

**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 June 29, 2019

or

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

For the transition period from _____ to _____.

Commission File Number 001-38842



Delaware

State or Other Jurisdiction of
Incorporation or Organization

83-0940635

I.R.S. Employer Identification

**500 South Buena Vista Street
Burbank, California 91521**

Address of Principal Executive Offices and Zip Code

(818) 560-1000

Registrant's Telephone Number, Including Area Code

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	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 1,801,379,029 shares of common stock outstanding as of July 31, 2019.

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		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Revenues:				
Services	\$ 18,022	\$ 13,143	\$ 43,899	\$ 38,647
Products	2,223	2,086	6,571	6,481
Total revenues	20,245	15,229	50,470	45,128
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization)	(11,445)	(7,124)	(26,176)	(20,761)
Cost of products (exclusive of depreciation and amortization)	(1,374)	(1,224)	(4,020)	(3,857)
Selling, general, administrative and other	(3,362)	(2,213)	(7,844)	(6,539)
Depreciation and amortization	(1,304)	(744)	(2,864)	(2,217)
Total costs and expenses	(17,485)	(11,305)	(40,904)	(33,374)
Restructuring and impairment charges	(207)	—	(869)	(28)
Other income/(expense), net	(123)	—	4,840	94
Interest expense, net	(411)	(143)	(617)	(415)
Equity in the income / (loss) of investees, net	(1)	73	(234)	122
Income from continuing operations before income taxes	2,018	3,854	12,686	11,527
Income taxes from continuing operations	(395)	(795)	(2,687)	(880)
Net income from continuing operations	1,623	3,059	9,999	10,647
Income from discontinued operations (net of income taxes of \$100, \$0, \$105 and \$0, respectively)	359	—	380	—
Net income	1,982	3,059	10,379	10,647
Less: Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(186)	(143)	(343)	(371)
Less: Net income from discontinued operations attributable to noncontrolling interests	(36)	—	(36)	—
Net income attributable to The Walt Disney Company (Disney)	\$ 1,760	\$ 2,916	\$ 10,000	\$ 10,276
Earnings per share attributable to Disney:				
Continuing operations	\$ 0.79	\$ 1.95	\$ 5.98	\$ 6.81
Discontinued operations	0.18	—	0.21	—
Diluted ⁽¹⁾	\$ 0.97	\$ 1.95	\$ 6.19	\$ 6.81
Continuing operations	\$ 0.80	\$ 1.96	\$ 6.01	\$ 6.84
Discontinued operations	0.18	—	0.21	—
Basic ⁽¹⁾	\$ 0.98	\$ 1.96	\$ 6.22	\$ 6.84
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,814	1,498	1,616	1,510
Basic	1,802	1,491	1,607	1,502

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

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 1,982	\$ 3,059	\$ 10,379	\$ 10,647
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	3	1	(1)	7
Market value adjustments for hedges	(15)	260	(104)	166
Pension and postretirement medical plan adjustments	24	70	145	225
Foreign currency translation and other	20	(363)	45	(132)
Other comprehensive income	32	(32)	85	266
Comprehensive income	2,014	3,027	10,464	10,913
Net income attributable to noncontrolling and redeemable noncontrolling interests	(222)	(143)	(379)	(371)
Other comprehensive income attributable to noncontrolling and redeemable noncontrolling interests	33	115	(3)	—
Comprehensive income attributable to Disney	\$ 1,825	\$ 2,999	\$ 10,082	\$ 10,542

See Notes to Condensed Consolidated Financial Statements

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

	June 29, 2019	September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,728	\$ 4,150
Receivables	15,673	9,334
Inventories	1,516	1,392
Television costs and advances	4,526	1,314
Other current assets	1,035	635
Assets held for sale	1,892	—
Total current assets	31,370	16,825
Film and television costs	22,552	7,888
Investments	3,872	2,899
Parks, resorts and other property		
Attractions, buildings and equipment	57,457	55,238
Accumulated depreciation	(32,088)	(30,764)
	25,369	24,474
Projects in progress	4,853	3,942
Land	1,170	1,124
	31,392	29,540
Intangible assets, net	25,114	6,812
Goodwill	77,801	31,269
Noncurrent assets held for sale	12,591	—
Other assets	4,783	3,365
Total assets	\$ 209,475	\$ 98,598
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 17,647	\$ 9,479
Current portion of borrowings	21,923	3,790
Deferred revenue and other	4,730	4,591
Liabilities held for sale	293	—
Total current liabilities	44,593	17,860
Borrowings	36,311	17,084
Deferred income taxes	10,404	3,109
Noncurrent liabilities held for sale	2,353	—
Other long-term liabilities	10,561	6,590
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	8,897	1,123
Equity		
Preferred stock	—	—
Common stock, \$0.01 par value, Authorized – 4.6 billion shares, Issued – 1.8 billion shares at June 29, 2019 and 2.9 billion shares at September 29, 2018	53,718	36,779
Retained earnings	41,382	82,679
Accumulated other comprehensive loss	(3,721)	(3,097)
Treasury stock, at cost, 19 million shares at June 29, 2019 and 1.4 billion shares at September 29, 2018	(907)	(67,588)
Total Disney Shareholders' equity	90,472	48,773
Noncontrolling interests	5,884	4,059
Total equity	96,356	52,832
Total liabilities and equity	\$ 209,475	\$ 98,598

