, 2018
10.39		

Performance-Based Stock Unit Award (Section 162(m) Vesting Requirement) for Robert A. Iger dated as of December 13, 2017

[Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended December 30, 2017](#)

10.40 Disney Savings and Investment Plan as Amended and Restated Effective January 1, 2015

[Exhibit 10.30 to the Form 10-K of Legacy Disney for the fiscal year ended September 30, 2017](#)

10.41 First Amendment dated December 19, 2016 to the Disney Savings and Investment Plan as amended and restated effective January 1, 2015

[Exhibit 10.31 to the Form 10-K of Legacy Disney for the fiscal year ended September 30, 2017](#)

TABLE OF CONTENTS

	Exhibit	Location
10.42	Second Amendment dated December 3, 2012 to the Disney Savings and Investment Plan	Exhibit 10.2 to the Form 10-Q of Legacy Disney for the quarter ended December 29, 2012
10.43	Third Amendment dated December 18, 2014 to the Disney Savings and Investment Plan	Exhibit 10.4 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.44	Fourth Amendment dated April 30, 2015 to the Disney Savings and Investment Plan	Exhibit 10.5 to the Form 10-Q of Legacy Disney for the quarter ended March 28, 2015
10.45	Disney Hourly Savings and Investment Plan Amended and Restated Effective January 1, 2015	Exhibit 4.8 to the Form S-8 Registration Statement of the Company filed March 20, 2019
10.46	First Amendment to the Disney Hourly Savings and Investment Plan as Amended and Restated Effective January 1, 2015	Exhibit 4.9 to the Form S-8 Registration Statement of the Company filed March 20, 2019
10.47	Twenty-First Century Fox, Inc. 2013 Long-Term Incentive Plan	Exhibit 10.1 to the Form 8-K of TFCF filed October 18, 2013
10.48	Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed March 9, 2018
10.49	First Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed December 26, 2018
10.50	Five-Year Credit Agreement dated as of March 11, 2016	Exhibit 10.2 to the Current Report on Form 8-K of Legacy Disney filed March 14, 2016
10.51	Second Amendment dated as of December 19, 2018 to the Five-Year Credit Agreement dated as of March 11, 2016	Exhibit 10.3 to the Current Report on Form 8-K of Legacy Disney filed December 26, 2018
10.52	364 Day Credit Agreement dated as of December 19, 2018	Exhibit 10.1 to the Current Report on Form 8-K of Legacy Disney filed December 26, 2018
21	Subsidiaries of the Company	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002**	Furnished herewith
101	The following materials from the Company's Annual Report on Form 10-K for the year ended September 28, 2019 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Equity and (vi) related notes	Filed herewith

*

Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

**

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

ITEM 16. Form 10-K Summary

None.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 20, 2019	<hr/> THE WALT DISNEY COMPANY (Registrant) By: <u>/s/ ROBERT A. IGER</u> (Robert A. Iger, Chairman and Chief Executive Officer)
-------------------------	---

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>Principal Executive Officer</i>		
<u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Chairman and Chief Executive Officer	November 20, 2019
<i>Principal Financial and Accounting Officers</i>		
<u>/s/ CHRISTINE M. MCCARTHY</u> (Christine M. McCarthy)	Senior Executive Vice President and Chief Financial Officer	November 20, 2019
<u>/s/ BRENT A. WOODFORD</u> (Brent A. Woodford)	Executive Vice President-Controllershship, Financial Planning and Tax	November 20, 2019
<i>Directors</i>		
<u>/s/ SUSAN E. ARNOLD</u> (Susan E. Arnold)	Director	November 20, 2019
<u>/s/ MARY T. BARRA</u> (Mary T. Barra)	Director	November 20, 2019
<u>/s/ SAFRA A. CATZ</u> (Safra A. Catz)	Director	November 20, 2019
<u>/s/ FRANCIS A. DESOUZA</u> (Francis A. deSouza)	Director	November 20, 2019
<u>/s/ MICHAEL FROMAN</u> (Michael Froman)	Director	November 20, 2019
<u>/s/ ROBERT A. IGER</u> (Robert A. Iger)	Chairman of the Board and Director	November 20, 2019
<u>/s/ MARIA ELENA LAGOMASINO</u> (Maria Elena Lagomasino)	Director	November 20, 2019
<u>/s/ MARK G. PARKER</u> (Mark G. Parker)	Director	November 20, 2019
<u>/s/ DERICA W. RICE</u> (Derica W. Rice)	Director	November 20, 2019

[TABLE OF CONTENTS](#)

**THE WALT DISNEY COMPANY AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

	Page
Management's Report on Internal Control Over Financial Reporting	<u>70</u>
Report of Independent Registered Public Accounting Firm	<u>71</u>
Consolidated Financial Statements of The Walt Disney Company and Subsidiaries	
Consolidated Statements of Income for the Years Ended September 28, 2019, September 29, 2018 and September 30, 2017	<u>74</u>
Consolidated Statements of Comprehensive Income for the Years Ended September 28, 2019, September 29, 2018 and September 30, 2017	<u>75</u>
Consolidated Balance Sheets as of September 28, 2019 and September 29, 2018	<u>76</u>
Consolidated Statements of Cash Flows for the Years Ended September 28, 2019, September 29, 2018 and September 30, 2017	<u>77</u>
Consolidated Statements of Shareholders' Equity for the Years Ended September 28, 2019, September 29, 2018 and September 30, 2017	<u>78</u>
Notes to Consolidated Financial Statements	<u>79</u>
Quarterly Financial Summary (unaudited)	<u>136</u>

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of September 28, 2019.

In the second quarter of fiscal 2019, we completed the TFCF acquisition and began consolidating Hulu (see Note 4 to the Consolidated Financial Statements for more information). Management excluded TFCF and Hulu from our evaluation of internal control over financial reporting. This exclusion is in accordance with the guidance issued by the U.S. Securities and Exchange Commission that allows companies to exclude acquisitions from management's report on internal control over financial reporting for the first year after the acquisition. The combined total assets, excluding goodwill and identifiable intangible assets, for TFCF and Hulu represent approximately 12% of consolidated assets as of September 28, 2019. The combined total revenues of TFCF and Hulu represent approximately 14% of the consolidated revenues for the year ended September 28, 2019.

The effectiveness of our internal control over financial reporting as of September 28, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

[TABLE OF CONTENTS](#)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Walt Disney Company and its subsidiaries (the “Company”) as of September 28, 2019 and September 29, 2018, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended September 28, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 28, 2019 and September 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 28, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management’s Report on Internal Control Over Financial Reporting, management has excluded TFCF Corporation (formerly known as Twenty-First Century Fox, Inc.) (TFCF), including Hulu LLC (Hulu), which is now consolidated as a result of the TFCF acquisition, from its assessment of internal control over financial reporting as of September 28, 2019 because they were acquired by the Company in a purchase business combination during 2019. We have also excluded TFCF and Hulu from our audit of internal control over financial reporting. TFCF and Hulu are subsidiaries whose combined total assets and total revenues excluded from management’s assessment and our audit of internal control over financial reporting represent 12% and 14%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 28, 2019.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

TABLE OF CONTENTS

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Acquisition of TFCF Corporation - Valuation of Intangible Assets and Film and Television Costs

As described in Note 4 to the consolidated financial statements, on March 20, 2019, the Company completed its acquisition of TFCF for total consideration of \$69.5 billion. The Company measured the identifiable assets acquired and liabilities assumed at fair value, which resulted in the recognition of \$17.9 billion of intangible assets and \$17.8 billion of film and television costs. Management applied judgment in estimating the fair value of intangible assets and film and television costs, which involved the use of significant estimates and assumptions with respect to revenue growth and attrition rates, discount rates, and economic useful life.

The principal considerations for our determination that performing procedures relating to the valuation of intangible assets and film and television costs is a critical audit matter are there was a high degree of auditor judgment, subjectivity, and effort in performing procedures and in evaluating audit evidence relating to management's significant assumptions for the revenue growth rates and discount rates due to the significant judgment by management when estimating the fair value of the intangible assets and film and television costs acquired. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to acquisition accounting, including controls over management's valuation of the intangible assets and film and television costs acquired and assumptions related to revenue growth rates and discount rates. These procedures also included, among others, reading the purchase agreement and testing management's process in estimating the fair value of the intangible assets and film and television costs acquired. Testing management's process included evaluating the appropriateness of the valuation methods and reasonableness of significant assumptions used by management, including revenue growth rates and discount rates, using professionals with specialized skill and knowledge to assist in doing so. Evaluating the reasonableness of the revenue growth rates involved considering the past performance of TFCF, as well as economic and industry forecasts. The discount rates were evaluated considering the cost of capital of comparable businesses and other industry factors.

Acquisition of TFCF Corporation - Unrecognized Tax Benefits

As described in Note 10 to the consolidated financial statements, as part of the TFCF acquisition the Company recorded \$2.7 billion of gross unrecognized tax benefits. As disclosed by management, the Company applied judgment in estimating unrecognized tax benefits. Management's determinations regarding the recognition of income tax benefits are made in consultation with outside tax and legal counsel, where appropriate, and are based upon the technical merits of the tax position including consideration of applicable tax statutes and related interpretations and precedents and upon the expected outcome of proceedings (or negotiations) with taxing and legal authorities.

The principal considerations for our determination that performing procedures relating to the unrecognized tax benefits is a critical audit matter are there was a high degree of auditor judgment, subjectivity, and effort in performing procedures and in evaluating audit evidence relating to management's estimation of unrecognized tax benefits due to the significant judgment by management when developing this estimate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to acquisition accounting, including controls over management's process to estimate unrecognized tax benefits. These procedures also included, among others, testing management's process in estimating the unrecognized tax benefits. Testing management's process included testing the information used in management's calculation of the liability for the unrecognized

TABLE OF CONTENTS

tax benefits, including historical federal, state, and foreign tax filing positions as established in historical tax returns, evaluating management's assessment of the technical merits of tax positions and estimates of the amount of tax benefit expected to be sustained; and evaluating the status and results of income tax audits with the relevant tax authorities. Professionals with specialized skill and knowledge were used to assist in the evaluation of the estimation of the Company's unrecognized tax benefits, including consideration of applicable tax statutes and related interpretations and precedents.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

November 20, 2019

We have served as the Company's auditor since 1938.

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)

	2019	2018	2017
Revenues:			
Services	\$ 60,542	\$ 50,869	\$ 46,843
Products	9,028	8,565	8,294
Total revenues	69,570	59,434	55,137
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	(36,450)	(27,528)	(25,320)
Cost of products (exclusive of depreciation and amortization)	(5,568)	(5,198)	(4,986)
Selling, general, administrative and other	(11,541)	(8,860)	(8,176)
Depreciation and amortization	(4,160)	(3,011)	(2,782)
Total costs and expenses	(57,719)	(44,597)	(41,264)
Restructuring and impairment charges	(1,183)	(33)	(98)
Other income, net	4,357	601	78
Interest expense, net	(978)	(574)	(385)
Equity in the income (loss) of investees, net	(103)	(102)	320
Income from continuing operations before income taxes	13,944	14,729	13,788
Income taxes from continuing operations	(3,031)	(1,663)	(4,422)
Net income from continuing operations	10,913	13,066	9,366
Income from discontinued operations (includes income tax expense of \$35, \$0 and \$0, respectively)	671	—	—
Net income	11,584	13,066	9,366
Less: Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(472)	(468)	(386)
Less: Net income from discontinued operations attributable to noncontrolling interests	(58)	—	—
Net income attributable to The Walt Disney Company (Disney)	\$ 11,054	\$ 12,598	\$ 8,980
Earnings per share attributable to Disney:			
Diluted⁽¹⁾			
Continuing operations	\$ 6.27	\$ 8.36	\$ 5.69
Discontinued operations	0.37	—	—
	\$ 6.64	\$ 8.36	\$ 5.69
Basic⁽¹⁾			
Continuing operations	\$ 6.30	\$ 8.40	\$ 5.73
Discontinued operations	0.37	—	—
	\$ 6.68	\$ 8.40	\$ 5.73
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,666	1,507	1,578
Basic	1,656	1,499	1,568

⁽¹⁾ Total may not equal the sum of the column due to rounding.

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	2019	2018	2017
Net income	\$ 11,584	\$ 13,066	\$ 9,366
Other comprehensive income/(loss), net of tax:			
Market value adjustments for investments	(2)	7	(18)
Market value adjustments for hedges	(35)	207	(37)
Pension and postretirement medical plan adjustments	(2,446)	434	584
Foreign currency translation and other	(396)	(289)	(103)
Other comprehensive income/(loss)	(2,879)	359	426
Comprehensive income	8,705	13,425	9,792
Net income attributable to noncontrolling and redeemable noncontrolling interests	(530)	(468)	(386)
Other comprehensive income attributable to noncontrolling and redeemable noncontrolling interests	65	72	25
Comprehensive income attributable to Disney	\$ 8,240	\$ 13,029	\$ 9,431

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	September 28, 2019	September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,418	\$ 4,150
Receivables	15,481	9,334
Inventories	1,649	1,392
Television costs and advances	4,597	1,314
Other current assets	979	635
Total current assets	28,124	16,825
Film and television costs	22,810	7,888
Investments	3,224	2,899
Parks, resorts and other property		
Attractions, buildings and equipment	58,589	55,238
Accumulated depreciation	(32,415)	(30,764)
	26,174	24,474
Projects in progress	4,264	3,942
Land	1,165	1,124
	31,603	29,540
Intangible assets, net	23,215	6,812
Goodwill	80,293	31,269
Other assets	4,715	3,365
Total assets	\$ 193,984	\$ 98,598
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 17,762	\$ 9,479
Current portion of borrowings	8,857	3,790
Deferred revenue and other	4,722	4,591
Total current liabilities	31,341	17,860
Borrowings	38,129	17,084
Deferred income taxes	7,902	3,109
Other long-term liabilities	13,760	6,590
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	8,963	1,123
Equity		
Preferred stock	—	—
Common stock, \$.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares at September 28, 2019 and 2.9 billion shares at September 29, 2018	53,907	36,779
Retained earnings	42,494	82,679
Accumulated other comprehensive loss	(6,617)	(3,097)
Treasury stock, at cost, 19 million shares at September 28, 2019 and 1.4 billion shares at September 29, 2018	(907)	(67,588)
Total Disney Shareholders' equity	88,877	48,773
Noncontrolling interests	5,012	4,059
Total equity	93,889	52,832
Total liabilities and equity	\$ 193,984	\$ 98,598

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2019	2018	2017
OPERATING ACTIVITIES			
Net income from continuing operations	\$ 10,913	\$ 13,066	\$ 9,366
Depreciation and amortization	4,160	3,011	2,782
Gain on acquisitions and dispositions	(4,794)	(560)	(289)
Deferred income taxes	117	(1,573)	334
Equity in the (income) / loss of investees	103	102	(320)
Cash distributions received from equity investees	754	775	788
Net change in film and television costs and advances	(542)	(523)	(1,075)
Equity-based compensation	711	393	364
Other	206	441	503
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables	55	(720)	107
Inventories	(223)	(17)	(5)
Other assets	932	(927)	(52)
Accounts payable and other accrued liabilities	191	235	(368)
Income taxes	(6,599)	592	208
Cash provided by operations - continuing operations	5,984	14,295	12,343
INVESTING ACTIVITIES			
Investments in parks, resorts and other property	(4,876)	(4,465)	(3,623)
Acquisitions	(9,901)	(1,581)	(417)
Other	(319)	710	(71)
Cash used in investing activities - continuing operations	(15,096)	(5,336)	(4,111)
FINANCING ACTIVITIES			
Commercial paper borrowings/(payments), net	4,318	(1,768)	1,247
Borrowings	38,240	1,056	4,820
Reduction of borrowings	(38,881)	(1,871)	(2,364)
Dividends	(2,895)	(2,515)	(2,445)
Repurchases of common stock	—	(3,577)	(9,368)
Proceeds from exercise of stock options	318	210	276
Contributions from / sales of noncontrolling interests	737	399	17
Acquisition of noncontrolling and redeemable noncontrolling interests	(1,430)	—	—
Other	(871)	(777)	(1,142)
Cash used in financing activities - continuing operations	(464)	(8,843)	(8,959)
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Cash provided by operations - discontinued operations	622	—	—
Cash provided by investing activities - discontinued operations	10,978	—	—
Cash used in financing activities - discontinued operations	(626)	—	—
Cash used in discontinued operations	10,974	—	—
Impact of exchange rates on cash, cash equivalents and restricted cash	(98)	(25)	31
Change in cash, cash equivalents and restricted cash	1,300	91	(696)
Cash, cash equivalents and restricted cash, beginning of year	4,155	4,064	4,760
Cash, cash equivalents and restricted cash, end of year	\$ 5,455	\$ 4,155	\$ 4,064

Supplemental disclosure of cash flow information:			
Interest paid	\$ 1,142	\$ 631	\$ 466
Income taxes paid	\$ 9,259	\$ 2,503	\$ 3,801

See Notes to Consolidated Financial Statements

[TABLE OF CONTENTS](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Equity Attributable to Disney							Total Equity
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests (1)	
Balance at October 1, 2016	1,597	\$ 35,859	\$ 66,088	\$ (3,979)	\$ (54,703)	\$ 43,265	\$ 4,058	\$ 47,323
Comprehensive income	—	—	8,980	451	—	9,431	361	9,792
Equity compensation activity	8	529	—	—	—	529	—	529
Common stock repurchases	(89)	—	—	—	(9,368)	(9,368)	—	(9,368)
Dividends	—	13	(2,458)	—	—	(2,445)	—	(2,445)
Contributions	—	—	—	—	—	—	17	17
Distributions and other	1	(153)	(4)	—	60	(97)	(747)	(844)
Balance at September 30, 2017	1,517	\$ 36,248	\$ 72,606	\$ (3,528)	\$ (64,011)	\$ 41,315	\$ 3,689	\$ 45,004
Comprehensive income	—	—	12,598	431	—	13,029	425	13,454
Equity compensation activity	6	518	—	—	—	518	—	518
Common stock repurchases	(35)	—	—	—	(3,577)	(3,577)	—	(3,577)
Dividends	—	14	(2,529)	—	—	(2,515)	—	(2,515)
Contributions	—	—	—	—	—	—	488	488
Distributions and other	—	(1)	4	—	—	3	(543)	(540)
Balance at September 29, 2018	1,488	\$ 36,779	\$ 82,679	\$ (3,097)	\$ (67,588)	\$ 48,773	\$ 4,059	\$ 52,832
Comprehensive income	—	—	11,054	(2,814)	—	8,240	371	8,611
Equity compensation activity	7	912	—	—	—	912	—	912
Dividends	—	18	(2,913)	—	—	(2,895)	—	(2,895)
Contributions	—	—	—	—	—	—	737	737
Acquisition of TFCF	307	33,774	—	—	—	33,774	10,408	44,182
Adoption of new accounting guidance:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	192	—	—	192	—	192
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Retirement of treasury stock	—	(17,563)	(49,118)	—	66,681	—	—	—
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	(7,770)	(7,770)

Redemption of noncontrolling interest	—	—	—	—	—	—	(1,430)	(1,430)
Sales of the RSNs	—	—	—	—	—	—	(744)	(744)
Distributions and other	—	(13)	3	—	—	(10)	(619)	(629)
Balance at September 28, 2019	1,802	\$ 53,907	\$ 42,494	\$ (6,617)	\$ (907)	\$ 88,877	\$ 5,012	\$ 93,889

⁽¹⁾ Excludes redeemable noncontrolling interest

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollars in millions, except per share amounts)

1 ***Description of the Business and Segment Information***

The Walt Disney Company, together with the subsidiaries through which businesses are conducted (the Company), is a diversified worldwide entertainment company with operations in the following business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI).

