

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended
March 31, 2018

Commission File Number 1-11605

The WALT DISNEY Company

Incorporated in Delaware

I.R.S. Employer Identification
No. 95-4545390

500 South Buena Vista Street, Burbank, California 91521
(818) 560-1000

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	☒	Accelerated filer	☐
Non-accelerated filer (Do not check if smaller reporting company)	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 ☒

There were 1,490,523,320 shares of common stock outstanding as of May 2, 2018 .

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited; in millions, except per share data)

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Revenues:				
Services	\$ 12,520	\$ 11,487	\$ 25,504	\$ 23,893
Products	2,028	1,849	4,395	4,227
Total revenues	14,548	13,336	29,899	28,120
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization)	(6,304)	(5,839)	(13,638)	(12,859)
Cost of products (exclusive of depreciation and amortization)	(1,229)	(1,130)	(2,632)	(2,516)
Selling, general, administrative and other	(2,247)	(1,941)	(4,326)	(3,926)
Depreciation and amortization	(731)	(676)	(1,473)	(1,363)
Total costs and expenses	(10,511)	(9,586)	(22,069)	(20,664)
Restructuring and impairment charges	(13)	—	(28)	—
Other income, net	41	—	94	—
Interest expense, net	(143)	(84)	(272)	(183)
Equity in the income of investees	6	85	49	203
Income before income taxes	3,928	3,751	7,673	7,476
Income taxes	(813)	(1,212)	(85)	(2,449)
Net income	3,115	2,539	7,588	5,027
Less: Net income attributable to noncontrolling interests	(178)	(151)	(228)	(160)
Net income attributable to The Walt Disney Company (Disney)	\$ 2,937	\$ 2,388	\$ 7,360	\$ 4,867
Earnings per share attributable to Disney:				
Diluted	\$ 1.95	\$ 1.50	\$ 4.86	\$ 3.05
Basic	\$ 1.95	\$ 1.51	\$ 4.88	\$ 3.07
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,510	1,591	1,515	1,597
Basic	1,503	1,580	1,507	1,586
Dividends declared per share	\$ —	\$ —	\$ 0.84	\$ 0.78

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited; in millions)

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Net income	\$ 3,115	\$ 2,539	\$ 7,588	\$ 5,027
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	7	1	6	(10)
Market value adjustments for hedges	(112)	(164)	(94)	116
Pension and postretirement medical plan adjustments	94	80	155	126
Foreign currency translation and other	144	67	231	(223)
Other comprehensive income/(loss)	133	(16)	298	9
Comprehensive income	3,248	2,523	7,886	5,036
Net income attributable to noncontrolling interests, including redeemable noncontrolling interests	(178)	(151)	(228)	(160)
Other comprehensive (income)/loss attributable to noncontrolling interests	(74)	(9)	(115)	90
Comprehensive income attributable to Disney	\$ 2,996	\$ 2,363	\$ 7,543	\$ 4,966

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited; in millions, except per share data)

	March 31, 2018	September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,179	\$ 4,017
Receivables	9,678	8,633
Inventories	1,301	1,373
Television costs and advances	1,114	1,278
Other current assets	536	588
Total current assets	16,808	15,889
Film and television costs	8,074	7,481
Investments	3,148	3,202
Parks, resorts and other property		
Attractions, buildings and equipment	55,317	54,043
Accumulated depreciation	(30,435)	(29,037)
	24,882	25,006
Projects in progress	3,056	2,145
Land	1,262	1,255
	29,200	28,406
Intangible assets, net	6,962	6,995
Goodwill	31,350	31,426
Other assets	2,401	2,390
Total assets	\$ 97,943	\$ 95,789
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 9,022	\$ 8,855
Current portion of borrowings	5,918	6,172
Deferred revenue and other	4,788	4,568
Total current liabilities	19,728	19,595
Borrowings	18,766	19,119
Deferred income taxes	2,949	4,480
Other long-term liabilities	6,699	6,443
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests	1,150	1,148
Equity		
Preferred stock, \$0.01 par value, Authorized – 100 million shares, Issued – none	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 2.9 billion shares	36,411	36,248
Retained earnings	78,704	72,606
Accumulated other comprehensive loss	(3,345)	(3,528)
	111,770	105,326
Treasury stock, at cost, 1.4 billion shares	(66,619)	(64,011)
Total Disney Shareholders' equity	45,151	41,315
Noncontrolling interests	3,500	3,689
Total equity	48,651	45,004
Total liabilities and equity	\$ 97,943	\$ 95,789

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in millions)

	Six Months Ended	
	March 31, 2018	April 1, 2017
OPERATING ACTIVITIES		
Net income	\$ 7,588	\$ 5,027
Depreciation and amortization	1,473	1,363
Deferred income taxes	(1,623)	126
Equity in the income of investees	(49)	(203)
Cash distributions received from equity investees	389	397
Net change in film and television costs and advances	(490)	(428)
Equity-based compensation	194	189
Other	155	261
Changes in operating assets and liabilities:		
Receivables	(1,004)	(284)
Inventories	64	90
Other assets	(248)	78
Accounts payable and other accrued liabilities	(92)	(1,934)
Income taxes	406	(9)
Cash provided by operations	6,763	4,673
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(2,044)	(1,923)
Acquisitions	(1,581)	(557)
Other	(180)	90
Cash used in investing activities	(3,805)	(2,390)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	1,372	914
Borrowings	1,048	2,053
Reduction of borrowings	(1,350)	(1,233)
Dividends	(1,266)	(1,237)
Repurchases of common stock	(2,608)	(3,500)
Proceeds from exercise of stock options	91	186
Other	(169)	(232)
Cash used in financing activities	(2,882)	(3,049)
Impact of exchange rates on cash, cash equivalents and restricted cash	55	(69)
Change in cash, cash equivalents and restricted cash	131	(835)
Cash, cash equivalents and restricted cash, beginning of period	4,064	4,760
Cash, cash equivalents and restricted cash, end of period	\$ 4,195	\$ 3,925

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited; in millions)

	Quarter Ended					
	March 31, 2018			April 1, 2017		
	Disney Shareholders	Non- controlling Interests ⁽¹⁾	Total Equity	Disney Shareholders	Non- controlling Interests ⁽¹⁾	Total Equity
Beginning balance	\$ 43,289	\$ 3,794	\$ 47,083	\$ 43,210	\$ 3,967	\$ 47,177
Comprehensive income	2,996	251	3,247	2,363	160	2,523
Equity compensation activity	157	—	157	182	—	182
Common stock repurchases	(1,295)	—	(1,295)	(2,035)	—	(2,035)
Distributions and other	4	(545)	(541)	64	(644)	(580)
Ending balance	\$ 45,151	\$ 3,500	\$ 48,651	\$ 43,784	\$ 3,483	\$ 47,267

⁽¹⁾ Excludes redeemable noncontrolling interest

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited; in millions)

	Six Months Ended					
	March 31, 2018			April 1, 2017		
	Disney Shareholders	Non- controlling Interests ⁽¹⁾	Total Equity	Disney Shareholders	Non- controlling Interests	Total Equity
Beginning balance	\$ 41,315	\$ 3,689	\$ 45,004	\$ 43,265	\$ 4,058	\$ 47,323
Comprehensive income	7,543	348	7,891	4,966	70	5,036
Equity compensation activity	163	—	163	230	—	230
Dividends	(1,266)	—	(1,266)	(1,237)	—	(1,237)
Common stock repurchases	(2,608)	—	(2,608)	(3,500)	—	(3,500)
Distributions and other	4	(537)	(533)	60	(645)	(585)
Ending balance	\$ 45,151	\$ 3,500	\$ 48,651	\$ 43,784	\$ 3,483	\$ 47,267

⁽¹⁾ Excludes redeemable noncontrolling interest

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending September 29, 2018. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K.

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 (collectively 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.

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

2. Cash and Cash Equivalents and Restricted Cash

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

	March 31, 2018	September 30, 2017
Cash and cash equivalents	\$ 4,179	\$ 4,017
Restricted cash included in:		
Other current assets	11	26
Other assets	5	21
Total cash, cash equivalents and restricted cash in the statement of cash flows	<u>\$ 4,195</u>	<u>\$ 4,064</u>

3. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, other income, interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

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

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Media Networks	\$ 13	\$ 88	\$ 63	\$ 207
Parks and Resorts	(7)	(3)	(14)	(5)
Consumer Products & Interactive Media	—	—	—	1
Equity in the income of investees included in segment operating income	<u>\$ 6</u>	<u>\$ 85</u>	<u>\$ 49</u>	<u>\$ 203</u>

Segment revenues and segment operating income are as follows:

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Revenues ⁽¹⁾:				
Media Networks	\$ 6,138	\$ 5,946	\$ 12,381	\$ 12,179
Parks and Resorts	4,879	4,299	10,033	8,854
Studio Entertainment	2,454	2,034	4,958	4,554
Consumer Products & Interactive Media	1,077	1,057	2,527	2,533
	<u>\$ 14,548</u>	<u>\$ 13,336</u>	<u>\$ 29,899</u>	<u>\$ 28,120</u>
Segment operating income ⁽¹⁾:				
Media Networks	\$ 2,082	\$ 2,223	\$ 3,275	\$ 3,585
Parks and Resorts	954	750	2,301	1,860
Studio Entertainment	847	656	1,676	1,498
Consumer Products & Interactive Media	354	367	971	1,009
	<u>\$ 4,237</u>	<u>\$ 3,996</u>	<u>\$ 8,223</u>	<u>\$ 7,952</u>

⁽¹⁾ Studio Entertainment revenues and operating income include an allocation of Consumer Products & Interactive Media revenues, which is meant to reflect royalties on sales of merchandise based on film properties. The increase to Studio Entertainment revenues and operating income and corresponding decrease to Consumer Products & Interactive Media revenues and operating income was \$136 million and \$107 million for the quarters ended March 31, 2018 and April 1, 2017, respectively, and \$307 million and \$288 million for the six months ended March 31, 2018 and April 1, 2017, respectively.

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

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Segment operating income	\$ 4,237	\$ 3,996	\$ 8,223	\$ 7,952
Corporate and unallocated shared expenses	(194)	(161)	(344)	(293)
Restructuring and impairment charges	(13)	—	(28)	—
Other income, net	41	—	94	—
Interest expense, net	(143)	(84)	(272)	(183)
Income before income taxes	<u>\$ 3,928</u>	<u>\$ 3,751</u>	<u>\$ 7,673</u>	<u>\$ 7,476</u>

In March, the Company announced a strategic reorganization of its businesses into four operating segments: the newly-formed Direct-to-Consumer and International; the combined Parks, Experiences and Consumer Products; Media Networks; and Studio Entertainment. The Company is in the process of modifying internal and external reporting processes and systems to accommodate the new structure and expects to transition to the new segment reporting structure by the beginning of fiscal 2019. We continue to report operating results to our chief operating decision maker using our current operating segments.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

4. Acquisitions

BAMTech

On September 25, 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 January 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 estimated acquisition date fair value of BAMTech is \$3.9 billion .

BAMTech's noncontrolling interest holders, MLB and the National Hockey League (NHL), have the right to sell their shares to the Company in the future. MLB can generally sell their shares 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 their shares 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 Condensed Consolidated Balance Sheet.

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 years 2020 or 2021 for \$500 million .

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 reflects 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. Prospectively, 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 in five years after the acquisition date will be recorded using an interest method. As of March 31, 2018 , the redeemable noncontrolling interest subject to accretion would have had a redemption amount of \$586 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 Condensed Consolidated Statement of Income.

The Company is negotiating to provide the noncontrolling interest holder in ESPN a portion of the Company's share of the BAMTech direct-to-consumer sports business at a price that is consistent with the amount the Company invested. If such transaction is finalized, the ESPN noncontrolling interest holder's investment would be recorded as a noncontrolling interest transaction when consummated.

We have 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. We are in the process of finalizing the valuation of the acquired assets, assumed liabilities and noncontrolling interests.

The revenue and costs of BAMTech included in the Company's Condensed Consolidated Statement of Income for the six months ended March 31, 2018 were approximately \$0.2 billion and \$0.3 billion , respectively.

Twenty-First Century Fox

On December 14, 2017, the Company and Twenty-First Century Fox, Inc. ("21CF") announced a definitive agreement (the "Merger Agreement") for the Company to acquire 21CF. Prior to the acquisition, 21CF will transfer a portfolio of its news, sports and broadcast businesses, including the Fox News Channel, Fox Business Network, Fox Broadcasting Company, Fox Sports, Fox Television Stations Group, FS1, FS2, Fox Deportes and Big Ten Network and certain other assets and liabilities into a newly formed subsidiary ("New Fox") (the "New Fox Separation") and distribute all of the issued and outstanding common stock of New Fox to shareholders of 21CF (other than holders that are subsidiaries of 21CF (shares held by such holders, the "Hook Stock")) on a pro rata basis (the "New Fox Distribution"). Prior to the New Fox Distribution, New Fox will pay 21CF a dividend in the amount of \$8.5 billion . As the New Fox Separation and the New Fox Distribution will be taxable to 21CF at the corporate level, the dividend is intended to fund the taxes resulting from the New Fox Separation and New Fox Distribution and certain other transactions contemplated by the Merger Agreement (the "Transaction Tax"). 21CF will retain all assets and liabilities not transferred to New Fox, which will include the 21CF film and television studios, certain cable networks (including FX and National Geographic) and 21CF's international television businesses. Following the New Fox Separation and the New Fox Distribution, TWC Merger Enterprises 2 Corp., a wholly owned subsidiary of the Company ("Merger Sub") will merge with and into 21CF (the "Initial Merger"), with 21CF surviving (the "Surviving Corporation"). Immediately after the effective time of the Initial Merger, the Surviving Corporation will merge with and into TWC Merger Enterprises 1, LLC, a wholly owned subsidiary of the Company ("Merger LLC"), with Merger LLC to be the surviving entity (the "Subsequent

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Merger,” and together with the Initial Merger, the “Mergers”). As a result of the Mergers, 21CF will become a wholly owned subsidiary of the Company.

The Boards of Directors of the Company and 21CF have approved the transaction. In order to seek approval from 21CF and the Company’s shareholders, the Company filed a preliminary Form S-4 Registration Statement (“S-4”) with the U.S. Securities and Exchange Commission (“SEC”) on April 18, 2018, which S-4, once effective, will constitute a prospectus for the registration of Company common stock to be delivered to 21CF shareholders pursuant to the Merger Agreement as well as a joint proxy statement of the Company and 21CF. The consummation of the transaction is subject to various conditions, including, among others, (i) customary conditions relating to the adoption of the Merger Agreement by the requisite vote of shareholders of 21CF and the approval of the stock issuance by the requisite vote of the Company’s shareholders, (ii) the consummation of the New Fox Separation, (iii) the receipt of a tax ruling from the Australian Taxation Office and certain tax opinions with respect to the treatment of the transaction under U.S. and Australian tax laws, and (iv) the receipt of certain regulatory approvals and governmental consents.

Upon consummation of the transaction, each issued and outstanding share of 21CF common stock (other than Hook Stock) will be exchanged automatically for 0.2745 shares of Company common stock. The exchange ratio may be subject to an adjustment based on the final estimate of the Transaction Tax and other transactions contemplated by the Merger Agreement. The initial exchange ratio in the Merger Agreement of 0.2745 shares of Company common stock for each share of 21CF common stock (other than Hook Stock) was set based on an estimate of \$8.5 billion for the Transaction Tax and will be adjusted immediately prior to consummation of the transaction if the final estimate of the Transaction Tax at closing is more than \$8.5 billion or less than \$6.5 billion. Such adjustment could increase or decrease the exchange ratio, depending on whether the final estimate is lower or higher, respectively, than \$6.5 billion or \$8.5 billion. Additionally, if the final estimate of the Transaction Tax is lower than \$8.5 billion, the Company will make a cash payment to New Fox reflecting the difference between such amount and \$8.5 billion, up to a maximum cash payment of \$2.0 billion. As included in the S-4 filing, based on the number of shares of 21CF common stock outstanding as of April 11, 2018 and the closing price for the Company’s common stock on April 11, 2018 of \$100.80, the Company would be required to issue approximately 512 million new shares of Company common stock, a value of approximately \$51.6 billion. The value at which the Company will record the equity consideration will be based upon the Company’s stock price on the date the transaction closes. In addition, the Company will assume 21CF’s net debt, which was approximately \$14.6 billion as of December 30, 2017 (approximately \$19.8 billion of debt less approximately \$5.2 billion in cash).

Under the terms of the Merger Agreement, Disney will pay 21CF \$2.5 billion if the merger is not consummated under certain circumstances relating to the failure to obtain approvals, or if there is a final, non-appealable order preventing the transaction, in each case, relating to antitrust laws, communications laws or foreign regulatory laws. If the Merger Agreement is terminated under certain other circumstances relating to changes in board recommendations and/or alternative transactions, the Company or 21CF may be required to pay the other party approximately \$1.5 billion.

21CF currently has an approximately 39% interest in Sky. In December 2016, 21CF issued an announcement disclosing the terms of a firm offer to acquire the fully diluted share capital of Sky which 21CF and its affiliates do not already own at a price of £10.75 per share, payable in cash, subject to certain payments of dividends (the “Sky Acquisition”). The Sky Acquisition remains subject to certain customary closing conditions, including approval by the UK Secretary of State for Digital, Culture, Media and Sport and the requisite approval by Sky shareholders unaffiliated with 21CF. On April 12, 2018, the U.K. Takeover Panel ruled that, if the closing occurs under the Merger Agreement, and if 21CF has not previously completed its acquisition of the remaining interests in Sky and if no third party has acquired more than 50% of the ordinary shares in Sky prior to such time, then Disney will be obliged to make a mandatory offer for all the ordinary shares in Sky not already owned by 21CF in accordance with Note 8 of Rule 9.1 of the U.K. Takeover Code within 28 days of the closing under the Merger Agreement. The U.K. Takeover Panel further ruled that any such offer would be required to be made in cash and at a price of £10.75 for each ordinary share in Sky.

In connection with 21CF’s efforts to obtain U.K. regulatory approval for the Sky Acquisition, 21CF offered to sell, and Disney has advised 21CF that it is prepared to acquire, the Sky News business for a nominal amount if the Sky Acquisition is completed. Under the terms of the proposal, the Company would be committed to operate the Sky News business at its current cost structure for 10 years and 21CF has agreed to fund the anticipated costs of the Sky News business, based on the current cost structure (plus inflation), for 10 years.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

Goodwill

The changes in the carrying amount of goodwill for the six months ended March 31, 2018 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products & Interactive Media	Unallocated ⁽¹⁾	Total
Balance at Sept. 30, 2017	\$ 16,325	\$ 291	\$ 6,817	\$ 4,393	\$ 3,600	\$ 31,426
Acquisitions	—	—	—	—	—	—
Dispositions	—	—	—	—	—	—
Other, net	3	—	2	1	(82)	(76)
Balance at Mar. 31, 2018	<u>\$ 16,328</u>	<u>\$ 291</u>	<u>\$ 6,819</u>	<u>\$ 4,394</u>	<u>\$ 3,518</u>	<u>\$ 31,350</u>

⁽¹⁾ Unallocated amount will be allocated to the segments once the BAMTech purchase price allocation is finalized. Other, net represents the impact on goodwill of updates to our initial estimated fair value of intangible assets related to BAMTech.

5. Borrowings

During the six months ended March 31, 2018, the Company's borrowing activity was as follows:

	September 30, 2017	Borrowings	Payments	Other Activity	March 31, 2018
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 1,151	\$ —	\$ (764)	\$ (2)	\$ 385
Commercial paper with original maturities greater than three months	1,621	4,467	(2,331)	9	3,766
U.S. and European medium-term notes	19,721	—	(1,300)	12	18,433
BAMTech acquisition payable	1,581	—	(1,581)	—	—
Asia Theme Parks borrowings ⁽²⁾	1,145	—	—	81	1,226
Foreign currency denominated debt and other ⁽³⁾	72	1,048	(50)	(196)	874
Total	<u>\$ 25,291</u>	<u>\$ 5,515</u>	<u>\$ (6,026)</u>	<u>\$ (96)</u>	<u>\$ 24,684</u>

⁽¹⁾ Borrowings and payments are reported net.

⁽²⁾ The other activity is primarily the U.S. dollar weakening against the Chinese Renminbi.

⁽³⁾ The other activity is primarily market value adjustments for debt with qualifying hedges.

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings as follows:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2019	\$ 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>

The Company had bank facilities totaling \$2.5 billion and \$2.25 billion expiring in March 2018 and March 2019, respectively. These facilities were refinanced increasing the borrowing capacity to \$6.0 billion and \$4.0 billion and extending the maturity dates to March 2019 and March 2023, respectively. 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 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 March 31, 2018, the Company has \$196 million of outstanding letters of credit, of which none were issued under this facility. The facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants, or

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

events of default and contain only one financial covenant relating to interest coverage, which the Company met on March 31, 2018 by a significant margin.

Cruise Ship Credit Facilities

In October 2016 and December 2017, the Company entered into 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.

Interest expense, net

Interest and investment income and interest expense are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Interest expense	\$ (172)	\$ (115)	\$ (318)	\$ (236)
Interest and investment income	29	31	46	53
Interest expense, net	<u>\$ (143)</u>	<u>\$ (84)</u>	<u>\$ (272)</u>	<u>\$ (183)</u>

Interest and investment income includes gains and losses on the sale of publicly and non-publicly traded investments, investment impairments and interest earned on cash and cash equivalents and certain receivables.

6. 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 (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 International Theme Parks' assets and liabilities included in the Company's Condensed Consolidated Balance Sheets as of March 31, 2018 and September 30, 2017 :

	March 31, 2018	September 30, 2017
Cash and cash equivalents	\$ 780	\$ 843
Other current assets	450	376
Total current assets	1,230	1,219
Parks, resorts and other property	9,640	9,403
Other assets	94	111
Total assets ⁽¹⁾	<u>\$ 10,964</u>	<u>\$ 10,733</u>
Current liabilities	\$ 1,075	\$ 1,163
Borrowings - long-term	1,226	1,145
Other long-term liabilities	386	371
Total liabilities ⁽¹⁾	<u>\$ 2,687</u>	<u>\$ 2,679</u>

⁽¹⁾ Total assets of the Asia Theme Parks were \$8 billion at March 31, 2018 and September 30, 2017 , which primarily consist of parks, resorts and other property of \$7 billion at March 31, 2018 and September 30, 2017 . Total liabilities of the Asia Theme Parks were \$2 billion at March 31, 2018 and September 30, 2017 .

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

The following table summarizes the International Theme Parks' revenues and costs and expenses included in the Company's Condensed Consolidated Statement of Income for the six months ended March 31, 2018 :

	March 31, 2018
Revenues	\$ 1,749
Costs and expenses	(1,752)
Equity in the loss of investees	(14)

Asia Theme Parks' royalty and management fees of \$83 million for the six months ended March 31, 2018 are eliminated in consolidation but are considered in calculating earnings allocated to noncontrolling interests.

International Theme Parks' cash flows for the six months ended March 31, 2018 included in the Company's Condensed Consolidated Statement of Cash Flows were \$272 million generated from operating activities, \$319 million used in investing activities and \$8 million generated from financing activities. The majority of cash flows used in investing 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 53% and 47% equity interests in Hong Kong Disneyland Resort, respectively.

As part of financing the construction of a third hotel, which opened in April 2017, the Company and HKSAR have provided loans with outstanding balances of \$140 million and \$93 million, respectively, which bear interest at a rate of three month HIBOR plus 2% and mature in September 2025. The Company's loan is eliminated upon consolidation.

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 March 31, 2018.

In August 2017, the Company and HKSAR entered into an agreement for a multi-year expansion of Hong Kong Disneyland that will add a number of new guest offerings, including two new themed areas, by 2023. Under the terms of the agreement, the HK \$10.9 billion (\$1.4 billion) expansion will be funded by equity contributions from the Company and HKSAR on an equal basis.

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, is responsible for operating Shanghai Disney Resort.

The Company has provided Shanghai Disney Resort with loans totaling \$788 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 \$320 million due from Shanghai Disney Resort related to development costs, pre-opening expense and royalties and management fees. 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 March 31, 2018. These balances are eliminated upon consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 6.8 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 \$217 million) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at March 31, 2018.

7. Income Taxes

On December 22, 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 is 24.5%, which is applicable to each quarter of the fiscal year, and will be 21.0% 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% if in 2018 or 21.0% thereafter). The Company

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

recognized a benefit from the deferred tax remeasurement of approximately \$2.0 billion in the six months ended March 31, 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 \$350 million in the six months ended March 31, 2018. Generally there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.
- The Company will be eligible to claim an immediate deduction for investments in qualified fixed assets and film and television productions placed in service in fiscal 2018 through fiscal 2022. This provision phases out through fiscal 2027.
- The domestic production activity deduction was eliminated effective for the Company's fiscal 2019.
- Certain foreign derived income will 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% . This will be effective for the Company in fiscal 2019.
- Certain foreign earnings will be taxed at a minimum effective rate of approximately 13% . This will be effective for the Company in fiscal 2019.