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended	
	June 29, 2019	June 30, 2018
OPERATING ACTIVITIES		
Net income from continuing operations	\$ 9,999	\$ 10,647
Depreciation and amortization	2,864	2,217
Gain on acquisition	(4,794)	—
Deferred income taxes	1,716	(1,411)
Equity in the (income) / loss of investees	234	(122)
Cash distributions received from equity investees	548	587
Net change in film and television costs and advances	59	(601)
Equity-based compensation	591	307
Other	152	297
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables	(1,428)	(1,178)
Inventories	(96)	53
Other assets	450	(472)
Accounts payable and other liabilities	219	(316)
Income taxes	(6,248)	434
Cash provided by operations - continuing operations	4,266	10,442
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(3,567)	(3,264)
Acquisitions	(9,901)	(1,581)
Other	(317)	(298)
Cash used in investing activities - continuing operations	(13,785)	(5,143)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	2,973	453
Borrowings	31,348	1,056
Reduction of borrowings	(19,039)	(1,356)
Dividends	(1,310)	(1,266)
Repurchases of common stock	—	(3,577)
Proceeds from exercise of stock options	278	129
Contributions from / sales of noncontrolling interests	544	363
Acquisition of noncontrolling and redeemable noncontrolling interests	(1,430)	—
Other	(831)	(783)
Cash provided by / (used in) financing activities - continuing operations	12,533	(4,981)
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Cash provided by operations - discontinued operations	320	—
Cash used in financing activities - discontinued operations	(179)	—
Cash used in discontinued operations	141	—
Impact of exchange rates on cash, cash equivalents and restricted cash	47	(51)
Change in cash, cash equivalents and restricted cash	3,202	267
Cash, cash equivalents and restricted cash, beginning of period	4,155	4,064
Cash, cash equivalents and restricted cash, end of period	\$ 7,357	\$ 4,331

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended							
	Equity Attributable to Disney					Total Disney Equity	Non-controlling Interests ⁽¹⁾	Total Equity
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock			
Balance at March 30, 2019	1,798	\$ 53,419	\$ 41,212	\$ (3,786)	\$ (907)	\$ 89,938	\$ 14,401	\$ 104,339
Comprehensive income	—	—	1,760	65	—	1,825	128	1,953
Equity compensation activity	3	323	—	—	—	323	—	323
Dividends	—	—	(1,585)	—	—	(1,585)	—	(1,585)
Contributions	—	—	—	—	—	—	689	689
Acquisition of 21CF	—	(30)	—	—	—	(30)	(96)	(126)
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	(7,797)	(7,797)
Redemption of noncontrolling interest	—	—	—	—	—	—	(1,430)	(1,430)
Distributions and other	—	6	(5)	—	—	1	(11)	(10)
Balance at June 29, 2019	1,801	\$ 53,718	\$ 41,382	\$ (3,721)	\$ (907)	\$ 90,472	\$ 5,884	\$ 96,356
Balance at March 31, 2018	1,496	\$ 36,411	\$ 78,704	\$ (3,345)	\$ (66,619)	\$ 45,151	\$ 3,500	\$ 48,651
Comprehensive income	—	—	2,916	83	—	2,999	41	3,040
Equity compensation activity	1	156	—	—	—	156	—	156
Common stock repurchases	(10)	—	—	—	(969)	(969)	—	(969)
Dividends	—	7	(1,256)	—	—	(1,249)	—	(1,249)
Contributions	—	—	—	—	—	—	26	26
Distributions and other	—	—	—	—	—	—	416	416
Balance at June 30, 2018	1,487	\$ 36,574	\$ 80,364	\$ (3,262)	\$ (67,588)	\$ 46,088	\$ 3,983	\$ 50,071

⁽¹⁾ Excludes redeemable noncontrolling interest.