The terms “Company,” “we,” “us,” and “our” are used in this report to refer collectively to the parent company and the subsidiaries through which various businesses are conducted. The term “TWDC” is used to refer to the parent company.

On March 20, 2019, the Company acquired the outstanding capital stock of Twenty-First Century Fox, Inc., which was subsequently renamed TFCF Corporation, a diversified global media and entertainment company. Prior to the acquisition, TFCF and a newly-formed subsidiary of TFCF (New Fox) entered into a separation agreement, pursuant to which TFCF transferred to New Fox a portfolio of TFCF’s news, sports and broadcast businesses and certain other assets. TFCF retained all of the assets and liabilities not transferred to New Fox, the most significant of which were the Twentieth Century Fox film and television studios, certain cable networks (primarily FX and National Geographic), TFCF’s international television businesses (including Star) and TFCF’s 30% interest in Hulu LLC (Hulu). Under the terms of the agreement governing the acquisition, the Company will generally phase-out Fox brands by 2024, but has perpetual rights to certain Fox brands, including the Twentieth Century Fox and Fox Searchlight brands.

As a result of the TFCF acquisition, the Company’s ownership interest in Hulu LLC (Hulu) increased to 60% and the Company started consolidating the results of Hulu. In May 2019, the Company increased its ownership interest in Hulu to 67%, with NBC Universal (NBCU) owning the remaining 33%. Also in May 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. In order to obtain regulatory approval for the acquisition of TFCF, the Company agreed to sell TFCF’s regional sports networks (RSN) and sports media operations in Brazil and Mexico. The sale of the RSNs was completed in August 2019. The income and cash flows of the RSNs and sports media operations in Brazil and Mexico are reported as discontinued operations.

See Note 4 for additional information on these transactions.

DESCRIPTION OF THE BUSINESS

Media Networks

Significant operations:

- Disney, ESPN, Freeform, FX and National Geographic branded domestic cable networks
- ABC branded broadcast television network and eight owned domestic television stations
- Television production and distribution
- National Geographic magazines
- A 50% equity investment in A+E Television Networks (A+E)

Significant revenues:

- Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. Hulu, YouTube TV) service providers) (MVPDs) and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
- Advertising - Sales of advertising time/space on our domestic networks and related platforms (“ratings-based ad sales”, which excludes advertising on digital platforms that is not ratings-based) and the sale of advertising time on our domestic television stations. Ratings-based ad sales are generally determined using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms is reported by DTCI.

- TV/SVOD distribution - Licensing fees and other revenues from the right to use our television programs and productions and revenue from content transactions with other Company segments (“program sales”)

Significant expenses:

- Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

TABLE OF CONTENTS

Parks, Experiences and Products

Significant operations:

- Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (47% ownership interest); Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort.
 - Disney Cruise Line, Disney Vacation Club, National Geographic Expeditions (73% ownership interest), Adventures by Disney and Aulani, a Disney Resort & Spa in Hawaii
- Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, comic books and magazines (except National Geographic, which is reported in Media Networks)

Significant revenues:

- Theme park admissions - Sales of tickets for admission to our theme parks
- Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships
- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from intellectual property licensing
 - Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as, to wholesalers
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities and real estate rent and sales. In addition, we earn royalties on Tokyo Disney Resort revenues.

Significant expenses:

- Operating expenses consisting primarily of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation
- Selling, general and administrative costs
- Depreciation and amortization

Studio Entertainment

Significant operations:

- Motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Fox, Marvel, Lucasfilm, Pixar, Fox Searchlight Pictures and Blue Sky Studios banners
- Development, production and licensing of live entertainment events on Broadway and around the world (stage plays)

- Music production and distribution
- Post-production services, which include visual and audio effects through Industrial Light & Magic and Skywalker Sound

Significant revenues:

- Theatrical distribution - Rentals from licensing our motion pictures to theaters
- Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
- TV/SVOD distribution and other - Licensing fees and other revenue from the right to use our motion picture productions, revenue from content transactions with other Company segments, ticket sales from stage plays, fees from licensing our intellectual properties for use in live entertainment productions, revenue from licensing our music and revenue from post-production services

Significant expenses:

- Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales

TABLE OF CONTENTS

- Selling, general and administrative costs
- Depreciation and amortization

Direct-to-Consumer & International

Significant operations:

- Branded international television channels, which include Disney, ESPN, Fox, National Geographic and Star (International Channels)
- Direct-to-consumer (DTC) streaming services, which include Disney+, ESPN+, Hotstar and Hulu. Disney+ launched in November 2019 in the U.S. and 4 other countries and further launches planned throughout 2020 and 2021.
- Other digital content distribution platforms and services including branded apps and websites, the Disney Movie Club and Disney Digital Network and streaming technology support services
- Equity investments:
 - A 50% ownership interest in Endemol Shine Group, which is a multi-platform content provider with creative operations across the world's major markets
 - A 20% ownership interest (49% economic interest) in Seven TV, which operates an advertising-supported, free-to-air Disney Channel in Russia
 - A 30% effective ownership interest in Tata Sky, which owns and operates a direct-to-home satellite distribution platform in India
 - An approximate 20% effective ownership interest in Vice Group Holdings, Inc. (Vice), which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by Vice and 50% by A+E.

Significant revenues:

- Advertising - Sales of advertising time/space on our International Channels and sales of non-ratings-based advertising time/space on digital media platforms ("addressable ad sales") across the Company. In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups.
- Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
- Subscription fees - Fees charged to customers/subscribers for our DTC services

Significant expenses:

- Operating expenses consisting primarily of programming and production costs (including amortization of digital content obtained from other Company segments), technical support costs, operating labor and distribution costs
- Selling, general and administrative costs
- Depreciation and amortization

SEGMENT INFORMATION

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, net other income, net interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and purchase accounting amortization for TFCF and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the TFCF acquisition. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Segment operating results include allocations of certain costs, including information technology, pension, legal and other shared services costs, which are allocated based on metrics designed to correlate with consumption. These allocations are agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm's length transactions.

Intersegment content transactions are presented "gross" (i.e. the segment producing the content reports revenue and profit from intersegment transactions in a manner similar to the reporting of third-party transactions, and the required eliminations are reported on a separate "Eliminations" line when presenting a summary of our segment results). Generally, timing of revenue recognition is similar to the reporting of third-party transactions, except that intersegment sales of library content are generally recognized over time. Other intersegment transactions are reported "Net" (i.e. revenue between segments is recorded as a reduction of costs). Studio Entertainment revenues and operating income include an allocation of Parks, Experiences and Products revenues, which is meant to reflect royalties on revenue generated by Parks, Experiences and Products on merchandise based on intellectual property from Studio Entertainment films.

TABLE OF CONTENTS

The following tables provide select segment and regional financial information:

	2019	2018	2017
<i>Revenues</i>			
Media Networks	\$ 24,827	\$ 21,922	\$ 21,299
Parks, Experiences and Products			
Third parties	26,786	25,257	23,516
Intersegment	(561)	(556)	(492)
	26,225	24,701	23,024
Studio Entertainment			
Third parties	10,566	9,509	7,860
Intersegment	561	556	492
	11,127	10,065	8,352
Direct-to-Consumer & International	9,349	3,414	3,075
Eliminations ⁽¹⁾	(1,958)	(668)	(613)
Total consolidated revenues	\$ 69,570	\$ 59,434	\$ 55,137
<i>Segment operating income / (loss)</i>			
Media Networks	\$ 7,479	\$ 7,338	\$ 7,196
Parks, Experiences and Products	6,758	6,095	5,487
Studio Entertainment	2,686	3,004	2,363
Direct-to-Consumer & International	(1,814)	(738)	(284)
Eliminations ⁽¹⁾	(241)	(10)	13
Total segment operating income ⁽²⁾	\$ 14,868	\$ 15,689	\$ 14,775
<i>Reconciliation of segment operating income to income from continuing operations before income taxes</i>			
Segment operating income	\$ 14,868	\$ 15,689	\$ 14,775
Corporate and unallocated shared expenses	(987)	(744)	(582)
Restructuring and impairment charges	(1,183)	(33)	(98)
Other income, net	4,357	601	78
Interest expense, net	(978)	(574)	(385)
Amortization of TFCF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	(1,595)	—	—
Impairment of equity investments ⁽⁴⁾	(538)	(210)	—
Income from continuing operations before income taxes	\$ 13,944	\$ 14,729	\$ 13,788
<i>Capital expenditures</i>			
Media Networks			
Cable Networks	\$ 93	\$ 96	\$ 64
Broadcasting	81	107	67
Parks, Experiences and Products			
Domestic	3,294	3,223	2,392
International	852	677	827
Studio Entertainment	88	96	85
Direct-to-Consumer & International	258	107	30
Corporate	210	159	158
Total capital expenditures	\$ 4,876	\$ 4,465	\$ 3,623

TABLE OF CONTENTS

	2019	2018	2017
<i>Depreciation expense</i>			
Media Networks	\$ 191	\$ 199	\$ 206
Parks, Experiences and Products			
Domestic	1,474	1,449	1,371
International	724	768	679
Studio Entertainment	74	55	50
Direct-to-Consumer & International	207	106	74
Depreciation expense included in segment operating income	2,670	2,577	2,380
Corporate	167	181	206
Total depreciation expense	\$ 2,837	\$ 2,758	\$ 2,586
<i>Amortization of intangible assets</i>			
Media Networks	\$ —	\$ —	\$ —
Parks, Experiences and Products	108	110	111
Studio Entertainment	61	64	65
Direct-to-Consumer & International	111	79	20
Amortization of intangible assets included in segment operating income	280	253	196
TFCF and Hulu intangible assets	1,043	—	—
Total amortization of intangible assets	\$ 1,323	\$ 253	\$ 196
	September 28, 2019	September 29, 2018	
<i>Identifiable assets⁽⁵⁾</i>			
Media Networks	\$ 63,519	\$ 30,205	
Parks, Experiences and Products	41,923	39,171	
Studio Entertainment	34,268	17,291	
Direct-to-Consumer & International	48,606	7,257	
Corporate ⁽⁶⁾	6,135	4,977	
Eliminations	(467)	(303)	
Total consolidated assets	\$ 193,984	\$ 98,598	
	2019	2018	2017
<i>Revenues</i>			
United States and Canada	\$ 50,555	\$ 45,038	\$ 41,881
Europe	8,006	7,026	6,541
Asia Pacific	7,796	5,531	5,075
Latin America and Other	3,213	1,839	1,640
	\$ 69,570	\$ 59,434	\$ 55,137
<i>Segment operating income</i>			
United States and Canada	\$ 10,031	\$ 11,396	\$ 10,962
Europe	2,433	1,922	1,812
Asia Pacific	2,167	1,869	1,626
Latin America and Other	237	502	375
	\$ 14,868	\$ 15,689	\$ 14,775

TABLE OF CONTENTS

	September 28, 2019	September 29, 2018
<i>Long-lived assets⁽⁷⁾</i>		
United States and Canada	\$ 134,869	\$ 65,245
Europe	10,793	6,275
Asia Pacific	12,703	7,775
Latin America and Other	3,805	131
	<u>\$ 162,170</u>	<u>\$ 79,426</u>

(1) Intersegment content transaction are as follows:

	2019	2018	2017
Revenues:			
Studio Entertainment:			
Content transactions with Media Networks	\$ (106)	\$ (169)	\$ (137)
Content transactions with Direct-to-Consumer & International	(272)	(28)	(22)
Media Networks:			
Content transactions with Direct-to-Consumer & International	(1,580)	(471)	(454)
Total	<u>\$ (1,958)</u>	<u>\$ (668)</u>	<u>\$ (613)</u>
Operating Income:			
Studio Entertainment:			
Content transactions with Media Networks	\$ (19)	\$ (8)	\$ 15
Content transactions with Direct-to-Consumer & International	(80)	—	—
Media Networks:			
Content transactions with Direct-to-Consumer & International	(142)	(2)	(2)
Total	<u>\$ (241)</u>	<u>\$ (10)</u>	<u>\$ 13</u>

(2) Equity in the income/(loss) of investees included in segment operating income is as follows:

	2019	2018	2017
Media Networks	\$ 703	\$ 711	\$ 766
Parks, Experiences and Products	(13)	(23)	(25)
Direct-to-Consumer & International	(240)	(580)	(421)
Equity in the income of investees included in segment operating income	450	108	320
Impairment of equity investments	(538)	(210)	—
Amortization of TFCF intangible assets related to equity investees	(15)	—	—
Equity in the income (loss) of investees, net	<u>\$ (103)</u>	<u>\$ (102)</u>	<u>\$ 320</u>

- (3) For fiscal 2019, amortization of intangible assets and fair value step-up on film and television costs were \$1,043 million and \$552 million, respectively.
- (4) Impairment of equity investments for fiscal 2019 primarily reflects the impairments of Vice Group Holding, Inc. and of an investment in a cable channel at A+E Television Networks (\$353 million and \$170 million, respectively). Impairment of equity investments for fiscal 2018 reflects impairments of Vice Group Holding, Inc. and Villages Nature (\$157 million and \$53 million, respectively).

TABLE OF CONTENTS

- (5) Equity method investments included in identifiable assets by segment are as follows:

	September 28, 2019	September 29, 2018
Media Networks \$	2,018	\$ 2,430
Parks, Experiences and Products	3	1
Studio Entertainment	8	1
Direct-to-Consumer & International	821	320
Corporate	72	16
	<u>\$ 2,922</u>	<u>\$ 2,768</u>

Intangible assets included in identifiable assets by segment are as follows:

	September 28, 2019	September 29, 2018
Media Networks \$	7,861	\$ 1,546
Parks, Experiences and Products	3,122	3,167
Studio Entertainment	2,085	1,479
Direct-to-Consumer & International	9,962	490
Corporate	185	130
	<u>\$ 23,215</u>	<u>\$ 6,812</u>

- (6) Primarily fixed assets and cash and cash equivalents.
- (7) Long-lived assets are total assets less: current assets, long-term receivables, deferred taxes, financial investments and the fair value of derivative instruments.

2 *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its majority-owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company enters into relationships or investments with other entities that may be variable interest entities (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to

receive benefits from the VIE that could potentially be significant (as defined by ASC 810-10-25-38) to the VIE. Hong Kong Disneyland Resort and Shanghai Disney Resort (together the Asia Theme Parks) are VIEs in which the Company has less than 50% equity ownership. Company subsidiaries (the Management Companies) have management agreements with the Asia Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the Asia Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the Asia Theme Parks. Therefore, the Company has consolidated the Asia Theme Parks in its financial statements.

Reporting Period

The Company's fiscal year ends on the Saturday closest to September 30 and consists of fifty-two weeks with the exception that approximately every six years, we have a fifty-three week year. When a fifty-three week year occurs, the Company reports the additional week in the fourth quarter. Fiscal 2019, 2018 and 2017 were fifty-two week years.

Reclassifications

Certain reclassifications have been made in the fiscal 2018 and fiscal 2017 financial statements and notes to conform to the fiscal 2019 presentation.

TABLE OF CONTENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Revenues and Costs from Services and Products

The Company generates revenue from the sale of both services and tangible products and revenues and operating costs are classified under these two categories in the Consolidated Statements of Income. Certain costs related to both the sale of services and tangible products are not specifically allocated between the service or tangible product revenue streams but are instead attributed to the principal revenue stream. The cost of services and tangible products exclude depreciation and amortization.

Significant service revenues include:

- Affiliate fees
- Advertising revenues
- Revenue from the licensing and distribution of film and television properties
- Admissions to our theme parks, charges for room nights at hotels and sales of cruise vacation packages
- Licensing of intellectual property for use on consumer merchandise, published materials and in multi-platform games

Significant operating costs related to the sale of services include:

- Amortization of programming and production costs and participations and residuals costs
- Distribution costs
- Operating labor
- Facilities and infrastructure costs

Significant tangible product revenues include:

- The sale of food, beverage and merchandise at our retail locations
- The sale of DVDs and Blu-ray discs
- The sale of books, comic books and magazines

Significant operating costs related to the sale of tangible products include:

- Costs of goods sold
- Amortization of programming and production costs and participations and residuals costs
- Distribution costs
- Operating labor
- Retail occupancy costs

Revenue Recognition

The Company generates revenue from the sale of both services and products. Revenue is recognized when control of the services or products is transferred to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for the services or products.

The Company has four broad categories of service revenues: licenses of rights to use our intellectual property, sales to guests at our Parks and Experiences businesses, sales of advertising time/space and DTC services. The Company's primary product revenues include the sale of food, beverage and merchandise at our parks, resorts and retail stores and the sale of film and television productions in physical formats (DVD and Blu-ray).

The new revenue guidance defines two types of licenses of intellectual property ("IP"): IP that has "standalone functionality," which is called functional IP, and all other IP, which is called symbolic IP. Revenue related to the license of functional IP is generally recognized upon delivery (availability) of the IP to the customer. The substantial majority of the Company's film and television content distribution activities at the Media Networks, Studio Entertainment and DTCI segments is considered licensing of functional IP. Revenue related to the license of symbolic IP is generally recognized over the term of the license. The Company's primary revenue stream derived from symbolic IP is the licensing of trade names, characters and visual and literary properties at the Parks, Experiences and Products segment.

TABLE OF CONTENTS

More detailed information about the revenue recognition policies for our key revenues is as follows:

- **Affiliate fees** - Fees charged to affiliates (i.e., MVPDs or television stations) for the right to deliver our television network programming on a continuous basis to their customers are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming.

For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term.

If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded.

Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

- **Subscription fees** - Fees charged to customers/subscribers for our streaming services are recognized ratably over the term of the subscription.
- **Advertising** - Sales of advertising time/space on our television networks, digital platforms and television stations are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the guaranteed number of impressions is not met ("ratings shortfall"), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.
- **Theme park admissions** - Sales of theme park tickets are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- **Resorts and vacations** - Sales of hotel room nights and cruise vacations and rentals of vacation club properties are recognized as revenue as the services are provided to the guest. Sales of vacation club properties are recognized as revenue upon the later of when title transfers to the customer or when construction activity is deemed complete.
- **Merchandise, food and beverage** - Sales of merchandise, food and beverages at our theme parks and resorts, cruise ships and Disney Stores are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.
- **TV/SVOD distribution licensing** - Fixed license fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue as earned based on the contractual royalty rate applied to the licensee sales.

For TV/SVOD licenses that include multiple titles with a fixed license fee across all titles, each title is considered a separate performance obligation. The fixed license fee is allocated to each title at contract inception and the allocated license fee is recognized as revenue when the title is available for use by the licensee.

When the license contains a minimum guaranteed license fee across all titles, the license fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee is exceeded, revenue is recognized as earned based on the licensee's underlying sales.

TV/SVOD distribution contracts may limit the licensee's use of a title to certain defined periods of time during the contract term. In these instances, each period of availability is generally considered a separate performance obligation. For these contracts, the fixed license fee is allocated to each period of availability at contract inception based on relative standalone selling price using management's best estimate. Revenue is recognized at the start of each availability period when the content is made available for use by the licensee.

When the term of an existing agreement is renewed or extended, revenues are recognized when the licensed content becomes available under the renewal or extension.

- Theatrical distribution licensing - Fees charged for licensing of our motion pictures to theatrical distributors are recognized as revenue based on the contractual royalty rate applied to the distributor's underlying sales from exhibition of the film.
- Merchandise licensing - Fees charged for the use of our trade names and characters in connection with the sale of a licensee's products are recognized as revenue as earned based on the contractual royalty rate applied to the licensee's underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed

TABLE OF CONTENTS

amount over actual royalties earned (“shortfall”) is recognized straight-line over the remaining license period once an expected shortfall is probable.