The amounts that the Company has recorded are provisional estimates of the impact the Tax Act will have on the Company's financial statements in fiscal 2018. Additional information and analysis is required to finalize the impact that the Tax Act will have on our full year financial results including the following:

- Filing the fiscal 2017 U.S. federal income tax return, which could impact our estimated foreign earnings and deferred income tax assets and liabilities, and
- Finalizing the determination of foreign cash and cash equivalents at the end of fiscal 2018, which is required to calculate the Deemed Repatriation Tax.

Although the Company does not anticipate material adjustments to the provisional amounts, final results could vary from these provisional amounts.

Additionally, potential further guidance may be forthcoming from the Financial Accounting Standards Board and the Securities and Exchange Commission, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts.

During the six months ended March 31, 2018 , the Company increased its gross unrecognized tax benefits by \$0.1 billion to \$0.9 billion . In the next twelve months, it is reasonably possible that our unrecognized tax benefits could change due to resolutions of open tax matters. These resolutions would reduce our unrecognized tax benefits by approximately \$296 million , of which \$131 million would reduce our income tax expense and effective tax rate if recognized.

8. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Service costs	\$ 87	\$ 92	\$ 175	\$ 183	\$ 2	\$ 3	\$ 5	\$ 6
Interest costs	122	111	245	223	15	14	30	28
Expected return on plan assets	(227)	(218)	(452)	(437)	(13)	(12)	(26)	(24)
Amortization of prior-year service costs	5	2	8	5	—	—	—	—
Recognized net actuarial loss	88	101	175	202	4	4	7	8
Net periodic benefit cost	<u>\$ 75</u>	<u>\$ 88</u>	<u>\$ 151</u>	<u>\$ 176</u>	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ 16</u>	<u>\$ 18</u>

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

During the six months ended March 31, 2018, the Company did not make any material contributions to its pension and postretirement medical plans. The Company is assessing whether it will make any material contributions in the remainder of fiscal 2018. Final funding amounts for fiscal 2018 will be assessed based on our January 1, 2018 funding actuarial valuation, which will be available by the end of the fourth quarter of fiscal 2018.

9. Earnings Per Share

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards (Awards). 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:

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,503	1,580	1,507	1,586
Weighted average dilutive impact of Awards	7	11	8	11
Weighted average number of common and common equivalent shares outstanding (diluted)	1,510	1,591	1,515	1,597
Awards excluded from diluted earnings per share	12	8	13	12

10. Equity

The Company paid the following dividends in fiscal 2018 and 2017:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.84	\$1.3 billion	Second Quarter of Fiscal 2018	Second Half 2017
\$0.78	\$1.2 billion	Fourth Quarter of Fiscal 2017	First Half 2017
\$0.78	\$1.2 billion	Second Quarter of Fiscal 2017	Second Half 2016

During the six months ended March 31, 2018, the Company repurchased 25 million shares of its common stock for \$2.6 billion. As of March 31, 2018, the Company had remaining authorization in place to repurchase approximately 167 million additional shares. The repurchase program does not have an expiration date.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

The following tables summarize the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts:

AOCI, before tax	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
Balance at December 30, 2017	\$ 14	\$ (69)	\$ (4,810)	\$ (461)	\$ (5,326)
Quarter Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	10	(165)	24	103	(28)
Reclassifications of realized net (gains) losses to net income	—	37	96	—	133
Balance at March 31, 2018	\$ 24	\$ (197)	\$ (4,690)	\$ (358)	\$ (5,221)
Balance at December 31, 2016	\$ 26	\$ 398	\$ (5,751)	\$ (662)	\$ (5,989)
Quarter Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	8	(206)	5	63	(130)
Reclassifications of realized net (gains) losses to net income	(6)	(51)	108	—	51
Balance at April 1, 2017	\$ 28	\$ 141	\$ (5,638)	\$ (599)	\$ (6,068)
Balance at September 30, 2017	\$ 15	\$ (108)	\$ (4,906)	\$ (523)	\$ (5,522)
Six Months Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	9	(146)	24	165	52
Reclassifications of net (gains) losses to net income	—	57	192	—	249
Balance at March 31, 2018	\$ 24	\$ (197)	\$ (4,690)	\$ (358)	\$ (5,221)
Balance at October 1, 2016	\$ 44	\$ (38)	\$ (5,859)	\$ (521)	\$ (6,374)
Six Months Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	(10)	300	5	(78)	217
Reclassifications of net (gains) losses to net income	(6)	(121)	216	—	89
Balance at April 1, 2017	\$ 28	\$ 141	\$ (5,638)	\$ (599)	\$ (6,068)

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

Tax on AOCI	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments	Cash Flow Hedges			
Balance at December 30, 2017	\$ (7)	\$ 25	\$ 1,804	\$ 100	\$ 1,922
Quarter Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	(3)	25	(3)	(33)	(14)
Reclassifications of realized net (gains) losses to net income	—	(9)	(23)	—	(32)
Balance at March 31, 2018	\$ (10)	\$ 41	\$ 1,778	\$ 67	\$ 1,876
Balance at December 31, 2016	\$ (11)	\$ (143)	\$ 2,146	\$ 142	\$ 2,134
Quarter Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	(3)	74	7	(5)	73
Reclassifications of realized net (gains) losses to net income	2	19	(40)	—	(19)
Balance at April 1, 2017	\$ (12)	\$ (50)	\$ 2,113	\$ 137	\$ 2,188
Balance at September 30, 2017	\$ (7)	\$ 46	\$ 1,839	\$ 116	\$ 1,994
Six Months Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	(3)	12	(3)	(49)	(43)
Reclassifications of net (gains) losses to net income	—	(17)	(58)	—	(75)
Balance at March 31, 2018	\$ (10)	\$ 41	\$ 1,778	\$ 67	\$ 1,876
Balance at October 1, 2016	\$ (18)	\$ 13	\$ 2,208	\$ 192	\$ 2,395
Six Months Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	4	(108)	(15)	(55)	(174)
Reclassifications of net (gains) losses to net income	2	45	(80)	—	(33)
Balance at April 1, 2017	\$ (12)	\$ (50)	\$ 2,113	\$ 137	\$ 2,188

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
AOCI, after tax	Investments	Cash Flow Hedges			
Balance at December 30, 2017	\$ 7	\$ (44)	\$ (3,006)	\$ (361)	\$ (3,404)
Quarter Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	7	(140)	21	70	(42)
Reclassifications of realized net (gains) losses to net income	—	28	73	—	101
Balance at March 31, 2018	\$ 14	\$ (156)	\$ (2,912)	\$ (291)	\$ (3,345)
Balance at December 31, 2016	\$ 15	\$ 255	\$ (3,605)	\$ (520)	\$ (3,855)
Quarter Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	5	(132)	12	58	(57)
Reclassifications of realized net (gains) losses to net income	(4)	(32)	68	—	32
Balance at April 1, 2017	\$ 16	\$ 91	\$ (3,525)	\$ (462)	\$ (3,880)
Balance at September 30, 2017	\$ 8	\$ (62)	\$ (3,067)	\$ (407)	\$ (3,528)
Six Months Ended March 31, 2018:					
Unrealized gains (losses) arising during the period	6	(134)	21	116	9
Reclassifications of net (gains) losses to net income	—	40	134	—	174
Balance at March 31, 2018	\$ 14	\$ (156)	\$ (2,912)	\$ (291)	\$ (3,345)
Balance at October 1, 2016	\$ 26	\$ (25)	\$ (3,651)	\$ (329)	\$ (3,979)
Six Months Ended April 1, 2017:					
Unrealized gains (losses) arising during the period	(6)	192	(10)	(133)	43
Reclassifications of net (gains) losses to net income	(4)	(76)	136	—	56
Balance at April 1, 2017	\$ 16	\$ 91	\$ (3,525)	\$ (462)	\$ (3,880)

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

Details about AOCI components reclassified to net income are as follows:

Gains/(losses) in net income:	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended		Six Months Ended	
		March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Investments, net	Interest expense, net	\$ —	\$ 6	\$ —	\$ 6
Estimated tax	Income taxes	—	(2)	—	(2)
		—	4	—	4
Cash flow hedges	Primarily revenue	(37)	51	(57)	121
Estimated tax	Income taxes	9	(19)	17	(45)
		(28)	32	(40)	76
Pension and postretirement medical expense	Costs and expenses	(96)	(108)	(192)	(216)
Estimated tax	Income taxes	23	40	58	80
		(73)	(68)	(134)	(136)
Total reclassifications for the period		\$ (101)	\$ (32)	\$ (174)	\$ (56)

At March 31, 2018 and September 30, 2017 , unrealized gains and losses on available-for-sale investments were not material.

11. Equity-Based Compensation

Compensation expense related to stock options and restricted stock units (RSUs) is as follows:

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Stock options	\$ 23	\$ 22	\$ 46	\$ 42
RSUs	77	70	148	147
Total equity-based compensation expense ⁽¹⁾	\$ 100	\$ 92	\$ 194	\$ 189
Equity-based compensation expense capitalized during the period	\$ 18	\$ 21	\$ 37	\$ 42

⁽¹⁾ Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs.

Unrecognized compensation cost related to unvested stock options and RSUs was \$178 million and \$618 million , respectively, as of March 31, 2018 .

The weighted average grant date fair values of options granted during the six months ended March 31, 2018 and April 1, 2017 were \$28.01 and \$25.79 , respectively.

During the six months ended March 31, 2018 , the Company made equity compensation grants consisting of 4.0 million stock options and 4.2 million RSUs.

12. Commitments and Contingencies

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant or codefendant 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,

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of March 31, 2018, the remaining debt service obligation guaranteed by the Company was \$301 million, of which \$47 million was principal. 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.

The Company has guaranteed \$113 million of Hulu LLC's \$338 million term loan, which expires in August 2022. The Company is also committed to make a capital contribution of approximately \$450 million to Hulu in calendar 2018. For the six months ended March 31, 2018, the Company made capital contributions of \$114 million against this commitment. Hulu is a joint venture in which the Company has a 30% ownership interest.

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 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 television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$0.8 billion as of March 31, 2018. The activity in the current period 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 approximately \$0.7 billion as of March 31, 2018. The activity in the current period related to the allowance for credit losses was not material.

13. Fair Value Measurements

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:

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

The Company's assets and liabilities measured at fair value are summarized in the following tables by fair value measurement Level:

	Fair Value Measurement at March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 42	\$ —	\$ —	\$ 42
Derivatives				
Foreign exchange	—	458	—	458
Other	—	10	—	10
Liabilities				
Derivatives				
Interest rate	—	(296)	—	(296)
Foreign exchange	—	(688)	—	(688)
Total recorded at fair value	\$ 42	\$ (516)	\$ —	\$ (474)
Fair value of borrowings	\$ —	\$ 23,762	\$ 1,267	\$ 25,029

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

	Fair Value Measurement at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 36	\$ —	\$ —	\$ 36
Derivatives				
Interest rate	—	10	—	10
Foreign exchange	—	403	—	403
Other	—	8	—	8
Liabilities				
Derivatives				
Interest rate	—	(122)	—	(122)
Foreign exchange	—	(427)	—	(427)
Total recorded at fair value	\$ 36	\$ (128)	\$ —	\$ (92)
Fair value of borrowings	\$ —	\$ 23,110	\$ 2,764	\$ 25,874

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. medium-term notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets.

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 historical market transactions and 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.

14. 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 March 31, 2018			
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 107	\$ 308	\$ (281)	\$ (282)
Interest rate	—	—	(260)	—
Other	8	2	—	—
Derivatives not designated as hedges				
Foreign exchange	25	18	(86)	(39)
Interest rate	—	—	—	(36)
Gross fair value of derivatives	140	328	(627)	(357)
Counterparty netting	(125)	(324)	206	243
Cash collateral (received)/paid	(10)	—	261	—
Net derivative positions	\$ 5	\$ 4	\$ (160)	\$ (114)

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

As of September 30, 2017				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 175	\$ 190	\$ (192)	\$ (170)
Interest rate	—	10	(106)	—
Other	6	2	—	—
Derivatives not designated as hedges				
Foreign exchange	38	—	(46)	(19)
Interest rate	—	—	—	(16)
Gross fair value of derivatives	219	202	(344)	(205)
Counterparty netting	(142)	(190)	188	144
Cash collateral (received)/paid	(20)	(7)	19	—
Net derivative positions	\$ 57	\$ 5	\$ (137)	\$ (61)

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 March 31, 2018 and September 30, 2017, the total notional amount of the Company's pay-floating interest rate swaps was \$7.8 billion and \$8.2 billion, respectively. The following table summarizes adjustments related to fair value hedges included in "Interest expense, net" in the Condensed Consolidated Statements of Income.

	Quarter Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Gain (loss) on interest rate swaps	\$ (102)	\$ (10)	\$ (166)	\$ (242)
Gain (loss) on hedged borrowings	102	10	166	242

In addition, during the quarter and six months ended March 31, 2018, the Company realized net benefits of zero and \$7 million, respectively in "Interest expense, net" related to pay-floating interest rate swaps. During the quarter and six months ended April 1, 2017, the Company realized net benefits of \$10 million and \$22 million, respectively in "Interest expense, net" related to pay-floating interest rate swaps.

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 March 31, 2018 or at September 30, 2017, and gains and losses related to pay-fixed swaps recognized in earnings for the quarter and six months ended March 31, 2018 and April 1, 2017 were not material.

To facilitate its interest rate risk management activities, the Company sold options in November 2016 and October 2017 to enter into a future pay-floating interest rate swaps indexed to LIBOR for \$1.0 billion in future borrowings. The fair values of these contracts as of March 31, 2018 were not material. In April 2018, the Company sold additional options for \$1.0 billion in future borrowings with similar terms. The options are not designated as hedges and do not qualify for hedge accounting; accordingly, changes in their fair value are recorded in earnings.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

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, Canadian dollar and British pound. 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 March 31, 2018 and September 30, 2017, the notional amounts of the Company's net foreign exchange cash flow hedges were \$6.8 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. Gains and losses recognized related to ineffectiveness for the six months ended March 31, 2018 and April 1, 2017 were not material. Net deferred losses recorded in AOCI for contracts that will mature in the next twelve months totaled \$ 199 million.

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 March 31, 2018 and September 30, 2017 were \$3.3 billion and \$3.6 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 for the quarter and six months ended March 31, 2018 and April 1, 2017 by the corresponding line item in which they are recorded in the Condensed Consolidated Statements of Income:

	Costs and Expenses		Interest expense, net		Income Tax expense	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Quarter Ended:						
Net gains (losses) on foreign currency denominated assets and liabilities	\$ 64	\$ 110	\$ 24	\$ (3)	\$ (15)	\$ (11)
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(77)	(103)	(27)	3	17	14
Net gains (losses)	<u>\$ (13)</u>	<u>\$ 7</u>	<u>\$ (3)</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 3</u>
Six Months Ended:						
Net gains (losses) on foreign currency denominated assets and liabilities	\$ 81	\$ (123)	\$ 27	\$ 4	\$ (12)	\$ 12
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(91)	118	(28)	(4)	16	(17)
Net gains (losses)	<u>\$ (10)</u>	<u>\$ (5)</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ (5)</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 March 31, 2018 and September 30, 2017 and related gains or losses recognized in earnings for the quarter and six months ended March 31, 2018 and April 1, 2017 were not material.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

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 March 31, 2018 and September 30, 2017 were not material. The related gains or losses recognized in earnings for the quarter and six months ended March 31, 2018 and April 1, 2017 were not material.

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 \$535 million and \$217 million on March 31, 2018 and September 30, 2017, respectively.

15. Restructuring and Impairment Charges and Other Income

The Company recorded \$13 million and \$28 million of restructuring and impairment charges in the current quarter and six-month period, respectively, primarily for severance costs.

The Company recorded \$94 million of other income in the six-month period, which included a \$53 million gain from the sale of property rights in the first quarter and \$41 million, primarily for insurance proceeds related to a legal matter, in the current quarter.

16. New Accounting Pronouncements

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance as a result of the Tax Act to permit the reclassification of certain tax effects in accumulated other comprehensive income (AOCI) to retained earnings. Current accounting guidance requires that adjustments to deferred tax assets and liabilities for changes in enacted tax rates be recorded through income from continuing operations even if the deferred taxes were originally established through comprehensive income. The new guidance allows companies to make a one-time election to reclassify the tax effects resulting from the Tax Act on items in AOCI to retained earnings. The new guidance is effective beginning with the first quarter of the Company's 2020 fiscal year (with early adoption permitted) and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company is currently assessing the potential impact this guidance will have on its financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued guidance to improve certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. We do not expect the adoption of the new standard will have a material impact on our consolidated financial statements as our historical hedging ineffectiveness has been immaterial. The new guidance is effective beginning with the Company's 2020 fiscal year (with early adoption permitted) and requires prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption for existing hedging relationships.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued guidance that requires presentation of the components of net periodic pension and postretirement benefit costs other than service costs in an income statement line item outside of a subtotal of income from operations. The service cost component will continue to be presented in the same line items as other employee compensation costs. In addition, under the guidance only service costs are eligible for capitalization, for example, as part of a self-constructed fixed asset or a film production. The new guidance is effective beginning with the first quarter of the Company's 2019 fiscal year. The guidance is required to be adopted retrospectively with respect to income statement presentation and prospectively for the capitalization requirement. We do not expect the change in capitalization requirement to have a material impact on our financial statements. See Note 8 of this filing and Note 10 to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K for the amount of each component of net periodic pension and postretirement benefit costs we have reported

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

historically. These amounts of net periodic pension and postretirement benefit costs are not necessarily indicative of future amounts that may arise in years following implementation of the new accounting pronouncement.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued guidance that requires the income tax consequences of an intra-entity transfer of an asset other than inventory to be recognized when the transfer occurs instead of when the asset is sold to an outside party. The new guidance is effective beginning with the first quarter of the Company's 2019 fiscal year. The guidance requires prospective adoption with a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. We do not expect the adoption to have a material impact on our financial statements. We currently estimate that we will record approximately \$0.1 billion as an increase to retained earnings upon adoption. Our assessment may change if we enter into new transactions between now and the date of adoption.

Leases

In February 2016, the FASB issued a new lease accounting standard, 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. As of September 30, 2017, the Company had an estimated \$3.3 billion in undiscounted future minimum lease commitments. The Company is currently assessing the impact of the new guidance on its financial statements. The guidance is required to be adopted retrospectively and is effective at the beginning of the Company's 2020 fiscal year (with early adoption permitted). The FASB has recently proposed guidance that would allow adoption of the standard as of the effective date without restating prior periods.

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance that replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, eliminating industry-specific accounting rules. 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. Since its issuance, the FASB has amended several aspects of the new guidance, including provisions that address revenue recognition associated with the licensing of intellectual property (IP). The new guidance, including the amendments, is effective at the beginning of the Company's 2019 fiscal year.

We have reviewed our significant revenue streams and identified required changes to our revenue recognition policies. Based on our existing customer contracts and relationships, we do not expect the implementation of the new guidance will have a material impact on our consolidated financial statements upon adoption. The Company's evaluation of the impact could change if we enter into new revenue arrangements in the future or interpretations of the new guidance further evolve.

While not expected to be material, the more significant changes to the Company's revenue recognition policies are in the following areas:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company will defer more revenues to future windows than is currently deferred.
- For licenses of character images, brands and trademarks subject to minimum guaranteed license fees, we currently recognize the difference between the minimum guaranteed amount and actual royalties earned from licensee merchandise sales ("shortfalls") at the end of the contract period. Under the new guidance, projected guarantee shortfalls will be recognized straight-line over the remaining license period once an expected shortfall is identified.
- For licenses that include multiple television and film titles subject to minimum guaranteed license fees that are recoupable against the licensee's aggregate underlying sales from all titles, the Company will allocate the minimum guaranteed license fee to each title and recognize the allocated license fee as revenue when the title is made available to the customer. License fees in excess of the allocated by-title minimum guarantee are deferred until the aggregate contractual minimum guarantee has been exceeded and thereafter recognized as earned based on the licensee's underlying sales. Under current guidance, an upfront allocation of the minimum guarantee is not required as license fees are 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, we will recognize revenue when the licensed content becomes available under the renewal or extension, instead of when the agreement is renewed or extended.

We are continuing our assessment of the information that may be necessary for the expanded disclosures required under the new guidance, as well as identifying potential changes to our internal controls to support our new revenue recognition policies and disclosure requirements.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

The guidance may be adopted either by restating fiscal 2017 and 2018 to reflect the impact of the new guidance (full retrospective method) or by recording the impact of adoption as an adjustment to retained earnings at the beginning of fiscal 2019 (modified retrospective method). The Company currently expects to adopt the standard using the modified retrospective method.

The Company's equity method investees are considered private companies for purposes of applying the new guidance and are not required to adopt the new standard until fiscal years beginning after December 15, 2018. Our significant equity method investees are reviewing their revenue streams to determine the potential impact of the new standard on their financial statements. We currently do not expect any material impacts to the Company's consolidated financial statements upon the investees' adoption of the new guidance.

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

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

ORGANIZATION OF INFORMATION

Management's Discussion and Analysis provides a narrative of 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
- Seasonality
- Business Segment Results
- Impact of U.S. tax reform
- Financial Condition
- Commitments and Contingencies
- Other Matters
- Market Risk

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Our summary consolidated results are presented below:

	Quarter Ended		% Change	Six Months Ended		% Change
(in millions, except per share data)	March 31, 2018	April 1, 2017	Better/ (Worse)	March 31, 2018	April 1, 2017	Better/ (Worse)
Revenues:						
Services	\$ 12,520	\$ 11,487	9 %	\$ 25,504	\$ 23,893	7 %
Products	2,028	1,849	10 %	4,395	4,227	4 %
Total revenues	14,548	13,336	9 %	29,899	28,120	6 %
Costs and expenses:						
Cost of services (exclusive of depreciation and amortization)	(6,304)	(5,839)	(8) %	(13,638)	(12,859)	(6) %
Cost of products (exclusive of depreciation and amortization)	(1,229)	(1,130)	(9) %	(2,632)	(2,516)	(5) %
Selling, general, administrative and other	(2,247)	(1,941)	(16) %	(4,326)	(3,926)	(10) %
Depreciation and amortization	(731)	(676)	(8) %	(1,473)	(1,363)	(8) %
Total costs and expenses	(10,511)	(9,586)	(10) %	(22,069)	(20,664)	(7) %
Restructuring and impairment charges	(13)	—	nm	(28)	—	nm
Other income, net	41	—	nm	94	—	nm
Interest expense, net	(143)	(84)	(70) %	(272)	(183)	(49) %
Equity in the income of investees	6	85	(93) %	49	203	(76) %
Income before income taxes	3,928	3,751	5 %	7,673	7,476	3 %
Income taxes	(813)	(1,212)	33 %	(85)	(2,449)	97 %
Net income	3,115	2,539	23 %	7,588	5,027	51 %
Less: Net income attributable to noncontrolling interests	(178)	(151)	(18) %	(228)	(160)	(43) %
Net income attributable to Disney	\$ 2,937	\$ 2,388	23 %	\$ 7,360	\$ 4,867	51 %
Diluted earnings per share attributable to Disney						
	\$ 1.95	\$ 1.50	30 %	\$ 4.86	\$ 3.05	59 %

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Quarter Results

Revenues for the quarter increased 9% , or \$1.2 billion , to \$14.5 billion ; net income attributable to Disney increased 23% , or \$0.5 billion , to \$2.9 billion ; and diluted earnings per share attributable to Disney (EPS) increase d 30% from \$1.50 to \$1.95 . The net income and EPS increase for the quarter was due to the benefit of new federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act) (See Note 7 to the Condensed Consolidated Financial Statements), a decrease in weighted average shares outstanding as a result of our share repurchase program and higher segment operating income, partially offset by higher interest expense. The increase in segment operating income was due to growth at our Parks and Resorts and Studio Entertainment segments, partially offset by lower results at our Media Networks segment.

Revenues

Service revenues for the quarter increased 9% , or \$1,033 million , to \$12.5 billion due to higher guest spending and attendance at our parks and resorts, higher theatrical distribution revenue driven by the success of *Black Panther* , an increase in affiliate fees, revenue from BAMTech, which is now consolidated, and an increase in sponsorship revenue. In addition, service revenues reflected an approximate 1 percentage point increase due to the movement of the U.S. dollar against major currencies including the impact of our hedging program (FX Impact).

Product revenues for the quarter increased 10% , or \$179 million to \$2.0 billion due to increases in guest spending and volumes at our parks and resorts and higher home entertainment revenues. Product revenues reflected an approximate 2 percentage point increase due to a favorable FX Impact.