See Notes to Condensed Consolidated Financial Statements

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

Nine Months Ended								
	Equity Attributable to Disney					Total Disney Equity	Non-controlling Interests ⁽¹⁾	Total Equity
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock			
Balance at September 29, 2018	1,488	\$ 36,779	\$ 82,679	\$ (3,097)	\$ (67,588)	\$ 48,773	\$ 4,059	\$ 52,832
Comprehensive income	—	—	10,000	82	—	10,082	318	10,400
Equity compensation activity	6	738	—	—	—	738	—	738
Dividends	—	8	(2,903)	—	—	(2,895)	—	(2,895)
Contributions	—	—	—	—	—	—	736	736
Acquisition of 21CF	307	33,774	—	—	—	33,774	10,542	44,316
Adoption of new accounting guidance:								
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	691	(691)	—	—	—	—
Intra-Entity Transfers of Assets Other Than Inventory	—	—	129	—	—	129	—	129
Revenues from Contracts with Customers	—	—	(116)	—	—	(116)	—	(116)
Other	—	—	22	(15)	—	7	—	7
Retirement of treasury stock	—	(17,563)	(49,118)	—	66,681	—	—	—
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	(7,797)	(7,797)
Redemption of noncontrolling interest	—	—	—	—	—	—	(1,430)	(1,430)
Distributions and other	—	(18)	(2)	—	—	(20)	(544)	(564)
Balance at June 29, 2019	1,801	\$ 53,718	\$ 41,382	\$ (3,721)	\$ (907)	\$ 90,472	\$ 5,884	\$ 96,356
Balance at September 30, 2017	1,517	\$ 36,248	\$ 72,606	\$ (3,528)	\$ (64,011)	\$ 41,315	\$ 3,689	\$ 45,004
Comprehensive income	—	—	10,276	266	—	10,542	389	10,931
Equity compensation activity	5	319	—	—	—	319	—	319
Common stock repurchases	(35)	—	—	—	(3,577)	(3,577)	—	(3,577)
Dividends	—	7	(2,522)	—	—	(2,515)	—	(2,515)
Contributions	—	—	—	—	—	—	26	26
Distributions and other	—	—	4	—	—	4	(121)	(117)
Balance at June 30, 2018	1,487	\$ 36,574	\$ 80,364	\$ (3,262)	\$ (67,588)	\$ 46,088	\$ 3,983	\$ 50,071

⁽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 nine months ended June 29, 2019 are not necessarily indicative of the results that may be expected for the year ending September 28, 2019.

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. The term “TWDC” is used to refer to the parent company.

These financial statements should be read in conjunction with the Company’s 2018 Annual Report on Form 10-K.

On March 20, 2019 the Company acquired Twenty-First Century Fox, Inc. (21CF) (see Note 4). As part of the acquisition, the Company agreed to sell 21CF’s Regional Sports Networks (RSNs) and certain sports media operations in Brazil and Mexico. The assets and liabilities of these operations are reported as held for sale and the income and cash flows are reported as discontinued operations. In addition, as a result of the 21CF acquisition the Company’s ownership interest in Hulu LLC (Hulu) increased to 60% and the Company started consolidating the results of Hulu.

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

Use of Estimates

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

Reclassifications

Certain reclassifications have been made in fiscal 2018 financial statements and notes to conform to the fiscal 2019 presentation.

2. Description of Business and Segment Information

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

Effective in fiscal 2019, the Company started reporting its results in the following operating segments:

- Media Networks;
- Parks, Experiences and Products;
- Studio Entertainment; and
- Direct-to-Consumer & International

The Parks, Experiences and Products segment reflects the combination of the former Parks & Resorts and Consumer Products & Interactive Media segments. Certain businesses that were previously reported in Media Networks, Studio

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

Entertainment and Consumer Products & Interactive Media are now reported in Direct-to-Consumer & International (DTCI). Fiscal 2018 segment operating results have been recast to align with the fiscal 2019 presentation.

21CF and Hulu results are consolidated and reported in our operating segments from the acquisition date through June 29, 2019. The acquired 21CF businesses are generally branded Fox, FX, Star and National Geographic.

DESCRIPTION OF BUSINESS

Media Networks

- Significant operations:
 - Disney, ESPN (80% ownership interest), FX, National Geographic (73% ownership interest) and Freeform branded domestic cable networks
 - ABC branded broadcast television network and eight owned domestic television stations
 - Television production and distribution
 - National Geographic branded publishing business
 - A 50% equity investment in A+E Television Networks (A+E), which operates a variety of cable networks including A&E, HISTORY and Lifetime
- Significant revenues:
 - Affiliate fees - Fees charged to multi-channel video programming distributors (i.e. cable, satellite, telecommunications and digital over-the-top (e.g. Hulu, YouTube TV) service providers) (MVPDs) and to television stations affiliated with the ABC Network for the right to deliver our programming to their customers
 - Advertising - Sales of ad time/space on our domestic networks and related platforms (“ratings-based ad sales”, which excludes advertising on digital platforms that is not ratings based), and the sale of ad time on our domestic television stations. Ratings-based ad sales are generally determined using viewership measured with Nielsen ratings. Non-ratings-based advertising on digital platforms is reported by DTCI.
 - TV/SVOD distribution - Licensing fees and other revenues from the right to use our television programs and productions and revenue from content transactions with other Company segments (“program sales”)
- Significant expenses:
 - Operating expenses consisting primarily of programming and production costs, participations and residuals expense, technical support costs, operating labor and distribution costs
 - Selling, general and administrative costs
 - Depreciation and amortization