- Home entertainment - Sales of our motion pictures to retailers and distributors in physical formats (DVD and Blu-ray) are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our motion pictures in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes - Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling - Fees collected from customers for shipping and handling are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The allowance for doubtful accounts is estimated based on our analysis of trends in overall receivables aging, specific identification of certain receivables that are at risk of not being paid, past collection experience and current economic trends.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense for fiscal 2019, 2018 and 2017 was \$4.3 billion, \$2.8 billion and \$2.6 billion, respectively. The increase in advertising expense for fiscal 2019 compared to fiscal 2018 was primarily due to the consolidation of TFCF and Hulu's operations.

Cash and Cash Equivalents

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

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. The Company's restricted cash balances are primarily made up of cash posted as collateral for certain derivative instruments.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statement of Cash Flows.

	September 28, 2019	September 29, 2018	September 30, 2017
Cash and cash equivalents	\$ 5,418	\$ 4,150	\$ 4,017
Restricted cash included in:			
Other current assets	26	1	26
Other assets	11	4	21
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 5,455	\$ 4,155	\$ 4,064

Investments

Investments in equity securities with a readily determinable fair value, not accounted for under the equity method, are recorded at that value with unrealized gains and losses included in earnings. For equity securities without a readily determinable fair value, the investment is recorded at cost, less any impairment, plus or minus adjustments related to observable transactions for the same or similar securities, with unrealized gains and losses included in earnings.

For equity method investments, the Company regularly reviews its investments to determine whether there is a decline in fair value below book value. If there is a decline that is other-than-temporary, the investment is written down to fair value.

Translation Policy

Generally, the U.S. dollar is the functional currency for our international film and television distribution and licensing businesses and the branded International Channels. Generally, the local currency is the functional currency for the Asia Theme Parks, Disneyland Paris, the branded International Channels that primarily source and exploit their content locally (primarily Star branded channels in India and international sports channels) and international locations of The Disney Stores.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange

TABLE OF CONTENTS

rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to the non-monetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income/(loss) (AOCI).

Inventories

Inventory primarily includes vacation timeshare units, merchandise, food, materials and supplies. Carrying amounts of vacation ownership units are recorded at the lower of cost or net realizable value. Carrying amounts of merchandise, food, materials and supplies inventories are generally determined on a moving average cost basis and are recorded at the lower of cost or net realizable value.

Film and Television Costs

Film and television production costs include capitalizable direct costs, production overhead, interest and development costs and are stated at the lower of cost, less accumulated amortization, or fair value. Acquired programming costs for the Company's cable and broadcast television networks are stated at the lower of cost, less accumulated amortization, or net realizable value. Acquired television broadcast program licenses and rights are recorded when the license period begins and the program is available for use. Marketing, distribution and general and administrative costs are expensed as incurred.

Film and television production, participation and residual costs are expensed over the applicable product life cycle based upon the ratio of the current period's revenues to estimated remaining total revenues (Ultimate Revenues) for each production. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years from the date of the initial theatrical release. For television series, Ultimate Revenues include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later. For acquired film libraries, remaining revenues include amounts to be earned for up to twenty years from the date of acquisition. Costs of film and television productions are subject to regular recoverability assessments, which compare the estimated fair values with the unamortized costs. The Company bases these fair value measurements on the Company's assumptions about how market participants would price the assets at the balance sheet date, which may be different than the amounts ultimately realized in future periods. The amount by which the unamortized costs of film and television productions exceed their estimated fair values is written off. Film development costs for projects that have been abandoned are written off. Projects that have not been set for production within three years are also written off unless management has committed to a plan to proceed with the project and is actively working on and funding the project.

The costs of television broadcast rights for acquired series, movies and other programs are expensed on an accelerated or straight-line basis over the useful life, or over the number of times the program is expected to be aired, as appropriate. Rights costs for multi-year sports programming arrangements are amortized during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated value of each year is based on our projections of revenues over the contract period, which include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season's estimated relative value, we expense the related contractual payments during the applicable season. Individual programs are written off when there are no plans to air or sublicense the program.

The net realizable values of network television broadcast program licenses and rights are reviewed for recoverability 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: primetime, daytime, late night, news and sports (includes broadcast and cable networks). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable network.

The costs of film and television series that are used by our DTC services are expensed based on historical and estimated viewing patterns, which may be on an accelerated or straight-line basis, as appropriate. The unamortized costs are reviewed for impairment on an aggregate basis for each service.

Internal-Use Software Costs

The Company expenses costs incurred in the preliminary project stage of developing or acquiring internal use software, such as research and feasibility studies as well as costs incurred in the post-implementation/operational

stage, such as maintenance and training. Capitalization of software development costs occurs only after the preliminary-project stage is complete, management authorizes the project and it is probable that the project will be completed and the software will be used for the function intended. As of September 28, 2019 and September 29, 2018, capitalized software costs, net of accumulated depreciation, totaled \$927 million and \$659 million, respectively. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software up to 10 years.

TABLE OF CONTENTS

Software Product Development Costs

Software product development costs incurred prior to reaching technological feasibility are expensed. We have determined that technological feasibility of our video game software is generally not established until substantially all product development is complete.

Parks, Resorts and Other Property

Parks, resorts and other property are carried at historical cost. Depreciation is computed on the straight-line method, generally over estimated useful lives as follows:

Attractions, buildings and improvements	20 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Land improvements	20 – 40 years
Leasehold improvements	Life of lease or asset life if less

Goodwill, Other Intangible Assets and Long-Lived Assets

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount, and to the extent the carrying amount exceeds the fair value, an impairment of goodwill is recognized for the excess up to the amount of goodwill allocated to the reporting unit.

The impairment test for goodwill requires judgment related to the identification of reporting units, the assignment of assets and liabilities to reporting units including goodwill, and the determination of fair value of the reporting units. To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flows) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The projected cash flows of our reporting units reflect intersegment revenues and expenses for the sale and use of intellectual property as if it was licensed to an unrelated third party.

In times of adverse economic conditions in the global economy, the Company's long-term cash flow projections are subject to a greater degree of uncertainty than usual. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

The Company is required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized for the excess. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate. The Company has determined that there are currently no legal, competitive, economic or other factors that materially limit the useful life of our FCC licenses and trademarks.

Amortizable intangible assets are generally amortized on a straight-line basis over periods up to 40 years. The costs to periodically renew our intangible assets are expensed as incurred.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets

held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

The Company tested its goodwill and other indefinite-lived intangible assets, long-lived assets and investments for impairment and recorded non-cash impairment charges of \$538 million, \$210 million and \$22 million in fiscal 2019, 2018 and 2017, respectively. The fiscal 2019 and fiscal 2018 impairment charges related to equity investments and were recorded in "Equity in the income (loss) of investees, net" in the Consolidated Statements of Income. The fiscal 2017 impairment charges were recorded in "Restructuring and impairment charges" in the Consolidated Statements of Income.

TABLE OF CONTENTS

The Company expects its aggregate annual amortization expense for existing amortizable intangible assets for fiscal 2020 through 2024 to be as follows:

2020	\$ 2,283
2021	2,219
2022	2,164
2023	1,993
2024	1,756

Risk Management Contracts

In the normal course of business, the Company employs a variety of financial instruments (derivatives) including interest rate and cross-currency swap agreements and forward and option contracts to manage its exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices.

The Company formally documents all relationships between hedges and hedged items as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company primarily enters into two types of derivatives: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset, liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction (e.g. forecasted revenue) or the variability of cash flows to be paid or received, related to a recognized liability or asset (e.g. floating rate debt).

The Company designates and assigns the derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged occur or are no longer expected to occur, the Company recognizes the gain or loss on the designated derivatives.

The Company's hedge positions are measured at fair value on the balance sheet. 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 swaps to be paid or received under the agreements as interest rates change as adjustments to interest expense over the lives of the swaps. Gains and losses on the termination of effective swap agreements, prior to their original maturity, are deferred and amortized to interest expense over the remaining term of the underlying hedged transactions.

The Company enters into derivatives that are not designated as hedges and do not qualify for hedge accounting. These derivatives are intended to offset certain economic exposures of the Company and are carried at fair value with changes in value recorded in earnings. Cash flows from hedging activities are classified in the Consolidated Statements of Cash Flows under the same category as the cash flows from the related assets, liabilities or forecasted transactions (see Notes 9 and 17).

Income Taxes

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized.

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Earnings Per Share

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income attributable to Disney by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year, which is calculated using the treasury-stock method for equity-based awards (Awards). Common equivalent shares are excluded from the computation in periods for which they have an anti-dilutive effect.

Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

TABLE OF CONTENTS

A reconciliation of the weighted average number of common and common equivalent shares outstanding and the number of Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	2019	2018	2017
Weighted average number of common and common equivalent shares outstanding (basic)	1,656	1,499	1,568
Weighted average dilutive impact of Awards	10	8	10
Weighted average number of common and common equivalent shares outstanding (diluted)	1,666	1,507	1,578
Awards excluded from diluted earnings per share	7	12	10

3 *Revenues*

At the beginning of fiscal 2019, the Company adopted Financial Accounting Standards Board (FASB) guidance that replaced the existing accounting guidance for revenue recognition with a single comprehensive five-step model (“new revenue guidance”). The core principle is to recognize revenue upon the transfer of control of goods or services to customers at an amount that reflects the consideration expected to be received. We adopted the new revenue guidance using the modified retrospective method; therefore, results for reporting periods beginning after September 30, 2018 are presented under the new revenue guidance, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting. Upon adoption, we recorded a net reduction of \$116 million to opening retained earnings in fiscal 2019.

The most significant changes to the Company’s revenue recognition policies resulting from the adoption of the new revenue guidance are as follows:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company now defers more revenue to future windows than under the previous accounting guidance.
- For licenses of character images, brands and trademarks with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual amounts earned based on a percentage of the licensee’s underlying sales (“shortfall”) is now recognized straight-line over the remaining license period once an expected shortfall is probable. Previously, shortfalls were recognized at the end of the contract period.
- For licenses that include multiple television and film titles with a minimum guaranteed license fee across all titles that earns out against the aggregate fees based on the licensee’s underlying sales, the Company now allocates the minimum guaranteed license fee to each title at contract inception and recognizes the allocated license fee as revenue when the title is made available to the customer. License fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee across all titles is exceeded, license fees are recognized as earned based on the licensee’s underlying sales. Previously, license fees were recognized as earned based on the licensee’s underlying sales with any shortfalls recognized at the end of the contract period.
- For renewals or extensions of license agreements for television and film content, revenues are now recognized when the licensed content becomes available under the renewal or extension. Previously, revenues were recognized when the agreement was renewed or extended.

The adoption of the new revenue guidance resulted in certain reclassifications on the Condensed Consolidated Balance Sheet. The primary changes are the reclassification of sales returns reserves (previously reported as a reduction of receivables) to other accrued liabilities (\$0.2 billion at September 28, 2019) and the reclassification of refundable customer advances (previously reported as deferred revenues) to other accrued liabilities (\$1.0 billion at September 28, 2019).

TABLE OF CONTENTS

The cumulative effect of adoption at September 29, 2018 and the impact at September 28, 2019 (had we not applied the new revenue guidance) on the Consolidated Balance Sheet is as follows:

	September 29, 2018			September 28, 2019		
	Fiscal 2018 Ending Balances as Reported	Effect of Adoption	Q1 2019 Opening Balances	Balances Assuming Historical Accounting	Impact of New Revenue guidance	Q4 2019 Ending Balances as Reported
Assets						
Receivables - current/non-current	\$ 11,262	\$ (241)	\$ 11,021	\$ 18,343	\$ (66)	\$ 18,277
Film and television costs and advances - current/non-current	9,202	48	9,250	27,384	23	27,407
Liabilities						
Accounts payable and other accrued liabilities	9,479	1,039	10,518	16,514	1,248	17,762
Deferred revenue and other	4,591	(1,082)	3,509	5,950	(1,228)	4,722
Deferred income taxes	3,109	(34)	3,075	7,919	(17)	7,902
Equity	52,832	(116)	52,716	93,935	(46)	93,889

The impact on the Consolidated Statement of Income for fiscal 2019 due to the adoption of the new revenue guidance is as follows:

	Results Assuming Historical Accounting	Impact of New Revenue guidance	Reported
Revenues	\$ 69,225	\$ 345	\$ 69,570
Cost and Expenses	(57,465)	(254)	(57,719)
Income Taxes	(3,010)	(21)	(3,031)
Net Income	11,514	70	11,584

The most significant impact was at the Studio Entertainment reflecting a change in the timing of revenue recognition related to film content licensing agreements with multiple availability windows.

The following table presents our revenues by segment and major source:

	2019					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to- Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 13,433	\$ —	\$ —	\$ 2,740	\$ (253)	\$ 15,920
Advertising	6,965	6	—	3,534	—	10,505
Theme park admissions	—	7,540	—	—	—	7,540
Resort and vacations	—	6,266	—	—	—	6,266
Retail and wholesale sales of merchandise, food and beverage	—	7,716	—	—	—	7,716
TV/SVOD distribution licensing	4,046	—	2,920	404	(1,705)	5,665
Theatrical distribution licensing	—	—	4,726	—	—	4,726
Merchandise licensing	—	2,768	561	51	—	3,380
Subscription fees	—	—	—	2,244	—	2,244
Home entertainment	—	—	1,734	97	—	1,831
Other	383	1,929	1,186	279	—	3,777
Total revenues	\$ 24,827	\$ 26,225	\$ 11,127	\$ 9,349	\$ (1,958)	\$ 69,570

TABLE OF CONTENTS

	2018					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 11,907	\$ —	\$ —	\$ 1,372	\$ —	\$ 13,279
Advertising	6,586	7	—	1,311	—	7,904
Theme park admissions	—	7,183	—	—	—	7,183
Resort and vacations	—	5,938	—	—	—	5,938
Retail and wholesale sales of merchandise, food and beverage	—	7,365	—	—	—	7,365
TV/SVOD distribution licensing	3,120	—	2,340	105	(668)	4,897
Theatrical distribution licensing	—	—	4,303	—	—	4,303
Merchandise licensing	—	2,566	556	70	—	3,192
Subscription fees	—	—	—	168	—	168
Home entertainment	—	—	1,647	103	—	1,750
Other	309	1,642	1,219	285	—	3,455
Total revenues	<u>\$ 21,922</u>	<u>\$ 24,701</u>	<u>\$ 10,065</u>	<u>\$ 3,414</u>	<u>\$ (668)</u>	<u>\$ 59,434</u>

Amounts for fiscal 2018 reflect our historical accounting prior to the adoption of the new revenue guidance.

The following table presents our revenues by segment and primary geographical markets:

	2019					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	\$ 23,623	\$ 19,631	\$ 5,269	\$ 3,671	\$ (1,639)	\$ 50,555
Europe	785	3,135	2,956	1,260	(130)	8,006
Asia Pacific	275	3,222	2,121	2,367	(189)	7,796
Latin America	144	237	781	2,051	—	3,213
Total revenues	<u>\$ 24,827</u>	<u>\$ 26,225</u>	<u>\$ 11,127</u>	<u>\$ 9,349</u>	<u>\$ (1,958)</u>	<u>\$ 69,570</u>

Revenues recognized in the current year from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on TV/SVOD and theatrical distribution licensee sales on titles made available to the licensee in previous reporting periods. For fiscal 2019, \$1.2 billion was recognized related to performance obligations satisfied prior to September 30, 2018.

As of September 28, 2019, revenue for unsatisfied performance obligations expected to be recognized in the future is \$16 billion, which primarily relates to content to be delivered in the future under existing agreements with television station affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately \$7 billion in fiscal 2020, \$4 billion in fiscal 2021, \$3 billion in fiscal 2022 and \$2 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

Payment terms vary by the type and location of our customers and the products or services offered. For certain products or services and customer types, we require payment before the products or services are provided to the customer; in other cases, after appropriate credit evaluations, payment is due in arrears. Advertising contracts, which are generally short term, are billed monthly with payments generally due within 30 days. Payments due under affiliate arrangements are calculated monthly and are generally due within 30 days of month end. Home entertainment terms generally include payment within 60 to 90 days of availability date to the customer. Licensing payment terms vary by contract but are generally collected in advance or over the license term. The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties (see Note 15). These receivables are discounted to present value at an appropriate discount rate at contract inception, and the related revenues are recognized at the discounted amount.

TABLE OF CONTENTS

When the timing of the Company's revenue recognition is different from the timing of customer payments, the Company recognizes either a contract asset (customer payment is subsequent to revenue recognition and subject to the Company satisfying additional performance obligations) or deferred revenue (customer payment precedes the Company satisfying the performance obligations). Consideration due under contracts with payment in arrears is recognized as accounts receivable. Deferred revenues are recognized as (or when) the Company performs under the contract. Contract assets, accounts receivable and deferred revenues from contracts with customers are as follows:

	September 28, 2019	September 30, 2018
Contract assets	\$ 125	\$ 89
Accounts Receivable		
Current	12,755	8,553
Non-current	1,987	1,640
Allowance for doubtful accounts	(327)	(226)
Deferred revenues		
Current	4,050	2,926
Non-current	619	609

Contract assets primarily relate to certain multi-season TV/SVOD licensing contracts. Activity for fiscal 2019 related to contract assets and the allowance for doubtful accounts was not material.

Deferred revenue primarily relates to non-refundable consideration received in advance for (i) licensing contracts and theme park vacation packages, tickets and annual passes and (ii) the deferral of advertising revenues due to ratings shortfalls. The increase in the deferred revenue balance at September 28, 2019 was primarily due to the receipt of additional prepaid park admissions, advances on certain licensing arrangements and non-refundable travel deposits, as well as the acquisition of TFCF and consolidation of Hulu (see Note 4). The acquisition of TFCF and consolidation of Hulu increased deferred revenues by \$0.6 billion, of which \$0.4 billion was recognized during fiscal 2019. For fiscal 2019, the Company recognized revenues of \$2.7 billion primarily related to licensing advances, theme park admissions and vacation packages included in the deferred revenue balance at September 30, 2018.

4 *Acquisitions*

TFCF Corporation

On March 20, 2019, the Company acquired the outstanding capital stock of TFCF, a diversified global media and entertainment company. Prior to the acquisition, TFCF and a newly-formed subsidiary of TFCF (New Fox) entered into a separation agreement, pursuant to which TFCF transferred to New Fox a portfolio of TFCF's news, sports and broadcast businesses and certain other assets. TFCF retained all of the assets and liabilities not transferred to New Fox, including the Twentieth Century Fox film and television studios, certain cable networks and TFCF's international TV businesses; these remaining assets and businesses are held directly or indirectly by the acquired TFCF entity.

The acquisition purchase price totaled \$69.5 billion, of which the Company paid \$35.7 billion in cash and \$33.8 billion in Disney shares (307 million shares at a price of \$110.00 per share).

We acquired TFCF to enhance the Company's position as a premier, global entertainment company by increasing our portfolio of creative assets and branded content to be monetized through our film and television studio, theme parks and direct-to-consumer offerings.

In connection with the acquisition, outstanding TFCF performance stock units and restricted stock units were either vested upon closing of the acquisition or replaced with new restricted stock units (which require additional service for vesting). The purchase price for TFCF includes \$361 million related to TFCF awards that were settled or replaced in connection with the acquisition, and the Company recognized compensation expense of \$164 million related to awards that were accelerated to vest upon closing of the acquisition. Additionally, compensation expense of

\$219 million related to awards that were replaced with new restricted stock units will be recognized over the post-acquisition service period of up to approximately two years.

As part of the TFCF acquisition, the Company acquired TFCF's 30% interest in Hulu increasing our ownership to 60%. As a result, the Company began consolidating Hulu and recorded a one-time gain of \$4.8 billion (Hulu Gain) from remeasuring our initial 30% interest to its estimated fair value, which was determined based on a discounted cash flow analysis. Significant assumptions used in the discounted cash flows include future revenue growth and margins, the discount rate used to present value future cash flows and the terminal growth rate of cash flows.