Costs and expenses

Cost of services for the quarter increased 8% , or \$465 million , to \$6.3 billion due to higher costs at our parks and resorts, increased sports programming costs, costs from BAMTech, higher film cost amortization driven by higher theatrical revenue and higher film cost impairments. The increase at parks and resorts was driven by cost inflation, higher volumes and new guest offerings. Cost of services reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Cost of products for the quarter increased 9% , or \$99 million , to \$1.2 billion due to higher volumes and cost inflation at our parks and resorts and higher film cost amortization due to an increase in home entertainment revenue. Cost of products reflected an approximate 2 percentage point increase due to an unfavorable FX Impact.

Selling, general, administrative and other costs increased 16% , or \$306 million , to \$2.2 billion driven by higher theatrical marketing spend and costs from BAMTech. Selling, general, administrative and other costs reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Depreciation and amortization increased 8% , or \$55 million , to \$0.7 billion , due to depreciation of new attractions at our domestic parks and resorts.

Restructuring and impairment charges

The Company recorded \$13 million of restructuring and impairment charges in the current quarter primarily for severance costs.

Other income, net

Other income of \$41 million for the current quarter reflects insurance proceeds related to a legal matter.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Quarter Ended		% Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Interest expense	\$ (172)	\$ (115)	(50) %
Interest and investment income	29	31	(6) %
Interest expense, net	\$ (143)	\$ (84)	(70) %

The increase in interest expense was primarily due to higher average debt balances and an increase in average interest rates.

Equity in the income of investees

Equity in the income of investees decreased \$79 million to \$6 million for the quarter due to higher losses from Hulu, partially offset by higher operating results from A+E Television Networks (A+E). The decrease at Hulu was driven by higher

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

programming, marketing and labor costs, partially offset by higher subscription and advertising revenue. The increase at A+E was due to lower marketing and programming costs, a gain on an investment and higher affiliate revenue, partially offset by lower advertising revenue.

Effective Income Tax Rate

	Quarter Ended		Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Effective income tax rate	20.7%	32.3%	11.6 ppt

The decrease in the effective income tax rate reflected a net favorable impact of the Tax Act, partially offset by lower tax benefits from share-based awards. The net impact of the Tax Act reflects the following:

- A reduction in the Company's fiscal 2018 U.S. statutory federal income tax rate to 24.5% from 35.0% in the prior year. Net of state tax and other related effects, the reduction in the statutory rate had an impact of approximately 10.2 percentage points on the effective income tax rate.
- A net benefit of approximately \$0.1 billion from updating our first quarter estimates of remeasuring our deferred tax balances to the new statutory rate and the Deemed Repatriation Tax. This update includes the impact of legislation enacted in the second quarter that accelerated tax deductions into fiscal 2017 at the higher 2017 statutory rate. This net benefit had an impact of approximately 3.6 percentage points on the effective income tax rate.

Refer to Note 7 of the Condensed Consolidated Financial Statements for further information on the impact of the Tax Act on the Company.

Noncontrolling Interests

(in millions)	Quarter Ended		% Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Net income attributable to noncontrolling interests	\$ 178	\$ 151	(18) %

The increase in net income attributable to noncontrolling interests was 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 the prior year, partially offset by lower operating results at Shanghai Disney Resort.

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

Six -Month Results

Revenues for the six-month period increased 6% , or \$1.8 billion , to \$29.9 billion ; net income attributable to Disney increased 51% , or \$2.5 billion , to \$7.4 billion ; and EPS increased 59% from \$3.05 to \$4.86 . The EPS increase for the six-month period was due to the benefit of the Tax Act, a decrease in weighted average shares outstanding as a result of our share repurchase program and higher segment operating income. These increases were partially offset by higher interest expense. The increase in segment operating income was due to growth at our Parks and Resorts and Studio Entertainment segments, partially offset by lower results at our Media Networks segment.

Revenues

Service revenues for the six-month period increased 7% , or \$1.6 billion , to \$25.5 billion due to higher guest spending and volumes at our parks and resorts, higher theatrical distribution revenue, an increase in affiliate fees and revenue from BAMTech. These increases were partially offset by lower advertising revenue.

Product revenues for the six-month period increased 4% , or \$0.2 billion to \$4.4 billion , due to increases in guest spending and volumes at our parks and resorts, partially offset by lower home entertainment revenues. Product revenues reflected an approximate 1 percentage point increase due to a favorable FX Impact.

Costs and expenses

Cost of services for the six-month period increased 6% , or \$0.8 billion , to \$13.6 billion , primarily due to higher costs at our parks and resorts, costs from BAMTech, increased sports programming costs and higher film cost amortization due to

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

higher theatrical revenue. The increase at parks and resorts was driven by cost inflation, higher volumes and new guest offerings.

Cost of products for the six-month period increased 5% , or \$0.1 billion , to \$2.6 billion , due to higher volumes and cost inflation at our parks and resorts, partially offset by lower film cost amortization due to a decrease in home entertainment revenue. Cost of products reflected an approximate 2 percentage point increase due to an unfavorable FX Impact.

Selling, general, administrative and other costs for the six-month period increased 10% , or \$0.4 billion , to \$4.3 billion , due to higher marketing spend for theatrical distribution and parks and resorts, costs from BAMTech and costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. Selling, general, administrative and other costs reflected an approximate 1 percentage point increase due to an unfavorable FX Impact.

Depreciation and amortization for the six-month period increased 8% , or \$110 million , to \$1.5 billion due to an increase in depreciation and amortization of new attractions at our domestic parks and resorts and Hong Kong Disneyland Resort, and the consolidation of BAMTech.

Restructuring and impairment charges

The Company recorded \$28 million of restructuring and impairment charges in the current six-month period primarily for severance costs.

Other income, net

Other income of \$94 million for the current six-month period reflects a gain from the sale of property rights and insurance proceeds related to a legal matter.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Six Months Ended		% Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Interest expense	\$ (318)	\$ (236)	(35) %
Interest and investment income	46	53	(13) %
Interest expense, net	\$ (272)	\$ (183)	(49) %

The increase in interest expense for the six -month period was due to higher average debt balances and an increase in average interest rates.

Equity in the income of investees

Equity in the income of investees decreased \$154 million to \$49 million for the six-month period due to a higher loss at Hulu reflecting higher content, labor and marketing costs, partially offset by higher subscription and advertising revenue.

Effective Income Tax Rate

	Six Months Ended		Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Effective income tax rate	1.1%	32.8%	31.7 ppt

The decrease in the effective income tax rate reflected two significant impacts of the Tax Act:

- A net benefit of approximately \$1.7 billion, which reflected an approximate \$2.0 billion benefit from remeasuring our deferred tax balances to the new statutory rate, partially offset by a charge of approximately \$350 million from accruing the Deemed Repatriation Tax. This net benefit had an impact of approximately 22.2 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 the prior year. Net of state tax and other related effects, the reduction in the statutory rate had an impact of approximately 9.5 percentage points on the effective income tax rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Refer to Note 7 of the Condensed Consolidated Financial Statements for further information on the impact of the Tax Act on the Company.

Noncontrolling Interests

(in millions)	Six Months Ended		% Change Better/(Worse)
	March 31, 2018	April 1, 2017	
Net income attributable to noncontrolling interests	\$ 228	\$ 160	(43) %

The increase in net income attributable to noncontrolling interests for the six -month period was 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 the prior year, partially offset by lower operating results at Shanghai Disney Resort.

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the six months ended March 31, 2018 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

Media Networks revenues 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.

Parks and Resorts revenues fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods.

Studio Entertainment revenues 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.

Consumer Products & Interactive Media revenues are influenced by seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarter, and the timing and performance of theatrical and game releases and cable programming broadcasts.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

BUSINESS SEGMENT RESULTS

The Company evaluates the performance of its operating segments based on segment operating income, which is shown below along with segment revenues:

	Quarter Ended		% Change	Six Months Ended		% Change
(in millions)	March 31, 2018	April 1, 2017	Better/ (Worse)	March 31, 2018	April 1, 2017	Better/ (Worse)
<i>Revenues:</i>						
Media Networks	\$ 6,138	\$ 5,946	3 %	\$ 12,381	\$ 12,179	2 %
Parks and Resorts	4,879	4,299	13 %	10,033	8,854	13 %
Studio Entertainment	2,454	2,034	21 %	4,958	4,554	9 %
Consumer Products & Interactive Media	1,077	1,057	2 %	2,527	2,533	— %
	<u>\$ 14,548</u>	<u>\$ 13,336</u>	9 %	<u>\$ 29,899</u>	<u>\$ 28,120</u>	6 %
<i>Segment operating income:</i>						
Media Networks	\$ 2,082	\$ 2,223	(6) %	\$ 3,275	\$ 3,585	(9) %
Parks and Resorts	954	750	27 %	2,301	1,860	24 %
Studio Entertainment	847	656	29 %	1,676	1,498	12 %
Consumer Products & Interactive Media	354	367	(4) %	971	1,009	(4) %
	<u>\$ 4,237</u>	<u>\$ 3,996</u>	6 %	<u>\$ 8,223</u>	<u>\$ 7,952</u>	3 %

The following table reconciles income before income taxes to segment operating income:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017		March 31, 2018	April 1, 2017	
Income before income taxes	\$ 3,928	\$ 3,751	5 %	\$ 7,673	\$ 7,476	3 %
<i>Add/(subtract):</i>						
Corporate and unallocated shared expenses	194	161	(20) %	344	293	(17) %
Restructuring and impairment charges	13	—	nm	28	—	nm
Other income, net	(41)	—	nm	(94)	—	nm
Interest expense, net	143	84	(70) %	272	183	(49) %
Segment Operating Income	<u>\$ 4,237</u>	<u>\$ 3,996</u>	6 %	<u>\$ 8,223</u>	<u>\$ 7,952</u>	3 %

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017		March 31, 2018	April 1, 2017	
Media Networks						
Cable Networks	\$ 45	\$ 35	(29) %	\$ 84	\$ 71	(18) %
Broadcasting	24	25	4 %	48	46	(4) %
Total Media Networks	69	60	(15) %	132	117	(13) %
Parks and Resorts						
Domestic	356	322	(11) %	713	650	(10) %
International	180	157	(15) %	357	313	(14) %
Total Parks and Resorts	536	479	(12) %	1,070	963	(11) %
Studio Entertainment	13	11	(18) %	26	23	(13) %
Consumer Products & Interactive Media	14	16	13 %	27	31	13 %
Corporate	55	61	10 %	109	129	16 %
Total depreciation expense	\$ 687	\$ 627	(10) %	\$ 1,364	\$ 1,263	(8) %

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017		March 31, 2018	April 1, 2017	
Media Networks	\$ —	\$ 4	—%	\$ 20	\$ 6	>(100) %
Parks and Resorts	1	1	—%	1	2	50 %
Studio Entertainment	15	16	6%	32	32	— %
Consumer Products & Interactive Media	28	28	—%	56	60	7 %
Total amortization of intangible assets	\$ 44	\$ 49	10%	\$ 109	\$ 100	(9) %

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Affiliate fees	\$ 3,397	\$ 3,228	5 %
Advertising	1,917	1,931	(1) %
TV/SVOD distribution and other	824	787	5 %
Total revenues	6,138	5,946	3 %
Operating expenses	(3,298)	(3,101)	(6) %
Selling, general, administrative and other	(702)	(646)	(9) %
Depreciation and amortization	(69)	(64)	(8) %
Equity in the income of investees	13	88	(85) %
Operating Income	\$ 2,082	\$ 2,223	(6) %

Revenues

The increase in affiliate fees was due to growth of 7% from higher contractual rates, partially offset by an approximately 3% decrease from fewer subscribers.

The decrease in advertising revenues was due to a decrease of \$20 million at Broadcasting, from \$1,000 million to \$980 million, partially offset by an increase of \$6 million at Cable Networks, from \$931 million to \$937 million. The decrease at Broadcasting was due to a decrease of 6% from lower network impressions, partially offset by an increase of 3% from higher

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

network rates. Broadcast advertising revenue also benefited from the timing of *New Year's Rockin' Eve* (NYRE) relative to our fiscal periods. NYRE aired in the current quarter, whereas it aired in the first quarter of the prior year. The decrease in network impressions was due to lower average viewership, partially offset by an increase in units delivered. Cable Networks advertising revenue reflected an increase of 6% from higher rates, partially offset by a decrease of 4% from lower impressions due to decreases in average viewership and units delivered. Rates and average viewership benefited from the shift of College Football Playoff (CFP) bowl games between the first and second fiscal quarters. The current quarter included the CFP championship game, two semi-final games and one host bowl game, whereas the prior-year quarter included the championship game and three host games. Semi-final games generally generate more advertising revenue than host games.

TV/SVOD distribution and other revenue increased \$37 million due to the consolidation of BAMTech, partially offset by a decrease in program sales, which reflected higher sales of *How to Get Away with Murder* in the prior-year quarter. On September 25, 2017, the Company increased its ownership in BAMTech and began consolidating its results. The Company's share of BAMTech's results was previously reported in equity in the income of investees.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$145 million, from \$2,839 million to \$2,984 million. At Cable Networks, programming and production costs increased \$148 million due to higher sports programming costs and the consolidation of BAMTech. Higher sports programming costs reflected the shift of CFP games, as semi-final games generally have higher costs than host games, and contractual rate increases for college sports and NBA programming. At Broadcasting, programming and production costs decreased \$3 million due to lower production cost write-downs and a decrease in program sales. These decreases were largely offset by a higher cost mix of network programming, including the impact of more hours of higher cost acquired programming, contractual increases, and the timing of NYRE. Other operating costs, which include distribution and technology costs, increased primarily due to the consolidation of BAMTech.

Selling, general, administrative and other costs increased \$56 million, from \$646 million to \$702 million due to the consolidation of BAMTech and higher marketing costs for CFP bowl games and ABC Network mid-season premieres.

Depreciation and amortization increased \$5 million, from \$64 million to \$69 million due to the consolidation of BAMTech.

Equity in the Income of Investees

Income from equity investees decreased \$75 million, from \$88 million to \$13 million due to higher losses from Hulu, partially offset by higher operating results from A+E. The decrease at Hulu was driven by higher programming, marketing and labor costs, partially offset by higher subscription and advertising revenue. The increase at A+E was due to lower marketing and programming costs, a gain from an investment and higher affiliate revenue, partially offset by lower advertising revenue.

Segment Operating Income

Segment operating income decreased 6%, or \$141 million, to \$2,082 million due to lower income from equity investees, the consolidation of BAMTech, lower income from program sales and decreases at Freeform and ESPN. These decreases were partially offset by an increase at the owned television stations.

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

	Quarter Ended		% Change
(in millions)	March 31, 2018	April 1, 2017	Better/ (Worse)
<i>Revenues</i>			
Cable Networks ⁽¹⁾	\$ 4,252	\$ 4,062	5 %
Broadcasting	1,886	1,884	— %
	<u>\$ 6,138</u>	<u>\$ 5,946</u>	3 %
<i>Segment operating income</i>			
Cable Networks ⁽¹⁾	\$ 1,726	\$ 1,791	(4) %
Broadcasting	343	344	— %
Equity in the income of investees ⁽¹⁾	13	88	(85) %
	<u>\$ 2,082</u>	<u>\$ 2,223</u>	(6) %

⁽¹⁾ Cable Networks results in the current quarter include the consolidated results of BAMTech, whereas in the prior-year quarter the Company's share of BAMTech's results was reported in equity in the income of investees.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Domestic	\$ 3,965	\$ 3,556	12 %
International	914	743	23 %
Total revenues	4,879	4,299	13 %
Operating expenses	(2,843)	(2,583)	(10) %
Selling, general, administrative and other	(538)	(483)	(11) %
Depreciation and amortization	(537)	(480)	(12) %
Equity in the loss of investees	(7)	(3)	>(100) %
Operating Income	\$ 954	\$ 750	27 %

Revenues

Parks and Resorts revenues increased 13% , or \$580 million , to \$4.9 billion due to increase s of \$409 million at our domestic operations and \$171 million at our international operations. Revenue growth included a benefit from a shift in the timing of the Easter holiday relative to our fiscal periods. The current quarter included one week of the Easter holiday, whereas the entire Easter holiday fell in the third quarter of the prior year.

Revenue growth at our domestic operations reflected increases of 7% from higher average guest spending, 3% from higher volumes and 1% from higher sponsorship revenue. Guest spending growth was driven by higher average ticket prices for theme park admissions and for cruise line sailings, an increase in average daily hotel room rates and higher food, beverage and merchandise spending. The increase in volume was due to attendance growth at Walt Disney World Resort.

Revenue growth at our international operations reflected increases of 12% from a favorable FX Impact, 8% from higher average guest spending and 4% from volume growth. Higher guest spending was driven by an increase in food, beverage and merchandise spending and higher average ticket prices at Disneyland Paris driven by less discounting. The increase in volumes was due to higher attendance and occupied room nights at Hong Kong Disneyland Resort and Disneyland Paris, partially offset by decreased attendance at Shanghai Disney Resort.

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽²⁾		Total	
	Quarter Ended		Quarter Ended		Quarter Ended	
	Mar. 31, 2018	Apr. 1, 2017	Mar. 31, 2018	Apr. 1, 2017	Mar. 31, 2018	Apr. 1, 2017
Parks						
Increase/(decrease)						
Attendance	5%	4%	1%	70%	4%	17 %
Per Capita Guest Spending	6%	—%	10%	—%	7%	(3) %
Hotels ⁽¹⁾						
Occupancy	90%	88%	84%	82%	88%	87 %
Available Room Nights (in thousands)	2,509	2,561	787	719	3,296	3,280
Per Room Guest Spending	\$347	\$310	\$252	\$226	\$326	\$292

⁽¹⁾ Per room guest spending consists of the average daily hotel room rate, as well as food, beverage and merchandise sales 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 2017 second quarter average foreign exchange rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Costs and Expenses

Operating expenses include operating labor, which increased \$147 million, from \$1,215 million to \$1,362 million, infrastructure costs, which increased \$58 million, from \$491 million to \$549 million, and cost of sales, which increased \$41 million, from \$385 million to \$426 million. The increase in operating labor was driven by inflation, higher volumes, an unfavorable FX Impact and a special fiscal 2018 domestic employee bonus. Higher infrastructure costs were primarily due to increased technology spending and new guest offerings. The increase in cost of sales was driven by higher volumes and inflation. Other operating expenses, which include costs for such items as supplies, commissions, and entertainment offerings, increased \$14 million, from \$492 million to \$506 million due to an unfavorable FX Impact.

Selling, general, administrative and other costs increased \$55 million, from \$483 million to \$538 million driven by inflation and an unfavorable FX Impact.

Depreciation and amortization increased \$57 million, from \$480 million to \$537 million primarily due to new attractions at our domestic parks and resorts.

Equity in the Loss of Investees

Loss from equity investees increased \$4 million to \$7 million due to a higher operating loss from Villages Nature, in which Disneyland Paris has a 50% interest.

Segment Operating Income

Segment operating income increased 27%, or \$204 million, to \$954 million due to growth at our domestic and international operations.

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Theatrical distribution	\$ 956	\$ 710	35 %
Home entertainment	494	419	18 %
TV/SVOD distribution and other	1,004	905	11 %
Total revenues	2,454	2,034	21 %
Operating expenses	(956)	(864)	(11) %
Selling, general, administrative and other	(623)	(487)	(28) %
Depreciation and amortization	(28)	(27)	(4) %
Operating Income	\$ 847	\$ 656	29 %

Revenues

The increase in theatrical distribution revenue was due to the success of *Black Panther* in the current quarter with no comparable Marvel title in the prior-year quarter. This increase was partially offset by the performance of *A Wrinkle in Time* in the current quarter compared to *Beauty and the Beast* in the prior-year quarter.

The increase in home entertainment revenue was due to increases of 10% from higher average net effective pricing and 9% from higher unit sales, both of which reflected the successful release of *Star Wars: The Last Jedi*. The increase in unit sales was due to the DVD/Blu-ray release of *Star Wars: The Last Jedi* in the current quarter whereas the DVD/Blu-ray release of *Rogue One: A Star Wars Story* occurred in the prior-year third quarter. Other significant titles in the current quarter included *Thor: Ragnarok* and *Coco*, whereas the prior-year quarter included *Moana* and *Doctor Strange*. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

The increase in TV/SVOD distribution and other revenue was primarily due to increases of 4% from TV/SVOD distribution and 4% from stage plays. The increase from TV/SVOD distribution was driven by international growth and the domestic free television sale of *Star Wars: The Force Awakens* in the current quarter, partially offset by fewer domestic pay television title availabilities. Higher stage play revenues were due to additional productions in the current quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Costs and Expenses

Operating expenses include an increase of \$66 million in film cost amortization, from \$590 million to \$656 million. The increase in film cost amortization was due to higher theatrical and home entertainment revenues and an increase in film cost impairments, partially offset by a lower average film cost amortization rate in the current quarter. Operating expenses also include cost of goods sold and distribution costs, which increased \$26 million, from \$274 million to \$300 million due to the increase in stage play productions.

Selling, general, administrative and other costs increased \$136 million from \$487 million to \$623 million driven by higher theatrical and stage play marketing costs. The increase in theatrical marketing costs was due to spending on *Black Panther* and *A Wrinkle in Time* in the current quarter compared to *Beauty and the Beast* in the prior-year quarter, while higher stage play marketing costs reflected spending for additional productions in the current quarter.

Segment Operating Income

Segment operating income increased 29%, or \$191 million, to \$847 million due to increases in theatrical, home entertainment and TV/SVOD distribution results, partially offset by higher film cost impairments.

Consumer Products & Interactive Media

Operating results for the Consumer Products & Interactive Media segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Licensing, publishing and games	\$ 732	\$ 727	1 %
Retail and other	345	330	5 %
Total revenues	1,077	1,057	2 %
Operating expenses	(436)	(421)	(4) %
Selling, general, administrative and other	(245)	(225)	(9) %
Depreciation and amortization	(42)	(44)	5 %
Operating Income	\$ 354	\$ 367	(4) %

Revenues

The increase in licensing, publishing and games revenue was due to higher minimum guarantee shortfall recognition, partially offset by a decrease in settlements and lower licensing revenues from sales of merchandise and games. Higher minimum guarantee shortfall recognition was due to a favorable timing impact. Shortfalls are generally recognized at the end of the contract period. For contracts that ended on December 31, shortfalls were recognized in the second quarter of the current year whereas they were recognized in the first quarter of the prior year.

The increase in retail and other revenue was driven by higher sponsorship revenue and a favorable foreign currency impact, partially offset by a decrease in comparable store sales. Lower comparable store sales reflected a decrease in sales of *Moana* and Star Wars merchandise in the current period, partially offset by higher sales of Mickey and Minnie merchandise.

Costs and Expenses

Operating expenses include a \$5 million decrease in cost of goods sold and distribution costs, from \$232 million to \$227 million and a \$20 million increase in other operating expenses, from \$139 million to \$159 million. Operating expenses also include product development expense, which was flat at \$50 million. The increase in other operating expenses, which include occupancy costs, labor at our retail stores and other direct costs, was driven by an unfavorable FX Impact.

Selling, general, administrative and other costs increased \$20 million from \$225 million to \$245 million as the prior year included the benefit from a settlement.

Segment Operating Income

Segment operating income decreased 4%, or \$13 million, to \$354 million as higher income from licensing activities was more than offset by a decrease in comparable retail store sales and an unfavorable FX impact.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

BUSINESS SEGMENT RESULTS - Six Month Results

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Affiliate Fees	\$ 6,602	\$ 6,303	5 %
Advertising	4,237	4,460	(5) %
TV/SVOD distribution and other	1,542	1,416	9 %
Total revenues	12,381	12,179	2 %
Operating expenses	(7,668)	(7,399)	(4) %
Selling, general, administrative and other	(1,349)	(1,279)	(5) %
Depreciation and amortization	(152)	(123)	(24) %
Equity in the income of investees	63	207	(70) %
Operating Income	\$ 3,275	\$ 3,585	(9) %

Revenues

The increase in affiliate fees was due to an increase of 7% from higher contractual rates, partially offset by an approximately 3% decrease from fewer subscribers.

The decrease in advertising revenues was due to decreases of \$118 million at Cable Networks, from \$2,338 million to \$2,220 million, and \$105 million at Broadcasting, from \$2,122 million to \$2,017 million. The decrease at Cable Networks was due to a 6% decrease from lower impressions, partially offset by a 2% increase from higher rates. The decrease at Broadcasting was due to a 7% decrease from lower network impressions and a 3% decrease at the owned television stations due to lower political advertising, partially offset by a 4% increase from network rates. The decrease in impressions at both Broadcasting and Cable Networks was due to lower average viewership.

TV/SVOD distribution and other revenue increased \$126 million due to the consolidation of BAMTech, partially offset by lower sales of ABC titles reflecting higher sales of *How to Get Away with Murder* in the prior-year period.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$192 million from \$6,850 million to \$7,042 million. At Cable Networks, programming and production costs increased \$159 million due to contractual rate increases for college sports and NFL programming and the consolidation of BAMTech. At Broadcasting, programming and production costs increased \$33 million due to a higher cost mix of network programming, including the impact of more hours of higher cost acquired programming and contractual rate increases. Other operating costs, which include distribution and technology costs, increased driven by the consolidation of BAMTech.