Parks, Experiences and Products

- Significant operations:
 - Parks & Experiences:
 - Theme parks and resorts, which include: Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland Resort (47% ownership interest); and Shanghai Disney Resort (43% ownership interest), all of which are consolidated in our results. Additionally, the Company licenses our intellectual property to a third party to operate Tokyo Disney Resort.
 - Disney Cruise Line, Disney Vacation Club, National Geographic and Disney-branded travel businesses, and Aulani, a Disney Resort & Spa in Hawaii
 - Consumer Products:
 - Licensing of our trade names, characters, visual, literary and other intellectual properties to various manufacturers, game developers, publishers and retailers throughout the world
 - Sale of branded merchandise through retail, online and wholesale businesses, and development and publishing of books, magazines (excluding National Geographic, which is reported in Media Networks), comic books and games
- Significant revenues:
 - Theme park admissions - Sales of tickets for admission to our theme parks
 - Parks & Experiences merchandise, food and beverage - Sales of merchandise, food and beverages at our theme parks and resorts and cruise ships

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

- Resorts and vacations - Sales of room nights at hotels, sales of cruise and other vacations and sales and rentals of vacation club properties
- Merchandise licensing and retail:
 - Merchandise licensing - Royalties from intellectual property licensing
 - Retail - Sales of merchandise at The Disney Stores and through branded internet shopping sites, as well as to wholesalers (including sales of published materials and games)
- Parks licensing and other - Revenues from sponsorships and co-branding opportunities, real estate rent and sales, and royalties from Tokyo Disney Resort
- Significant expenses:
 - Operating expenses primarily consist of operating labor, costs of goods sold, infrastructure costs, supplies, commissions and entertainment offerings. Infrastructure costs include information systems expense, repairs and maintenance, utilities and fuel, property taxes, retail occupancy costs, insurance and transportation.
 - Selling, general and administrative costs
 - Depreciation and amortization

Studio Entertainment

- Significant operations:
 - Motion picture production and distribution under the Walt Disney Pictures, Twentieth Century Fox, Pixar, Marvel, Lucasfilm, Fox 2000, Fox Searchlight Pictures, Twentieth Century Fox Animation and Touchstone banners
 - Development, production and licensing of live entertainment events on Broadway and around the world (stage plays)
- Significant revenues:
 - Theatrical distribution - Rentals from licensing our motion pictures to theaters
 - Home entertainment - Sale of our motion pictures to retailers and distributors in physical (DVD and Blu-ray) and electronic formats
 - TV/SVOD distribution and other - Licensing fees and other revenue from the right to use our motion picture productions, revenue from content transactions with other Company segments, ticket sales from stage plays and fees from licensing our intellectual properties for use in live entertainment productions
- Significant expenses:
 - Operating expenses consisting primarily of amortization of production, participations and residuals costs, distribution costs and costs of sales
 - Selling, general and administrative costs
 - Depreciation and amortization

Direct-to-Consumer & International

- Significant operations:
 - Disney, ESPN, Fox, Star, FX and National Geographic branded international television networks and channels (International Channels)
 - Direct-to-consumer (DTC) businesses distributed digitally to internet-connected devices:
 - Hulu and Hotstar streaming services, which aggregate acquired television and film entertainment content and produce original content. Prior to the acquisition of 21CF, Hulu was reported as an equity investment.
 - ESPN+ streaming service, which was launched in April 2018
 - Disney+ streaming service, which we plan to launch in late 2019
 - Other Company branded digital content distribution platforms and services
 - BAMTech LLC (BAMTech) (owned 75% by the Company since September 2017), which provides streaming technology services
 - Equity investments:
 - A 50% ownership interest in Endemol Shine Group, which is a multi-platform content provider with creative operations across the world's major markets
 - A 27% effective ownership interest in Vice Group Holdings, Inc. (Vice), which is a media company that targets millennial audiences. Vice operates Viceland, which is owned 50% by Vice and 50% by A+E.