TABLE OF CONTENTS

On April 15, 2019, Hulu redeemed Warner Media LLC's (WM) 10% interest in Hulu for \$1.4 billion. The redemption was funded by the Company and Hulu's remaining noncontrolling interest holder, NBC Universal (NBCU). This resulted in the Company's and NBCU's interests in Hulu increasing to 67% and 33%, respectively.

On May 13, 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU's interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu, based on NBCU's equity ownership percentage of the greater of Hulu's then fair value or \$27.5 billion. Hulu's future equity capital calls are limited to \$1.5 billion in the aggregate each year, with any excess funding requirements funded with member loans. NBCU has the right, but not the obligation, to fund its proportionate share of future capital calls. If NBCU elects not to fund its share of future equity capital calls its ownership will be diluted. However, Disney has agreed that NBCU's ownership interest in Hulu cannot be diluted below 21%. Additionally, the agreement provides NBCU with 50% of the tax benefit related to the exercise of the put or call.

NBCU's interest is classified as a redeemable noncontrolling interest on the Company's Condensed Consolidated Balance Sheet and will generally not be allocated Hulu's losses as the redeemable noncontrolling interest is required to be carried at a minimum value representing fair value as of the May 13, 2019 agreement date accreted to the January 2024 redemption value. The accretion of NBCU's interest will be based on an interest method and recorded in "Net income attributable to noncontrolling interests" on the Consolidated Statement of Income. At September 28, 2019, NBCU's interest in Hulu is recorded in the Company's financial statements at \$7.9 billion.

Upon closing of the TFCF acquisition, the Company exchanged new Disney notes for outstanding notes issued by 21st Century Fox America, Inc. with a principal balance of \$16.8 billion (see Note 9).

The Company is required to allocate the TFCF purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill. As of September 28, 2019, the Company has generally completed its allocation of the TFCF purchase price. The principal open items relate to the valuation of certain income tax matters. The Company is still obtaining information related to the evaluation of the income tax impact of certain pre-acquisition transactions of TFCF. Estimates have been recorded as of the acquisition date and updates to these estimates may increase or decrease goodwill.

In determining the fair value of assets acquired and liabilities assumed, the Company primarily used discounted cash flow analyses. Inputs to the discounted cash flow analyses and other aspects of the allocation of purchase price require judgment. The more significant inputs used in the discounted cash flow analyses and other areas of judgment include (i) future revenue growth or attrition rates (ii) projected margins (iii) discount rates used to present value future cash flows (iv) the amount of synergies expected from the acquisition (v) the economic useful life of assets and; (vi) the evaluation of historical tax positions of TFCF.

The following table summarizes our current allocation of the March 20, 2019 purchase price:

	Initial Allocation ⁽¹⁾	Adjustments	Updated Allocation
Cash and cash equivalents	\$ 25,666	\$ 35	\$ 25,701
Receivables	4,746	484	5,230
Film and television costs	20,120	(2,322)	17,798
Investments	1,471	(507)	964
Intangible assets	20,385	(2,504)	17,881
Net assets held for sale	11,704	(338)	11,366
Accounts payable and other liabilities	(10,753)	(1,606)	(12,359)
Borrowings	(21,723)	—	(21,723)
Deferred income taxes	(6,497)	1,164	(5,333)
Other net liabilities acquired	(3,865)	(93)	(3,958)
Noncontrolling interests	(10,638)	230	(10,408)
Goodwill	43,751	5,334	49,085
Fair value of net assets acquired	74,367	(123)	74,244
Less: Disney's previously held 30% interest in Hulu	(4,860)	123	(4,737)

Total purchase price	\$ 69,507	\$ —	\$ 69,507
----------------------	-----------	------	-----------

⁽¹⁾ As reported in our March 30, 2019 Form 10-Q.

TABLE OF CONTENTS

The adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired and liabilities assumed. The adjustments made to the initial allocation did not result in material changes to the amortization expense recorded in the previous quarters.

Intangible assets primarily consist of MVPD agreements, with a weighted average useful life of 9 years, and advertising networks and trade names, with a weighted average useful life of 16 years.

The goodwill reflects the value to Disney of increasing our global portfolio of creative assets and branded content to be monetized through our DTC services, film and television studio and theme parks.

The amount of goodwill that is deductible for tax purposes is not material.

The fair value of investments acquired in the acquisition include \$0.9 billion of equity method investments and \$0.1 billion of equity investments. Equity method investments primarily consist of a 50% interest in Endemol Shine Group and a 30% interest in Tata Sky Limited. On October 25, 2019, the Company entered into a definitive agreement with Banijay Group to sell its 50% interest in Endemol Shine Group. Completion of the transaction is subject to customary closing conditions, including approval from the European Commission. We expect the sale to close in fiscal 2021.

The fair value of the assets acquired includes current trade receivables of \$5.2 billion. The gross amount due under the contracts is \$5.5 billion.

For fiscal 2019, the Company incurred \$0.3 billion of acquisition-related expenses, of which \$0.2 billion is included in Selling, general, administrative and other, and \$0.1 billion related to financing fees is included in "Interest expense, net" in the Company's Consolidated Statements of Income.

The following table summarizes the revenues and net loss from continuing operations (including purchase accounting amortization and the impact of intercompany eliminations and excluding restructuring and impairment charges) of TFCF and Hulu included in the Company's fiscal 2019 Consolidated Statement of Income since the date of acquisition:

TFCF⁽¹⁾:

Revenues	\$	6,950
Net income from continuing operations		(1,030)

Hulu⁽²⁾:

Revenues	\$	1,938
Net loss from continuing operations		(774)

(1) The impact of eliminations on revenues and net income as a result of consolidating TFCF was not material.

(2) As a result of consolidating Hulu, the elimination of our legacy operations' revenues for sales to Hulu was approximately \$0.6 billion and the elimination of TFCF's revenues for sales to Hulu was approximately \$0.4 billion. The impact of the eliminations on net income was not material.

The following pro forma summary presents consolidated information of the Company as if the acquisition of TFCF and consolidation of Hulu had occurred on October 1, 2017:

	2019	2018
Revenues	\$ 78,116	\$ 76,318
Net income	7,596	13,708
Net income attributable to Disney	7,284	13,877
Earnings per share attributable to Disney:		
Diluted	\$ 3.72	\$ 7.64
Basic	3.74	7.68

TABLE OF CONTENTS

These pro forma results include adjustments for purposes of consolidating the historical financial results of TFCF and Hulu (net of adjustments to eliminate transactions between Disney and TFCF, Disney and Hulu and Hulu and TFCF). These pro formas also include \$3.1 billion and \$3.5 billion (including \$0.4 billion and \$0.8 billion of amortization related to the RSNs) for fiscal 2019 and 2018, respectively, to reflect the incremental amortization as a result of recording film and television programming and production costs and finite lived intangible assets at fair value. Interest expense of \$0.4 billion and \$0.5 billion is included to reflect the cost of borrowings to finance the TFCF acquisition for fiscal 2019 and 2018, respectively.

Additionally, fiscal 2018 pro forma earnings include the Hulu Gain, compensation expense of \$0.2 billion related to TFCF equity awards that were accelerated to vest upon closing of the acquisition, and \$0.4 billion of acquisition-related expenses. These amounts were recognized by Disney and TFCF in fiscal 2019, but have been excluded from the fiscal 2019 pro forma earnings.

The pro forma results exclude a \$10.8 billion gain on sale and \$0.5 billion of equity earnings recorded by TFCF for fiscal 2019 and 2018, respectively, related to its 39% interest in Sky plc, which was sold by TFCF in October 2018. The pro forma results include \$0.8 billion and \$0.6 billion of net income attributable to Disney for fiscal 2019 and 2018, respectively, related to the TFCF businesses that have been or will be divested (see the Assets Disposed, to be Disposed and Discontinued Operations section below).

These pro forma results do not represent financial results that would have been realized had the acquisition actually occurred on October 1, 2017, nor are they intended to be a projection of future results.

Assets Disposed, to be Disposed and Discontinued Operations

In order to obtain regulatory approval for the acquisition of TFCF the Company agreed to sell the RSNs and sports media operations in Brazil and Mexico, and the Company agreed to divest its interest in certain European cable channels that were controlled by A+E. The Company divested its interest in certain European cable channels controlled by A+E in April 2019 for an amount that was not material. The Company sold the RSNs in August 2019 for approximately \$11 billion. The RSNs, the Brazil and Mexico sports media operations and certain other businesses to be divested are presented as discontinued operations in the Consolidated Statements of Income. As of September 28, 2019, the assets and liabilities of the businesses held for sale are not material and are included in other assets and other liabilities in the Consolidated Balance Sheet.

BAMTech

In fiscal 2017, the Company acquired an additional 42% interest in BAMTech, a streaming technology and content delivery business, from an affiliate of Major League Baseball (MLB) for \$1.6 billion (paid in fiscal 2018). The acquisition increased our interest from 33% to 75%, and as a result, we began consolidating BAMTech during the fourth quarter of fiscal 2017. The acquisition supports the Company's launch of DTC services.

The acquisition date fair value of BAMTech (purchase price) of \$3.9 billion represents the sum of (i) the \$1.6 billion payment for the 42% interest, (ii) the \$1.2 billion estimated fair value of the Company's original 33% interest and (iii) the \$1.1 billion estimated fair value of the 25% noncontrolling interest.

Upon consolidation, the Company recognized a non-cash gain of \$255 million (\$162 million after tax) as a result of increasing the carrying value of the Company's original 33% interest to \$1.2 billion, the estimated fair value implied by the acquisition price of our additional 42% interest. The gain was recorded in "Other income, net" in the fiscal 2017 Consolidated Statement of Income.

We allocated \$3.5 billion of the purchase price to goodwill (approximately half of which is deductible for tax purposes) with the remainder primarily allocated to identifiable intangible assets. Goodwill reflects the synergies expected from rationalization of the Company's current digital distribution services, enhanced personalization of content and advertising from access to DTC user data, and the ability to leverage BAMTech's platform expertise for the Company's DTC services. Goodwill also includes technical knowhow associated with BAMTech's assembled workforce.

BAMTech's noncontrolling interest holders, MLB and the National Hockey League (NHL), have the right to sell their interest to the Company in the future. MLB can generally sell its interest to the Company starting five years from and ending ten years after the September 25, 2017 acquisition date at the greater of fair value or a guaranteed floor value (\$563 million accreting at 8% annually for eight years). The NHL can sell its interest to the Company in fiscal 2020 for \$300 million or in fiscal 2021 for \$350 million. Accordingly, these interests are recorded as "Redeemable noncontrolling interests" in the Company's Consolidated Balance Sheet. In addition, ESPN's noncontrolling interest holder has a 20% interest in BAMTech's direct-to-consumer sports business.

The Company has the right to purchase MLB's interest in BAMTech starting five years from and ending ten years after the acquisition date at the greater of fair value or the guaranteed floor value. The Company has the right to acquire the NHL interest in fiscal 2020 or 2021 for \$500 million.

TABLE OF CONTENTS

The acquisition date fair value of the noncontrolling interests was estimated at \$1.1 billion, which was calculated using an option pricing model and generally reflected the net present value of the expected future redemption amount.

As a result of the MLB and NHL sale rights, the noncontrolling interests will generally not be allocated BAMTech losses. The Company will record the noncontrolling interests at the greater of (i) their acquisition date fair value adjusted for their share (if any) of earnings, losses, or dividends or (ii) an accreted value from the date of the acquisition to the earliest redemption date. The accretion of the MLB interest to the earliest redemption value (i.e. in five years after the acquisition date) will be recorded using an interest method. As of September 28, 2019, the redeemable noncontrolling interest subject to accretion would have had a redemption amount of approximately \$660 million if it were redeemed at that time. Adjustments to the carrying amount of redeemable noncontrolling interests increase or decrease income available to Company shareholders through an adjustment to “Net income attributable to noncontrolling interests” on the Consolidated Statement of Income.

The revenues and costs of BAMTech included in the Company’s Consolidated Statement of Income for fiscal 2018 were approximately \$0.3 billion and \$0.7 billion, respectively.

Goodwill

The changes in the carrying amount of goodwill for the years ended September 28, 2019 and September 29, 2018 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products & Interactive Media	Parks, Experiences and Products	Direct-to-Consumer & International	Unallocated	Total
Balance at Sept. 30, 2017	\$ 16,325	\$ 291	\$ 6,817	\$ 4,393	\$ —	\$ —	\$ 3,600	\$ 31,426
Acquisitions	—	—	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—	—	—
Other, net ⁽¹⁾	3,063	—	347	33	—	—	(3,600)	(157)
Segment recast ⁽²⁾	(3,399)	(291)	(70)	(4,426)	4,487	3,699	—	—
Balance at Sept. 29, 2018	\$ 15,989	\$ —	\$ 7,094	\$ —	\$ 4,487	\$ 3,699	\$ —	\$ 31,269
Acquisitions ⁽³⁾	17,434	—	10,711	—	1,048	19,892	—	49,085
Dispositions	—	—	—	—	—	—	—	—
Other, net	—	—	(8)	—	—	(53)	—	(61)
Balance at Sept. 28, 2019	\$ 33,423	\$ —	\$ 17,797	\$ —	\$ 5,535	\$ 23,538	\$ —	\$ 80,293

(1) Primarily represents the allocation of BAMTech goodwill to the segments based on the final purchase price allocation and also includes the impact of updates to our initial estimated fair value of intangible assets related to BAMTech.

(2) Represents the reallocation of goodwill as a result of the Company recasting its segments as a result of a strategic reorganization during fiscal 2018.

(3) Represents the acquisition of TFCF and consolidation of Hulu.

5 Other Income

Other income, net is as follows:

	2019	2018	2017
Hulu Gain (see Note 4)	\$ 4,794	\$ —	\$ —
Charge for the extinguishment of a portion of the debt originally assumed in the TFCF acquisition	(511)	—	—

Insurance recoveries (settlements) related to legal matters	46	38	(177)
Gain on sale of real estate, property rights and other	28	560	—
Gain related to the acquisition of BAMTech (see Note 4)	—	3	255
Other income, net	<u>\$ 4,357</u>	<u>\$ 601</u>	<u>\$ 78</u>

6 Investments

Investments consist of the following:

	September 28, 2019	September 29, 2018
Investments, equity basis	\$ 2,922	\$ 2,768
Investments, other	302	131
	<u>\$ 3,224</u>	<u>\$ 2,899</u>

Investments, Equity Basis

The Company's significant equity investments primarily consist of media investments and include A+E (50% ownership), CTV Specialty Television, Inc. (30% ownership), Endemol Shine Group (50% ownership), Seven TV (20% ownership) and Tata Sky Limited (30% ownership).

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

	2019	2018	2017
<i>Results of Operations:</i>			
Revenues	\$ 9,405	\$ 9,085	\$ 8,122
Net income	133	(152)	857
	<u>September 28, 2019</u>	<u>September 29, 2018</u>	<u>September 30, 2017</u>
<i>Balance Sheet</i>			
Current assets	\$ 3,350	\$ 4,542	\$ 4,623
Non-current assets	9,666	9,998	10,047
	<u>\$ 13,016</u>	<u>\$ 14,540</u>	<u>\$ 14,670</u>
Current liabilities	\$ 2,182	\$ 3,197	\$ 2,852
Non-current liabilities	5,452	4,840	5,056
Redeemable preferred stock	—	1,362	1,123
Shareholders' equity	5,382	5,141	5,639
	<u>\$ 13,016</u>	<u>\$ 14,540</u>	<u>\$ 14,670</u>

As of September 28, 2019, the book value of the Company's equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately \$1.2 billion, which represents amortizable intangible assets and goodwill arising from acquisitions.

The Company enters into transactions in the ordinary course of business with our equity investees, primarily related to the licensing of television and film programming. Revenues from these transactions were \$0.5 billion, \$0.8 billion and \$0.5 billion in fiscal 2019, 2018 and 2017, respectively. The Company defers a portion of its profits from transactions with investees. The profits are recognized as the investees expense the programming rights. The portion that is deferred reflects our ownership interest in the investee.

Investments, Other

As of September 28, 2019, the Company held \$290 million of non-publicly traded securities without a readily determinable fair value. Securities held at fair value at September 28, 2019 were not material. Non-publicly traded securities and securities held at fair value at September 29, 2018 were not material.

In fiscal 2019, 2018 and 2017, realized gains, unrealized gains and losses and impairments on securities were not material.

Gains and losses on securities are reported in "Interest expense, net" in the Consolidated Statements of Income.

7 *International Theme Parks*

The Company has a 47% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort (together, the Asia Theme Parks), which are both VIEs consolidated in the Company's financial statements. See Note 2 for the Company's policy on consolidating VIEs. In addition, the Company has 100% ownership of Disneyland Paris. The Asia Theme Parks and Disneyland Paris are collectively referred to as the International Theme Parks.

The following table summarizes the carrying amounts of the International Theme Parks' assets and liabilities included in the Company's consolidated balance sheets:

	September 28, 2019	September 29, 2018
Cash and cash equivalents	\$ 1,025	\$ 834
Other current assets	346	400
Total current assets	1,371	1,234
Parks, resorts and other property	8,674	8,973
Other assets	91	103
Total assets ⁽¹⁾	<u>\$ 10,136</u>	<u>\$ 10,310</u>
Current liabilities	\$ 683	\$ 921
Borrowings - long-term	1,114	1,106
Other long-term liabilities	366	382
Total liabilities ⁽¹⁾	<u>\$ 2,163</u>	<u>\$ 2,409</u>

- ⁽¹⁾ The total assets of the Asia Theme Parks was \$7 billion at September 28, 2019 and \$8 billion at September 29, 2018 including parks, resorts and other property of \$7 billion at both September 28, 2019 and September 29, 2018. The total liabilities of the Asia Theme Parks were \$2 billion at both September 28, 2019 and September 29, 2018.

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's consolidated statement of income for fiscal 2019:

Revenues	\$ 3,859
Costs and expenses	(3,655)
Equity in the loss of investees	(13)

Asia Theme Parks' royalty and management fees of \$174 million for fiscal 2019 are eliminated in consolidation but are considered in calculating earnings attributable to noncontrolling interests.

International Theme Parks' cash flows included in the Company's fiscal 2019 consolidated statement of cash flows were \$1.1 billion generated from operating activities, \$878 million used in investing activities and \$26 million generated in financing activities. Approximately two-thirds of cash flows generated from operating activities and used in investing activities related to the Asia Theme Parks.

Disneyland Paris

During fiscal 2017, the Company acquired the outstanding 19% interest in Disneyland Paris for \$250 million of cash and 1.36 million of the Company's common shares, valued at \$150 million.

Hong Kong Disneyland Resort

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Company have a 53% and a 47% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of \$144 million and \$96 million, respectively. The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

TABLE OF CONTENTS

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$269 million), which bears interest at a rate of three month HIBOR plus 1.25% and matures in December 2023. There is no outstanding balance under the line of credit at September 28, 2019.

Hong Kong Disneyland is undergoing a multi-year expansion estimated to cost HK \$10.9 billion (\$1.4 billion). The Company and HKSAR have agreed to fund the expansion on an equal basis through equity contributions, which totaled \$160 million and \$144 million in fiscal 2019 and 2018, respectively.

HKSAR has the right to receive additional shares over time to the extent Hong Kong Disneyland Resort exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on both an annual and cumulative basis and could decrease the Company's equity interest by up to an additional 6 percentage points over a period no shorter than 13 years. Assuming HK \$10.9 billion is contributed in the expansion, the impact to the Company's equity interest would be limited to 4 percentage points.

Shanghai Disney Resort

Shanghai Shendi (Group) Co., Ltd (Shendi) and the Company have 57% and 43% equity interests in Shanghai Disney Resort, respectively. A management company, in which the Company has a 70% interest and Shendi a 30% interest, operates Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling \$830 million, bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. In addition, the Company has an outstanding balance of \$118 million due from Shanghai Disney Resort primarily related to royalties. The Company has also provided Shanghai Disney Resort with a \$157 million line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at September 28, 2019. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.3 billion yuan (approximately \$1.0 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$196 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at September 28, 2019.