Selling, general, administrative and other costs increased \$70 million due to the consolidation of BAMTech.

Depreciation and amortization increased \$29 million, from \$123 million to \$152 million due to the consolidation of BAMTech.

Equity in the Income of Investees

Income from equity investees decreased \$144 million from \$207 million to \$63 million due to higher losses at Hulu reflecting higher content, labor and marketing costs, partially offset by higher subscription and advertising revenue.

Segment Operating Income

Segment operating income decreased 9%, or \$310 million, to \$3,275 million due to lower income from equity investees, the consolidation of BAMTech, decreases at ESPN and the owned television stations and lower income from program sales.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

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

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Cable Networks ⁽¹⁾	\$ 8,745	\$ 8,490	3 %
Broadcasting	3,636	3,689	(1) %
	<u>\$ 12,381</u>	<u>\$ 12,179</u>	2 %
Segment operating income			
Cable Networks ⁽¹⁾	\$ 2,584	\$ 2,655	(3) %
Broadcasting	628	723	(13) %
Equity in the income of investees ⁽¹⁾	63	207	(70) %
	<u>\$ 3,275</u>	<u>\$ 3,585</u>	(9) %

⁽¹⁾ Cable Networks results in the current period include the consolidated results of BAMTech, whereas in the prior-year period the Company's share of BAMTech's results was reported in equity in the income of investees.

Parks and Resorts

Operating results for the Parks and Resorts segment are as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Domestic	\$ 8,134	\$ 7,296	11 %
International	1,899	1,558	22 %
Total revenues	<u>10,033</u>	<u>8,854</u>	13 %
Operating expenses	(5,654)	(5,130)	(10) %
Selling, general, administrative and other	(993)	(894)	(11) %
Depreciation and amortization	(1,071)	(965)	(11) %
Equity in the loss of investees	(14)	(5)	>(100) %
Operating Income	<u>\$ 2,301</u>	<u>\$ 1,860</u>	24 %

Revenues

Parks and Resorts revenues increased 13% , or \$1,179 million , to \$10.0 billion due to increases of \$838 million at our domestic operations and \$341 million at our international operations. Revenue growth included a benefit from a shift in the timing of the Easter holiday relative to our fiscal periods. The current period included one week of the Easter holiday, whereas the entire Easter holiday fell in the third quarter of the prior year.

Revenue growth at our domestic operations reflected increases of 7% from higher average guest spending, 3% from volume growth and 1% from higher sponsorship revenue. Guest spending growth was primarily due to higher average ticket prices for theme park admissions and for cruise line sailings, increased food, beverage and merchandise spending and higher average daily hotel room rates. The increase in volumes was due to higher attendance.

Revenue growth at our international operations reflected increases of 9% from a favorable FX Impact, 7% from an increase in volumes and 6% from higher average guest spending at Disneyland Paris. The increase in volumes was due to higher attendance and occupied room nights at Disneyland Paris and Hong Kong Disneyland Resort. Guest spending growth at Disneyland Paris was driven by higher average ticket prices, driven by less discounting, and increases in food, beverage and merchandise spending and average daily hotel room rates.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

The following table presents supplemental park and hotel statistics:

	Domestic		International ⁽²⁾		Total	
	Six Months Ended		Six Months Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Parks						
Increase/(decrease)						
Attendance	5%	(1) %	6%	59 %	5%	11 %
Per Capita Guest Spending	6%	4 %	9%	(2) %	7%	(1) %
Hotels ⁽¹⁾						
Occupancy	90%	90 %	84%	80 %	89%	88 %
Available Room Nights (in thousands)	5,024	5,129	1,587	1,450	6,611	6,579
Per Room Guest Spending	\$345	\$317	\$272	\$255	\$329	\$304

⁽¹⁾ Per room guest spending consists of the average daily hotel room rate, as well as food, beverage and merchandise sales 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 2017 six -month average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$259 million from \$2,417 million to \$2,676 million , infrastructure costs, which increased \$108 million from \$953 million to \$1,061 million , and cost of sales, which increased \$81 million from \$804 million to \$885 million . The increase in operating labor was primarily due to inflation, higher volumes and an unfavorable FX Impact. Higher infrastructure costs were driven by increased technology spending, new guest offerings, and higher maintenance costs. The increase in cost of sales was primarily due to higher volumes. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased \$76 million , from \$956 million to \$1,032 million primarily due to new guest offerings and an unfavorable FX Impact.

Selling, general, administrative and other costs increased \$99 million , from \$894 million to \$993 million primarily due to higher marketing spend.

Depreciation and amortization increased \$106 million , from \$965 million to \$1,071 million driven by new attractions at our domestic parks and resorts and Hong Kong Disneyland Resort.

Equity in the Loss of Investees

Loss from equity investees increased \$9 million to \$14 million due to a higher operating loss from Villages Nature, in which Disneyland Paris has a 50% interest.

Segment Operating Income

Segment operating income increased 24% , or \$441 million , to \$2,301 million due to growth at our domestic and international operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Theatrical distribution	\$ 2,125	\$ 1,671	27 %
Home entertainment	884	966	(8) %
TV/SVOD distribution and other	1,949	1,917	2 %
Total revenues	4,958	4,554	9 %
Operating expenses	(1,952)	(1,871)	(4) %
Selling, general, administrative and other	(1,272)	(1,130)	(13) %
Depreciation and amortization	(58)	(55)	(5) %
Operating Income	\$ 1,676	\$ 1,498	12 %

Revenues

The increase in theatrical distribution revenue was due to two Marvel titles in the current year compared to one in the prior year and the comparison of *Star Wars: The Last Jedi* in the current year to *Rogue One: A Star Wars Story* in the prior year. The Marvel titles in the current year were *Black Panther* and *Thor: Ragnarok*, whereas the prior year included *Doctor Strange*. These increases were partially offset by the performance of *A Wrinkle in Time* in the current year compared to *Beauty and the Beast* in the prior year. Other significant releases in the current year included *Coco*, while the prior year included *Moana*.

Lower home entertainment revenue was due to a decrease of 10% from lower unit sales, partially offset by an increase of 3% from higher average net effective pricing. Lower unit sales were due to one less feature animation release in the current year compared to the prior year. This decrease was partially offset by the DVD/Blu-ray release of *Star Wars: The Last Jedi* in the second quarter of the current year whereas the DVD/Blu-ray release of *Rogue One: A Star Wars Story* occurred in the prior-year third quarter. Feature animation releases in the current year were *Cars 3* and *Coco* while the prior year included *Finding Dory*, *Moana* and *Zootopia*. Other significant titles in the current year included *Thor: Ragnarok*, whereas the prior year included *Doctor Strange* and *Captain America: Civil War*. The increase in average net effective pricing was primarily due to higher rates and a higher sales mix of Blu-ray discs, partially offset by a lower mix of new release titles. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

Higher TV/SVOD distribution and other revenue was due to an increase of 3% from stage plays, partially offset by a 1% decrease from TV/SVOD distribution. Higher stage play revenues were due to additional productions in the current year. The decrease in TV/SVOD distribution was driven by fewer domestic pay television title availabilities, partially offset by international growth.

Costs and Expenses

Operating expenses include an increase of \$76 million in film cost amortization, from \$1,256 million to \$1,332 million due to the impact of higher theatrical distribution revenues and an increase in film cost impairments, partially offset by a lower average film cost amortization rate for theatrical releases. Operating expenses also include cost of goods sold and distribution costs, which increased \$5 million, from \$615 million to \$620 million.

Selling, general, administrative and other costs increased \$142 million from \$1,130 million to \$1,272 million driven by higher theatrical and stage play marketing costs. The increase in theatrical marketing costs was driven by more significant titles in the current year, while higher stage play marketing costs reflected spending for additional productions in the current year.

Segment Operating Income

Segment operating income increased 12%, or \$178 million, to \$1,676 million due to an increase in theatrical distribution results, partially offset by higher film cost impairments and a decrease in home entertainment distribution results.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

Consumer Products & Interactive Media

Operating results for the Consumer Products & Interactive Media segment are as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Revenues			
Licensing, publishing and games	\$ 1,636	\$ 1,663	(2) %
Retail and other	891	870	2 %
Total revenues	2,527	2,533	— %
Operating expenses	(996)	(975)	(2) %
Selling, general, administrative and other	(477)	(459)	(4) %
Depreciation and amortization	(83)	(91)	9 %
Equity in the income of investees	—	1	— %
Operating Income	\$ 971	\$ 1,009	(4) %

Revenues

Lower licensing, publishing and games revenue was primarily due to a decrease in settlements, partially offset by higher licensing revenues from sales of merchandise and games driven by Star Wars.

The increase in retail and other revenue was driven by higher online retail sales and increased sponsorship revenue, partially offset by lower comparable store sales. The decrease in comparable store sales reflected lower sales of Star Wars, *Moana* and Finding Nemo/Dory merchandise in the current period, partially offset by increased sales of Cars merchandise.

Costs and Expenses

Operating expenses included a \$1 million increase in cost of goods sold and distribution costs, from \$574 million to \$575 million, a \$29 million increase in other operating expenses, from \$290 million to \$319 million, and a \$9 million decrease in product development expense, from \$111 million to \$102 million. The increase in other operating expenses, which include occupancy costs, labor at our retail stores and other direct costs, was driven by an unfavorable FX Impact at our retail business. The decrease in product development expense was primarily due to fewer games in development.

Selling, general, administrative and other costs increased \$18 million from \$459 million to \$477 million due to the benefit from a settlement in the prior year and an unfavorable FX Impact at our retail business.

Segment Operating Income

Segment operating income decreased 4%, or \$38 million, to \$971 million due to decreases at our merchandise licensing and retail businesses, partially offset by higher results at our games business.

Restructuring and Impairment Charges

The Company recorded restructuring and impairment charges of \$14 million related to Consumer Products and Interactive Media in the current-year period primarily for severance costs.

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	Quarter Ended		% Change Better/ (Worse)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017		March 31, 2018	April 1, 2017	
Corporate and unallocated shared expenses	\$ (194)	\$ (161)	(20) %	\$ (344)	\$ (293)	(17) %

Corporate and unallocated shared expenses increased \$33 million to \$194 million in the current quarter and increased \$51 million to \$344 million for the six-month period, due to costs incurred in connection with our agreement to acquire Twenty-First Century Fox, Inc. and higher compensation costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

IMPACT OF U.S. FEDERAL INCOME TAX REFORM

As discussed in Note 7 to the Condensed Consolidated Financial Statements, the Tax Act resulted in the following impacts to the Company (the amounts recorded in the six-month period are provisional and will be refined during the remainder of fiscal 2018):

- The Company's federal statutory income tax rate was reduced from 35.0% to 24.5% for fiscal 2018 and to 21.0% for following years.
- For the six-month period ended March 31, 2018, the Company recognized a net benefit of approximately \$1.7 billion, which reflected an approximate \$2.0 billion benefit from remeasuring our deferred tax balances to the new statutory rate, partially offset by a charge of approximately \$350 million from accruing a Deemed Repatriation Tax.
- Generally, there will no longer be a U.S. federal income tax cost on the repatriation of foreign earnings.
- The Company will be eligible to claim an immediate deduction for investments in qualified fixed assets and film and television productions placed in service during fiscal 2018 through fiscal 2022. This provision phases out through fiscal 2027.
- Certain provisions of the Act are not effective for the Company until fiscal 2019 including:
 - The elimination of the domestic production activities deduction.
 - The taxation of certain foreign derived income 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%.
 - A minimum effective tax on certain foreign earnings of approximately 13%.

We are continuing to assess the impacts of these provisions, but do not currently anticipate that the net impact will be material to our fiscal 2019 effective income tax rate.

- We expect a cash tax benefit similar to the reduction in the statutory rate, as well as a benefit from the immediate deduction for investments in qualified fixed assets and film and television productions.

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Six Months Ended		% Change Better/ (Worse)
	March 31, 2018	April 1, 2017	
Cash provided by operations	\$ 6,763	\$ 4,673	45 %
Cash used in investing activities	(3,805)	(2,390)	(59) %
Cash used in financing activities	(2,882)	(3,049)	5 %
Impact of exchange rates on cash, cash equivalents and restricted cash	55	(69)	nm
Change in cash, cash equivalents and restricted cash	\$ 131	\$ (835)	nm

Operating Activities

Cash provided by operating activities increased 45% to \$6.8 billion for the current six months compared to \$4.7 billion in the prior-year six months due to a decrease in pension plan contributions, a decrease in tax payments due to the Tax Act and higher operating cash flow at Parks and Resorts, partially offset by lower operating cash flow at Media Networks. Parks and Resorts cash flow reflected higher operating cash receipts due to increased revenues, partially offset by higher spending on labor and other costs. Lower operating cash flow at Media Networks was driven by higher television production spending.

Film and Television Costs

The Company's Studio Entertainment and Media Networks 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 airing on the Company's broadcast and cable networks and television stations. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)**

The Company's film and television production and programming activity for the six months ended March 31, 2018 and April 1, 2017 are as follows:

(in millions)	Six Months Ended	
	March 31, 2018	April 1, 2017
Beginning balances:		
Production and programming assets	\$ 8,759	\$ 7,547
Programming liabilities	(1,108)	(1,063)
	<u>7,651</u>	<u>6,484</u>
Spending:		
Television program licenses and rights	4,092	3,980
Film and television production	3,011	2,632
	<u>7,103</u>	<u>6,612</u>
Amortization:		
Television program licenses and rights	(4,411)	(4,205)
Film and television production	(2,202)	(1,979)
	<u>(6,613)</u>	<u>(6,184)</u>
Change in film and television production and programming costs	490	428
Other non-cash activity	(146)	30
Ending balances:		
Production and programming assets	9,188	8,107
Programming liabilities	(1,193)	(1,165)
	<u>\$ 7,995</u>	<u>\$ 6,942</u>

Investing Activities

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 the six months ended March 31, 2018 and April 1, 2017 are as follows:

(in millions)	Six Months Ended	
	March 31, 2018	April 1, 2017
Media Networks		
Cable Networks	\$ 135	\$ 60
Broadcasting	45	33
Total Media Networks	<u>180</u>	<u>93</u>
Parks and Resorts		
Domestic	1,413	1,093
International	307	579
Total Parks and Resorts	<u>1,720</u>	<u>1,672</u>
Studio Entertainment	52	47
Consumer Products & Interactive Media	10	8
Corporate	82	103
	<u>\$ 2,044</u>	<u>\$ 1,923</u>

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure. The increase at our domestic parks and resorts was due to higher spending on new attractions. The decrease at our international parks and resorts was due to lower spending at Hong Kong Disneyland Resort and Shanghai Disney Resort.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Capital expenditures at Media Networks primarily reflect investments in facilities and equipment for expanding and upgrading broadcast centers, production facilities and television station facilities. The increase at Cable Networks was due to technology spending at BAMTech.

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

The Company currently expects its fiscal 2018 capital expenditures will be approximately \$1 billion higher than fiscal 2017 capital expenditures of \$3.6 billion primarily due to increased investments at our domestic parks and resorts.

Other Investing Activities

During the current six-month period, the Company made a \$1.6 billion payment for its incremental 42% interest in BAMTech. During the prior-year six-month period, the Company acquired an incremental 18% interest in BAMTech for \$557 million.

Financing Activities

Cash used in financing activities was \$2.9 billion in the current six-month period, which reflected repurchases of common stock of \$2.6 billion and dividends of \$1.3 billion, partially offset by net cash inflows from borrowings of \$1.1 billion.

Cash used in financing activities of \$2.9 billion was essentially flat compared to the prior-year six-month period as a decrease in repurchases of common stock in the current six-month period compared to the prior-year six-month period (\$2.6 billion vs \$3.5 billion respectively) was largely offset by lower net borrowings in the current six-month period compared to the prior-year six-month period (\$1.1 billion vs \$1.7 billion respectively).

See Note 5 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the six months ended March 31, 2018 and 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 10 to the Condensed Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2018 and 2017 and share repurchases during the six months ended March 31, 2018.

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 March 31, 2018, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively, with stable outlook. On December 14, 2017, Standard & Poor's placed the Company's long-term and short-term debt ratings of A+ and A-1+, respectively, on Creditwatch with negative implications. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on March 31, 2018 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.

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 12 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 12 to the Condensed Consolidated Financial Statements for information regarding the Company's guarantees.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

See Note 14 to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K for information regarding the Company's contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K.

Film and Television Revenues and Costs

We expense film and television 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 the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program's ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

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. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

Revenue Recognition

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

We recognize revenues from advance theme park ticket sales when the tickets are used. Revenues from annual pass sales are recognized ratably over the period for which the pass is available for use.

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. Refer to the 2017 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. 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. 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.

To determine the expected long-term rate of return on the plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets will increase pension expense.

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 goodwill allocated to the reporting unit.

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. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

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. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

The Company has cost and equity investments. The fair value of these investments is dependent on the performance of the investee companies as well as volatility inherent in the external markets for these investments. In assessing the potential impairment of these investments, we consider these factors, as well as the forecasted financial performance of the investees and market values, where available. If these forecasts are not met or market values indicate an other-than-temporary decline in value, impairment charges may be required.

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 12 to the Condensed 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. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (continued)

New Accounting Pronouncements

See Note 16 to the Condensed Consolidated Financial Statements for information regarding new accounting pronouncements.

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, British pound, Japanese yen 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. 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 March 31, 2018, 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.

There have been no changes in our internal controls over financial reporting during the second quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As disclosed in Note 12 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 12 relating to certain legal matters is incorporated herein by reference.

ITEM 1A. Risk Factors

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for “forward-looking statements” made by or on behalf of the Company. 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. 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. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company’s control, including: changes in domestic and global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments. Such developments may affect entertainment, travel and leisure businesses generally and may, among other things, affect the performance of the Company’s theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, demand for our products and services, expenses of providing medical and pension benefits, performance of some or all company businesses either directly or through their impact on those who distribute our products and the proposed transaction with 21CF. Additional factors are discussed in the 2017 Annual Report on Form 10-K and in the Quarterly Report on 10-Q for the period ended December 30, 2017, in each case under the Item 1A, “Risk Factors.”

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) 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 March 31, 2018 :

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⁾
December 31, 2017 - January 31, 2018	4,083,370	\$ 110.69	3,850,092	175 million
February 1, 2018 - February 28, 2018	3,817,590	106.09	3,793,500	171 million
March 1, 2018 - March 31, 2018	4,562,314	102.89	4,534,524	167 million
Total	<u>12,463,274</u>	106.43	<u>12,178,116</u>	167 million

⁽¹⁾ 285,158 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⁾ Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On January 30, 2015, the Company's Board of Directors increased the share repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.

ITEM 5. Other Items

Mayer DTC-WDI Agreement

On May 3, 2018, Walt Disney International (“WDI”) entered into an employment agreement with Kevin A. Mayer (the “Executive”), whose contract with the Company as Senior Executive Vice President and Chief Strategy Officer ended when his new contract (the “Mayer DTC-WDI Agreement”) became effective. The Mayer DTC-WDI Agreement has a stated term commencing as of March 14, 2018 and ending on December 31, 2022.

Under the Mayer DTC-WDI Agreement, Mr. Mayer will serve as Chairman, Direct-to-Consumer and International. The Mayer DTC-WDI Agreement provides that Mr. Mayer will receive an annual salary of \$1,800,000, commencing as of March 14, 2018, and that for each year thereafter the annual salary for Mr. Mayer will be determined by WDI in its sole discretion but shall not be less than \$1,800,000. The Mayer DTC-WDI Agreement provides that Mr. Mayer is also eligible for an annual, performance-based bonus under the Company’s applicable annual incentive plan (currently, the Company’s Management Incentive Bonus Program) and that the Compensation Committee will set a target bonus each fiscal year of not less than 200% of the annual base salary for Mr. Mayer in effect at the end of such fiscal year. The actual amount payable to Mr. Mayer as an annual bonus will be dependent upon the achievement of performance objectives, which will be substantially the same as the objectives established under the plan for comparable executives of the Company’s subsidiaries. Depending on performance, the actual amount payable as an annual bonus to Mr. Mayer may be less than, greater than or equal to the stated target bonus (and could be zero).

The Mayer DTC-WDI Agreement also provides that Mr. Mayer is entitled to participate in the Company’s equity-based long-term incentive plans and programs generally made available to comparable executives of the Company’s subsidiaries and that for each fiscal year during the term of the Agreement, Mr. Mayer will be granted a long-term incentive award having a target value of not less than three times his annual base salary as expected to be in effect at the end of such fiscal year. These awards will be subject to substantially the same terms and conditions (including vesting and performance conditions) as will be established for comparable executives of the Company’s subsidiaries in accordance with the Board’s policies for the grant of equity-based awards, as in effect at the time of the award, and do not guarantee Mr. Mayer any minimum amount of compensation. The actual amounts payable to Mr. Mayer in respect of such opportunities will be determined based on the extent to which any performance conditions and/or service conditions applicable to such awards are satisfied and on the value of the Company’s stock. Accordingly, Mr. Mayer may receive compensation in respect of any such award that is greater or less than the stated target value, depending on whether, and to what extent, the applicable performance and other conditions are satisfied, and on the value of the Company’s stock.

Under the Mayer DTC-WDI Agreement, Mr. Mayer is entitled to participate in employee benefits and perquisites generally made available to comparable executives of the Company’s subsidiaries.

Mr. Mayer’s employment may be terminated by WDI for “cause,” which is defined to include gross negligence, gross misconduct, willful nonfeasance or a willful material breach of the Agreement.

Mr. Mayer has the right to terminate his employment for “good reason,” which is defined as (i) a reduction in any of his base salary, annual target bonus opportunity or annual target long-term incentive award opportunity; (ii) removal from the position of Chairman, Direct-to-Consumer and International; (iii) a material reduction in his duties and responsibilities; (iv) the assignment to him of duties that are materially inconsistent with his position or duties or that materially impair his ability to function in his current position or any other position in which he is then serving; (v) relocation of his principal office to a location that is more than 50 miles outside of the greater Los Angeles area; or (vi) a material breach of any material provision of the Agreement by WDI. Following a change in control of the Company, as defined in the Company’s stock plans, good reason also includes any event that is a triggering event as defined in the plans. A triggering event is defined to include a termination of employment by WDI other than for “cause” or a termination of employment by the participant following a reduction in position, pay or other “constructive termination.”

In the event that Mr. Mayer’s employment is terminated by WDI without “cause” or by Mr. Mayer for “good reason,” he will be entitled to termination benefits, which include the following: (i) a lump sum payment of the base salary that would have been payable over the remaining term of the Agreement, (ii) a pro-rated bonus for the year of termination (any prior-year bonus not yet paid at time of termination is also paid), and (iii) the outstanding unvested stock options and outstanding unvested restricted stock unit awards that could vest in accordance with their scheduled vesting provisions if Mr. Mayer’s employment had continued through the remaining term of the Agreement will be eligible to vest at the same time and subject to the same performance conditions as though he continued in WDI’s employ, and all stock options, whether vested on date of termination or vesting thereafter as described above, shall vest and remain exercisable to the same extent as if his employment had continued through the term of the Agreement. However, the Agreement provides that, unless necessary to preserve the tax

deductibility of the compensation payable in respect of restricted stock units, the Company will waive any performance conditions related to performance in future fiscal years that were imposed primarily to permit the Company to claim a tax deduction for the compensation payable in respect of such units.

To qualify for the foregoing cash severance benefit, pro-rated bonus (and prior-year bonus, if not already paid), opportunity to vest in unvested equity awards and extended exercisability of stock options following an involuntary termination by WDI without cause, or a termination by Mr. Mayer for good reason, he must execute a release in favor of WDI and the Company and agree to provide WDI with certain consulting services for a period of six months after his termination (or, if less, for the remaining term of the Agreement). Additionally, during the period of these consulting services, Mr. Mayer must also agree not to provide any services to entities that compete with any of the Company's business segments.

Merger Agreement Amendment

As previously disclosed, on December 13, 2017, The Walt Disney Company ("Disney"), TWC Merger Enterprises 2 Corp., a Delaware corporation and wholly owned subsidiary of Disney ("Merger Sub"), TWC Merger Enterprises 1, LLC, a Delaware limited liability company and wholly owned subsidiary of Disney ("Merger LLC"), and Twenty-First Century Fox ("21CF") entered into an Agreement and Plan of Merger (the "Merger Agreement").

The Merger Agreement contemplates that at the effective time of the Initial Merger (as defined in the Merger Agreement), each issued and outstanding share of common stock of 21CF, except as otherwise set forth in the Merger Agreement, will be exchanged automatically for 0.2745 shares of Disney common stock, subject to adjustment as provided in the Merger Agreement (as so adjusted, the "Exchange Ratio"), together with cash in lieu of fractional shares of Disney common stock (such consideration, the "Common Stock Merger Consideration").