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

- Significant revenues:
 - Affiliate fees - Fees charged to MVPDs for the right to deliver our International Channels to their customers
 - Advertising - Sales of ad time/space on our International Channels. Sales of non-ratings based ad time/space on digital platforms (“addressable ad sales”). In general, addressable ad sales are delivered using technology that allows for dynamic insertion of advertisements into video content, which can be targeted to specific viewer groups
 - Subscription fees and other - Fees charged to customers/subscribers for our streaming and technology services
- Significant expenses:
 - Operating expenses consisting primarily of programming and production costs (including digital content obtained from other Company segments), technical support costs, operating labor and distribution costs
 - Selling, general and administrative costs
 - Depreciation and amortization

SEGMENT INFORMATION

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, other income, interest expense, income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees and excludes impairments of certain equity investments and purchase accounting amortization of 21CF and Hulu assets (i.e. intangible assets and the fair value step-up for film and television costs) recognized in connection with the 21CF acquisition. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Intersegment content transactions (e.g. feature films aired on the ABC Television Network, our networks streaming on our DTC services) are presented “gross” (i.e. the segment producing the content reports revenue and profit from intersegment transactions in a manner similar to the reporting of third-party transactions, and the required eliminations are reported on a separate “Eliminations” line when presenting a summary of our segment results). Previously, these transactions were reported “net”, and the intersegment revenue was eliminated in the results of the segment producing the content. Fiscal 2018 intersegment content transactions have been recast to align with the fiscal 2019 presentation.

Segment revenues and segment operating income are as follows:

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Revenues:				
Media Networks	\$ 6,713	\$ 5,534	\$ 18,317	\$ 16,597
Parks, Experiences and Products ⁽¹⁾	6,575	6,136	19,570	18,566
Studio Entertainment ⁽¹⁾	3,836	2,880	7,817	7,888
Direct-to-Consumer & International	3,858	827	5,921	2,589
Eliminations ⁽²⁾	(737)	(148)	(1,155)	(512)
	<u>\$ 20,245</u>	<u>\$ 15,229</u>	<u>\$ 50,470</u>	<u>\$ 45,128</u>
Segment operating income:				
Media Networks	\$ 2,136	\$ 1,995	\$ 5,696	\$ 5,496
Parks, Experiences and Products ⁽¹⁾	1,719	1,655	5,377	4,918
Studio Entertainment ⁽¹⁾	792	701	1,607	2,400
Direct-to-Consumer & International	(553)	(168)	(1,074)	(398)
Eliminations ⁽²⁾	(133)	6	(174)	(4)
	<u>\$ 3,961</u>	<u>\$ 4,189</u>	<u>\$ 11,432</u>	<u>\$ 12,412</u>

- ⁽¹⁾ Studio Entertainment revenues and operating income include an allocation of Parks, Experiences and Products 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 Parks, Experiences and Products revenues and operating income was \$126 million and \$119 million for the quarters ended June 29, 2019 and June 30, 2018, respectively, and \$406 million and \$426 million for the nine months ended June 29, 2019 and June 30, 2018, respectively.

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

⁽²⁾ Intersegment content transactions are as follows:

(in millions)	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Revenues:				
Studio Entertainment:				
Content transactions with Media Networks	\$ (41)	\$ (25)	\$ (75)	\$ (120)
Content transactions with Direct-to-Consumer & International	(82)	(8)	(182)	(24)
Media Networks:				
Content transactions with Direct-to-Consumer & International	(614)	(115)	(898)	(368)
	<u>\$ (737)</u>	<u>\$ (148)</u>	<u>\$ (1,155)</u>	<u>\$ (512)</u>
Operating income:				
Studio Entertainment:				
Content transactions with Media Networks	\$ (16)	\$ 7	\$ (11)	\$ (2)
Content transactions with Direct-to-Consumer & International	(35)	—	(79)	—
Media Networks:				
Content transactions with Direct-to-Consumer & International	(82)	(1)	(84)	(2)
Total	<u>\$ (133)</u>	<u>\$ 6</u>	<u>\$ (174)</u>	<u>\$ (4)</u>

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

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

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Media Networks	\$ 192	\$ 197	\$ 553	\$ 538
Parks, Experiences and Products	—	(5)	(12)	(19)
Direct-to-Consumer & International	7	(119)	(222)	(397)
Equity in the income of investees included in segment operating income	199	73	319	122
Impairment of equity investments	(185)	—	(538)	—
Amortization of 21CF intangible assets related to equity investees	(15)	—	(15)	—
Equity in the income / (loss) of investees, net	\$ (1)	\$ 73	\$ (234)	\$ 122