8 Film and Television Costs and Advances

Film and television costs and advances are as follows:

	September 28, 2019	September 29, 2018
Theatrical film costs		
Released, less amortization	\$ 4,447	\$ 1,911
Completed, not released	863	397
In-process	3,943	2,974
In development or pre-production	301	173
	9,554	5,455
Television costs		
Released, less amortization	7,717	1,301
Completed, not released	1,085	462
In-process	1,849	420
In development or pre-production	99	2
	10,750	2,185
Television programming rights and advances	7,103	1,562
	27,407	9,202
Less current portion	4,597	1,314
Non-current portion	\$ 22,810	\$ 7,888

Based on the Company's total gross revenue estimates as of September 28, 2019, approximately 80% of unamortized film and television costs for released productions (excluding amounts allocated to acquired film and television libraries and amounts

TABLE OF CONTENTS

that will be contractually recovered from production participants) are expected to be amortized during the next three years. Approximately \$2.6 billion of accrued participation and residual liabilities will be paid in fiscal 2020. The Company expects to amortize, based on current estimates, approximately \$4.3 billion in capitalized completed film and television production costs during fiscal 2020.

At September 28, 2019, acquired film and television libraries have remaining unamortized costs of \$3.6 billion, which are generally being amortized straight-line over a weighted-average remaining period of approximately 19 years.

9 *Borrowings*

The Company's borrowings, including the impact of interest rate and cross-currency swaps, are summarized as follows:

	September 28, 2019					
	Sept. 28, 2019	Sept. 29, 2018	Stated Interest Rate ⁽¹⁾	Pay Floating Interest rate and Cross-Currency Swaps ⁽²⁾	Effective Interest Rate ⁽³⁾	Swap Maturities
Commercial paper	\$ 5,342	\$ 1,005	—	\$ —	2.19 %	
U.S. dollar denominated notes ⁽⁴⁾	39,424	18,045	3.97 %	9,000	3.37 %	2020-2029
Foreign currency denominated debt	1,044	955	3.18 %	940	3.23 %	2025
Other ⁽⁵⁾	62	(276)		—		
	45,872	19,729	3.49 %	9,940	3.23 %	
Asia Theme Parks borrowings	1,114	1,145	1.81 %	—	5.51 %	
Total borrowings	46,986	20,874	3.44 %	9,940	3.28 %	
Less current portion	8,857	3,790	2.62 %	1,125	2.59 %	
Total long-term borrowings	\$ 38,129	\$ 17,084		\$ 8,815		

⁽¹⁾ The stated interest rate represents the weighted-average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are the rates in effect at September 28, 2019; these rates are not necessarily an indication of future interest rates.

⁽²⁾ Amounts represent notional values of interest rate and cross-currency swaps outstanding as of September 28, 2019.

⁽³⁾ The effective interest rate includes the impact of existing and terminated interest rate and cross-currency swaps, purchase accounting adjustments and debt issuance premiums, discounts and costs.

⁽⁴⁾ Includes net debt issuance discounts, costs and purchase accounting adjustments totaling a net premium of \$2.5 billion and a net cost of \$121 million at September 28, 2019 and September 29, 2018, respectively.

⁽⁵⁾ Includes market value adjustments for debt with qualifying hedges, which increase borrowings by \$31 million and reduce borrowings by \$304 million at September 28, 2019 and September 29, 2018, respectively.

Commercial Paper

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings as follows:

<u>Committed Capacity</u>	<u>Capacity Used</u>	<u>Unused Capacity</u>
---------------------------	----------------------	------------------------

Facility expiring March 2020	\$ 6,000	\$ —	\$ 6,000
Facility expiring March 2021	2,250	—	2,250
Facility expiring March 2023	4,000	—	4,000
Total	<u>\$ 12,250</u>	<u>\$ —</u>	<u>\$ 12,250</u>

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range from 0.18% to 1.63%. The facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants, or events of default and contain only one financial covenant relating to interest coverage, which the Company met on September 28, 2019 by a significant margin. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of September 28, 2019, the Company has

TABLE OF CONTENTS

\$1.2 billion of outstanding letters of credit, of which none were issued under this facility. Outstanding letters of credit include letters of credit assumed in the acquisition of TFCF primarily in support of international sports programming rights.

Commercial paper activity is as follows:

	Commercial paper with original maturities less than three months, net ⁽¹⁾	Commercial paper with original maturities greater than three months	Total
Balance at Sept. 30, 2017	\$ 1,151	\$ 1,621	\$ 2,772
Additions	—	8,079	8,079
Payments	(1,099)	(8,748)	(9,847)
Other Activity	(2)	3	1
Balance at Sept. 29, 2018	\$ 50	\$ 955	\$ 1,005
Additions	1,881	6,889	8,770
Payments	—	(4,452)	(4,452)
Other Activity	3	16	19
Balance at Sept. 28, 2019	\$ 1,934	\$ 3,408	\$ 5,342

⁽¹⁾ Borrowings and reductions of borrowings are reported net.

U.S. Dollar Denominated Notes

At September 28, 2019, the Company had \$39.4 billion of U.S. dollar denominated notes with maturities ranging from 1 to 77 years. The debt outstanding includes \$37.0 billion of fixed rate notes, which have stated interest rates that range from 1.65% to 9.50% and \$2.4 billion of floating rate notes that bear interest at U.S. LIBOR plus or minus a spread. At September 28, 2019, the effective rate on the floating rate notes was 2.48%.

On March 20, 2019, the Company assumed public debt with a fair value of \$21.2 billion (principal balance of \$17.4 billion) upon completion of the TFCF acquisition. On March 20, 2019, 96% (principal balance of \$16.8 billion) of the assumed debt was exchanged for senior notes of TWDC, with essentially the same terms. In September 2019, the Company repurchased previously exchanged debt with a carrying value of approximately \$3.5 billion (principal balance of approximately \$2.7 billion) and TFCF debt with a carrying value of approximately \$280 million (principal balance of approximately \$260 million) for \$4.3 billion and recognized a charge of \$511 million in “Other income, net” in the fiscal 2019 Consolidated Statement of Income. In October 2019, the Company made an offer to holders of the remaining outstanding debt exchanged for senior notes of TWDC with a carrying value of \$17.4 billion (principal balance of \$14.1 billion) to exchange those notes for registered senior notes under the Securities Act of 1933.

Foreign Currency Denominated Debt

In fiscal 2018, the Company issued Canadian \$1.3 billion (\$940 million) of fixed rate senior notes, which bears interest at 2.76% and matures in October 2024. The Company also entered into pay-floating interest rate and cross currency swaps that effectively convert the borrowing to a variable rate U.S. dollar denominated borrowing indexed to LIBOR.

On March 20, 2019, upon the completion of the TFCF acquisition, the Company assumed a term loan and unsecured credit facilities with outstanding balances totaling INR 7.4 billion (\$104 million) and weighted-average stated interest rate of approximately 7.00%.

RSN Debt

On March 20, 2019, as part of the TFCF acquisition, the Company assumed \$1.1 billion of debt related to one of the RSNs. In August 2019, the RSN was sold and the buyer has assumed the outstanding debt obligation.

Credit Facilities to Acquire TFCF

On March 20, 2019, the Company borrowed \$31.1 billion under two 364-day unsecured bridge loan facilities with a bank syndicate to fund the cash component of the TFCF acquisition. On March 21, 2019, the Company repaid

one bridge loan facility in the amount of \$16.1 billion, utilizing cash acquired in the TFCF transaction, and terminated the facility. The remaining 364-day unsecured bridge loan facility in the amount of \$15.0 billion was repaid and terminated during the fourth quarter using the after-tax proceeds from the divestiture of the RSNs and proceeds from new borrowings.

TABLE OF CONTENTS

Cruise Ship Credit Facilities

The Company has credit facilities to finance three new cruise ships, which are expected to be delivered in 2021, 2022 and 2023. The financings may be used for up to 80% of the contract price of the cruise ships. Under the agreements, \$1.0 billion in financing is available beginning in April 2021, \$1.1 billion is available beginning in May 2022 and \$1.1 billion is available beginning in April 2023. If utilized, the interest rates will be fixed at 3.48%, 3.72% and 3.74%, respectively, and the loan and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

Asia Theme Parks Borrowings

HKSAR provided Hong Kong Disneyland Resort with loans totaling HK\$0.8 billion (\$96 million). The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025.

Shendi has provided Shanghai Disney Resort with loans totaling 7.3 billion yuan (approximately \$1.0 billion) bearing interest at rates that increase to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$196 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at September 28, 2019.

Total borrowings, excluding market value adjustments and debt issuance premiums, discounts and costs, have the following scheduled maturities:

	Before Asia Theme Parks Consolidation	Asia Theme Parks	Total
2020	\$ 8,878	\$ —	\$ 8,878
2021	3,513	—	3,513
2022	3,858	10	3,868
2023	1,242	24	1,266
2024	2,870	28	2,898
Thereafter	23,003	1,052	24,055
	<u>\$ 43,364</u>	<u>\$ 1,114</u>	<u>\$ 44,478</u>

The Company capitalizes interest on assets constructed for its parks and resorts and on certain film and television productions. In fiscal 2019, 2018 and 2017, total interest capitalized was \$222 million, \$125 million and \$87 million, respectively. Interest expense, net of capitalized interest, for fiscal 2019, 2018 and 2017 was \$1,246 million, \$682 million and \$507 million, respectively.

10 Income Taxes

U.S. Tax Cuts and Jobs Act

In December 2017, new federal income tax legislation, the “Tax Cuts and Jobs Act” (Tax Act), was signed into law. The most significant impacts on the Company are as follows:

- Effective January 1, 2018, the U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0%. Because of our fiscal year end, the Company’s fiscal 2018 statutory federal tax rate was 24.5% and is 21.0% in fiscal 2019 and thereafter.
- The Company remeasured its U.S. federal deferred tax assets and liabilities at the rate that the Company expects to be in effect when those deferred taxes will be realized (either 24.5% for fiscal 2018 or 21.0% thereafter) (Deferred Remeasurement). The Company recognized a benefit of approximately \$2.2 billion from the Deferred Remeasurement, the majority of which was recognized in the first quarter of fiscal 2018.
- A one-time tax is due on certain accumulated foreign earnings (Deemed Repatriation Tax), which is payable over eight years. The effective tax rate is generally 15.5% on the portion of the earnings held

in cash and cash equivalents and 8% on the remainder. The Company recognized a charge for the Deemed Repatriation Tax of approximately \$0.4 billion, the majority of which was recognized in the first quarter of fiscal 2018. Generally there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.

- The Company will generally be eligible to claim an immediate deduction for investments in qualified fixed assets acquired and film and television productions commenced after September 27, 2017 and placed in service by the end of fiscal 2022. The immediate deduction phases out for assets placed in service in fiscal years 2023 through 2027.

TABLE OF CONTENTS

- The domestic production activity deduction is eliminated in fiscal 2019 and thereafter.
- Starting in fiscal 2019, certain foreign derived income is taxed in the U.S. at an effective rate of approximately 13% (which increases to approximately 16% in 2025) rather than the general statutory rate of 21%.
- Starting in fiscal 2019, certain foreign earnings are taxed at a minimum effective rate of approximately 13%, which increases to approximately 16% in 2025. The Company's policy is to expense the tax on these earnings in the period the earnings are taxable in the U.S.

Intra-Entity Transfers of Assets Other Than Inventory

At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance that requires recognition of the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs instead of when the asset is ultimately sold to an outside party. Upon adoption, the Company recorded a \$0.2 billion deferred tax asset with an offsetting increase to retained earnings in fiscal 2019.

Provision for Income Taxes and Deferred Tax Assets and Liabilities

	2019	2018	2017
<i>Income Before Income Taxes</i>			
Domestic (including U.S. exports)	\$ 12,389	\$ 12,914	\$ 12,611
Foreign subsidiaries	1,555	1,815	1,177
Total income from continuing operations	13,944	14,729	13,788
Income from discontinued operations	706	—	—
	<u>\$ 14,650</u>	<u>\$ 14,729</u>	<u>\$ 13,788</u>

Income Tax Expense/(Benefit)

Current

Federal	\$ 14	\$ 2,240	\$ 3,229
State	112	362	360
Foreign ⁽¹⁾	824	642	489
	<u>950</u>	<u>3,244</u>	<u>4,078</u>

Deferred

Federal ⁽²⁾	1,829	(1,577)	370
State	259	(20)	5
Foreign	(7)	16	(31)
	<u>2,081</u>	<u>(1,581)</u>	<u>344</u>
Income tax expense from continuing operations	3,031	1,663	4,422
Income tax expense from discontinued operations	35	—	—
	<u>\$ 3,066</u>	<u>\$ 1,663</u>	<u>\$ 4,422</u>

⁽¹⁾ Includes foreign withholding taxes

⁽²⁾ Includes the Tax Act Deferred Remeasurement in fiscal 2018

TABLE OF CONTENTS

	September 28, 2019	September 29, 2018
<i>Components of Deferred Tax Assets and Liabilities</i>		
Deferred tax assets		
Net operating losses and tax credit carryforwards	\$ (2,181)	\$ (1,437)
Accrued liabilities	(2,598)	(1,214)
Other	(540)	(328)
Total deferred tax assets	(5,319)	(2,979)
Deferred tax liabilities		
Depreciable, amortizable and other property	7,647	3,678
Investment in U.S. entities	2,258	189
Licensing revenues	573	265
Investment in foreign entities	146	351
Other	212	88
Total deferred tax liabilities	10,836	4,571
Net deferred tax liability before valuation allowance	5,517	1,592
Valuation allowance	1,975	1,383
Net deferred tax liability	\$ 7,492	\$ 2,975

The increase of \$0.6 billion in the valuation allowance relates to acquired TFCF deferred tax assets. As of both September 28, 2019 and September 29, 2018, the valuation allowance includes approximately \$1 billion related to deferred tax assets for International Theme Park net operating losses primarily in France and, to a lesser extent, Hong Kong and China. The International Theme Park net operating losses have an indefinite carryforward period in France and Hong Kong and a five-year carryforward period in China.

A reconciliation of the effective income tax rate to the federal rate for continuing operations is as follows:

	2019	2018	2017
Federal income tax rate	21.0 %	24.5 %	35.0 %
State taxes, net of federal benefit	2.2	1.9	1.7
Foreign derived income	(1.1)	—	—
Domestic production activity deduction	—	(1.4)	(2.1)
Earnings in jurisdictions taxed at rates different from the statutory U.S. federal rate	0.1	(1.1)	(1.6)
Tax Act ⁽¹⁾	(0.3)	(11.5)	—
Other, including tax reserves and related interest	(0.2)	(1.1)	(0.9)
	21.7 %	11.3 %	32.1 %

⁽¹⁾ Reflects the impact from the Deferred Remeasurement, net of the Deemed Repatriation Tax

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

	2019	2018	2017
Balance at the beginning of the year	\$ 648	\$ 832	\$ 844
Increases due to business acquisitions	2,728	—	—
Increases for current year tax positions	84	64	61
Increases for prior year tax positions	143	48	13
Decreases in prior year tax positions	(61)	(135)	(55)
Settlements with taxing authorities	(590)	(161)	(31)

Balance at the end of the year	\$ 2,952	\$ 648	\$ 832
--------------------------------	-----------------	--------	--------

The fiscal year-end 2019, 2018 and 2017 balances include \$2.4 billion, \$469 million and \$444 million, respectively, that if recognized, would reduce our income tax expense and effective tax rate. These amounts are net of the offsetting benefits from other tax jurisdictions.

TABLE OF CONTENTS

At September 28, 2019, September 29, 2018 and September 30, 2017, the Company had \$965 million, \$181 million and \$234 million, respectively, in accrued interest and penalties related to unrecognized tax benefits. During fiscal 2019, 2018 and 2017, the Company recorded additional interest and penalties of \$802 million (of which \$731 million is due to the acquisition of TFCF), \$47 million and \$43 million, respectively, and recorded reductions in accrued interest and penalties of \$96 million, \$100 million and \$30 million, respectively, as a result of audit settlements and other prior-year adjustments. The Company's policy is to report interest and penalties as a component of income tax expense.

The Company is no longer subject to U.S. federal examination for years prior to 2017 for The Walt Disney Company and for years prior to 2014 for TFCF. The Company is no longer subject to examination in any of its major state or foreign tax jurisdictions for years prior to 2008.

In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to the resolution of certain tax matters, which could include payments on those tax matters. These resolutions and payments could reduce our unrecognized tax benefits by \$187 million.

In fiscal 2019, 2018 and 2017, the Company recognized income tax benefits of \$41 million, \$52 million and \$125 million, respectively for the excess of equity-based compensation deductions over amounts recorded based on grant date fair value.

11 Pension and Other Benefit Programs

The Company maintains pension and postretirement medical benefit plans covering certain of its employees not covered by union or industry-wide plans. The Company has defined benefit pension plans that cover employees hired prior to January 1, 2012. For employees hired after this date, the Company has a defined contribution plan. Benefits under these pension plans are generally based on years of service and/or compensation and generally require 3 years of vesting service. Employees generally hired after January 1, 1987 for certain of our media businesses and other employees generally hired after January 1, 1994 are not eligible for postretirement medical benefits.

In addition, the Company has a defined benefit plan for TFCF employees for which benefits stopped accruing in June 2017.

Defined Benefit Plans

The Company measures the actuarial value of its benefit obligations and plan assets for its defined benefit pension and postretirement medical benefit plans at September 30 and adjusts for any plan contributions or significant events between September 30 and our fiscal year end.

In connection with our acquisition of TFCF, we assumed net pension and postretirement obligations of \$237 million (\$824 million in obligations and \$587 million in plan assets).

TABLE OF CONTENTS

The following chart summarizes the benefit obligations, assets, funded status and balance sheet impacts associated with the defined benefit pension and postretirement medical benefit plans:

	Pension Plans		Postretirement Medical Plans	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Projected benefit obligations				
Beginning obligations	\$ (14,500)	\$ (14,532)	\$ (1,609)	\$ (1,746)
Acquisition of TFCF	(759)	—	(65)	—
Service cost	(345)	(350)	(8)	(10)
Interest cost	(592)	(489)	(67)	(60)
Actuarial (loss)/gain ⁽¹⁾	(2,923)	416	(234)	166
Plan amendments and other	32	(12)	(11)	(10)
Benefits paid	534	467	48	51
Curtailments	22	—	—	—
Ending obligations	\$ (18,531)	\$ (14,500)	\$ (1,946)	\$ (1,609)
Fair value of plans' assets				
Beginning fair value	\$ 12,728	\$ 12,325	\$ 731	\$ 696
Acquisition of TFCF	587	—	—	—
Actual return on plan assets	690	579	33	34
Contributions	1,461	335	37	45
Benefits paid	(534)	(467)	(48)	(51)
Expenses and other	(54)	(44)	9	7
Ending fair value	\$ 14,878	\$ 12,728	\$ 762	\$ 731
Underfunded status of the plans	\$ (3,653)	\$ (1,772)	\$ (1,184)	\$ (878)
Amounts recognized in the balance sheet				
Non-current assets	\$ 5	\$ 113	\$ —	\$ —
Current liabilities	(54)	(51)	(5)	—
Non-current liabilities	(3,604)	(1,834)	(1,179)	(878)
	\$ (3,653)	\$ (1,772)	\$ (1,184)	\$ (878)

⁽¹⁾ The actuarial loss for fiscal 2019 and the actuarial gain for fiscal 2018 were due to the change in the discount rate from the rate that was used in the preceding fiscal year.