On May 7, 2018, Disney, Merger Sub, Merger LLC and 21CF entered into an Amendment to the Merger Agreement (the "Merger Agreement Amendment") pursuant to which, among other things, in lieu of receiving the Common Stock Merger Consideration at the effective time of the Initial Merger, each issued and outstanding share of 21CF common stock owned by a subsidiary of 21CF will be exchanged automatically for a number of shares of series B preferred stock, par value \$0.01, of Disney equal to the Exchange Ratio multiplied by 1/10,000. Each share of series B preferred stock is convertible into 10,000 shares of Disney common stock upon transfer to any person who is not Disney or a subsidiary of Disney. The terms of the series B preferred stock are described in more detail in Disney's current report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2018. The Merger Agreement Amendment permits Disney's board of directors to elect, in its sole discretion at any time prior to the Closing Date (as defined in the Merger Agreement), for each issued and outstanding share of 21CF common stock owned by a subsidiary of 21CF to be exchanged, at the effective time of the Initial Merger, automatically for the Common Stock Merger Consideration.

The foregoing description of the Merger Agreement Amendment and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of the Merger Agreement Amendment, which is attached as Exhibit 2.1 and incorporated herein by reference.

Other than as expressly modified pursuant to the Merger Agreement Amendment, the Merger Agreement, which was previously filed as Exhibit 2.1 to the Current Report on Form 8-K/A filed with the Securities Exchange Commission on December 14, 2017, remains in full force and effect as originally executed on December 13, 2017.

ITEM 6. Exhibits

See Index of Exhibits.

SIGNATURE

Pursuant to the requirements 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)

By:

/s/ CHRISTINE M. MCCARTHY

Christine M. McCarthy,
Senior Executive Vice President and Chief Financial Officer

May 8, 2018
Burbank, California

INDEX OF EXHIBITS

Number and Description of Exhibit (Numbers Coincide with Item 601 of Regulation S-K)	Document Incorporated by Reference from a Previous Filing or Filed Herewith, as Indicated below
2.1 Amendment to Agreement and Plan of Merger, dated as of May 7, 2018, among Twenty-First Century Fox Inc., The Walt Disney Company, TWC Merger Enterprises 2 Corp. and TWC Merger Enterprises 1, LLC*	Filed herewith
3.1 Certificate of Designation of Series B Convertible Preferred Stock of The Walt Disney Company, as filed with the Secretary of State of the State of Delaware on March 8, 2018	Exhibit 3.1 to the Current Report on Form 8-K of the Company filed March 9, 2018
10.1 364 Day Credit Agreement dated as of March 9, 2018	Exhibit 10.1 to the Current Report on Form 8-K of the Company filed March 9, 2018
10.2 Five-Year Credit Agreement dated as of March 9, 2018	Exhibit 10.2 to the Current Report on Form 8-K of the Company filed March 9, 2018
10.3 Employment Agreement dated as of March 14, 2018 between the Company and Kevin A. Mayer	Filed herewith
12.1 Ratio of Earnings to Fixed Charges	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
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
101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity and (vi) related notes	Filed

* Certain schedules and exhibits have been omitted pursuant to 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 Securities and Exchange Commission or its staff upon request.

AMENDMENT TO AGREEMENT AND PLAN OF MERGER

This AMENDMENT, dated as of May 7, 2018 (this “ Amendment ”) to the Agreement and Plan of Merger (the “ Agreement ”), dated as of December 13, 2017, among Twenty-First Century Fox, Inc., a Delaware corporation (the “ Company ”), The Walt Disney Company, a Delaware corporation (“ Parent ”), TWC Merger Enterprises 2 Corp., a Delaware corporation and a wholly owned subsidiary of Parent (“ Corporate Sub ”) and TWC Merger Enterprises, LLC, a Delaware limited liability company and a wholly owned subsidiary of Parent (“ Merger LLC ”, and together with Parent, the Company and Corporate Sub, the “ Parties ”).

WHEREAS, subject to the terms and conditions set forth in this Amendment, and pursuant to Section 8.02 of the Agreement, the Parties desire to amend certain terms of the Agreement by entering into, and as set forth in, this Amendment.

NOW, THEREFORE, for and in consideration of the aforesaid premises and of the mutual representations, warranties and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the Parties hereby agree as set forth below:

Section 1. Definitions . Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Agreement unless otherwise indicated.

Section 2. Amendments to Agreement .

2.1 The seventh Recital of the Agreement is hereby amended and restated in its entirety as follows:

“WHEREAS, the Board of Directors of Parent, by resolutions duly adopted, has (i) approved this Agreement and the transactions contemplated hereby (which includes the Initial Merger and the Subsequent Merger (collectively, the “ Mergers ”)), the issuance of shares of common stock, par value \$0.01 per share, of Parent (the “ Parent Common Stock ”) and, subject to the Merger Consideration Election set forth in Section 2.02(a)(i)(B) of this Agreement, the issuance of shares of series B convertible preferred stock, par value \$0.01 per share, of Parent, which have the rights and preferences set forth in the Certificate of Designation attached hereto as Exhibit IV (the “ Series B Preferred Stock ”, and together with the Parent Common Stock, the “ Parent Stock ”), pursuant to the Initial Merger upon the terms and subject to the conditions set forth in this Agreement and (ii) resolved to recommend to its stockholders the approval of the issuance of Parent Stock in the Initial Merger pursuant to this Agreement;”

2.2 Section 2.01(c)(ii) of the Agreement is hereby amended and restated in its entirety as follows:

“The Distribution Merger Agreement shall provide, among other things, that (A) with respect to each Class A Share (or fraction thereof, in the case of a fractional share) issued and outstanding immediately prior to the effective time of the Distribution (other than the Hook Stock) (I) a portion thereof equal to one (or such

fraction, in the case of a fractional share) multiplied by the quantity of one minus the inverse of the Stock Split Multiple shall be exchanged for (and as a result, such portion shall be cancelled), in accordance with Section 251(b)(5) of the DGCL, a fraction of one validly issued, fully paid and non-assessable share of SpinCo Class A Common Stock equal to the product of (i) the quotient of (x) one (or such fraction of a Class A Share, in the case of a fractional share) divided by (y) the Stock Split Multiple and (ii) 1/3, and (II) the remaining portion thereof not so exchanged shall be unaffected by the Distribution and shall remain issued and outstanding and (B) with respect to each Class B Share (or fraction thereof, in the case of a fractional share) issued and outstanding immediately prior to the effective time of the Distribution (other than the Hook Stock) (I) a portion thereof equal to one (or such fraction, in the case of a fractional share) multiplied by the quantity of one minus the inverse of the Stock Split Multiple shall be exchanged for (and as a result, such portion shall be cancelled), in accordance with Section 251(b)(5) of the DGCL, a fraction of one validly issued, fully paid and non-assessable share of SpinCo Class B Common Stock equal to the product of (i) the quotient of (x) one (or such fraction of a Class B Share, in the case of a fractional share) divided by (y) the Stock Split Multiple and (ii) 1/3, and (II) the remaining portion thereof not so exchanged shall be unaffected by the Distribution and shall remain issued and outstanding.”

2.3 Section 2.01 of the Agreement is hereby amended by adding a new Section 2.01(g) to be read as follows:

“(g) Cancellation of Treasury Shares. Immediately prior to the Distribution, the Company shall cancel all Shares held in treasury by the Company that are not held on behalf of third parties (excluding, for the avoidance of doubt, any Shares that constitute Hook Stock) without payment of any consideration therefor and such Shares shall cease to exist.”

2.4 The first paragraph of Section 2.02(a)(i) of the Agreement is hereby amended and restated in its entirety as follows:

“(A) Common Stock Consideration. Each share of Class A Common Stock, par value \$0.01 per share, of the Company (the “Class A Common Stock”, and each a “Class A Share”) and each share of Class B Common Stock, par value \$0.01 per share of the Company (the “Class B Common Stock”, and together with the Class A Common Stock, the “Common Stock”, and each a “Class B Share”, and together with the Class A Shares, the “Shares”) issued and outstanding immediately prior to the First Effective Time (other than Shares (I) owned by Parent that are not held on behalf of third parties (each such Share, an “Excluded Share” and, collectively, “Excluded Shares”) and (II) that constitute Hook Stock) shall be exchanged, in accordance with Section 251(b)(5) of the DGCL, for a number of validly issued, fully paid and non-assessable shares of Parent Common Stock equal to the Exchange Ratio (the “Common Stock Consideration”), which shares of Parent Common Stock Parent shall cause to be delivered in accordance with its obligations set forth in Section 2.03.”

(B) Hook Stock Consideration. Each Share issued and outstanding immediately prior to the First Effective Time that constitutes Hook Stock shall be exchanged, in accordance with Section 251(b)(5) of the DGCL, for a number of validly issued, fully paid and non-assessable shares of Series B Preferred Stock equal to the Exchange Ratio multiplied by the Conversion Rate (the “Hook Stock Consideration”, and together with the Common Stock Consideration, the “Merger Consideration”), which shares of Series B Preferred Stock Parent shall cause to be delivered in accordance with its obligations set forth in Section 2.03. Notwithstanding anything herein to the contrary, at any time prior to the Closing, as determined by Parent’s Board of Directors in its sole discretion, Parent may elect for each Share issued and outstanding immediately prior to the First Effective Time that constitutes Hook Stock to be exchanged, in accordance with Section 251(b)(5) of the DGCL, for a number of validly issued, fully paid and non-assessable shares of Parent Common Stock equal to the Exchange Ratio in lieu of the Hook Stock Consideration (such election, the “Merger Consideration Election”), which shares of Parent Common Stock Parent shall cause to be delivered in accordance with its obligations set forth in Section 2.03. In such event, all references in this Agreement to “Parent Stock” shall be replaced by references to “Parent Common Stock” and all references in this Agreement to “Hook Stock Consideration” shall be deemed to refer to the shares of Parent Common Stock for which the Hook Stock is to be exchanged.

(C) At the First Effective Time, all the Shares (other than Excluded Shares) shall cease to be outstanding, shall be cancelled and shall cease to exist and (1) each certificate (a “Certificate”) formerly representing any of the Shares (other than Excluded Shares) and (2) each book-entry account formerly representing any uncertificated Shares (“Uncertificated Shares”) (other than Excluded Shares) shall thereafter represent its respective Merger Consideration and, in each case, the right, if any, to receive pursuant to Section 2.03(e) cash in lieu of fractional shares into which such Shares have been exchanged pursuant to this Section 2.02 and any distribution or dividend pursuant to Section 2.03(c).”

2.5 Section 2.02(a)(i) of the Agreement is hereby amended by adding the following words to the end thereof:

“As used in this Agreement, the term “Conversion Rate” means 1/10,000.”

2.6 Section 2.02 of the Agreement is hereby amended to remove subparagraph (c) thereto.

2.7 Section 2.03(a) of the Agreement is hereby amended and restated in its entirety as follows:

“Exchange Agent. At the First Effective Time, Parent shall deposit, or cause to be deposited, with an exchange agent selected by Parent with the Company’s prior written approval, which shall not be unreasonably withheld or delayed (the “Exchange Agent”), for the benefit of the holders of Shares (other than Excluded Shares), an aggregate number of shares of Parent Stock to be credited in the stock

ledger and other appropriate books and records of Parent in uncertificated form or book-entry form comprising the amount required to be delivered pursuant to Section 2.02 in respect of Shares (other than Excluded Shares). In addition, Parent shall deposit, or cause to be deposited, with the Exchange Agent, as necessary from time to time after the First Effective Time, (i) any dividends or other distributions payable pursuant to Section 2.03(c) with respect to the Parent Common Stock issued pursuant to the Initial Merger with respect to Shares with a record and payment date after the First Effective Time and prior to the surrender of such Shares and (ii) cash in lieu of any fractional shares payable pursuant to Section 2.03(e). All shares of Parent Stock and cash, together with the amount of any dividends and distributions deposited with the Exchange Agent pursuant to this Section 2.03(a), shall hereinafter be referred to as the “Exchange Fund”. The Exchange Agent shall invest the cash portion of the Exchange Fund as directed by Parent; provided that such investments shall be in obligations, funds or accounts typical for (including having liquidity typical for) transactions of this nature. To the extent that there are losses or any diminution of value with respect to such investments, or the Exchange Fund diminishes for any other reason below the level required to make prompt cash payment of any dividends or other distributions payable pursuant to Section 2.03(c) and any cash in lieu of any fractional shares payable pursuant to Section 2.03(e), Parent shall promptly replace or restore the cash in the Exchange Fund lost through such investments or other events so as to ensure that the Exchange Fund is at all times maintained at a level sufficient to make such cash payments. Any interest and other income resulting from such investment shall become a part of the Exchange Fund, and any amounts in excess of the amounts payable under this Section 2.03(a) shall be promptly returned to Parent.”

2.8 Sections 2.03(f), 2.04, 4.10 and 6.01(d) of the Agreement are hereby amended by replacing each reference to “Parent Common Stock” with a reference to “Parent Stock”.

2.9 Section 2.03(b) of the Agreement is hereby amended and restated in its entirety as follows:

“Exchange Procedures. Promptly after the First Effective Time (and in any event within four business days thereafter or at such other time as may be agreed by the Company, Parent and the Exchange Agent), Parent shall cause the Exchange Agent to mail to each holder of record of Certificates (other than Excluded Shares) a letter of transmittal (together with any other materials delivered therewith, the “Letter of Transmittal”) in customary form advising such holder of the effectiveness of the Initial Merger and the conversion of its Shares into the Merger Consideration, and specifying that risk of loss and title to the Certificates shall pass only upon delivery of the Certificates (or affidavits of loss in lieu of the Certificates as provided in Section 2.03(g)) and instructions for use in effecting the surrender of the Certificates (or affidavits of loss in lieu of the Certificates as provided in Section 2.03(g)). Prior to causing the Exchange Agent to mail the Letter of Transmittal, Parent shall give the Company a reasonable opportunity to review and comment on such Letter of Transmittal and shall consider in good faith all reasonable additions, deletions or changes suggested by the Company. Upon the surrender of a Certificate (or affidavit of loss in lieu thereof as provided in Section 2.03(g)) to the Exchange Agent in accordance with the terms of such

Letter of Transmittal, the holder of such Certificate shall be (i) credited in the stock ledger and other appropriate books and records of Parent that number of shares of Parent Stock for which its Shares were exchanged pursuant to this Article II in uncertificated form (or evidence of shares in book-entry form), and (ii) sent an amount in immediately available funds (or, if no wire transfer instructions are provided, a check, and in each case, after giving effect to any required Tax withholding provided in Section 2.03(h)) equal to (A) any cash in lieu of fractional shares pursuant to Section 2.03(e) plus (B) any unpaid non-stock dividends and any other dividends or other distributions that such holder has the right to receive pursuant to Section 2.03(c), and the Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates. In the event of a transfer of ownership of Shares that is not registered in the transfer records of the Company, the proper number of shares of Parent Stock in uncertificated form, together with a check for any cash to be paid upon due surrender of the Certificate and any other dividends or distributions in respect thereof, may be credited and/or paid to such a transferee if the Certificate formerly representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid or are not applicable. If any shares (or evidence of shares in book-entry form) of Parent Stock are to be credited to a name other than that in which the applicable Certificate is registered, it shall be a condition of such credit that the Person requesting such credit shall pay any stock transfer or other Taxes required by reason of the crediting of shares (or evidence of shares in book-entry form) of Parent Stock in a name other than that of the registered holder of the Certificate surrendered, or shall establish to the satisfaction of Parent or the Exchange Agent that such Taxes have been paid or are not applicable.”

2.10 Section 2.03(c)(i) of the Agreement is hereby amended and restated in its entirety as follows:

“ Distribution with Respect to Unexchanged Shares; Voting. (i) All shares of Parent Stock to be issued pursuant to the Initial Merger shall be issued and outstanding as of the First Effective Time and whenever a dividend or other distribution is declared by Parent in respect of the Parent Common Stock, the record date for which is after the First Effective Time, that declaration shall include dividends or other distributions in respect of all shares of Parent Common Stock issued in the Initial Merger. No dividends or other distributions in respect of the Parent Common Stock issued pursuant to the Initial Merger shall be paid to any holder of any unsurrendered Certificate until such Certificate (or affidavit of loss in lieu thereof as provided in Section 2.03(g)) is surrendered in accordance with this Article II. Subject to the effect of applicable Laws, following surrender of any such Certificate (or affidavit of loss in lieu thereof as provided in Section 2.03(g)), there shall be credited and/or paid to the holder of the shares of Parent Common Stock issued in exchange therefor, without interest thereon, (A) at the time of such surrender, the dividends or other distributions with a record date after the First Effective Time theretofore payable with respect to such shares of Parent Common Stock and not paid and (B) at the appropriate payment date, the dividends or other distributions payable with respect to such shares of Parent Common Stock with a record date after the First Effective Time, but with a payment date subsequent to surrender.”

2.11 Section 2.03(c)(ii) of the Agreement is hereby amended and restated in its entirety as follows:

“Registered holders of unsurrendered Certificates, other than in respect of the Hook Stock, shall be entitled to vote after the First Effective Time at any meeting of Parent stockholders with a record date at or after the First Effective Time the number of shares of Parent Common Stock that are entitled to vote and represented by such Certificates, regardless of whether such holders have exchanged their Certificates.”

2.12 Section 2.03(e) of the Agreement is hereby amended and restated in its entirety as follows:

“Notwithstanding any other provision of this Agreement, other than in respect of the Hook Stock, if applicable, no fractional shares of Parent Common Stock will be issued, and any holder of Shares entitled to receive a fractional share of Parent Common Stock but for this Section 2.03(e) shall be entitled to receive a cash payment in lieu thereof, which payment shall be calculated by the Exchange Agent and shall represent such holder’s proportionate interest in a share of Parent Common Stock based on the Average Stock Price. For the avoidance of doubt, fractional shares of Parent Common Stock or Series B Preferred Stock (as applicable) may be issued in the Initial Merger in respect of the Hook Stock.”

2.13 Section 2.03(f) of the Agreement is hereby amended by replacing the words “to be issued or paid pursuant to the provisions of this Article II” with “to be credited or paid pursuant to the provisions of this Article II.”

2.14 Section 2.03(g) of the Agreement is hereby amended and restated in its entirety as follows:

“Lost, Stolen or Destroyed Certificates. In the event any Certificate shall have been lost, stolen, mutilated or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen, mutilated or destroyed and, if required by Parent, the posting by such Person of a bond in customary amount and upon such terms as may be required by Parent as indemnity against any claim that may be made against it, the Exchange Agent or the Final Surviving Entity with respect to such Certificate, the Exchange Agent will credit in exchange for such lost, stolen, mutilated or destroyed Certificate the shares of Parent Stock and pay the cash and any dividends and other distributions in respect of the Parent Stock that would have been credited or payable pursuant to the provisions of this Article II (after giving effect to any required Tax withholdings as provided in Section 2.03(h)) had such lost, stolen or destroyed Certificate been surrendered.”

2.15 Section 2.03(i) of the Agreement is hereby amended and restated in its entirety as follows:

“Uncertificated Shares. Promptly after the First Effective Time, Parent shall cause the Exchange Agent to (i) mail to each holder of Uncertificated Shares (other than Excluded Shares) materials advising such holder of the effectiveness of the Initial Merger and the

conversion of its Shares into the Merger Consideration, (ii) credit in the stock ledger and other appropriate books and records of Parent to each holder of Uncertificated Shares that number of shares of Parent Stock for which its Shares were exchanged pursuant to this Article II in uncertificated form (or evidence of shares in book-entry form), and (iii) mail a check for cash pursuant to Section 2.03(e) in lieu of fractional shares in respect of each such Uncertificated Share and any dividends and other distributions in respect of the Parent Stock to be credited or paid pursuant to the provisions of this Article II (after giving effect to any required Tax withholdings as provided in Section 2.03(h)), without interest thereon.”

2.16 Section 4.02(a) of the Agreement is hereby amended by replacing the words “All of the outstanding shares of Parent Common Stock have been duly authorized and validly issued and are fully paid and nonassessable.” with “All of the outstanding shares of Parent Common Stock have been duly authorized and validly issued and are fully paid and non-assessable. As of May 7, 2018, 40,000 shares of Series B Preferred Stock were authorized and no shares of Series B Preferred Stock were issued and outstanding.”.

2.17 Section 4.02(a) of the Agreement is hereby amended by inserting the following sentence prior to the final sentence thereof: “As of the date of the Amendment, there are no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, calls, commitments or rights of any kind that obligate Parent or any of its Subsidiaries to issue or sell any shares of Series B Preferred Stock or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire from Parent or any of its Subsidiaries, any shares of Series B Preferred Stock, and no securities or obligations of Parent or any of its Subsidiaries evidencing such rights are authorized, issued or outstanding.”.

2.18 Section 4.03 of the Agreement is hereby amended by replacing the words “the approval of the issuance of Parent Common Stock comprising the Merger Consideration (the “ Stock Issuance ”)” with “the approval of the issuance of Parent Stock comprising the Merger Consideration (the “ Stock Issuance ”)”.

2.19 Section 4.03 of the Agreement is hereby amended by replacing the words “The shares of Parent Common Stock comprising the Merger Consideration have been duly authorized, and when issued pursuant to this Agreement, will be validly issued, fully paid and nonassessable” with “The shares of Parent Stock comprising the Merger Consideration have been duly authorized and, when issued pursuant to this Agreement, will be validly issued, fully paid and non-assessable”.

2.20 Section 5.05(d) of the Agreement is hereby amended by replacing the words “Without the prior written consent of the Company, the approval of the Stock Issuance shall be the only matter” with “Without the prior written consent of the Company, the approval of the Stock Issuance and the approval of an amendment to Parent’s restated certificate of incorporation to provide, among other things, that shares of Parent Common Stock held by subsidiaries of Parent will not be entitled to receive dividends that are declared on the Parent Common Stock shall be the only matters”.

2.21 The Agreement is hereby amended to include as Exhibit IV thereto the contents of Annex A hereof.

Section 3. Acknowledgement. The Company hereby acknowledges that Parent intends to seek approval at the Parent Stockholders Meeting of an amendment to Parent's restated certificate of incorporation to provide, among other things, that shares of Parent Common Stock held by subsidiaries of Parent will not be entitled to receive dividends that are declared on the Parent Common Stock. The Company hereby consents to the submission of such matter to the stockholders of Parent at the Parent Stockholders Meeting and confirms that such amendment is not prohibited by Section 5.01(d) of the Agreement.

Section 4. General Provisions .

4.1 All of the provisions of this Amendment shall be effective as of the date of this Amendment. Except to the extent specifically amended hereby, all of the terms of the Agreement shall remain unchanged and in full force and effect, and, to the extent applicable, such terms shall apply to this Amendment as if it formed a part of the Agreement.

4.2 After giving effect to this Amendment, each reference in the Agreement to "this Agreement", "hereof", "hereunder" or words of like import referring to the Agreement shall refer to the Agreement as amended by this Amendment. All references in the Agreement to "the date hereof" or "the date of this Agreement" shall refer to December 13, 2017.

4.3 This Amendment and the Agreement, including the Annexes and Exhibits attached thereto, the Company Disclosure Letter, the Parent Disclosure Letter and the Confidentiality Agreement, contain all of the terms, conditions, representations and warranties agreed upon or made by the parties relating to the subject matter of this Amendment and the Agreement and supersede all prior and contemporaneous agreements, negotiations, correspondence, undertakings and communications of the parties or their representatives, oral or written, respecting such subject matter.

4.4 The provisions of Article VIII (Miscellaneous and General) of the Agreement shall, to the extent not already set forth in this Amendment, apply *mutatis mutandis* to this Amendment, and to the Agreement as modified by this Amendment, taken together as a single agreement, reflecting the terms as modified hereby.

[Signature Page Follows]

IN WITNESS WHEREOF , the parties hereto have caused this Amendment to be duly executed and delivered as of the date first above written.

TWENTY-FIRST CENTURY FOX, INC. ,

By: /s/ Janet Nova
Name: Executive Vice President
Title: Executive Vice President and Group
General Counsel

THE WALT DISNEY COMPANY ,

By: /s/ Christine M. McCarthy
Name: Christine M. McCarthy
Title: Senior Executive Vice President and Chief
Financial Officer

TWC MERGER ENTERPRISES 2 CORP. ,

By: /s/ James M. Kapenstein
Name: James M. Kapenstein
Title: Senior Vice President

TWC MERGER ENTERPRISES 1, LLC ,

By: /s/ James M. Kapenstein
Name: James M. Kapenstein
Title: Senior Vice President

CERTIFICATE OF DESIGNATION
OF
SERIES B CONVERTIBLE PREFERRED STOCK
OF
THE WALT DISNEY COMPANY

(Pursuant to Section 151 of the Delaware General Corporation Law)

Section 1. Designation and Amount. The designation of the series of the preferred stock shall be “Series B Convertible Preferred Stock” and the number of shares constituting the Series B Convertible Preferred Stock shall be 40,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series B Convertible Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series B Convertible Preferred Stock.