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

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Segment operating income	\$ 3,961	\$ 4,189	\$ 11,432	\$ 12,412
Corporate and unallocated shared expenses	(238)	(192)	(678)	(536)
Restructuring and impairment charges	(207)	—	(869)	(28)
Other income/(expense), net	(123)	—	4,840	94
Interest expense, net	(411)	(143)	(617)	(415)
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	(779)	—	(884)	—
Impairment of equity investments ⁽²⁾	(185)	—	(538)	—
Income from continuing operations before income taxes	\$ 2,018	\$ 3,854	\$ 12,686	\$ 11,527

⁽¹⁾ For the quarter ended June 29, 2019, amortization of intangible assets, step-up of film and television costs and intangibles related to 21CF equity investees were \$490 million, \$274 million and \$15 million, respectively. For the nine-months ended June 29, 2019, amortization of intangible assets, step-up of film and television costs and intangibles related to 21CF equity investees were \$562 million, \$307 million and \$15 million, respectively.

⁽²⁾ Primarily reflects an impairment of an investment in a cable channel at A+E Television Networks.

3. Revenues

At the beginning of fiscal 2019, the Company adopted Financial Accounting Standards Board (FASB) guidance that replaced the existing accounting guidance for revenue recognition with a single comprehensive five-step model (“new revenue guidance”). The core principle is to recognize revenue upon the transfer of control of goods or services to customers at an amount that reflects the consideration expected to be received. We adopted the new revenue guidance using the modified retrospective method; therefore, results for reporting periods beginning after September 30, 2018 are presented under the new revenue guidance, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting. Upon adoption, we recorded a net reduction of \$116 million to opening retained earnings in the first quarter of fiscal 2019.

The most significant changes to the Company’s revenue recognition policies resulting from the adoption of the new revenue guidance are as follows:

- For television and film content licensing agreements with multiple availability windows with the same licensee, the Company now defers more revenue to future windows than under the previous accounting guidance.
- For licenses of character images, brands and trademarks with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual amounts earned based on a percentage of the licensee’s underlying sales

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

("shortfall") is now recognized straight-line over the remaining license period once an expected shortfall is probable. Previously, shortfalls were recognized at the end of the contract period.

- For licenses that include multiple television and film titles with a minimum guaranteed license fee across all titles that earns out against the aggregate fees based on the licensee's underlying sales, the Company now allocates the minimum guaranteed license fee to each title at contract inception and recognizes the allocated license fee as revenue when the title is made available to the customer. License fees earned by titles in excess of their allocated amount are deferred until the minimum guaranteed license fee across all titles is exceeded. Once the minimum guaranteed license fee across all titles is exceeded, license fees are recognized as earned based on the licensee's underlying sales. Previously, license fees were recognized as earned based on the licensee's underlying sales with any shortfalls recognized at the end of the contract period.
- For renewals or extensions of license agreements for television and film content, revenues are now recognized when the licensed content becomes available under the renewal or extension. Previously, revenues were recognized when the agreement was renewed or extended.

The adoption of the new revenue guidance resulted in certain reclassifications on the Condensed Consolidated Balance Sheet. The primary changes are the reclassification of sales returns reserves (previously reported as a reduction of receivables) to other accrued liabilities (\$0.1 billion at June 29, 2019) and the reclassification of refundable customer advances (previously reported as deferred revenues) to other accrued liabilities (\$1.0 billion at June 29, 2019).

The cumulative effect of adoption at September 29, 2018 and the impact at June 29, 2019 (had we not applied the new revenue guidance) on the Condensed Consolidated Balance Sheet is as follows:

	September 29, 2018			June 29, 2019		
	Fiscal 2018 Ending Balances as Reported	Effect of Adoption	Q1 2019 Opening Balances	Balances Assuming Historical Accounting	Impact of New Revenue guidance	Q3 2019 Ending Balances as Reported
Assets						
Receivables - current/non-current	\$ 11,262	\$ (241)	\$ 11,021	\$ 18,450	\$ (157)	\$ 18,293
Film and television costs and advances - current/non-current	9,202	48	9,250	27,031	47	27,078
Liabilities						
Accounts payable and other accrued liabilities	9,479	1,039	10,518	16,488	1,159	17,647
Deferred revenue and other	4,591	(1,082)	3,509	5,888	(1,158)	4,730
Deferred income taxes	3,109	(34)	3,075	10,429	(25)	10,404
Equity	52,832	(116)	52,716	96,444	(88)	96,356

The impact on the Condensed Consolidated Statement of Income for the quarter and nine months ended June 29, 2019, due to the adoption of the new revenue guidance is as follows:

	Quarter Ended June 29, 2019			Nine Months Ended June 29, 2019		
	Results Assuming Historical Accounting	Impact of New Revenue guidance	Reported	Results Assuming Historical Accounting	Impact of New Revenue guidance	Reported
Revenues	\$ 20,250	\$ (5)	\$ 20,245	\$ 50,260	\$ 210	\$ 50,470
Cost and Expenses	(17,437)	(48)	(17,485)	(40,730)	(174)	(40,904)
Income Taxes	(407)	12	(395)	(2,679)	(8)	(2,687)
Net Income	2,023	(41)	1,982	10,351	28	10,379

The most significant impacts were at the Studio Entertainment, Parks, Experiences and Products and Media Networks segments. For the quarter ended June 29, 2019, Parks, Experiences and Products was impacted by the deferral of revenues related to sales of vacation club properties and Media Networks was impacted by a change in the timing of revenue recognition on contracts with minimum guarantees.