The components of net periodic benefit cost are as follows:

	Pension Plans			Postretirement Medical Plans		
	2019	2018	2017	2019	2018	2017
Service cost	\$ 345	\$ 350	\$ 368	\$ 8	\$ 10	\$ 11
Other costs (benefits):						
Interest cost	592	489	447	67	60	56
Expected return on plan assets	(978)	(901)	(874)	(56)	(53)	(49)
Amortization of prior-year service costs	13	13	12	—	—	—
Recognized net actuarial loss	260	348	405	—	14	17
Total other costs (benefits)	(113)	(51)	(10)	11	21	24

Net periodic benefit cost	<u><u>\$ 232</u></u>	<u><u>\$ 299</u></u>	<u><u>\$ 358</u></u>	<u><u>\$ 19</u></u>	<u><u>\$ 31</u></u>	<u><u>\$ 35</u></u>
---------------------------	----------------------	----------------------	----------------------	---------------------	---------------------	---------------------

In fiscal 2019, the Company adopted new FASB accounting guidance on the presentation of the components of net periodic pension and postretirement benefit cost (“net periodic benefit cost”). This guidance requires the Company to present the service cost component of net periodic benefit cost in the same line items on the statement of operations as other compensation costs of the related employees (i.e. “Costs and expenses” in the Consolidated Statements of Income). All of the

TABLE OF CONTENTS

other components of net periodic benefit cost (“other costs/benefits”) are presented as a component of “Interest expense, net” in the Consolidated Statements of Income. The other costs/benefits in fiscal 2018 and 2017 were not material and are reported in Costs and expenses.

In fiscal 2020, we expect pension and postretirement medical costs to increase by \$159 million to \$410 million due to the impact of a lower discount rate.

Key assumptions are as follows:

	Pension Plans			Postretirement Medical Plans		
	2019	2018	2017	2019	2018	2017
Discount rate used to determine the fiscal year-end benefit obligation	3.22 %	4.31 %	3.88 %	3.22 %	4.31 %	3.88 %
Discount rate used to determine the interest cost component of net periodic benefit cost	4.09 %	3.46 %	3.18 %	4.10 %	3.49 %	3.18 %
Rate of return on plan assets	7.25 %	7.50 %	7.50 %	7.25 %	7.50 %	7.50 %
Weighted average rate of compensation increase to determine the fiscal year-end benefit obligation	3.20 %	3.20 %	2.90 %	n/a	n/a	n/a
Year 1 increase in cost of benefits	n/a	n/a	n/a	7.00 %	7.00 %	7.00 %
Rate of increase to which the cost of benefits is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	4.25 %	4.25 %	4.25 %
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2033	2032	2031

AOCI, before tax, as of September 28, 2019 consists of the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plans	Postretirement Medical Plans	Total
Prior service cost	\$ (41)	\$ —	\$ (41)
Net actuarial loss	(7,156)	(294)	(7,450)
Total amounts included in AOCI	(7,197)	(294)	(7,491)
Prepaid / (accrued) pension cost	3,544	(890)	2,654
Net balance sheet liability	<u>\$ (3,653)</u>	<u>\$ (1,184)</u>	<u>\$ (4,837)</u>

Plan Funded Status

The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$17.5 billion, \$16.1 billion and \$13.9 billion, respectively, as of September 28, 2019 and \$1.1 billion, \$1.0 billion and \$3 million, respectively, as of September 29, 2018.

For pension plans with projected benefit obligations in excess of plan assets, the projected benefit obligation and aggregate fair value of plan assets were \$18.5 billion and \$14.8 billion, respectively, as of September 28, 2019 and \$12.0 billion and \$10.1 billion respectively, as of September 29, 2018.

The Company's total accumulated pension benefit obligations at September 28, 2019 and September 29, 2018 were \$17.0 billion and \$13.3 billion, respectively. Approximately 98% and 99% was vested as of September 28, 2019 and September 29, 2018, respectively.

The accumulated postretirement medical benefit obligations and fair value of plan assets for postretirement medical plans with accumulated postretirement medical benefit obligations in excess of plan assets were \$1.9 billion and \$0.8 billion, respectively, at September 28, 2019 and \$1.6 billion and \$0.7 billion, respectively, at September 29, 2018.

TABLE OF CONTENTS

Plan Assets

A significant portion of the assets of the Company's defined benefit plans are managed in third-party master trusts. The investment policy and allocation of the assets in the master trusts were approved by the Company's Investment and Administrative Committee, which has oversight responsibility for the Company's retirement plans. The investment policy ranges for the major asset classes are as follows:

Asset Class	Minimum	Maximum
Equity investments	30 %	60 %
Fixed income investments	20 %	40 %
Alternative investments	10 %	30 %
Cash & money market funds	0 %	10 %

The primary investment objective for the assets within the master trusts is the prudent and cost effective management of assets to satisfy benefit obligations to plan participants. Financial risks are managed through diversification of plan assets, selection of investment managers and through the investment guidelines incorporated in investment management agreements. Investments are monitored to assess whether returns are commensurate with risks taken.

The long-term asset allocation policy for the master trusts was established taking into consideration a variety of factors that include, but are not limited to, the average age of participants, the number of retirees, the duration of liabilities and the expected payout ratio. Liquidity needs of the master trusts are generally managed using cash generated by investments or by liquidating securities.

Assets are generally managed by external investment managers pursuant to investment management agreements that establish permitted securities and risk controls commensurate with the account's investment strategy. Some agreements permit the use of derivative securities (futures, options, interest rate swaps, credit default swaps) that enable investment managers to enhance returns and manage exposures within their accounts.

Fair Value Measurements of Plan Assets

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is generally classified in one of the following categories of the fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Investments that are valued using the net asset value (NAV) (or its equivalent) practical expedient are excluded from the fair value hierarchy disclosure.

The following is a description of the valuation methodologies used for assets reported at fair value. The methodologies used at September 28, 2019 and September 29, 2018 are the same.

Level 1 investments are valued based on reported market prices on the last trading day of the fiscal year. Investments in common and preferred stocks are valued based on an exchange-listed price or a broker's quote in an active market. Investments in U.S. Treasury securities are valued based on a broker's quote in an active market.

Level 2 investments in government and federal agency bonds, corporate bonds and mortgage-backed securities (MBS) and asset-backed securities are valued using a broker's quote in a non-active market or an evaluated price based on a compilation of reported market information, such as benchmark yield curves, credit spreads and estimated default rates. Derivative financial instruments are valued based on models that incorporate observable inputs for the underlying securities, such as interest rates or foreign currency exchange rates.

TABLE OF CONTENTS

The Company's defined benefit plan assets are summarized by level in the following tables:

Description	As of September 28, 2019			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	\$ 197	\$ —	\$ 197	1 %
Common and preferred stocks ⁽¹⁾	3,468	—	3,468	22 %
Mutual funds	1,140	—	1,140	7 %
Government and federal agency bonds, notes and MBS	2,042	404	2,446	16 %
Corporate bonds	—	580	580	4 %
Other mortgage- and asset-backed securities	—	127	127	1 %
Derivatives and other, net	(6)	(21)	(27)	— %
Total investments in the fair value hierarchy	<u>\$ 6,841</u>	<u>\$ 1,090</u>	<u>\$ 7,931</u>	
Assets valued at NAV as a practical expedient:				
Common collective funds			3,691	24 %
Alternative investments			2,725	17 %
Money market funds and other			1,293	8 %
Total investments at fair value			<u>\$ 15,640</u>	100 %

Description	As of September 29, 2018			
	Level 1	Level 2	Total	Plan Asset Mix
Cash	\$ 57	\$ —	\$ 57	— %
Common and preferred stocks ⁽¹⁾	3,023	—	3,023	22 %
Mutual funds	800	—	800	6 %
Government and federal agency bonds, notes and MBS	2,019	488	2,507	19 %
Corporate bonds	—	573	573	4 %
Other mortgage- and asset-backed securities	—	86	86	1 %
Derivatives and other, net	3	(1)	2	— %
Total investments in the fair value hierarchy	<u>\$ 5,902</u>	<u>\$ 1,146</u>	<u>\$ 7,048</u>	
Assets valued at NAV as a practical expedient:				
Common collective funds			2,778	21 %
Alternative investments			2,363	18 %
Money market funds and other			1,270	9 %
Total investments at fair value			<u>\$ 13,459</u>	100 %

- ⁽¹⁾ Includes 2.9 million shares of Company common stock valued at \$373 million (2% of total plan assets) and 2.8 million shares valued at \$332 million (2% of total plan assets) at September 28, 2019 and September 29, 2018, respectively.

Uncalled Capital Commitments

Alternative investments held by the master trust include interests in funds that have rights to make capital calls to the investors. In such cases, the master trust would be contractually obligated to make a cash contribution at the time of the capital call. At September 28, 2019, the total committed capital still uncalled and unpaid was \$1.0 billion.

Plan Contributions

During fiscal 2019, the Company made \$1.5 billion of contributions to its pension and postretirement medical plans. The Company currently expects to make approximately \$600 million to \$675 million of pension and postretirement medical plan

TABLE OF CONTENTS

contributions in fiscal 2020. Final minimum funding requirements for fiscal 2020 will be determined based on a January 1, 2020 funding actuarial valuation, which is expected to be received during the fourth quarter of fiscal 2020.

Estimated Future Benefit Payments

The following table presents estimated future benefit payments for the next ten fiscal years:

	Pension Plans	Postretirement Medical Plans ⁽¹⁾
2020	\$ 626	\$ 58
2021	609	61
2022	647	67
2023	687	71
2024	727	75
2025 – 2029	4,223	433

⁽¹⁾ Estimated future benefit payments are net of expected Medicare subsidy receipts of \$84 million.

Assumptions

Assumptions, such as discount rates, long-term rate of return on plan assets and the healthcare cost trend rate, have a significant effect on the amounts reported for net periodic benefit cost as well as the related benefit obligations.

Discount Rate — The assumed discount rate for pension and postretirement medical plans reflects the market rates for high-quality corporate bonds currently available. The Company's discount rate was determined by considering yield curves constructed of a large population of high-quality corporate bonds and reflects the matching of the plans' liability cash flows to the yield curves. The Company measures service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows.

Long-term rate of return on plan assets — The long-term rate of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income and alternative investments. When determining the long-term rate of return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested. The following long-term rates of return by asset class were considered in setting the long-term rate of return on plan assets assumption:

Equity Securities	7% to 11%
Debt Securities	3% to 5%
Alternative Investments	7% to 12%

Healthcare cost trend rate — The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement medical benefit plans. The 2019 actuarial valuation assumed a 7.00% annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing in even increments over fourteen years until reaching 4.25%.

Sensitivity — A one percentage point (ppt) change in the discount rate and expected long-term rate of return on plan assets would have the following effects on the projected benefit obligations for pension and postretirement medical plans as of September 28, 2019 and on cost for fiscal 2020:

	Discount Rate		Expected Long-Term Rate of Return On Assets
	Benefit Expense	Projected Benefit Obligations	Benefit Expense
Increase/(decrease)			
1 ppt decrease	\$ 313	\$ 3,566	\$ 157
1 ppt increase	(273)	(3,001)	(157)

TABLE OF CONTENTS

Multiemployer Benefit Plans

The Company participates in a number of multiemployer pension plans under union and industry-wide collective bargaining agreements that cover our union-represented employees and expenses its contributions to these plans as incurred. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans. For example:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers.
- If a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Company also participates in several multiemployer health and welfare plans that cover both active and retired employees. Health care benefits are provided to participants who meet certain eligibility requirements under the applicable collective bargaining unit.

The following table sets forth our contributions to multiemployer pension and health and welfare benefit plans:

	2019	2018	2017
Pension plans	\$ 189	\$ 144	\$ 127
Health & welfare plans	218	172	160
Total contributions	\$ 407	\$ 316	\$ 287

Defined Contribution Plans

The Company has defined contribution retirement plans for domestic employees who began service after December 31, 2011 and are not eligible to participate in the defined benefit pension plans. In general, the Company contributes from 3% to 9% of an employee's compensation depending on the employee's age and years of service with the Company up to plan limits. The Company has savings and investment plans that allow eligible employees to contribute up to 50% of their salary through payroll deductions depending on the plan in which the employee participates. The Company matches 50% of the employee's contribution up to plan limits. In fiscal 2019, 2018 and 2017, the costs of these defined contribution plans were \$208 million, \$162 million and \$143 million, respectively. The Company also has defined contribution retirement plans for employees in our international operations. The costs of these defined contribution plans were \$25 million, \$21 million and \$20 million in fiscal years 2019, 2018 and 2017, respectively.

12 *Equity*

The Company paid the following dividends in fiscal 2019, 2018 and 2017:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Fourth Quarter of Fiscal 2019	First Half 2019
\$0.88	\$1.3 billion	Second Quarter of Fiscal 2019	Second Half 2018
\$0.84	\$1.2 billion	Fourth Quarter of Fiscal 2018	First Half 2018
\$0.84	\$1.3 billion	Second Quarter of Fiscal 2018	Second Half 2017
\$0.78	\$1.2 billion		First Half 2017

Fourth Quarter of Fiscal 2017			
		Second Quarter of Fiscal 2017	Second Half 2016
\$0.78	\$1.2 billion		

As a result of the acquisition of TFCF, TWDC became the parent entity of both TFCF and TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company and referred to herein as Legacy Disney). TWDC issued 307 million shares of common stock to acquire TFCF (see Note 4), and all the outstanding shares of Legacy Disney (other than shares of Legacy Disney held in treasury that were not held on behalf of a third party) were converted on a one-for-one basis into new publicly traded shares of TWDC.

In March 2019, Legacy Disney terminated its share repurchase program, and 1.4 billion treasury shares were canceled, which resulted in a decrease to common stock and retained earnings of \$17.6 billion and \$49.1 billion, respectively. The cost of treasury shares canceled was allocated to common stock based on the ratio of treasury shares to total shares outstanding, with the excess allocated to retained earnings. At September 28, 2019, TWDC held 19 million treasury shares.

TABLE OF CONTENTS

TWDC's authorized share capital consists of 4.6 billion common shares at \$0.01 par value and 100 million preferred shares at \$0.01 par value, both of which represent the same authorized capital structure in effect prior to the completion of the TFCF acquisition and as of September 29, 2018. As of September 29, 2018, Legacy Disney had 40 thousand preferred series B shares authorized with \$0.01 par value, which were eliminated in fiscal 2019.

The Company repurchased its common stock as follows:

Fiscal Year	Shares acquired	Total paid
2018	35 million	\$3.6 billion
2017	89 million	\$9.4 billion

The following table summarizes the changes in each component of AOCI including our proportional share of equity method investee amounts:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
AOCI, before tax					
Balance at October 1, 2016	\$ 44	\$ (38)	\$ (5,859)	\$ (521)	\$ (6,374)
Unrealized gains (losses) arising during the period	(2)	124	521	(2)	641
Reclassifications of realized net (gains) losses to net income	(27)	(194)	432	—	211
Balance at September 30, 2017	\$ 15	\$ (108)	\$ (4,906)	\$ (523)	\$ (5,522)
Unrealized gains (losses) arising during the period	9	250	203	(204)	258
Reclassifications of net (gains) losses to net income	—	35	380	—	415
Balance at September 29, 2018	\$ 24	\$ 177	\$ (4,323)	\$ (727)	\$ (4,849)
Unrealized gains (losses) arising during the period	—	136	(3,457)	(359)	(3,680)
Reclassifications of net (gains) losses to net income	—	(185)	278	—	93
Reclassifications to retained earnings	(24)	1	—	—	(23)
Balance at September 28, 2019	\$ —	\$ 129	\$ (7,502)	\$ (1,086)	\$ (8,459)

TABLE OF CONTENTS

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
Tax on AOCI					
Balance at October 1, 2016	\$ (18)	\$ 13	\$ 2,208	\$ 192	\$ 2,395
Unrealized gains (losses) arising during the period	1	(39)	(209)	(76)	(323)
Reclassifications of realized net (gains) losses to net income	10	72	(160)	—	(78)
Balance at September 30, 2017	\$ (7)	\$ 46	\$ 1,839	\$ 116	\$ 1,994
Unrealized gains (losses) arising during the period	(2)	(66)	(47)	(13)	(128)
Reclassifications of net (gains) losses to net income	—	(12)	(102)	—	(114)
Balance at September 29, 2018	\$ (9)	\$ (32)	\$ 1,690	\$ 103	\$ 1,752
Unrealized gains (losses) arising during the period	(2)	(29)	797	28	794
Reclassifications of net (gains) losses to net income	—	43	(64)	—	(21)
Reclassifications to retained earnings	9	(9)	(667)	(16)	(683)
Balance at September 28, 2019	\$ (2)	\$ (27)	\$ 1,756	\$ 115	\$ 1,842

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
AOCI, after tax					
Balance at October 1, 2016	\$ 26	\$ (25)	\$ (3,651)	\$ (329)	\$ (3,979)
Unrealized gains (losses) arising during the period	(1)	85	312	(78)	318
Reclassifications of realized net (gains) losses to net income	(17)	(122)	272	—	133
Balance at September 30, 2017	\$ 8	\$ (62)	\$ (3,067)	\$ (407)	\$ (3,528)
Unrealized gains (losses) arising during the period	7	184	156	(217)	130
Reclassifications of net (gains) losses to net income	—	23	278	—	301
Balance at September 29, 2018	\$ 15	\$ 145	\$ (2,633)	\$ (624)	\$ (3,097)
Unrealized gains (losses) arising during the period	(2)	107	(2,660)	(331)	(2,886)
Reclassifications of net (gains) losses to net income	—	(142)	214	—	72
	(15)	(8)	(667)	(16)	(706)

Reclassifications to retained earnings ⁽¹⁾										
Balance at September 28, 2019	\$	(2)	\$	102	\$	(5,746)	\$	(971)	\$	(6,617)

- ⁽¹⁾ At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and reclassified \$691 million from AOCI to retained earnings. In addition, at the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Recognition and Measurement of Financial Assets and Liabilities, and reclassified \$24 million (\$15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

TABLE OF CONTENTS

Details about AOCI components reclassified to net income are as follows:

Gains/(losses) in net income:	Affected line item in the Consolidated Statements of Income:	2019	2018	2017
Investments, net	Interest expense, net	\$ —	\$ —	\$ 27
Estimated tax	Income taxes	—	—	(10)
		—	—	17
Cash flow hedges	Primarily revenue	185	(35)	194
Estimated tax	Income taxes	(43)	12	(72)
		142	(23)	122
Pension and postretirement medical expense	Cost and expenses	—	(380)	(432)
	Interest expense, net	(278)	—	—
Estimated tax	Income taxes	64	102	160
		(214)	(278)	(272)
Total reclassifications for the period		\$ (72)	\$ (301)	\$ (133)

13 *Equity-Based Compensation*

Under various plans, the Company may grant stock options and other equity-based awards to executive, management and creative personnel. The Company's approach to long-term incentive compensation contemplates awards of stock options and restricted stock units (RSUs). Certain RSUs awarded to senior executives vest based upon the achievement of market or performance conditions (Performance RSUs).

Stock options are generally granted at exercise prices equal to or exceeding the market price at the date of grant and become exercisable ratably over a four-year period from the grant date. The contractual terms for our outstanding stock option grants are 10 years. At the discretion of the Compensation Committee of the Company's Board of Directors, options can occasionally extend up to 15 years after date of grant. RSUs generally vest ratably over four years and Performance RSUs generally fully vest after three years, subject to achieving market or performance conditions. Equity-based award grants generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater, have at least ten years of service and have held the award for at least one year.

Each share granted subject to a stock option award reduces the number of shares available under the Company's stock incentive plans by one share while each share granted subject to a RSU award reduces the number of shares available by two shares. As of September 28, 2019, the maximum number of shares available for issuance under the Company's stock incentive plans (assuming all the awards are in the form of stock options) was approximately 72 million shares and the number available for issuance assuming all awards are in the form of RSUs was approximately 34 million shares. The Company satisfies stock option exercises and vesting of RSUs with newly issued shares. Stock options and RSUs are generally forfeited by employees who terminate prior to vesting.