Section 2. Dividends.

No dividend shall be payable on any share of Series B Convertible Preferred Stock of the Corporation, except in the case of dividends payable in shares of Series B Convertible Preferred Stock of the Corporation, or securities convertible into, or exercisable or exchangeable for, Series B Convertible Preferred Stock of the Corporation or shares or other equity interests of any corporation or other entity which immediately prior to the time of the dividend or distribution is a subsidiary of the Corporation (or securities convertible into, or exercisable or exchangeable for, such shares or equity interests).

Section 3. Liquidation Preference.

(i) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series B Convertible Preferred Stock then outstanding shall be entitled to be paid in cash out of the assets of the Corporation available for distribution to its stockholders an amount per share equal to the Conversion Rate (as defined below) multiplied by the per share amount of all cash and other property to be distributed in respect of the Common Stock upon such liquidation, dissolution or winding up of the affairs of the Corporation (treating all outstanding shares of Series B Convertible Preferred Stock as having been converted into Common Stock for purposes of calculating such per share amount), before any payment shall be made or any assets distributed to the holders of any stock ranking junior to the Series B Convertible Preferred Stock. If the assets of the Corporation are not sufficient to pay in full the liquidation payments payable to the holders of outstanding shares of Series B Convertible Preferred Stock and any other class or series of preferred stock having liquidation rights on parity with the shares of Series B Convertible Preferred Stock, then the holders of all such shares shall share ratably in such distribution of assets in accordance with the amount which would be payable on such distribution if the amounts to which the holders of outstanding shares of Series B Convertible Preferred Stock and all the holders of outstanding shares of such other series of preferred stock are entitled were paid in full.

(ii) For the purpose of this section, neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the property or assets of the Corporation, nor the consolidation or merger of the Corporation with one or more other corporations shall be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary, unless such voluntary sale, conveyance, exchange or transfer shall be in connection with a dissolution or winding up of the business of the Corporation.

Section 4. Redemption. The Series B Convertible Preferred Stock shall not be subject to redemption.

Section 5. Voting Rights. No shares of Series B Convertible Preferred Stock shall be entitled to vote or be counted for quorum purposes. No shares of Series B Convertible Preferred Stock shall be treated as or deemed outstanding for purposes of determining voting requirements.

Section 6. Automatic Conversion.

(i) Each share of Series B Convertible Preferred Stock shall automatically be converted into a number of fully paid and nonassessable shares of Common Stock equal to the Conversion Rate upon a Transfer, other than a Permitted Transfer, of such share of Series B Convertible Preferred Stock (a “Conversion Event”). Such conversion shall occur automatically without the need for any further action by the holders of such shares and whether or not the certificates, if any, representing such shares are surrendered to the Corporation or the Transfer Agent. Upon the occurrence of such automatic conversion of the Series B Convertible Preferred Stock, the holders of Series B Convertible Preferred Stock so converted shall surrender the certificates, if any, representing such shares at the office of the Corporation or the Transfer Agent. Thereupon, the Transfer Agent will record the conversion.

(ii) The “Conversion Rate” initially shall be equal to 10,000 shares of Common Stock per share of Series B Convertible Preferred Stock.

(iii) In the event the Corporation changes the number of shares of Common Stock as a result of a recapitalization, reclassification, stock split (including a reverse stock split), stock dividend, distribution, subdivision or other similar transaction, then in each such case the Conversion Rate shall be adjusted by multiplying such Conversion Rate by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger Etc.

In the event the Corporation enters into any consolidation, merger, combination or other transaction in which the outstanding shares of Common Stock are exchanged for or changed into other stock, securities, cash and/or any other property (payable in kind), then in any such case each share of Series B Convertible Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share equal to the Conversion Rate multiplied by the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is exchanged or changed; provided that, if such consideration shall consist in any part of voting securities (or of options, rights or warrants to purchase, or of securities convertible into or exercisable or exchangeable for, voting securities), then the Corporation may provide in the applicable merger or other agreement for the holders of shares of Series B Convertible Preferred Stock to receive, on a per share basis, non-voting securities (or options, rights or warrants to purchase, or securities convertible into or exercisable or exchangeable for, non-voting securities). Any determination as to the matters described above shall be made in good faith by the Board of Directors in its sole discretion.

Section 8. Ranking. The Series B Convertible Preferred Stock shall rank junior to all other series of preferred stock of the Corporation as to the payment of dividends and as to the distribution of assets upon liquidation, dissolution or winding up, unless the terms of any such series shall provide otherwise, and shall rank senior to the Common Stock as to the distribution of assets upon liquidation, dissolution or winding up.

Section 9. Fractional Shares. Series B Convertible Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder’s fractional shares, to have the benefit of all rights of holders of Series B Convertible Preferred Stock.

Section 10. No Preemptive Rights. The holders of shares of Series B Convertible Preferred Stock shall have no preemptive or preferential rights to purchase or subscribe for any stock, obligations, warrants or other securities of the Corporation of any class.

Section 11. Other Rights. The shares of Series B Convertible Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Restated Certificate of Incorporation or as provided by applicable law.

Section 12. Definitions.

“Common Stock” means the common stock, par value \$0.01 per share, of the Corporation.

“Permitted Transfer” means any Transfer of a share of Series B Convertible Preferred Stock to the Corporation or a Subsidiary of the Corporation.

“Subsidiary” means any corporation, limited liability company, partnership or other entity in which a majority in voting power of the shares or equity interests entitled to vote generally in the election of directors (or equivalent management board) is owned, directly or indirectly, by the Corporation.

“Transfer” of a share of Series B Convertible Preferred Stock means any sale, assignment, transfer, conveyance, hypothecation or other transfer or disposition of such share or any beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law.

“Transfer Agent” means Broadridge Financial Solutions, Inc., unless and until a successor is selected by the Corporation, and then such successor.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of March 14, 2018, by and between Walt Disney International (the “*Company*”), a California corporation and an indirectly wholly owned subsidiary of The Walt Disney Company (“*Disney*”), and Kevin A. Mayer (“*Executive*”).

WITNESSETH:

WHEREAS, Executive has most recently been employed by The Walt Disney Company, a Delaware corporation, pursuant to an employment agreement dated as of July 1, 2015, which is scheduled to expire by its own terms on June 30, 2021 (the “*Prior Agreement*”) and which shall be superseded in its entirety by this Agreement except as otherwise provided in Paragraph 8(e) hereof; and

WHEREAS, the Company and Executive wish to enter into an agreement (this “*Agreement*”) to provide for Executive’s service to the Company;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the Company and Executive hereby agree as follows:

1. Employment. Upon the terms and subject to the conditions of this Agreement, the Company hereby employs Executive, and Executive hereby accepts employment by the Company, for the period commencing as of March 14, 2018, and ending on December 31, 2022 (or such earlier date as shall be determined pursuant to Paragraph 5). The period during which Executive is employed pursuant to this Agreement shall be referred to as the “*Employment Period*.”

2. Position and Duties. During the Employment Period, Executive shall serve as Chairman, Direct-to-Consumer and International, of the Company, and in such other positions with the Company and its affiliates consistent with Executive’s position as Chairman, Direct-to-Consumer and International, of the Company, as the Company reasonably may assign. Executive’s upward reporting structure will be consistent with the upward reporting structure of comparable senior executives. During the Employment Period, Executive shall devote all Executive’s business time on a full-time and exclusive basis to the services required hereunder, and shall perform such services in a manner consonant with the duties of Executive’s position. Executive shall be subject to the terms and conditions of any applicable policy of the Company or of Disney (including, without limitation, “The Walt Disney Company and Associated Companies Standards of Business Conduct” booklet and the Employee Policy Manual), as reasonably made available and as interpreted from time to time by the Company or Disney, provided that, subject to the provisions of Paragraph 7 and the Employee Policy Manual, nothing herein shall preclude Executive from (i) engaging in charitable activities and community affairs, and (ii) managing Executive’s personal investments, so long as the activities listed in subclauses (i)-(ii) do not materially interfere, individually or in the aggregate, with the proper performance of Executive’s duties and responsibilities hereunder.

3. Compensation.

(a) Base Salary. Commencing March 14, 2018, Executive shall receive an annual base salary of \$1,800,000. Subsequent salary amounts shall be determined by the Company in its sole discretion; provided, however, that none of such subsequent annualized salaries shall be less than \$1,800,000.

The amount of annual base salary payable under this Paragraph 3(a) shall be reduced, however, to the extent Executive elects in accordance with Section 409A of the Internal Revenue Code of 1986, as amended (the “ **Code** ”), and the regulations and interpretations thereunder (“ **Section 409A** ”), to defer such salary under the terms of any deferred compensation or savings plan or arrangement maintained or established by or on behalf of the Company or any of its affiliates. Executive’s annual base salary payable hereunder, without reduction for any amounts deferred as described above, is referred to herein as the “ **Base Salary** .” The Company shall pay Executive the portion of Base Salary not deferred at the election of Executive in accordance with its generally applicable policies for comparable senior executives (currently paid on a weekly basis), but not less frequently than in equal monthly installments.

(b) Annual Incentive Bonus. Executive shall be given the opportunity to earn an annual discretionary incentive bonus in accordance with the annual bonus plan generally applicable to comparable executives of Disney’s subsidiaries including the Company (the “ **Disney Group** ”), as the same may be in effect from time to time (the “ **Annual Plan** ”). Executive’s target annual incentive bonus opportunity under the Annual Plan during each full fiscal year during the term hereof shall be 200% of Executive’s Base Salary in effect at the end of such fiscal year. The actual amount payable to Executive as an annual bonus under the Annual Plan shall be dependent upon the achievement of performance objectives established in accordance with the Annual Plan by the Board of Directors of Disney or the committee of the Board of Directors of Disney responsible for administering such Annual Plan (the “ **Compensation Committee** ”). The preceding sentence shall not limit any power or discretion of the Board of Directors of Disney or the Compensation Committee in the administration of the Annual Plan. Depending on performance, the actual amount payable as an annual bonus to Executive under the Annual Plan may be less than, greater than or equal to the target bonus specified above. Any bonus payable pursuant to this Paragraph 3(b) shall be paid at the same time as annual bonuses are generally payable to other comparable senior executives of the Disney Group in accordance with the provisions of the Annual Plan, subject to Executive’s continued employment with the Company through the date on which such bonuses are paid. If Executive’s employment continues until and ends upon the Scheduled Expiration Date, the Chief Executive Officer of the Company will, in his discretion, recommend to the Compensation Committee an annual cash bonus for the fiscal year in which the termination occurs in consideration of Executive’s contributions during such fiscal year. Such bonus shall be payable at the same time annual cash bonuses are paid to senior management and shall be based on actual achievement of performance targets, evaluated as if Executive had remained employed through the end of the applicable performance period.

(c) Eligibility for Equity Awards. Subject to the terms of this Agreement, Executive shall be entitled to participate in any stock option, restricted stock unit, performance share, performance unit or other equity-based long-term incentive compensation plan, program or

arrangement generally made available to comparable senior executives of the Disney Group on substantially the same terms and conditions as generally apply to such other executives, except that the size of the awards made to Executive shall reflect Executive's position with the Company and the Compensation Committee's evaluation of Executive's performance and competitive compensation practices. For each full fiscal year during the term hereof, Executive shall receive an annual award with a target accounting award value (which value shall be as determined in accordance with the policies and practices generally applicable to comparable senior executives of the Disney Group) of 300% of Executive's Base Salary as expected to be in effect at the end of such fiscal year; it being understood that the form of the award shall be determined by the Compensation Committee and such form shall be subject to the terms of the applicable plan or plans of the Company. The preceding sentence shall not limit any power or discretion of the Board of Directors of Disney or the Committee in the administration of any such long-term incentive plan, it being understood, specifically, that the Compensation Committee may adjust (i.e. reduce) the target award value of any award made in respect of any fiscal year based on its evaluation of Executive's performance and/or any economic, financial and/or market conditions affecting Disney, the Disney Group and/or any of the businesses for which Executive has responsibility. In addition, the Compensation Committee may increase the award value of any award made in respect of any such fiscal year based on its evaluation of Executive's performance. The actual benefits conveyed to Executive in respect of any such awards may be less than, greater than or equal to the targeted award value, as such benefits will be dependent on a series of performance and other factors, such as the value of Disney's common stock and satisfaction of any applicable vesting requirements and performance conditions.

4. Benefits, Perquisites and Expenses.

(a) Benefits. During the Employment Period, Executive shall be eligible to participate in (i) each welfare benefit plan sponsored or maintained from time to time by the Company or Disney and made available generally to comparable executives of the Company, including, without limitation, each such group life, hospitalization, medical, dental, health, accident or disability insurance, vacation or similar plan or program, whether now existing or established hereafter, and (ii) each pension, profit sharing, retirement, deferred compensation or savings plan sponsored or maintained by the Company or Disney for comparable executives of the Company generally, in each case, whether now existing or established hereafter, in accordance with the generally applicable provisions thereof.

(b) Perquisites. During the Employment Period, Executive shall be entitled to receive such perquisites as are generally provided to comparable senior executives in the Disney Group, in each case for so long as such perquisites are generally made available to comparable executives in the Disney Group..

(c) Business Expenses. The Company shall pay or reimburse Executive for all reasonable expenses incurred or paid by Executive during the Employment Period in the performance of Executive's duties hereunder, upon presentation of expense statements or vouchers and such other information as the Company may reasonably require and in accordance

with the generally applicable policies and procedures of the Company for comparable executives of the Company as in effect from time to time.

(d) Indemnification. Executive and Company are parties to an indemnification agreement dated October 1, 2008 (“*Indemnification Agreement*”), which shall continue in full force and effect in accordance with its terms.

5. Termination of Employment.

(a) Early Termination of the Employment Period. Notwithstanding Paragraph 1, the Employment Period shall end upon the earliest to occur, if any, of (i) Executive’s death, (ii) a Termination due to Disability, (iii) a Termination for Cause, (iv) the Termination Date specified in connection with any exercise by the Company of its Termination Right, or (v) a Termination for Good Reason. If the Employment Period terminates as of a date specified under this Paragraph 5, Executive shall be deemed to have automatically resigned, effective immediately upon termination, from any and all positions Executive holds with the Company and any of its subsidiaries and affiliates, with no further action required by Executive or the Company or any of its subsidiaries and affiliates.

(b) Benefits Payable Upon Termination.

(i) In the event of Executive’s death during the Employment Period or a Termination due to Disability, Executive or Executive’s beneficiaries or legal representatives shall be provided the Unconditional Entitlements, including, but not limited to, any such Unconditional Entitlements that are or become payable under any Company or Disney plan, policy, practice or program or any contract or agreement with the Company by reason of Executive’s death or Termination due to Disability. Unless and until a Termination due to Disability, during any period during which Executive is unable to perform the services required hereunder for medical or health-related reasons, Executive’s Base Salary shall be payable to Executive and for any such period of approved leave, Executive shall remain an employee of the Company for purposes of stock option and restricted stock unit awards, annual incentive bonus compensation pursuant to Paragraph 3(b) hereof, and equity awards pursuant to Paragraph 3(c) hereof.

(ii) In the event of Executive’s Termination for Cause, Executive shall be provided the Unconditional Entitlements, except that Executive will not be paid the bonus referred to in Paragraph 5(c)(ii) below.

(iii) In the event of a Termination for Good Reason or the exercise by the Company of its Termination Right, Executive shall be provided the Unconditional Entitlements. In addition, the Company shall provide Executive the Conditional Benefits, subject to (A) Executive’s execution of the Release, (B) Executive having not revoked such Release within the seven-day revocation period permitted following delivery of such Release and (C) Executive’s execution of the Consulting Agreement, it being understood, for the avoidance of doubt, that any failure by Executive to execute either the Consulting Agreement or the Release or both of them shall not be deemed to

be a breach hereof. For Executive to become entitled to the Conditional Benefits, Executive must deliver both (i) the executed Release and (ii) the executed Consulting Agreement to the Company by no later than twenty-two (22) days following the Termination Date.

(c) Unconditional Entitlements. For purposes of this Agreement, the “ *Unconditional Entitlements* ” to which Executive may become entitled under Paragraph 5(b) are as follows:

(i) Earned Salary. Any Base Salary earned, but unpaid, including without limitation accrued but unused and unpaid vacation, for services rendered to the Company on or prior to the date on which the Employment Period ends pursuant to Paragraph 5(a) (but excluding any salary and interest accrued thereon payment of which has been deferred, which shall be paid as provided under the applicable plan) shall be paid within 30 days following the termination of Executive’s employment hereunder (or such date or earlier dates upon which payment of any part or whole of the foregoing is required under applicable law).

(ii) Prior Year Bonus. If Executive’s employment terminates after the end of a fiscal year but before the annual incentive compensation payable for services rendered in that prior fiscal year has been paid, the annual incentive compensation that would have been payable to Executive for such completed fiscal year in accordance with Paragraph 3(b) shall be paid within 30 days following the termination of Executive’s employment hereunder (or such date or earlier dates upon which payment of any part or whole of the foregoing is required under applicable law) or, if any part thereof constitutes a bonus which is subject to or conditioned upon any performance conditions, within thirty (30) days following the determination that such conditions have been met, provided that in all events the bonus shall be paid no later than 120 days following Executive’s termination of employment.

(iii) Benefits. All benefits payable to Executive under any employee benefit plans (including, without limitation any pension plans or 401(k) plans) of the Company or any of its affiliates applicable to Executive at the time of termination of Executive’s employment with the Company and all amounts and benefits (other than the Conditional Benefits) which are vested or which Executive is otherwise entitled to receive under the terms of or in accordance with any plan, policy, practice or program of, or any contract or agreement with, the Company or any of its affiliates, at or subsequent to the date of Executive’s termination without regard to the performance by Executive of further services or the resolution of a contingency, shall be paid or provided in accordance with and subject to the terms and provisions of such plans, it being understood that all such benefits shall be determined on the basis of the actual date of termination of Executive’s employment with the Company. Notwithstanding the immediately preceding sentence, Executive shall not be entitled to any benefits under any severance plan or policy of the Company or any of its affiliates.

(iv) Indemnities. Any right which Executive may have to claim a defense and/or indemnity for liabilities to or claims asserted by third parties in connection with Executive's activities as an officer, director or employee of the Company or any of its affiliates pursuant to the terms of the Indemnification Agreement referenced in Paragraph 4(d) shall be unaffected by Executive's termination of employment and shall remain in effect in accordance with its terms.

(v) Medical Coverage. Executive shall be entitled to such continuation of health care coverage as is required under, and in accordance with, applicable law or otherwise provided in accordance with the Company's policies. Executive shall be notified in writing pursuant to this Paragraph 5(c)(v) of Executive's rights to continue such coverage after the termination of Executive's employment, provided that Executive timely complies with the conditions to continue such coverage that are applicable at law or pursuant to Company's or Disney's policies and procedures to a termination of employment at that time. Executive understands and acknowledges that Executive is responsible to make all payments required for any such continued health care coverage that Executive may choose to receive.

(vi) Business Expenses. Executive shall be entitled to reimbursement, in accordance with the Company's policies regarding expense reimbursement as in effect from time to time, for all business expenses incurred by Executive prior to the termination of employment.

(vii) Stock Options/RSUs. Except to the extent additional rights are provided upon Executive's qualifying to receive the Conditional Benefits, Executive's rights with respect to any stock options and/or restricted stock units granted to Executive by Disney shall be governed by the terms and provisions of the plans (including plan rules) and award agreements pursuant to which such stock options and restricted stock units were awarded, as in effect at the date Executive's employment terminates.

(d) Conditional Benefits. For purposes of this Agreement, the “ **Conditional Benefits** ” to which Executive may become entitled, provided Executive complies with the terms and conditions hereof (including the applicable agreements attached hereto), are as follows:

(i) Remaining Salary. As further noted in paragraph 2 of the Consulting Agreement, the Company shall pay Executive a lump sum amount equal to the Consulting Amount as compensation for consulting services under the Consulting Agreement. If the Scheduled Expiration Date is later than the end of the Consulting Agreement Period, the Company shall also pay Executive the Severance Amount. The Consulting Amount and the Severance Amount shall be paid on the date that is six months and one day after the Termination Date (or upon Executive's death, if earlier).

(ii) Stock Options. The Continuing Stock Options shall become exercisable in accordance with the applicable Original Stock Option Award Documents, on the same basis as such options would have become vested and exercisable if Executive had

remained employed under this Agreement through the Scheduled Expiration Date. Once exercisable, all Continuing Stock Options shall remain exercisable until the Stock Option Termination Date. All of Executive's Remaining Stock Options that were vested and exercisable at the Termination Date shall remain exercisable until the Stock Option Termination Date. Notwithstanding any other term or provision hereof, any of Executive's stock options which are not vested at the Termination Date, and which are not Continuing Stock Options, shall automatically terminate upon the Termination Date. Except as otherwise expressly provided herein, all of the Remaining Stock Options shall continue to be subject to the Original Stock Option Award Documents. Notwithstanding the foregoing, in the event of Executive's death prior to the Scheduled Expiration Date, all Continuing Stock Options shall vest on the date of Executive's death and all Remaining Stock Options shall be exercisable for the period following Executive's death determined under such Original Stock Option Award Documents on the same basis as though Executive was employed on the date of Executive's death and regardless of when the Stock Option Termination Date would otherwise have occurred. However, any provisions in the Original Stock Option Award Documents relating to disability or change in control of Disney after the Termination Date shall not be operative with respect to any Remaining Stock Options.

(iii) RSUs. The Continuing Stock Units shall continue to vest in accordance with the terms of the Original RSU Award Documents, on the same basis as such stock units would have become vested if Executive had remained employed under this Agreement through the Scheduled Expiration Date. Except as otherwise expressly provided herein, all such Continuing Stock Units shall be subject to, and administered in accordance with, the Original RSU Award Documents. Any of Executive's restricted stock unit awards that have not become vested on or before the Termination Date, and that are outstanding at the Termination Date, but which are not Continuing Stock Units, shall automatically terminate on the Termination Date. Notwithstanding any term or provision of the Original RSU Award Documents:

(A) any provisions in such Original RSU Award Documents relating to disability shall not be applicable to any such Continuing Stock Units after the Termination Date; and

(B) in the event of Executive's death after the Termination Date but prior to the Scheduled Expiration Date, the terms and provisions of the Original RSU Award Documents shall be interpreted and applied in the same manner with respect to such Continuing Stock Units as if Executive were an active employee on the date of Executive's death.

(C) to the extent that, under the Company's compensation practices and policies, any tranche of Continuing Stock Units is subject to the achievement of performance conditions which were imposed solely because Executive was an executive officer of the Company who could have been a covered employee within the meaning of Section 162(m) at the time payment in respect of such

award was expected to be made (the “ *Applicable 162(m) Criteria* ”) and such Applicable 162(m) Criteria relate, in whole or in part, to any performance period continuing after the end of the Company’s fiscal year in which the Termination Date occurs, such Applicable 162(m) Criteria shall be waived as of the Termination Date with respect to such tranche of the Continuing Stock Units; provided, however, that this Paragraph 5(d)(iii)(C) shall not be applicable if and to the extent, in the reasonable opinion of tax counsel to the Company, the presence of such provision would cause any stock units intended to be qualified as other performance based compensation within the meaning of Section 162(m) of the Code to fail to be so qualified at any time prior to Executive’s Termination Date.

(iv) Pro-Rated Current Year Bonus. The Company shall pay Executive a pro rata annual bonus for the fiscal year in which the Termination Date occurs, determined on the basis of an assumed full year target bonus determined pursuant to Section 3(b) and the number of days in the applicable fiscal year occurring on or before the Termination Date. Such pro-rata current year bonus payable pursuant to the foregoing shall be paid no later than the later of (i) two and a half months after the end of Executive’s tax year in which the Termination Date occurs and (ii) two and a half months after the end of the Company’s tax year in which the Termination Date occurs.

(v) Additional Distribution Rules in Respect of Conditional Benefits. The following additional rules shall apply with respect to distribution of the payments and benefits, if any, to be provided to Executive under Paragraph 5(d)(i), (iii) and (iv):

(A) It is intended that each installment of the payments and benefits provided under Paragraphs 5(d)(i), (iii) and (iv) shall be treated as a separate “payment” for purposes of Section 409A. Neither the Company nor Executive shall have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A;

(B) Distribution in respect of any tranche of Continuing Stock Units to which Paragraph 5(d)(iii) (B) applies shall be made within 90 days following the later of the date that (i) the service conditions that had originally been specified for such tranche of Continuing Stock Units under the applicable Original RSU Award Documents would otherwise have been satisfied (had Executive continued to be employed) and (ii) the last performance measurement period applicable in respect of such tranche of Continuing Stock Units under the applicable Original RSU Award Documents would otherwise have expired;

(C) Each installment of the payments and benefits due under Paragraph 5(d)(i) and (iii) that would, absent this subsection, be paid within the six-month period following Executive’s “separation from service” (within the meaning of Section 409A of the Code and as provided in Paragraph 5(g) hereof) from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, Executive’s death), with

any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following Executive's separation from service; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments and benefits if and to the maximum extent that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). (Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of Executive's second taxable year following the taxable year of Executive in which the separation from service occurs.) Any subsequent installments that would be payable more than six months following Executive's separation from service shall be paid in accordance with the dates and terms set forth herein.