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

For the nine months ended June 29, 2019, Studio Entertainment was impacted by a change in the timing of revenue recognition related to film content licensing agreements with multiple availability windows. Parks, Experiences and Products was impacted by the deferral of revenues related to sales of vacation club properties and a change in the timing of revenue recognition on contracts with minimum guarantees. Media Networks was impacted by a change in the timing of revenue recognition on contracts with minimum guarantees.

Summary of Significant Revenue Recognition Accounting Policies

The Company generates revenue from the sale of both services and products. Revenue is recognized when control of the services or products is transferred to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for the services or products.

The Company has three broad categories of service revenues: licenses of rights to use our intellectual property, sales to guests at our Parks and Experiences businesses and sales of ad time/space. The Company's primary product revenues include the sale of food, beverage and merchandise at our parks, resorts and retail stores and the sale of film and television productions in physical formats (DVD and Blu-ray).

The new revenue guidance defines two types of licenses of intellectual property ("IP"): IP that has "standalone functionality," which is called functional IP, and all other IP, which is called symbolic IP. Revenue related to the license of functional IP is generally recognized upon delivery (availability) of the IP to the customer. The substantial majority of the Company's film and television content distribution activities at the Media Networks, Studio Entertainment and DTCI segments is considered licensing of functional IP. Revenue related to the license of symbolic IP is generally recognized over the term of the license. The Company's primary revenue stream derived from symbolic IP is the licensing of trade names, characters, visual and literary properties at the Parks, Experiences and Products segment.

More detailed information about the revenue recognition policies for our key revenues is as follows:

- **Affiliate fees** - Fees charged to affiliates (i.e., MVPDs or television stations) for the right to deliver our television network programming on a continuous basis to their customers are recognized as the programming is provided based on contractually specified per subscriber rates and the actual number of the affiliate's customers receiving the programming.

For affiliate contracts with fixed license fees, the fees are recognized ratably over the contract term.

If an affiliate contract includes a minimum guaranteed license fee, the guaranteed license fee is recognized ratably over the guaranteed period and any fees earned in excess of the guarantee are recognized as earned once the minimum guarantee has been exceeded.

Affiliate agreements may also include a license to use the network programming for on demand viewing. As the fees charged under these contracts are generally based on a contractually specified per subscriber rate for the number of underlying subscribers of the affiliate, revenues are recognized as earned.

- **Subscription fees** - Fees charged to customers/subscribers for our streaming services are recognized ratably over the term of the subscription.
- **Advertising** - Sales of advertising time/space on our television networks, digital platforms and television stations are recognized as revenue, net of agency commissions, when commercials are aired. For contracts that contain a guaranteed number of impressions, revenues are recognized based on impressions delivered. When the guaranteed number of impressions is not met ("ratings shortfall"), revenues are not recognized for the ratings shortfall until the additional impressions are delivered.
- **Theme park admissions** - Sales of theme park tickets are recognized when the tickets are used. Sales of annual passes are recognized ratably over the period for which the pass is available for use.
- **Resorts and vacations** - Sales of hotel room nights and cruise vacations and rentals of vacation club properties are recognized as the services are provided to the guest. Sales of vacation club properties are recognized when title to the property transfers to the customer.
- **Merchandise, food and beverage** - Sales of merchandise, food and beverages at our theme parks and resorts, cruise ships and Disney Stores are recognized at the time of sale. Sales from our branded internet shopping sites and to wholesalers are recognized upon delivery. We estimate returns and customer incentives based upon historical return experience, current economic trends and projections of consumer demand for our products.

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

- TV/SVOD distribution licensing - Fixed license fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. License fees based on the underlying sales of the licensee are recognized as revenue as earned based on the contractual royalty rate applied to the licensee sales.