Each year, generally during the first half of the year, the Company awards stock options and restricted stock units to a broad-based group of management and creative personnel. The fair value of options is estimated based on the binomial valuation model. The binomial valuation model takes into account variables such as volatility, dividend yield and the risk-free interest rate. The binomial valuation model also considers the expected exercise multiple (the multiple of exercise price to grant price at which exercises are expected to occur on average) and the termination rate (the probability of a vested option being canceled due to the termination of the option holder) in computing the value of the option.

TABLE OF CONTENTS

The weighted average assumptions used in the option-valuation model were as follows:

	2019	2018	2017
Risk-free interest rate	2.8 %	2.4 %	2.6 %
Expected volatility	23 %	23 %	22 %
Dividend yield	1.61 %	1.57 %	1.58 %
Termination rate	4.8 %	4.8 %	4.0 %
Exercise multiple	1.75	1.75	1.62

Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. The assumptions that cause the greatest variation in fair value in the binomial valuation model are the expected volatility and expected exercise multiple. Increases or decreases in either the expected volatility or expected exercise multiple will cause the binomial option value to increase or decrease, respectively. The volatility assumption considers both historical and implied volatility and may be impacted by the Company's performance as well as changes in economic and market conditions.

Compensation expense for RSUs and stock options is recognized ratably over the service period of the award. Compensation expense for RSUs is based on the market price of the shares underlying the awards on the grant date. Compensation expense for Performance RSUs reflects the estimated probability that the market or performance conditions will be met.

Compensation expense related to stock options and RSUs is as follows:

	2019	2018	2017
Stock option	\$ 84	\$ 87	\$ 90
RSUs ⁽¹⁾	627	306	274
Total equity-based compensation expense ⁽²⁾	711	393	364
Tax impact	(161)	(99)	(123)
Reduction in net income	\$ 550	\$ 294	\$ 241
Equity-based compensation expense capitalized during the period	\$ 81	\$ 70	\$ 78

(1) Includes TFCF Performance RSUs converted to Company RSUs in connection with the TFCF acquisition (see Note 4). In fiscal 2019, the Company recognized \$307 million of equity based compensation in connection with the TFCF acquisition.

(2) Equity-based compensation expense is net of capitalized equity-based compensation and estimated forfeitures and excludes amortization of previously capitalized equity-based compensation costs.

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

	2019	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	24	\$ 84.14
Awards forfeited	(1)	109.59
Awards granted	4	111.15
Awards exercised	(4)	74.13
Outstanding at end of year	23	\$ 90.05
Exercisable at end of year	14	\$ 76.59

TABLE OF CONTENTS

The following tables summarize information about stock options vested and expected to vest at September 28, 2019 (shares in millions):

		Vested		
Range of Exercise Prices		Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 0	— \$ 50	3	\$ 39.71	2.0
\$ 51	— \$ 75	4	61.34	3.7
\$ 76	— \$ 100	3	91.87	5.2
\$ 101	— \$ 125	4	109.71	7.0
		14		

		Expected to Vest		
Range of Exercise Prices		Number of Options ⁽¹⁾	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life
\$ 105	— \$ 110	2	\$ 105.34	7.3
\$ 111	— \$ 115	7	111.25	8.5
		9		

⁽¹⁾ Number of options expected to vest is total unvested options less estimated forfeitures.

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

		2019	
		Units	Weighted Average Grant-Date Fair Value
Unvested at beginning of year		9	\$ 108.74
Granted ⁽¹⁾		4	112.73
Vested		(3)	105.98
Forfeited		(1)	107.24
Other ⁽²⁾		3	110.00
Unvested at end of year ⁽³⁾⁽⁴⁾		12	\$ 110.84

⁽¹⁾ Includes 0.4 million Performance RSUs.

⁽²⁾ Reflects TFCF Performance RSUs replaced with Company RSUs in connection with the TFCF acquisition that generally vest in three years.

⁽³⁾ Includes 1.5 million Performance RSUs.

⁽⁴⁾ Excludes Performance RSUs issued in September 2018, for which vesting is subject to service conditions and the number of units vesting is subject to the discretion of the CEO. At September 28, 2019, the maximum number of these Performance RSUs that could be issued upon vesting is 0.2 million.

The weighted average grant-date fair values of options granted during fiscal 2019, 2018 and 2017 were \$28.76, \$28.01 and \$25.65, respectively. The total intrinsic value (market value on date of exercise less exercise price) of options exercised and RSUs vested during fiscal 2019, 2018 and 2017 totaled \$646 million, \$585 million and \$757 million, respectively. The aggregate intrinsic values of stock options vested and expected to vest at September 28, 2019 were \$728 million and \$173 million, respectively.

TABLE OF CONTENTS

As of September 28, 2019, unrecognized compensation cost related to unvested stock options and RSUs was \$121 million and \$599 million, respectively. That cost is expected to be recognized over a weighted-average period of 1.6 years for stock options and 1.6 years for RSUs.

Cash received from option exercises for fiscal 2019, 2018 and 2017 was \$318 million, \$210 million and \$276 million, respectively. Tax benefits realized from tax deductions associated with option exercises and RSUs vesting for fiscal 2019, 2018 and 2017 was approximately \$145 million, \$160 million and \$265 million, respectively.

14 *Detail of Certain Balance Sheet Accounts*

	September 28, 2019	September 29, 2018
<i>Current receivables</i>		
Accounts receivable	\$ 12,882	\$ 8,268
Other	2,894	1,258
Allowance for doubtful accounts	(295)	(192)
	<u>\$ 15,481</u>	<u>\$ 9,334</u>

Parks, resorts and other property

Attractions, buildings and improvements	\$ 29,509	\$ 28,995
Furniture, fixtures and equipment	21,265	19,400
Land improvements	6,649	5,911
Leasehold improvements	1,166	932
	<u>58,589</u>	<u>55,238</u>
Accumulated depreciation	(32,415)	(30,764)
Projects in progress	4,264	3,942
Land	1,165	1,124
	<u>\$ 31,603</u>	<u>\$ 29,540</u>

Intangible assets

Character/franchise intangibles, copyrights and trademarks	\$ 10,577	\$ 5,829
MVPD agreements	9,900	—
Other amortizable intangible assets	4,291	1,213
Accumulated amortization	(3,393)	(2,070)
Net amortizable intangible assets	<u>21,375</u>	<u>4,972</u>
Indefinite lived intangible assets	1,840	1,840
	<u>\$ 23,215</u>	<u>\$ 6,812</u>

Accounts payable and other accrued liabilities

Accounts payable	\$ 13,778	\$ 6,503
Payroll and employee benefits	3,010	2,189
Other	974	787
	<u>\$ 17,762</u>	<u>\$ 9,479</u>

Other long-term liabilities

Pension and postretirement medical plan liabilities	\$ 4,783	\$ 2,712
---	----------	----------

Other	8,977	3,878
	<u>\$ 13,760</u>	<u>\$ 6,590</u>

15 *Commitments and Contingencies*

Commitments

The Company has various contractual commitments for broadcast rights for sports, feature films and other programming, totaling approximately \$50.4 billion, including approximately \$3.1 billion for available programming as of September 28, 2019, and approximately \$43.9 billion related to sports programming rights, primarily for college football (including bowl games and the College Football Playoff) and basketball, NBA, NFL, UFC, MLB, Cricket, US Open Tennis, Top Rank Boxing, the PGA Championship and various soccer rights.

The Company has entered into operating leases for various real estate and equipment needs, including retail outlets and distribution centers for consumer products, broadcast equipment and office space for general and administrative purposes. Rental expense for operating leases during fiscal 2019, 2018 and 2017, including common-area maintenance and contingent rentals, was \$1.1 billion, \$0.9 billion and \$0.9 billion, respectively.

The Company also has contractual commitments for the construction of three new cruise ships, creative talent and employment agreements and unrecognized tax benefits. Creative talent and employment agreements include obligations to actors, producers, sports, television and radio personalities and executives.

Contractual commitments for broadcast programming rights, future minimum lease payments under non-cancelable operating leases, cruise ships, creative talent and other commitments totaled \$69.3 billion at September 28, 2019, payable as follows:

	Broadcast Programming	Operating Leases	Other	Total
2020	\$ 11,477	\$ 982	\$ 3,210	\$ 15,669
2021	10,080	849	1,593	12,522
2022	7,810	670	1,699	10,179
2023	5,624	532	1,285	7,441
2024	4,637	407	933	5,977
Thereafter	10,786	2,491	4,198	17,475
	<u>\$ 50,414</u>	<u>\$ 5,931</u>	<u>\$ 12,918</u>	<u>\$ 69,263</u>

Certain contractual commitments, principally broadcast programming rights and operating leases, have payments that are variable based primarily on revenues and are not included in the table above.

The Company has non-cancelable capital leases, primarily for land and broadcast equipment, which had gross carrying values of \$376 million and \$371 million at September 28, 2019 and September 29, 2018, respectively. Accumulated amortization related to these capital leases totaled \$170 million and \$164 million at September 28, 2019 and September 29, 2018, respectively. Future payments under these leases as of September 28, 2019 are as follows:

2020	\$ 19
2021	20
2022	19
2023	17
2024	16
Thereafter	458
Total minimum obligations	549
Less amount representing interest	(398)
Present value of net minimum obligations	151
Less current portion	(5)
Long-term portion	<u>\$ 146</u>

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

TABLE OF CONTENTS

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds, which mature in 2037. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of September 28, 2019, the remaining debt service obligation guaranteed by the Company was \$285 million. To the extent that tax revenues exceed the debt service payments subsequent to the Company funding a shortfall, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of television program rights and vacation ownership units. Allowances for credit losses are established against these receivables as necessary.

The Company estimates the allowance for credit losses related to receivables from the sale of film and television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of film and television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$1.2 billion as of September 28, 2019. Fiscal 2019 activity related to the allowance for credit losses was not material.

The Company estimates the allowance for credit losses related to receivables from sales of its vacation ownership units based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 4%, was \$0.8 billion as of September 28, 2019. Fiscal 2019 activity related to the allowance for credit losses was not material.

16 *Fair Value Measurement*

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level. See Note 11 for definitions of fair value measures and the Levels within the fair value hierarchy.

Description	Fair Value Measurement at September 28, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 13	\$ —	\$ —	\$ 13
Derivatives				
Interest rate	—	89	—	89
Foreign exchange	—	771	—	771
Other	—	1	—	1
Liabilities				
Derivatives				
Interest rate	—	(93)	—	(93)
Foreign exchange	—	(544)	—	(544)
Other	—	(4)	—	(4)
Total recorded at fair value	\$ 13	\$ 220	\$ —	\$ 233
Fair value of borrowings	\$ —	\$ 48,709	\$ 1,249	\$ 49,958

TABLE OF CONTENTS

Description	Fair Value Measurement at September 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 38	\$ —	\$ —	\$ 38
Derivatives				
Interest rate	—	—	—	—
Foreign exchange	—	469	—	469
Other	—	15	—	15
Liabilities				
Derivatives				
Interest rate	—	(410)	—	(410)
Foreign exchange	—	(274)	—	(274)
Total recorded at fair value	\$ 38	\$ (200)	\$ —	\$ (162)
Fair value of borrowings	\$ —	\$ 19,826	\$ 1,171	\$ 20,997

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates.

Level 2 borrowings, which include commercial paper and U.S. and European notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well prevailing market interest rates.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

Credit Concentrations

The Company monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments on an ongoing basis and does not currently anticipate nonperformance by the counterparties.

The Company does not expect that it would realize a material loss, based on the fair value of its derivative financial instruments as of September 28, 2019, in the event of nonperformance by any single derivative counterparty. The Company generally enters into derivative transactions only with counterparties that have a credit rating of A- or better and requires collateral in the event credit ratings fall below A- or aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company does not have material cash and cash equivalent balances with financial institutions that have below investment grade credit ratings and maintains short-term liquidity needs in high quality money market funds. As of September 28, 2019, the Company's balances with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents were 26% of total cash and cash equivalents. At September 29, 2018, the Company did not have balances (excluding money market funds) with individual financial institutions that exceeded 10% of the Company's total cash and cash equivalents.

The Company's trade receivables and financial investments do not represent a significant concentration of credit risk at September 28, 2019 due to the wide variety of customers and markets in which the Company's products are sold, the dispersion of our customers across geographic areas and the diversification of the Company's portfolio among financial institutions.

17 *Derivative Instruments*

The Company manages its exposure to various risks relating to its ongoing business operations according to a risk management policy. The primary risks managed with derivative instruments are interest rate risk and foreign exchange risk.

TABLE OF CONTENTS

The Company's derivative positions measured at fair value are summarized in the following tables:

As of September 28, 2019				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 302	\$ 241	\$ (67)	\$ (244)
Interest rate	—	89	(82)	—
Other	1	—	(3)	(1)
Derivatives not designated as hedges				
Foreign exchange	65	163	(107)	(126)
Interest Rate	—	—	—	(11)
Gross fair value of derivatives	368	493	(259)	(382)
Counterparty netting	(231)	(345)	258	318
Cash collateral (received)/paid	(55)	(6)	—	7
Net derivative positions	<u>\$ 82</u>	<u>\$ 142</u>	<u>\$ (1)</u>	<u>\$ (57)</u>

As of September 29, 2018				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 166	\$ 169	\$ (80)	\$ (39)
Interest rate	—	—	(329)	—
Other	13	2	—	—
Derivatives not designated as hedges				
Foreign exchange	38	96	(95)	(60)
Interest Rate	—	—	—	(81)
Gross fair value of derivatives	217	267	(504)	(180)
Counterparty netting	(158)	(227)	254	131
Cash collateral (received)/paid	—	—	135	5
Net derivative positions	<u>\$ 59</u>	<u>\$ 40</u>	<u>\$ (115)</u>	<u>\$ (44)</u>

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company's objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company primarily uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate risk management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of September 28, 2019 and September 29, 2018, the total notional amount of the Company's pay-floating interest rate swaps was \$9.9 billion and \$7.6 billion, respectively.

TABLE OF CONTENTS

The following table summarizes fair value hedge adjustments to hedged borrowings:

	Carrying Amount of Hedged Borrowings ⁽¹⁾		Fair Value Adjustments Included in Hedged Borrowings ⁽¹⁾	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Borrowings:				
Current	\$ 1,121	\$ 1,585	\$ (3)	\$ (14)
Long-term	9,562	6,425	34	(290)
	<u>\$ 10,683</u>	<u>\$ 8,010</u>	<u>\$ 31</u>	<u>\$ (304)</u>

⁽¹⁾ Includes \$37 million and \$41 million of gains on terminated interest rate swaps as of September 28, 2019 and September 29, 2018, respectively.

The following amounts are included in “Interest expense, net” in the Consolidated Statements of Income:

	2019	2018	2017
Gain (loss) on:			
Pay-floating swaps	\$ 337	\$ (230)	\$ (211)
Borrowings hedged with pay-floating swaps	(337)	230	211
Benefit (expense) associated with interest accruals on pay-floating swaps	(58)	(15)	35

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating rate borrowings to fixed-rate borrowings. The unrealized gains or losses from these cash flow hedges are deferred in AOCI and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at September 28, 2019 or at September 29, 2018, and gains and losses related to pay-fixed swaps recognized in earnings for fiscal 2019, 2018 and 2017 were not material.

To facilitate its interest rate risk management activities, the Company sold options in November 2016, October 2017 and April 2018 to enter into future pay-floating interest rate swaps indexed to LIBOR for \$2.0 billion in future borrowings. The fair values of these contracts were \$11 million and \$81 million at September 28, 2019 and September 29, 2018, respectively. The options are not designated as hedges and do not qualify for hedge accounting; accordingly, changes in their fair value are recorded in earnings. Gains and losses on the options for fiscal 2019, 2018 and 2017 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company’s objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency-denominated borrowings into U.S. dollar denominated borrowings.

TABLE OF CONTENTS

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of September 28, 2019 and September 29, 2018, the notional amounts of the Company's net foreign exchange cash flow hedges were \$6.3 billion and \$6.2 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled \$254 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI for fiscal year 2019:

Gain/(loss) recognized in Other Comprehensive Income	\$	156
Gain/(loss) reclassified from AOCI into the Statement of Income ⁽¹⁾		183

⁽¹⁾ Primarily recorded in revenue.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at September 28, 2019 and September 29, 2018 were \$3.8 billion and \$3.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities by the corresponding line item in which they are recorded in the Consolidated Statements of Income:

	Costs and Expenses			Interest expense, net			Income Tax Expense		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Net gains (losses) on foreign currency denominated assets and liabilities	\$ (188)	\$ (146)	\$ 105	\$ 16	\$ 39	\$ (13)	\$ 50	\$ 29	\$ 3
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	123	104	(120)	(19)	(46)	11	(51)	(19)	24
Net gains (losses)	\$ (65)	\$ (42)	\$ (15)	\$ (3)	\$ (7)	\$ (2)	\$ (1)	\$ 10	\$ 27

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices, and the Company designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The notional amount of these commodities contracts at September 28, 2019 and September 29, 2018 and related gains or losses recognized in earnings were not material for fiscal 2019, 2018 and 2017.

Risk Management – Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not qualify for hedge accounting. These contracts, which include certain swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings. The notional amount and fair value of these contracts at September 28, 2019 and September 29, 2018 were not material. The related gains or losses recognized in earnings were not material for fiscal 2019, 2018 and 2017.

Contingent Features and Cash Collateral

The Company has master netting arrangements by counterparty with respect to certain derivative financial instrument contracts. The Company may be required to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company's credit rating. In addition, these contracts may require a counterparty to post collateral to the Company in the event that a net receivable position with a counterparty exceeds limits defined by contract and that vary with the counterparty's credit rating. If the Company's or the counterparty's credit ratings were to fall below investment grade, such counterparties or the

Company would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair values of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were \$65 million and \$299 million at September 28, 2019 and September 29, 2018, respectively.

18 *Restructuring and Impairment Charges*

The Company has begun implementing a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of TFCF. During fiscal 2019, we recorded charges of \$1.2 billion, including \$0.9 billion of severance and related costs in connection with the plan and \$0.3 billion of equity based compensation costs, primarily for TFCF awards that were accelerated to vest upon the closing of the TFCF acquisition. These charges are recorded in “Restructuring and impairment charges” in the Consolidated Statements of Income. Although our plans are not yet finalized, we anticipate that the total severance and related costs could be on the order of \$1.5 billion. The Company may incur other restructuring costs, such as contract termination costs, but we currently expect these will not be material. We currently expect to substantially complete the restructuring plan by the end of fiscal 2021. For fiscal 2018 and 2017, restructuring and impairment charges were not material.

The following table summarizes the changes in restructuring reserves related to the TFCF integration plan for fiscal 2019:

	One-time Termination Benefits	Contract Termination	Total
Beginning Balance:	\$ —	\$ —	\$ —
Additions:			
Media Networks	57	33	90
Parks, Experiences and Products	8	3	11
Studio Entertainment	123	74	197
Direct-to-Consumer & International	349	77	426
Corporate	133	49	182
Total Additions	670	236	906
Payments	(193)	(37)	(230)
Ending Balance:	<u>\$ 477</u>	<u>\$ 199</u>	<u>\$ 676</u>

19 *Condensed Consolidating Financial Information*

On March 20, 2019, the Company completed its acquisition of TFCF (as described in Note 4), and the Company (referred to herein as “Legacy Disney”) and TFCF became subsidiaries of New Disney (referred to herein as “TWDC”). Legacy Disney has outstanding public debt that has been fully and unconditionally guaranteed by TWDC. In addition, Legacy Disney has provided a full and unconditional guarantee of debt held by TWDC. As of March 20, 2019, Legacy Disney is a 100% owned subsidiary of TWDC.