(e) Definitions. For purposes of this Paragraph 5, the following terms shall have the meanings ascribed to them below:

“ **Consulting Agreement** ” means the consulting agreement in the form attached hereto as Exhibit A.

“ **Consulting Agreement Period** ” means the period established under the Consulting Agreement during which Executive shall be required to provide consulting services to the Company.

“ **Consulting Amount** ” means a lump sum amount equal to the aggregate Base Salary which would have been earned by Executive during the Employment Period had Executive's employment under this Agreement continued after the Termination Date and through the earlier to occur of (i) the end of the Consulting Agreement Period or (ii) any earlier date that the Consulting Agreement terminates for any reason whatsoever.

“ **Continuing Stock Options** ” means any of Executive's stock options that were not vested and exercisable at the Termination Date, but that would have become vested and exercisable on or prior to the Latest Stock Option Vesting Date had Executive continued to be employed by the Company through the Scheduled Expiration Date.

“ **Continuing Stock Units** ” means any of Executive's restricted stock units outstanding at the Termination Date (whether or not subject to performance conditions) that, subject to the satisfaction of any applicable performance conditions, would have become vested on or prior to the Scheduled Expiration Date had Executive continued to be employed by the Company through the Scheduled Expiration Date .

“ **Latest Stock Option Vesting Date** ” means the date which is three months after the Scheduled Expiration Date.

“Original Stock Option Award Documents ” means, with respect to any Remaining Stock Option, the terms and provisions of the award agreement and plan pursuant to which such Remaining Stock Option was granted, each as in effect on the Termination Date.

“ Original RSU Award Documents ” means, with respect to any tranche of Continuing Stock Units, the terms and provisions of the award agreement related to, and the plan governing, such tranche of Continuing Stock Units, each as in effect on the Termination Date.

“ Release ” means the General Release in the form set forth in Exhibit B attached hereto.

“ Remaining Stock Options ” means any of Executive’s stock options which are (i) vested at the Termination Date or (ii) Continuing Stock Options.

“ Scheduled Expiration Date ” means December 31, 2022.

“ Severance Amount ” means an amount equal to the aggregate Base Salary which would have been earned by Executive under this Agreement for the period commencing on the day after termination of the Consulting Agreement Period and ending on the Scheduled Expiration Date; provided that if the Company terminates the Consulting Agreement due to Executive’s material breach of any term thereof, the Severance Amount shall be reduced to zero.

“ Stock Option Termination Date ” means, with respect to any Remaining Stock Option, the expiration date as stated in the applicable award, taking into account any expiration date extension provided in the applicable award based on Executive’s age and/or years of service as of the Scheduled Expiration Date.

“ Termination for Cause ” means a termination of Executive’s employment by the Company due to (i) gross negligence, (ii) gross misconduct, (iii) willful material breach of this Agreement (which “material breach” for the avoidance of doubt includes a resignation by Executive without Good Reason (as defined herein) from Executive’s position and/or employment hereunder) or (iv) willful nonfeasance, which termination may be effected (A) immediately upon notice from the Company if the Company shall reasonably and in good faith determine that the conduct or cause specified in such notice is not curable (it being understood that such notice shall describe in reasonable detail the conduct or cause giving rise to such notice and shall state the reason(s) why the Company has determined that such conduct or cause is not curable); or (B) upon twenty business days notice from the Company, if the Company shall in good faith determine that the conduct or cause specified in such notice is curable (it being understood that such notice shall describe in reasonable detail the conduct or cause giving rise to such notice and shall state the reason(s) why the Company has determined that such conduct or cause is curable and what steps the Company believes should or could be taken to cure such conduct or cause, provided, however, that such opportunity to cure shall only be provided by the Company with respect to a termination of Executive’s employment

hereunder due to gross negligence); provided that the Company shall not be entitled to terminate Executive's employment for Cause, if Executive has, within five business days after notice in accordance with subclause (B) has been given personally to Executive or otherwise has been received by Executive, commenced in good faith to cure the conduct or cause specified in such notice and completes such cure within 20 business days following the date such notice was received.

“ Termination Date ” means the earlier to occur of (i) the date the Company specifies in writing to Executive in connection with the exercise of its Termination Right or (ii) the date Executive specifies in writing to the Company in connection with any notice to effect a Termination for Good Reason.

“ Termination due to Disability ” means a termination of Executive's employment by the Company because Executive has been incapable, after reasonable accommodation, of substantially fulfilling the positions, duties, responsibilities and obligations set forth in this Agreement because of physical, mental or emotional incapacity resulting from injury, sickness or disease for a period of (i) six (6) consecutive months or (ii) an aggregate of nine (9) months (whether or not consecutive) in any twelve (12) month period, provided that any notice of such termination of employment must be given when Executive is incapable of substantially fulfilling Executive's positions, duties, responsibilities, and obligations hereunder as referred to above and has not resumed such duties. Any question as to the existence, extent or potentiality of Executive's disability shall be determined by a qualified physician selected by the Company with the consent of Executive, which consent shall not be unreasonably withheld.

“ Termination for Good Reason ” means a termination of Executive's employment under this Agreement by Executive within 30 days of the Company's failure to cure, in accordance with the procedures set forth below, any of the following events: (i) a reduction in Executive's compensation rights hereunder (that is, a reduction in Base Salary, target bonus opportunity specified in Paragraph 3(b) or target annual discretionary incentive award specified in Paragraph 3(c) other than as permitted in Paragraph 3(c), it being understood that the failure of Executive to receive an actual bonus for any fiscal year equal to or greater than the target bonus opportunity or to receive in respect of any equity award granted an amount that is equal to or greater than the target annual incentive value ascribed to such award is not a reduction in such compensation rights, but a failure to pay Base Salary would be a reduction in such compensation rights); (ii) the removal of Executive by the Company from the position of Chairman, Direct-to-Consumer and International, of the Company; (iii) a material reduction in Executive's duties and responsibilities as of the date of this Agreement; (iv) the assignment to Executive of duties that are materially inconsistent with Executive's position or duties or that materially impair Executive's ability to function as Chairman, Direct-to-Consumer and International, of the Company, and any other position in which Executive is then serving; (v) the relocation of Executive's principal office to a location that is more than 50 miles outside of the greater Los Angeles area; or (vi) a material breach of any provision of this Agreement by the Company. In

addition, following the occurrence of a Change in Control (as defined in the 2011 Stock Incentive Plan of Disney (the “**2011 Stock Plan**”), the Amended and Restated 2005 Stock Incentive Plan (the “**2005 Stock Plan**”) and the Amended and Restated 1995 Stock Incentive Plan (the “**1995 Stock Plan**”)), any occurrence that would constitute a Triggering Event for purposes of Section 11 of the 2011 Stock Plan, the 2005 Stock Plan and the 1995 Stock Plan (together with the 2011 Stock Plan and 2005 Stock Plan, the “**Plans**”), as such Plans may be amended and/or superceded from time to time, shall also constitute an event upon which Executive may effect a Termination for Good Reason in accordance with this Agreement. Notwithstanding the foregoing, a termination shall not be treated as a Termination for Good Reason (A) if Executive shall have consented in writing to the occurrence of the specific event giving rise to the claim of Termination for Good Reason (and such consent may reasonably be understood to generally relate to the time period in which such event occurred), or (B) unless Executive shall have delivered a written notice to the Company within three months of having actual knowledge of the occurrence of one of such events stating that Executive intends to terminate Executive’s employment for Good Reason and specifying the factual basis for such termination, and such event, if capable of being cured, shall not have been cured within 30 days of the receipt of such notice.

“ **Termination Right** ” means the right of the Company, in its sole, absolute and unfettered discretion, to terminate Executive’s employment under this Agreement for any reason or no reason whatsoever. For the avoidance of doubt, any Termination for Cause effected by the Company shall not constitute the exercise of its Termination Right.

(f) Conflict With Plans. As permitted under the terms of the applicable Plans, the Company and Executive agree that the definitions of Termination for Cause or Termination for Good Reason set forth in this Paragraph 5 shall apply in place of any similar definition or comparable concept applicable under either of the Plans (or any similar definition in any successor plan), except that, in connection with a “Triggering Event” as defined in the Plans, as such Plans may be amended from time to time, the terms of the applicable plan (and not the definitions of Termination for Cause or Termination for Good Reason set forth in this Paragraph 5) shall apply to determine Executive’s rights and entitlements in respect of the awards made under any such plan (and only in respect of such awards).

(g) Section 409A. To the extent applicable, it is intended that this Agreement comply with the requirements of Section 409A, and this Agreement shall be interpreted in a manner consistent with this intent. Notwithstanding anything else contained herein to the contrary, any payment required to be made to Executive hereunder upon Executive’s termination of employment (including any payment pursuant to this Paragraph 5) shall be made promptly after the six month anniversary of Executive’s date of termination to the extent necessary to avoid imposition on Executive of any tax penalty imposed under Section 409A of the Code. Solely for purposes of determining the time and form of payments due Executive under this Agreement (including any payments due under Paragraph 3(a)) or otherwise in connection with Executive’s termination of employment with the Company, Executive shall not be deemed to have incurred a termination of employment unless and until Executive shall

incur a “separation from service” within the meaning of Section 409A of the Code. The parties agree, as permitted in accordance with the final regulations thereunder, a “separation from service” shall occur when Executive and the Company reasonably anticipate that Executive’s level of bona fide services for the Company (whether as an employee or an independent contractor) will permanently decrease to no more than 40 percent of the average level of bona fide services performed by Executive for the Company over the immediately preceding 36 months. The determination of whether and when a separation from service has occurred shall be made in accordance with this subparagraph and in a manner consistent with Treasury Regulation Section 1.409A-1(h). To the extent that the Company and Executive determine that any provision of this Agreement could reasonably be expected to result in Executive’s being subject to the payment of interest or additional tax under Section 409A, the Company and Executive agree, to the extent reasonably possible as determined in good faith, to amend this Agreement, retroactively, if necessary, in order to avoid the imposition of any such interest or additional tax under Section 409A. All reimbursements and in-kind benefits provided under the Agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during Executive’s lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit. Each payment of compensation under the Agreement shall be treated as a separate payment of compensation for purposes of Section 409A. Executive’s right to any deferred compensation, as defined under Section 409A, shall not be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, garnishment by creditors, or borrowing to the extent necessary to avoid tax, penalties, and/or interest under Section 409A.

(h) Amendment of Existing Agreements. The parties acknowledge and agree that to the extent that this Paragraph 5 affects any of the terms and conditions of Executive’s Remaining Stock Options or Continuing Stock Units, this Agreement shall constitute an amendment of the Original Stock Option Award Documents and Original RSU Award Documents as they pertain to Executive.

6. Exclusive Remedy. Executive shall be under no obligation to mitigate damages or seek other employment or other engagement of Executive’s services after this Agreement is terminated pursuant to Paragraph 5 in order to obtain the benefits provided for under Paragraph 5(d) of this Agreement. Executive acknowledges and agrees that the payments and rights provided under Paragraph 5 are fair and reasonable, and are Executive’s sole and exclusive remedy, in lieu of all other remedies at law or in equity, for termination of Executive’s employment by the Company upon exercise of its Termination Right pursuant to this Agreement or upon a Termination for Good Reason. The failure of Executive to execute and timely deliver the Release and the Consulting Agreement for any reason (i) shall limit Executive’s rights in connection with the exercise by the Company of its Termination Right solely to the right to receive the Unconditional Entitlements, (ii) shall not effect a modification

of any of Executive's commitments set forth in this Agreement (none of which are contingent upon execution of the Release by Executive) and (iii) shall not preserve or revive any rights waived by Executive hereunder. Subject to Executive's execution and delivery of the Release without revocation thereof and execution and delivery of the Consulting Agreement, (i) the Company agrees to enter into the Release and Consulting Agreement, and (ii) there shall be no offset available to the Company against any amounts due, paid or payable to Executive in respect of the Conditional Benefits and Unconditional Entitlements under Paragraph 5 with respect to any compensation, remuneration or payment attributable to any services that Executive may provide to any third party subsequent to termination of employment hereunder, whether as an employee or otherwise.

7. Non-competition and Confidentiality.

(a) Non-competition. During the Employment Period, Executive shall not engage in any business, or become associated with any entity, whether as a principal, partner, employee, consultant, shareholder or otherwise (other than as a holder of not in excess of 1% of the outstanding voting shares of any publicly traded company) that is actively engaged in any business, which is in competition, in any geographic area, with a business conducted by the Company or Disney or any affiliates of either of them at the time of the alleged competition.

(b) Confidentiality. Executive acknowledges and agrees that Executive executed the standard form of agreement, entitled "The Walt Disney Company and Associated Companies Confidentiality Agreement," at the time Executive commenced employment with the Company or one of its affiliated companies in the form then utilized by the Company (the "**Original TWDC Confidentiality Agreement** "). Executive acknowledges and agrees that the Original TWDC Confidentiality Agreement remains in full force and effect through the date that Executive signs the current version of The Walt Disney Company and Associated Companies Confidentiality Agreement, attached hereto as Exhibit C, which Executive is required to sign along with this Agreement and which, once signed, will replace the Original TWDC Confidentiality Agreement.

(c) Company Property. Promptly following Executive's termination of employment, Executive shall return to the Company all property of the Company, and all copies thereof in Executive's possession or under Executive's control, except that Executive may retain notes, files, calendars, contact information and correspondence of a personal nature (whether in hard copy or electronic form), provided, in each case, that no confidential Company information or information intended primarily for internal Company use is contained therein.

(d) Non-Solicitation of Employees. During the Employment Period and, subject to the provisions of applicable law, during the two-year period following any termination of Executive's employment, Executive shall not, except in the course of carrying out Executive's duties hereunder, directly or indirectly induce any employee of the Company, Disney or any of their affiliates to terminate employment with such entity, and shall not directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise,

(i) solicit, encourage or induce the employment or engagement of, or entice from the employment of the Company, Disney or any of their affiliates, or

(ii) direct, arrange, participate or assist in any such solicitation, encouragement, inducement or enticement of,

any person who is or was employed by the Company, Disney, or any affiliate of either (other than Executive's personal assistant) unless such person shall have ceased to be employed by such entity for a period of at least six (6) months.

(e) Injunctive Relief with Respect to Covenants. Executive acknowledges and agrees that the covenants and obligations of Executive with respect to noncompetition, nonsolicitation, confidentiality and the Company property relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations may cause the Company and/or its affiliates irreparable injury for which adequate remedies are not available at law. Therefore, Executive agrees that the Company and/or its affiliates shall be entitled to obtain an injunction, restraining order or such other equitable relief restraining Executive from committing any violation of the covenants and obligations contained in this Paragraph 7 in any court of competent jurisdiction. The foregoing remedies are cumulative and are in addition to any other rights and remedies the Company and/or its affiliates may have at law or in equity.

8. Miscellaneous.

(a) Survival. Paragraphs 5 (relating to early termination of the Employment Period), 6 and 7 (relating to nondisclosure and nonsolicitation of employees) shall survive the termination hereof, whether such termination shall be by expiration of the Employment Period in accordance with Paragraph 1 or an early termination of the Employment Period pursuant to Paragraph 5 hereof.

(b) Binding Effect. This Agreement shall be binding on, and shall inure to the benefit of, the Company and any person or entity that succeeds to the interest of the Company (regardless of whether such succession does or does not occur by operation of law) by reason of a merger, consolidation or reorganization involving the Company or a sale of all or substantially all of the assets of the Company. The Company further agrees that, in the event of a sale of assets as described in the preceding sentence, it shall use its reasonable best efforts to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder in writing as a condition to any assignment thereof to such assignee or transferee. This Agreement shall also inure to the benefit of Executive's heirs, executors, administrators and legal representatives and beneficiaries as provided in Paragraph 8(d).

(c) Assignment. Except as provided under Paragraph 8(b), and except for transfers and/or assignments of this Agreement from any Disney entity to another Disney entity, neither this Agreement nor any of the rights or obligations hereunder shall be assigned or delegated by any party hereto without the prior written consent of the other party.

(d) Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law and the terms of any applicable plan, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following

Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

(e) Entire Agreement. This Agreement shall constitute the entire agreement between the parties hereof, with respect to the matters referred to herein; provided that this Agreement shall not alter, amend, or supercede, except as specifically provided in Paragraph 5, any agreement that includes the terms of any equity grant made to Executive prior to the date hereof or the Indemnification Agreement referenced in Paragraph 4(d), which by their terms survive the termination thereof. This Agreement expressly supersedes the Prior Agreement except for those provisions of the Prior Agreement that by their terms survive the expiration thereof.

THERE ARE NO PROMISES, REPRESENTATIONS, INDUCEMENTS OR STATEMENTS BETWEEN THE PARTIES OTHER THAN THOSE THAT ARE EXPRESSLY CONTAINED HEREIN.

Notwithstanding the foregoing, nothing in this Agreement shall be construed to limit, modify or supersede The Walt Disney Company and Associated Companies Confidentiality Agreement executed by Executive, which shall survive regardless of the termination of this Agreement.

(f) Representations. Executive represents that Executive's employment hereunder and compliance by Executive with the terms and conditions of this Agreement will not conflict with or result in the breach of any agreement to which Executive is a party or by which Executive may be bound. The Company represents that (i) it is a corporation duly organized, validly existing and in good standing under the laws of the State of California, (ii) it has the full corporate power and authority to execute and deliver this Agreement, and (iii) the execution, delivery and performance of this Agreement has been duly and validly authorized.

(g) Authority of The Walt Disney Company Board. For the avoidance of doubt, nothing in this Agreement shall preclude the Board of Directors of Disney or the Compensation Committee from its ability to exercise any power or authority to take such actions as it is required or permitted to take as a matter of law or pursuant to the terms of Disney's governing documents. Nothing in this Paragraph 8(g) shall be construed to modify, amend, limit or otherwise impair the rights and entitlements of Executive set forth in the other Paragraphs of this Agreement (including, without limitation, the rights and entitlements specified in Paragraph 5).

(h) Severability; Reformation. In the event that one or more of the provisions of this Agreement shall become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby or relieve the Company or Executive of liability for any breach by Company or Executive of any such remaining provisions. In the event any of subparagraphs (a), (b) or (d) of Paragraph 7 hereof is not enforceable in accordance with its terms, Executive and the Company agree that such subparagraph of such Paragraph 7 shall be reformed to make such

subparagraph enforceable in a manner which provides the Company the maximum rights permitted at law.

(i) Waiver. Waiver by any party hereto of any breach or default by the other party of any of the terms of this Agreement shall not operate as a waiver of any other breach or default, whether similar to or different from the breach or default waived. No waiver of any provision of this Agreement shall be implied from any course of dealing between the parties hereto or from any failure by either party hereto to assert its or Executive's rights hereunder on any occasion or series of occasions.

(j) Notices. Any notice required or desired to be delivered under this Agreement shall be in writing and shall be delivered personally, by courier service, or by registered mail, return receipt requested, and shall be effective upon actual receipt when delivered personally or by courier and when sent by registered mail, three business days following date of mailing, and shall be addressed as follows (or to such other address as the party entitled to notice shall hereafter designate in accordance with the terms hereof):

If to the Company:

Walt Disney International
500 South Buena Vista Street
Burbank, California 91521
Attention: Senior Vice President, Human Resources

If to Executive:

To the address listed as Executive's principal residence in the Company's human resources records and to Executive's principal place of employment with the Company.

With a copy to:

Ziffren Brittenham LLP
1801 Century Park West
Los Angeles, California 90067
Attention: Ken Ziffren

(k) Amendments. No amendment to this Agreement shall be binding between the parties unless it is in writing and signed by the party against whom enforcement is sought.

(l) Headings. Headings to paragraphs in this Agreement are for the convenience of the parties only and are not intended to be part of or to affect the meaning or interpretation hereof.

(m) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument, and a facsimile signature shall have the same force and effect as one penned in ink.

(n) Withholding. Any payments provided for herein shall be reduced by any amounts required to be withheld by the Company from time to time under applicable federal, state or local income or employment tax laws or similar statutes or other provisions of law then in effect.

(o) Governing Law. This Agreement shall be governed by the laws of the State of California, without reference to principles of conflicts or choice of law under which the law of any other jurisdiction would apply.

(p) Confidentiality of Agreement. To the extent permitted by law, Executive will keep the terms of this Agreement confidential and will not disclose any terms or information concerning this Agreement to anyone other than Executive's immediate family and professional representatives (provided they also agree to keep such terms or information confidential), except to the extent that such terms or information have been previously disclosed to the public or have otherwise become available to the public (other than by reason of Executive's breach of this Agreement) or are required to be disclosed by law.

(q) No Obligation To Continued Employment. This Agreement does not constitute a commitment of Company with regard to Executive's employment, express or implied, other than to the extent expressly provided for herein. Upon termination of this Agreement, neither Company nor Executive shall have any obligation to the other with respect to continued employment. In the event that Executive's employment continues for any period of time following the stated expiration date of this Agreement, unless and until agreed to in a new subscribed written document, such employment or any continuation thereof is "at will," and may be terminated without obligation at any time by either party's giving notice to the other, unless otherwise prescribed by applicable law.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and Executive has hereunto set Executive's hand as of the day and year first above written.

WALT DISNEY INTERNATIONAL

Dated: 5/3/18 By: /s/ Jayne Parker

Dated: 04/19/18 /s/ Kevin A. Mayer
Kevin A. Mayer

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (hereinafter referred to as "**Agreement**") is made and entered into by and between Kevin A. Mayer (hereinafter referred to as "**Consultant**") and Walt Disney International (hereinafter referred to as "**Company**") on and as of _____, 20__ pursuant to that certain Employment Agreement by and between Executive and Company dated as of March 14, 2018 (the "**Employment Agreement**"). All capitalized terms not defined herein shall have the meaning ascribed to them in the Employment Agreement.

1. (a) Unless this Agreement is earlier terminated as hereinafter provided, for a period following the termination of Consultant's employment under the Employment Agreement equal to the lesser of (i) 6 months or (ii) the remaining period of the originally scheduled term of the Employment Agreement (the "**Consulting Agreement Period**"), Consultant shall personally and diligently provide to the Company such consulting services as the Company may reasonably request from time to time, provided that such services shall relate to matters appropriate for an executive employed in the position referred to in paragraph 2 of the Employment Agreement and shall be a type and nature and duration typical for a post-employment consulting agreement with an executive formerly employed in such position, it being understood for the avoidance of doubt that to the extent any such consulting services involve creative services and/or input, such services and/or input shall be limited to existing matters and projects that Company and/or Consultant was working on or involved in (or has specific plans to work on) at the time of termination or any time prior thereto during the Term and shall be in scope and nature generally limited to types of services not inconsistent with Consultant's former position. Consultant shall not be required to report to the Company's offices and shall be permitted, subject to the terms hereof, to provide consulting services to third parties during the term hereof, provided (i) in no event shall consulting services or other services or advice of any nature be provided by Consultant, directly or indirectly (whether as an employee, consultant, independent contractor, agent, partner, principal, owner or otherwise) to any person or entity which directly or indirectly owns, operates, manages, develops, controls or provides services to, any business involved in any of the following activities (a "**Designated Business**"): (A) the conception, creation, development, production, purchase, sale, distribution, broadcast, transmission or other disposition (including, without limitation, the licensing and/or merchandising of related consumer products) of audio and/or visual and/or interactive products or works of any nature in any media, including, without limiting the generality of the foregoing, any activity relating to (i) any aspect of the film, network, cable, broadcasting, mobile communications, television (including pay-per-view, closed circuit or any inter-active form of distribution of film, television or other audio/visual product) or internet businesses or any other businesses based on or using interactive technology (including, without limiting the generality of the foregoing, electronic and/or interactive games, environments, information centers or communities, in each case, of any nature), or (ii) the development, production, marketing, distribution or exploitation by any means or vehicle whatsoever of any film, television or software product or any similar content or product in any media, whether or not now existing, it being understood, however, that, for the avoidance of doubt and notwithstanding any other term or provision hereof, the internal use by any business of any of the interactive, internet-based or other technology or media referred to above in the creation, development and/or production of their products and/or services shall not in and of itself result in such business being a Designated Business to which Consultant is prohibited from directly or indirectly providing

services hereunder, (B) the operation, management, development, licensing and promotion of themed resorts, hotels and restaurants or amusement or themed entertainment parks; or (C) the design, development, publishing, promotion or sale of products based on cartoon or other animated characters, films, television and theatrical productions and other intellectual property derived therefrom, in each case, only to the extent (i) that such person or entity is actively engaged in any geographic area in any business which is in competition with a business conducted by the Company, The Walt Disney Company or any affiliate thereof at the time of the performance of such services (the “ **Specified Activities** ”), and (ii) that any services reasonably required by Company shall at all times be provided with precedence being given to Company and on a “first priority” basis to Company, although Company shall endeavor to provide, when possible, reasonable advance written notice to Consultant of all services required hereunder and to give due consideration, to the extent practicable, to any prior commitments Consultant may have at such time. In no event shall Consultant be required to devote more than 13.5 hours per week to services to Company hereunder (including travel time, but not time to or from the office) and the parties agree and understand that Consultant’s expected commitment to such services shall regularly be less than the stated maximum weekly hours.

(b) In the event of a material uncured breach by Consultant of any term or provision of this paragraph 1 hereof, all of which terms and conditions Consultant acknowledges and agrees are material and of the essence of this Agreement, or any other material term or provision hereof, Company shall have the right, in addition to any other right of remedy available to it at law or in equity, to terminate this Agreement. In such event Company shall have no further obligation to make payments or perform or honor any commitments under the Release or to pay or honor any commitments which relate to or constitute any of the Conditional Benefits; provided, however, that notwithstanding the foregoing, except as otherwise specifically provided in the immediately preceding sentence, no breach of this Agreement by Consultant, no termination of this Agreement by Company, and no other action or inaction by either of them (other than the execution by the parties of a written agreement amending or superseding the Release or any part thereof) shall in any event or under any circumstances have any effect whatsoever on the validity, enforceability, binding nature, effect or interpretation of the releases set forth in paragraph 5 and paragraph 7 of the Release, and the releases set forth therein shall remain in full force and effect.

(c) In the event that Consultant shall receive a written notice of breach of this Agreement from the Company, Consultant shall have ten (10) business days to cure such breach unless the Company shall have determined in its good faith business judgment that such breach is not curable. Any such notice of termination pursuant to this paragraph 1 shall set forth in reasonable detail the basis for such breach and shall contain a statement as to whether or not such breach has been determined to be curable by the Company. In the event that Consultant receives a written notice of breach of the Agreement from the Company, Consultant may challenge such finding of a breach, by written notice to the Company, and shall be afforded an opportunity to present Consultant’s objection to the Company, in person or in writing, as determined by the Company, prior to Company having any right to terminate this Agreement and the Conditional Benefits provided under the Employment Agreement.

2. Consultant shall receive gross consulting fees for Consultant’s services hereunder which, for any period during the Consulting Agreement Period, shall equal the Consulting Amount.

The consulting fee payments shall be made at the date set forth in Paragraph 5(d)(i) of the Employment Agreement.

3. Company shall reimburse Consultant, in accordance with the procedures of Company then in effect for its senior executives, for reasonable business expenses incurred by Consultant in the course of performing the services hereunder.

4. Company, its successors, privies and assigns shall be entitled to, and shall, own as their exclusive property all of the results and proceeds of the services performed hereunder (which results and proceeds are hereinafter collectively referred to as the “**Work Product**”) in whatever stage of completion, all of which shall be considered a work-for-hire, including, without limitation, all written work, research, plot outlines, computer programs, plans, drawings, paintings, sculptures, fanciful creations, specifications, ideas, scripts, sketches, designs, concepts, software, systems, reports, documentation, and other tangible or intangible work product produced by Consultant as part of Consultant’s services performed hereunder. Company shall own all rights in the Work Product in perpetuity throughout the universe including, without limitation, the rights to produce, manufacture, record, reproduce, distribute, transfer or prepare derivative works from the Work Product by any art, medium or method and all copyrights, trademarks and/or patents in the Work Product. Company shall be deemed the sole author of the Work Product and is entitled to the copyright therein (and all renewals and extensions thereof), and the full ownership to the original and all copies of the Work Product. Company shall have the right to dispose of the Work Product and/or make any or all uses thereof as it, at any time and in the exercise of its sole discretion, may desire. Upon Company’s request, Consultant shall deliver all originals and copies of the Work Product (whether completed or in process) and all research, plans, designs, specifications and any other work product or information which pertains to the Work Product to Company upon completion of the performed services hereunder or upon earlier termination of this Agreement. Consultant shall not retain, use or disclose any of the Work Product without Company’s prior written consent. The termination, completion or breach of this Agreement on whatever grounds and by whomsoever affected shall not affect Company’s exclusive ownership of the Work Product. Consultant hereby assigns to Company all now known or hereafter existing rights of every kind throughout the universe, in perpetuity and in all languages, pertaining to the Work Product, including, without limitation, all exclusive exploitation rights, of every kind and nature, including, but not limited to, all trademarks, copyrights and neighboring rights, to the full extent such assignment is allowed by law, and any renewals and extensions therefor throughout the universe, in perpetuity, or for the duration of the rights in each country, and in all languages. Consultant acknowledges that new rights to the Work Product may come into being or be recognized in the future, under the law or in equity (the “**New Exploitation Rights**”), and Consultant intends to and does hereby grant and convey to Company any and all such New Exploitation Rights to the Work Product. Consultant is also aware and acknowledges that new or changed technology, uses, media, format, modes of transmission and methods of distribution, dissemination, exhibition or performance (the “**New Exploitation Methods**”) are being and will inevitably continue to be developed in the future, which would offer new opportunities for exploiting the Work Product. Consultant intends to and does hereby grant and convey to Company any and all rights to such New Exploitation Methods with respect to the Work Product. Consultant agrees to execute, at any time upon Company’s request, such further documents consistent herewith and do such other acts at the Company’s expense as may be required by the Company in its reasonable business judgment to evidence or confirm Company’s exclusive ownership of and exploitation rights

to the Work Product and to effectuate Consultant's purpose to convey such rights to Company including, but not limited to, the New Exploitation Rights and any and all of the New Exploitation Methods. Consultant shall have the right to have any such documents reviewed by counsel with Company giving good faith consideration to changes requested by counsel unless such review and/or consideration is not in Company's reasonable business judgment feasible or prudent in view of material time constraints; provided, however, that notwithstanding the foregoing, if Consultant fails to execute such further documents within 20 business days after receipt of Company's written request to do so, then Company shall have the power of attorney, which Consultant acknowledges is irrevocable and coupled with an interest, to execute such documents on Consultant's behalf. Consultant agrees that Consultant will not seek to (i) challenge, through the courts, administrative governmental bodies, private organizations or in any other manner, the rights of Company to exploit the Work Product by any means whatsoever or (ii) thwart, hinder or subvert the intent of the preceding grants and conveyances to Company, or the collection by Company of any proceeds relating to the rights conveyed under this Agreement. The provisions of this paragraph shall survive the expiration or sooner termination of this Agreement.

5. This Agreement is for the personal services of Consultant and may not be subcontracted or assigned by Consultant in any fashion, whether by operation of law, or by conveyance of any type, without the prior written consent of Company, which consent Company may withhold in its sole discretion. Company may not assign all or any portion of this Agreement at any time to any of its affiliates or to any other person.

6. (a) Consultant, by virtue of this Agreement, shall acquire no right to use, and shall not use, the name "The Walt Disney Company" or "The Walt Disney Studios" or "Disney" or "ABC" or "ABC, Inc." or "American Broadcasting Companies" or "ESPN" or "Marvel" or "Pixar" or "Lucasfilm, Ltd." or any other word, mark, or name used for, or in connection with, the business activities of Company (either alone or in conjunction with or as a part of any other word, mark, or name) or any marks, fanciful characters or designs of the Company or any of their related, affiliated, or subsidiary companies in any advertising, publicity, or promotion; to express or imply any endorsement by Disney or Company or any of their related, affiliated or subsidiary companies of Consultant's services; or in any other manner whatsoever (whether or not similar to the uses hereinabove specifically prohibited). Consistent with Consultant's obligations under Paragraph 7, this Paragraph 6(a) shall not prevent Executive from using such names to describe Consultant's activities with respect to Company and its affiliates under and prior to the Employment Agreement and under this Agreement.

(b) Consultant hereby represents and warrants to Company that as of the date of this Agreement, Consultant does not provide any services (including, without limitation, as an employee) to any person or entity that (i) is engaged in, or whose affiliated entities are engaged in, one or more of the Specified Activities or (ii) advises or provides consulting services to any person or entity that is engaged in, or whose affiliated entities are engaged in, any business or activity relating to or constituting one or more of the Specified Activities. Consultant further represents and warrants to Company that Consultant shall make written disclosure to Company prior to providing any services, during the term of this Agreement, to any of the above mentioned persons or entities.

7. Consultant may, during the course of Consultant's engagement hereunder, have access to, and acquire knowledge of or from, materials, data, strategies, systems or other information relating

to the services hereunder or Company, or its parent, related, affiliated or subsidiary companies, which may not be accessible or known to the general public (including, but not limited to, the existence of this Agreement and the terms hereof and any Work Product not readily available to the general public) (“ **Confidential Information** ”). Any such knowledge acquired by Consultant shall be kept confidential and shall not be used, published, or divulged by Consultant to any other person, firm, or corporation, or in any advertising or promotion regarding Consultant or Consultant’s services, or in any other manner or connection whatsoever without first having obtained the prior written permission of Company, which permission Company may withhold in its sole discretion; provided that Consultant shall have no greater duty or obligation in respect of such Confidential Information than applies to Executive under Paragraph 7(b) the Employment Agreement. Upon Company’s request, Consultant shall immediately return to Company or destroy, all documents, magnetic copies, or other physical evidence of all Confidential Information in Consultant’s possession or in the possession of any of Consultant’s directors, officers, employees, agents or representatives (including, without limitation, all copies, transcriptions, notes, extracts, analyses, compilations, studies, or other documents, records, or data prepared by Consultant) which contain or otherwise reflect or are generated from the Confidential Information without retaining any copy thereof, all of the foregoing being Confidential Information and the sole property of Company, Consultant shall certify to Company that all of the foregoing has been returned or destroyed as provided in this paragraph. Consultant agrees that Company would be irreparably harmed by any violation or threatened violation of this paragraph and that, therefore, Company shall be entitled to an injunction prohibiting Consultant from any violation or threatened violation of this paragraph. The provisions of this paragraph shall survive the expiration or sooner termination of this Agreement.

8. This Agreement shall be construed and interpreted in accordance with the laws of the State of California without regard to conflicts of laws principles.

9. The terms and provisions of this Agreement, the Release and Paragraphs 5 and 6 of the Employment Agreement constitute the entire agreement between the parties hereto with respect to the subject matter of this Agreement and supersede all previous communications, representations, or agreements, either oral or written, between the parties relating to such subject matter hereof. No change, alteration or modification of this Agreement shall be effective unless made in writing and signed by both parties hereto.

IN WITNESS WHEREOF , the parties have caused this Agreement to be duly executed as of the day and year first above written.

COMPANY

Consultant

--EXHIBIT; NOT FOR EXECUTION--

By: _____ By: _____
Title: _____

GENERAL RELEASE

WHEREAS, Kevin A. Mayer (hereinafter referred to as "Executive") and Walt Disney International (hereinafter referred to as the "Company") are parties to an Employment Agreement, dated as of March 14, 2018, (the "Employment Agreement"), which provided for Executive's employment with the Company on the terms and conditions specified therein; and

WHEREAS, pursuant to paragraph 6 of the Employment Agreement, Executive and the Company have agreed to execute mutual releases of the type and nature set forth in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual promises herein contained and for other good and valuable consideration received in accordance with the terms of the Employment Agreement, it is agreed as follows:

1. (a) Upon the later of (i) the execution hereof by the Company and Executive, (ii) the passage of seven days following execution hereof by Executive without Executive's having exercised the revocation rights referred to in paragraph 10 hereof and (iii) the time specified in the Employment Agreement for payment of a particular item of compensation, the Company shall (x) provide Executive the amounts and benefits described in Paragraph 5 of the Employment Agreement and (y) make full payment for vacation and floating holidays accrued but unused as of the date hereof (to the extent, if any, not already paid in accordance with applicable law), less amounts required to be withheld by law or authorized by Executive to be withheld (it being understood that from and after the date hereof no further rights to vacation or floating holidays or compensation therefor shall accrue or be payable to Executive). Such payment shall be made by check payable to Executive.

(b) The covenants and commitments of the Company referred to herein (including, specifically, but without limitation, any and all benefits conferred upon Executive pursuant to Paragraph 5 of the Employment Agreement) shall be in lieu of and in full and final discharge of any and all obligations to Executive for compensation, severance payments, or any other expectations of payment, remuneration, continued coverage of any nature or benefit on the part of Executive arising out of or in connection with Executive's employment with the Company, or under any agreement, arrangement, commitment, plan, program, practice or policy of the Company, or otherwise, other than as expressly provided in the Employment Agreement.

(c) Notwithstanding the foregoing or any other term or provision hereof, Executive shall be entitled to such rights as are vested in Executive as of the Termination Date, under and subject to the terms of (i) the Employment Agreement and/or the Consulting Agreement, (ii) any applicable retirement plan(s) to which Executive may be subject, (iii) any applicable stock option plan or other incentive compensation plan of the Company to which Executive may be subject, (iv) any right which Executive now has or may hereafter have to claim a defense and/or indemnity for liabilities to third parties in connection with Executive's activities as an employee of the Company or any of its affiliates pursuant to the terms of any applicable statute, under any insurance policy, pursuant to the certificate of incorporation or bylaws or established policies of the Company or any affiliate thereof or pursuant to written agreement (including, without limitation, the Indemnification Agreement) expressly providing for such indemnity between Executive and the Company or any affiliate thereof, (v) any other applicable employee welfare benefit plans to which Executive may

be subject and (vi) reimbursement of all reasonable business expenses received by Executive in accordance with Company's practices and policies regarding reimbursement of business expenses. Further, Executive shall be entitled to such continuation of health care coverage as is required under, and subject to, applicable law, of which Executive shall be notified in writing after the Termination Date, provided Executive timely exercises Executive's rights in accordance therewith. Executive understands and acknowledges that all payments for any such continued health care coverage Executive may elect will be paid by Executive, except to the extent the Employment Agreement provides that such payments shall be made by the Company.

2. Executive confirms that, on or prior to seven (7) days from the date hereof, Executive shall turn over to the Company all files, memoranda, records, credit cards and other documents and physical or personal property that Executive received from the Company or that Executive generated in connection with Executive's employment by the Company or that are the property of the Company provided that Executive may retain notes, files, calendars, contact information and correspondence of a personal nature (whether in hard copy or electronic form), provided, in each case, that no confidential Company information or information intended primarily for internal Company use is contained therein).

3. It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under law. Should there be any conflict between any provision hereof and any present or future law, such law will prevail, but the provisions affected thereby will be curtailed and limited only to the extent necessary to bring them within the requirements of law, and the remaining provisions of this Agreement will remain in full force and effect and be fully valid and enforceable.

4. Executive represents and agrees (a) that Executive has to the extent Executive desires discussed all aspects of this Agreement with Executive's attorney, (b) that Executive has carefully read and fully understands all of the provisions of this Agreement, and (c) that Executive is voluntarily entering into this Agreement.

5. Excluding enforcement of the covenants, promises and/or rights reserved herein and/or in the Employment Agreement, Indemnification Agreement and/or the Consulting Agreement, Executive hereby irrevocably and unconditionally releases, acquits and forever discharges the Company and each of the Company's direct or indirect owners, parent companies, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, divisions, subsidiaries, affiliates (including, for the avoidance of doubt, The Walt Disney Company ("Disney") and agents, directors, officers, employees, representatives and attorneys of such companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them (collectively "Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort or any legal restrictions on the Company's right to terminate employees, or any Federal, state or other governmental statute, regulation or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Federal Age Discrimination In Employment Act of 1967, as

amended, and the California Fair Employment and Housing Act, all as amended, that Executive now has, or has ever had, or ever will have, against each or any of the Releasees, by reason of any and all acts, omissions, events, circumstances or facts existing or occurring up through the date of Executive's execution hereof that directly or indirectly arise out of, relate to, or are connected in any manner whatsoever with, Executive's services to, or employment by the Company or any of its affiliates (any of the foregoing being an "Executive Claim" or, collectively, the "Executive Claims"). This release does not constitute a release of any Executive Claims that cannot be released as a matter of law.

6. Except as expressly reserved herein, Executive expressly waives and relinquishes all rights and benefits afforded by California Civil Code Section 1542 and does so understanding and acknowledging the significance of such specific waiver of Section 1542. Section 1542 states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release and discharge of the Releasees, Executive expressly acknowledges that this Agreement is intended to include in its effect, without limitation, all Executive Claims that Executive does not know or suspect to exist in Executive's favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such Executive Claim or Executive Claims.

7. Excluding enforcement of the covenants, promises and/or rights reserved herein or in the Employment Agreement, Indemnification Agreement and/or the Consulting Agreement, and except as otherwise provided in the proviso at the end of this sentence, the Company hereby irrevocably and unconditionally releases, acquits and forever discharges Executive, and Executive's heirs, assigns and successors in interest ("Executive Releasees"), or any of them, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorney's fees and costs actually incurred), of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort, or any federal, state or other governmental statute, regulation or ordinance, that the Company now has, or has ever had, or ever will have, against Executive and/or the Executive Releasees, by reason of any and all acts, omissions, events, circumstances or facts existing or occurring up through the date of the Company's execution hereof, that directly or indirectly arise out of, relate to, or are connected in any manner whatsoever with, Executive's services to, or employment by the Company (hereinafter referred to as a "Claim" or collectively, the "Claims"); provided, however, that, notwithstanding any other term or provision hereof, any Claim or Claims rising out of, or resulting from, in part or whole, (i) any illegal or fraudulent act(s) or illegal or fraudulent omission(s) to act of Executive, (ii) any action(s) or omission(s) to act which would constitute self-dealing or a breach of Executive's confidentiality obligations to the Company or any affiliate thereof, or a breach of The Walt Disney Company and Associated Companies Confidentiality Agreement executed by

Executive, or (iii) the policy of the Board of Directors of Disney, as the same may be in effect from time to time, regarding the ability of Disney or the Company and/or Disney to recoup bonus or incentive payments as a result of Disney's being required to restate its financial results due to material noncompliance with financial reporting requirements under the securities laws, are hereby expressly excluded in their entirety from the foregoing release, acquittal and discharge and are unaffected thereby (any Claim or Claims not so excluded pursuant to this proviso being hereinafter referred to as a the "Company Claim" or, collectively, as the "Company Claims"). This release does not constitute a release of any Company Claims that cannot be released as a matter of law.

8. Except as expressly reserved herein, the Company expressly waives and relinquishes all rights and benefits afforded by California Civil Code Section 1542 and does so understanding and acknowledging the significance of such specific waiver of Section 1542. Section 1542 states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release, acquittal and discharge of the Executive Releasees with respect to the Company Claims only, the Company expressly acknowledges that this Agreement is intended to include in its effect, without limitation, all the Company Claims that the Company does not know or suspect to exist in the Company's favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such Company Claims. Notwithstanding anything in this Release to the contrary, if at any time (whether during or after the Employment Period) Disney is required to restate its financial results due to material noncompliance with financial reporting requirements under the securities laws, nothing in this Release shall be construed to limit the rights of Disney and/or the Company and the Board of Directors of the Company and/or the Board of Directors of Disney to seek or obtain recovery from Executive of any incentive compensation (including profits realized from the sale of Disney securities) previously paid, or the cancellation of any outstanding awards, in accordance with the terms of Disney's policy, as in effect from time to time, regarding the ability of Disney and/or the Company to recoup any bonus or incentive payments under such circumstances.

9. Executive is advised to consult with an attorney before signing this Agreement. Executive understands that Executive has been given a period of 21 days to review and consider this Agreement before signing it pursuant to the Age Discrimination In Employment Act of 1967, as amended. Executive further understands that Executive may use as much of this 21-day period as Executive wishes prior to signing.

10. Executive acknowledges and represents that Executive understands that Executive may revoke the waiver of Executive's rights under the Age Discrimination In Employment Act of 1967, as amended, effectuated in this Agreement within 7 days of signing this Agreement. Revocation can be made by delivering a written notice of revocation to the General Counsel, The Walt Disney Company, 500 South Buena Vista Street, Burbank, California 91521; with a copy to Disney's

Executive Vice President, Chief Human Resources Officer, at the same address. For this revocation to be effective, written notice must be received by the General Counsel, no later than the close of business on the seventh day after Executive signs this Agreement. If Executive revokes the waiver of Executive's rights under the Age Discrimination In Employment Act of 1967, as amended, the Company shall have no obligations to Executive under this Agreement or the Employment Agreement.

11. Executive and the Company respectively represent and acknowledge that in executing this Agreement neither of them is relying upon, and has not relied upon, any representation or statement not set forth herein made by any of the agents, representatives or attorneys of the Releasees or of the Executive Releasees with regard to the subject matter, basis or effect of this Agreement or otherwise.

12. This Agreement shall not in any way be construed as an admission by any of the Company Releasees or Executive Releasees, respectively, that any of the Company Releasees or Executive Releasees has acted wrongfully or that the Company or Executive has any rights whatsoever against any of the Company Releasees or Executive Releasees except as specifically set forth herein, and each of the Company Releasees and Executive Releasees specifically disclaims any liability to any party for any wrongful acts.

13. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California. This Agreement is binding on the successors and assigns of, and sets forth the entire agreement between, the parties hereto; fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof; and may not be changed except by explicit written agreement to that effect subscribed by the parties hereto.

PLEASE READ CAREFULLY. THIS SETTLEMENT AGREEMENT AND GENERAL RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

--EXHIBIT; NOT FOR EXECUTION--

Kevin A. Mayer

Date: _____

WALT DISNEY INTERNATIONAL

By: _____

Title: _____

Date: _____

THE WALT DISNEY COMPANY
RATIO OF EARNINGS TO FIXED CHARGES
(AMOUNTS IN MILLIONS, EXCEPT RATIOS)

	Six Months Ended		Fiscal Year Ended				
	Mar. 31, 2018	Apr. 1, 2017	2017	2016	2015	2014	2013
EARNINGS							
Income from continuing operations before income taxes	\$ 7,673	\$ 7,476	\$ 13,788	\$ 14,868	\$ 13,868	\$ 12,246	\$ 9,620
Equity in the income of investees	(49)	(203)	(320)	(926)	(814)	(854)	(688)
Cash distributions received from equity investees	389	397	788	799	752	718	694
Interest expense, amortization of debt discounts and premiums on all indebtedness and amortization of capitalized interest	365	262	589	433	325	360	415
Imputed interest on operating leases ⁽¹⁾	153	143	289	282	286	294	292
TOTAL EARNINGS	\$ 8,531	\$ 8,075	\$ 15,134	\$ 15,456	\$ 14,417	\$ 12,764	\$ 10,333
FIXED CHARGES							
Interest expense and amortization of debt discounts and premiums on all indebtedness	\$ 318	\$ 236	\$ 507	\$ 354	\$ 265	\$ 294	\$ 349
Capitalized interest	52	45	87	139	110	73	77
Imputed interest on operating leases ⁽¹⁾	153	143	289	282	286	294	292
TOTAL FIXED CHARGES	\$ 523	\$ 424	\$ 883	\$ 775	\$ 661	\$ 661	\$ 718
RATIO OF EARNINGS TO FIXED CHARGES ⁽²⁾	16.3	19.0	17.1	19.9	21.8	19.3	14.4

⁽¹⁾ The portion of operating rental expense which management believes is representative of the interest component of rent expense.

⁽²⁾ The ratio does not adjust for interest on unrecognized tax benefits that are recorded as a component of income tax expense.

**RULE 13a-14(a) CERTIFICATION IN
ACCORDANCE WITH SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert A. Iger, Chairman and Chief Executive Officer of The Walt Disney Company (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

By: /s/ ROBERT A. IGER

Robert A. Iger

Chairman and Chief Executive Officer

**RULE 13a-14(a) CERTIFICATION IN
ACCORDANCE WITH SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Christine M. McCarthy, Senior Executive Vice President and Chief Financial Officer of The Walt Disney Company (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

By:

/s/ CHRISTINE M. MCCARTHY

Christine M. McCarthy

Senior Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report of The Walt Disney Company (the “Company”) on Form 10-Q for the fiscal quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert A. Iger, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ ROBERT A. IGER
Robert A. Iger
Chairman and Chief Executive Officer
May 8, 2018

* A signed original of this written statement required by Section 906 has been provided to The Walt Disney Company and will be retained by The Walt Disney Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report of The Walt Disney Company (the “Company”) on Form 10-Q for the fiscal quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christine M. McCarthy, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ CHRISTINE M. MCCARTHY
Christine M. McCarthy
Senior Executive Vice President and Chief Financial Officer
May 8, 2018

* A signed original of this written statement required by Section 906 has been provided to The Walt Disney Company and will be retained by The Walt Disney Company and furnished to the Securities and Exchange Commission or its staff upon request.