Set forth below are condensed consolidating financial statements presenting the results of operations, financial position and cash flows of TWDC, Legacy Disney and non-guarantor subsidiaries on a combined basis along with eliminations necessary to arrive at the reported information on a consolidated basis. This condensed consolidating financial information has been prepared and presented pursuant to the U.S. Securities and Exchange Commission Regulation S-X Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or being Registered.” This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with U.S. GAAP. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions.

TWDC was formed in June 2018, was a subsidiary of Legacy Disney until March 20, 2019, and did not have any balances or activities prior to fiscal 2019.

[TABLE OF CONTENTS](#)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended September 28, 2019
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 69,342	\$ 228	\$ 69,570
Costs and expenses					
Operating expenses		—	(42,018)	—	(42,018)
Selling, general, administrative and other	—	(672)	(10,869)	—	(11,541)
Depreciation and amortization	—	(1)	(4,159)	—	(4,160)
Total costs and expenses	—	(673)	(57,046)	—	(57,719)
Restructuring and impairment charges	—	—	(1,183)	—	(1,183)
Allocations to non-guarantor subsidiaries	—	652	(652)	—	—
Other income/(expense), net	(236)	94	4,727	(228)	4,357
Interest income/(expense), net	(636)	(699)	357	—	(978)
Equity in the income (loss) of investees, net	—	—	(103)	—	(103)
Income from continuing operations before income taxes	(872)	(626)	15,442	—	13,944
Income taxes from continuing operations	190	136	(3,357)	—	(3,031)
Earnings from subsidiary entities	3,026	12,802	—	(15,828)	—
Net income from continuing operations	2,344	12,312	12,085	(15,828)	10,913
Income (loss) from discontinued operations	671	291	671	(962)	671
Net Income	3,015	12,603	12,756	(16,790)	11,584
Less: Net income from continuing operations attributable to noncontrolling interests	—	—	(472)	—	(472)
Less: Net income from discontinued operations attributable to noncontrolling interests	—	—	(58)	—	(58)
Net income excluding noncontrolling interests	3,015	12,603	12,226	(16,790)	11,054
Comprehensive income excluding noncontrolling interests	\$ 185	\$ 9,669	\$ 11,786	\$ (13,400)	\$ 8,240

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended September 29, 2018
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 59,520	\$ (86)	\$ 59,434
Costs and expenses					
Operating expenses	—	—	(32,726)	—	(32,726)
Selling, general, administrative and other	—	(615)	(8,245)	—	(8,860)
Depreciation and amortization	—	(1)	(3,010)	—	(3,011)
Total costs and expenses	—	(616)	(43,981)	—	(44,597)
Restructuring and impairment charges	—	—	(33)	—	(33)
Allocations to non-guarantor subsidiaries	—	576	(576)	—	—
Other income, net	—	41	474	86	601
Interest expense, net	—	(698)	124	—	(574)
Equity in the income (loss) of investees, net	—	—	(102)	—	(102)

Income before taxes	—	(697)	15,426	—	14,729
Income taxes	—	79	(1,742)	—	(1,663)
Earnings from subsidiary entities	—	13,216	—	(13,216)	—
Consolidated net Income	—	12,598	13,684	(13,216)	13,066
Less: Net income attributable to noncontrolling interests	—	—	(468)	—	(468)
Net income excluding noncontrolling interests	—	12,598	13,216	(13,216)	12,598
Comprehensive income excluding noncontrolling interests	\$ —	\$ 13,029	\$ 13,037	\$ (13,037)	\$ 13,029

[TABLE OF CONTENTS](#)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Year Ended September 30, 2017
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 54,952	\$ 185	\$ 55,137
Costs and expenses					
Operating expenses	—	—	(30,306)	—	(30,306)
Selling, general, administrative and other	—	(450)	(7,726)	—	(8,176)
Depreciation and amortization	—	(1)	(2,781)	—	(2,782)
Total costs and expenses	—	(451)	(40,813)	—	(41,264)
Restructuring and impairment charges	—	—	(98)	—	(98)
Allocations to non-guarantor subsidiaries	—	405	(405)	—	—
Other income, net	—	163	100	(185)	78
Interest expense, net	—	(510)	125	—	(385)
Equity in the income (loss) of investees, net	—	—	320	—	320
Income before income taxes	—	(393)	14,181	—	13,788
Income taxes	—	126	(4,548)	—	(4,422)
Earnings from subsidiary entities	—	9,247	—	(9,247)	—
Consolidated net Income	—	8,980	9,633	(9,247)	9,366
Less: Net income attributable to noncontrolling interests	—	—	(386)	—	(386)
Net income excluding noncontrolling interests	—	8,980	9,247	(9,247)	8,980
Comprehensive income excluding noncontrolling interests	\$ —	\$ 9,431	\$ 9,153	\$ (9,153)	\$ 9,431

[TABLE OF CONTENTS](#)

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 28, 2019
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 554	\$ —	\$ 4,864	\$ —	\$ 5,418
Receivables, net	499	1	14,981	—	15,481
Inventories	—	4	1,645	—	1,649
Television costs and advances	—	—	4,597	—	4,597
Other current assets	83	4	898	(6)	979
Total current assets	1,136	9	26,985	(6)	28,124
Film and television costs	—	—	22,810	—	22,810
Investments in subsidiaries	125,999	281,041	—	(407,040)	—
Other investments	—	—	3,224	—	3,224
Parks, resorts and other property, net	—	8	31,595	—	31,603
Intangible assets, net	—	—	23,215	—	23,215
Goodwill	—	—	80,293	—	80,293
Intercompany receivables	—	—	143,574	(143,574)	—
Other assets	314	1,076	4,541	(1,216)	4,715
Total assets	\$ 127,449	\$ 282,134	\$ 336,237	\$ (551,836)	\$ 193,984
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	\$ 371	\$ 279	\$ 17,112	\$ —	\$ 17,762
Current portion of borrowings	5,721	3,007	129	—	8,857
Deferred revenues and other	—	27	4,701	(6)	4,722
Total current liabilities	6,092	3,313	21,942	(6)	31,341
Non-current liabilities					
Borrowings	23,182	13,061	1,886	—	38,129
Deferred income taxes	—	—	9,118	(1,216)	7,902
Other long-term liabilities	859	4,626	8,275	—	13,760
Intercompany payables	8,439	135,135	—	(143,574)	—
Total non-current liabilities	32,480	152,822	19,279	(144,790)	59,791
Redeemable noncontrolling interests	—	—	8,963	—	8,963
Total Disney Shareholders' equity	88,877	125,999	281,041	(407,040)	88,877
Noncontrolling interests	—	—	5,012	—	5,012
Total equity	88,877	125,999	286,053	(407,040)	93,889
Total liabilities and equity	\$ 127,449	\$ 282,134	\$ 336,237	\$ (551,836)	\$ 193,984

[TABLE OF CONTENTS](#)

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 29, 2018
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ —	\$ 1,367	\$ 2,783	\$ —	\$ 4,150
Receivables, net	—	155	9,179	—	9,334
Inventories	—	4	1,388	—	1,392
Television costs and advances	—	—	1,314	—	1,314
Other current assets	—	152	483	—	635
Total current assets	—	1,678	15,147	—	16,825
Film and television costs	—	—	7,888	—	7,888
Investments in subsidiaries	—	149,880	—	(149,880)	—
Other investments	—	—	2,899	—	2,899
Parks, resorts and other property, net	—	12	29,528	—	29,540
Intangible assets, net	—	—	6,812	—	6,812
Goodwill	—	—	31,269	—	31,269
Intercompany receivables	—	—	79,793	(79,793)	—
Other assets	—	911	3,178	(724)	3,365
Total assets	\$ —	\$ 152,481	\$ 176,514	\$ (230,397)	\$ 98,598
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	\$ —	\$ 688	\$ 8,791	\$ —	\$ 9,479
Current portion of borrowings	—	3,751	39	—	3,790
Deferred revenues and other	—	115	4,476	—	4,591
Total current liabilities	—	4,554	13,306	—	17,860
Non-current liabilities					
Borrowings	—	15,676	1,408	—	17,084
Deferred income taxes	—	—	3,833	(724)	3,109
Other long-term liabilities	—	3,685	2,905	—	6,590
Intercompany payables	—	79,793	—	(79,793)	—
Total non-current liabilities	—	99,154	8,146	(80,517)	26,783
Redeemable noncontrolling interests	—	—	1,123	—	1,123
Total Disney Shareholders' equity	—	48,773	149,880	(149,880)	48,773
Noncontrolling interests	—	—	4,059	—	4,059
Total equity	—	48,773	153,939	(149,880)	52,832
Total liabilities and equity	\$ —	\$ 152,481	\$ 176,514	\$ (230,397)	\$ 98,598

[TABLE OF CONTENTS](#)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended September 28, 2019
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations - continuing operations	\$ 340	\$ (1,800)	\$ 7,764	\$ (320)	\$ 5,984
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	—	(4,876)	—	(4,876)
Acquisitions	(35,702)	—	25,801	—	(9,901)
Intercompany investing activities, net	20,396	(1)	(7,507)	(12,888)	—
Other	—	—	(319)	—	(319)
Cash used in investing activities - continuing operations	(15,306)	(1)	13,099	(12,888)	(15,096)
FINANCING ACTIVITIES					
Commercial paper, net	5,328	(1,010)	—	—	4,318
Borrowings	37,999	—	241	—	38,240
Reduction of borrowings	(35,100)	(2,750)	(1,031)	—	(38,881)
Dividends	(1,585)	(1,470)	(160)	320	(2,895)
Proceeds from exercise of stock options	234	84	—	—	318
Intercompany financing, net	8,712	5,837	(27,437)	12,888	—
Contributions from / sales of noncontrolling interest holders	—	—	737	—	737
Acquisitions of noncontrolling and redeemable noncontrolling interests	—	—	(1,430)	—	(1,430)
Other	(68)	(257)	(546)	—	(871)
Cash used in financing activities - continuing operations	15,520	434	(29,626)	13,208	(464)
Discontinued operations	—	—	10,974	—	10,974
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	(98)	—	(98)
Change in cash, cash equivalents and restricted cash	554	(1,367)	2,113	—	1,300
Cash, cash equivalents and restricted cash, beginning of year	—	1,367	2,788	—	4,155
Cash, cash equivalents and restricted cash, end of year	\$ 554	\$ —	\$ 4,901	\$ —	\$ 5,455

[TABLE OF CONTENTS](#)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended September 29, 2018
(in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
<i>OPERATING ACTIVITIES</i>					
Cash provided by operations	\$ —	\$ 336	\$ 14,149	\$ (190)	\$ 14,295
<i>INVESTING ACTIVITIES</i>					
Investments in parks, resorts and other property	—	(3)	(4,462)	—	(4,465)
Acquisitions	—	—	(1,581)	—	(1,581)
Intercompany investing activities, net	—	(1,327)	—	1,327	—
Other	—	—	710	—	710
Cash used in investing activities	—	(1,330)	(5,333)	1,327	(5,336)
<i>FINANCING ACTIVITIES</i>					
Commercial paper, net	—	(1,768)	—	—	(1,768)
Borrowings	—	997	59	—	1,056
Reduction of borrowings	—	(1,800)	(71)	—	(1,871)
Dividends	—	(2,515)	(190)	190	(2,515)
Repurchases of common stock	—	(3,577)	—	—	(3,577)
Proceeds from exercise of stock options	—	210	—	—	210
Intercompany financing, net	—	10,343	(9,016)	(1,327)	—
Contributions from noncontrolling interest holders	—	—	399	—	399
Other	—	(222)	(555)	—	(777)
Cash used in financing activities	—	1,668	(9,374)	(1,137)	(8,843)
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	(25)	—	(25)
Change in cash, cash equivalents and restricted cash	—	674	(583)	—	91
Cash, cash equivalents and restricted cash, beginning of year	—	693	3,371	—	4,064
Cash, cash equivalents and restricted cash, end of year	\$ —	\$ 1,367	\$ 2,788	\$ —	\$ 4,155

[TABLE OF CONTENTS](#)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS For the Year Ended September 30, 2017 (in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations	\$ —	\$ 753	\$ 13,461	\$ (1,871)	\$ 12,343
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	(7)	(3,616)	—	(3,623)
Acquisitions	—	—	(417)	—	(417)
Intercompany investing activities, net	—	(1,856)	—	1,856	—
Other	—	15	(86)	—	(71)
Cash used in investing activities	—	(1,848)	(4,119)	1,856	(4,111)
FINANCING ACTIVITIES					
Commercial paper, net	—	1,247	—	—	1,247
Borrowings	—	4,741	79	—	4,820
Reduction of borrowings	—	(1,850)	(514)	—	(2,364)
Dividends	—	(2,445)	(1,871)	1,871	(2,445)
Repurchases of common stock	—	(9,368)	—	—	(9,368)
Proceeds from exercise of stock options	—	276	—	—	276
Intercompany financing, net	—	8,394	(6,538)	(1,856)	—
Contributions from noncontrolling interest holders	—	—	17	—	17
Other	—	(266)	(876)	—	(1,142)
Cash used in financing activities	—	729	(9,703)	15	(8,959)
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	31	—	31
Change in cash, cash equivalents and restricted cash	—	(366)	(330)	—	(696)
Cash, cash equivalents and restricted cash, beginning of year	—	1,059	3,701	—	4,760
Cash, cash equivalents and restricted cash, end of year	\$ —	\$ 693	\$ 3,371	\$ —	\$ 4,064

20 *New Accounting Pronouncements*

Accounting Pronouncements Adopted in Fiscal 2019

- Revenues from Contracts with Customers - See Note 3
- Intra-Entity Transfers of Assets Other Than Inventory - See Note 10
- Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - See Note 11
- Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income - See Note 12
- Recognition and Measurement of Financial Assets and Liabilities - See Note 12
- Targeted Improvements to Accounting for Hedging Activities - The adoption of the new guidance did not have a material impact on our consolidated financial statements

Leases

In February 2016, the FASB issued new lease accounting guidance, which requires the present value of committed operating lease payments to be recorded as right-of-use lease assets and lease liabilities on the balance sheet. The guidance is effective at the beginning of the Company's 2020 fiscal year. We are adopting the guidance without restating prior periods and by applying practical expedients in the guidance that allow us to not reassess prior conclusions concerning whether:

- Arrangements contain a lease
- The Company's lease arrangements are operating or capital leases (financing)
- Initial direct costs should be capitalized

TABLE OF CONTENTS

- Existing land easements are leases

The Company estimates the adoption of the new guidance will result in the recognition of right-of-use assets and lease liabilities for our operating leases of approximately \$4 billion. Additionally, the Company will reclassify a deferred gain of approximately \$350 million related to a prior sale-leaseback transaction to retained earnings upon adoption.

Improvements to Accounting for Costs of Films and License Agreements for Program Materials

In March 2019, the FASB updated guidance for the accounting for film and television content costs. The new guidance impacts the capitalization, amortization and impairment of these costs as follows:

- Eliminates the limitation on capitalization of production costs for episodic content, aligning the capitalization model with film content;
- Requires production costs that are being amortized based on estimated usage to be reviewed and updated each reporting period, with any changes in estimated usage applied prospectively; and
- Requires produced and acquired programming costs to be tested for impairment using the lowest level of identifiable cash flows based on the predominant monetization strategy for the content (i.e., monetized individually or in a group)

We currently do not expect the new guidance will have a material impact on our financial statements. The guidance is effective at the beginning of the Company's 2021 fiscal year (with early adoption permitted) and requires prospective adoption. The Company plans to adopt the new guidance in fiscal 2020.

TABLE OF CONTENTS

QUARTERLY FINANCIAL SUMMARY (in millions, except per share data)

(unaudited)	Q1	Q2	Q3	Q4
2019				
Revenues	\$ 15,303	\$ 14,922	\$ 20,245 (8)	\$ 19,100 (8)
Income from continuing operations before income taxes	3,431	7,237	2,018	1,258
Segment operating income (9)	3,655	3,816	3,961	3,436
Net income from continuing operations	2,786	5,590	1,623	914
Net income attributable to Disney	2,788	5,452	1,760	1,054
Income from discontinued operations, net of tax	—	21	359	291
Earnings per share:				
Diluted - continuing operations	\$ 1.86	\$ 3.53 (2)	\$ 0.79 (4)	\$ 0.43 (6)
Diluted - total	1.86	3.55	0.97	0.58
Basic - continuing operations	1.87	3.55	0.80	0.44
Basic - total	1.87	3.56	0.98	0.58
2018				
Revenues	\$ 15,351	\$ 14,548	\$ 15,229	\$ 14,306
Segment operating income (9)	3,986	4,237	4,189	3,277
Net income	4,473	3,115	3,059	2,419
Net income attributable to Disney	4,423	2,937	2,916	2,322
Earnings per share:				
Diluted	\$ 2.91 (1)	\$ 1.95 (3)	\$ 1.95 (5)	\$ 1.55 (7)
Basic	2.93	1.95	1.96	1.56

- (1) Results for the first quarter of fiscal 2018 included an estimated net benefit from the Deferred Remeasurement, partially offset by the Deemed Repatriation Tax as a result of the Tax Act (Tax Act Estimate), which had a favorable impact of \$1.00 on diluted earnings per share, and a gain from the sale of property rights, which had a favorable impact of \$0.03 on diluted earnings per share.
- (2) Results for the second quarter of fiscal 2019 included a non-cash gain in connection with the acquisition of Hulu (Hulu Gain), which had a favorable impact of \$2.46 on diluted earnings per share. This favorable impact was partially offset by restructuring and impairment charges, which had an adverse impact of \$0.33 on diluted earnings per share, an impairment in our investment in Vice, which had an adverse impact of \$0.18 on diluted earnings per share, and amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs, which had an adverse impact of \$0.05 on diluted earnings per share.
- (3) Results for the second quarter of fiscal 2018 included a net benefit from updating the Tax Act Estimate, which had a favorable impact of \$0.09 on diluted earnings per share.
- (4) Results for the third quarter of fiscal 2019 included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs, which had an adverse impact of \$0.34 on diluted earnings per share, restructuring and impairment charges, which had a net adverse impact of \$0.09 on diluted earnings per share, equity investment impairments, which had an adverse impact of \$0.08 on diluted earnings per share, and an adjustment to the Hulu Gain, which had an adverse impact of \$0.05 on diluted earnings per share.
- (5) Results for the third quarter of fiscal 2018 included a net benefit from updating the Tax Act Estimate, which had a favorable impact of \$0.07 on diluted earnings per share.
- (6) Results for the fourth quarter of fiscal 2019 included amortization related to TFCF and Hulu intangible assets and fair value step-up on film and television costs, which had an adverse impact of \$0.30 on diluted earnings per share, a charge for the settlement of a portion of the debt originally assumed in the TFCF acquisition, which had an adverse impact of \$0.22 on diluted earnings per share, and restructuring and impairment charges, which had an adverse impact of \$0.13 on diluted earnings per share.
- (7) Results for the fourth quarter of fiscal 2018 included a gain in connection with the sale of real estate, which had a favorable impact of \$0.25 on diluted earnings per share, partially offset by equity investment impairments, which had an adverse impact of \$0.11 on diluted earnings per share, and the impact of updating the Tax Act Estimate, which had an adverse impact of \$0.06 on diluted earnings per share.

- (8) On March 20, 2019, the Company began consolidating the results of TFCF and Hulu (see Note 4 to the Consolidated Financial Statements). As a result, revenues and operating results in the third and fourth quarter of fiscal 2019 reflected the impact of this transaction.
- (9) Segment operating results reflect earnings before the corporate and unallocated shared expenses, restructuring and impairment charges, other income, net, interest expense, net, income taxes and noncontrolling interests.