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

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

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

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

- Theatrical distribution licensing - Fees charged for licensing of our motion pictures to theatrical distributors are recognized as revenue based on the contractual royalty rate applied to the distributor's underlying sales from exhibition of the film.
- Merchandise licensing - Fees charged for the use of our trade names and characters in connection with the sale of a licensee's products are recognized as revenue as earned based on the contractual royalty rate applied to the licensee's underlying product sales. For licenses with minimum guaranteed license fees, the excess of the minimum guaranteed amount over actual royalties earned ("shortfall") is recognized straight-line over the remaining license period once an expected shortfall is probable.
- Home entertainment - Sales of our motion pictures to retailers and distributors in physical formats (DVD and Blu-ray) are recognized as revenue on the later of the delivery date or the date that the product can be sold by retailers. We reduce home entertainment revenues for estimated future returns of merchandise and sales incentives based upon historical return experience, current economic trends and projections of consumer demand for our products. Sales of our motion pictures in electronic formats are recognized as revenue when the product is available for use by the consumer.
- Taxes - Taxes collected from customers and remitted to governmental authorities are excluded from revenue.
- Shipping and handling - Fees collected from customers for shipping and handling are recorded as revenue and the related shipping expenses are recorded in cost of products upon delivery of the product to the consumer.

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

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

Quarter Ended June 29, 2019						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 3,564	\$ —	\$ —	\$ 993	\$ (108)	\$ 4,449
Advertising	1,874	—	—	1,489	—	3,363
Theme park admissions	—	1,956	—	—	—	1,956
Resort and vacations	—	1,610	—	—	—	1,610
Retail and wholesale sales of merchandise, food and beverage	—	1,877	—	—	—	1,877
TV/SVOD distribution licensing	1,150	—	746	218	(629)	1,485
Theatrical distribution licensing	—	—	2,240	—	—	2,240
Merchandise licensing	—	631	126	12	—	769
Home entertainment	—	—	432	24	—	456
Other	125	501	292	1,122	—	2,040
Total revenues	<u>\$ 6,713</u>	<u>\$ 6,575</u>	<u>\$ 3,836</u>	<u>\$ 3,858</u>	<u>\$ (737)</u>	<u>\$ 20,245</u>

Quarter Ended June 30, 2018 ⁽¹⁾						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 2,981	\$ —	\$ —	\$ 351	\$ —	\$ 3,332
Advertising	1,677	1	—	310	—	1,988
Theme park admissions	—	1,834	—	—	—	1,834
Resort and vacations	—	1,530	—	—	—	1,530
Retail and wholesale sales of merchandise, food and beverage	—	1,800	—	—	—	1,800
TV/SVOD distribution licensing	822	—	560	22	(148)	1,256
Theatrical distribution licensing	—	—	1,505	—	—	1,505
Merchandise licensing	—	560	116	18	—	694
Home entertainment	—	—	388	29	—	417
Other	54	411	311	97	—	873
Total revenues	<u>\$ 5,534</u>	<u>\$ 6,136</u>	<u>\$ 2,880</u>	<u>\$ 827</u>	<u>\$ (148)</u>	<u>\$ 15,229</u>

⁽¹⁾ Amounts reflect our historical accounting prior to the adoption of the new revenue guidance.

Nine Months Ended June 29, 2019						
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 9,873	\$ —	\$ —	\$ 1,728	\$ (120)	\$ 11,481
Advertising	5,521	3	—	2,360	—	7,884
Theme park admissions	—	5,657	—	—	—	5,657
Resort and vacations	—	4,644	—	—	—	4,644
Retail and wholesale sales of merchandise, food and beverage	—	5,767	—	—	—	5,767
TV/SVOD distribution licensing	2,617	—	2,069	275	(1,035)	3,926
Theatrical distribution licensing	—	—	3,365	—	—	3,365
Merchandise licensing	—	2,009	406	40	—	2,455
Home entertainment	—	—	1,127	73	—	1,200
Other	306	1,490	850	1,445	—	4,091
Total revenues	<u>\$ 18,317</u>	<u>\$ 19,570</u>	<u>\$ 7,817</u>	<u>\$ 5,921</u>	<u>\$ (1,155)</u>	<u>\$ 50,470</u>

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

	Nine Months Ended June 30, 2018 ⁽¹⁾					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
Affiliate fees	\$ 8,891	\$ —	\$ —	\$ 1,043	\$ —	\$ 9,934
Advertising	5,283	5	—	1,022	—	6,310
Theme park admissions	—	5,356	—	—	—	5,356
Resort and vacations	—	4,454	—	—	—	4,454
Retail and wholesale sales of merchandise, food and beverage	—	5,566	—	—	—	5,566
TV/SVOD distribution licensing	2,205	—	1,698	73	(512)	3,464
Theatrical distribution licensing	—	—	3,630	—	—	3,630
Merchandise licensing	—	1,963	426	54	—	2,443
Home entertainment	—	—	1,220	80	—	1,300
Other	218	1,222	914	317	—	2,671
Total revenues	\$ 16,597	\$ 18,566	\$ 7,888	\$ 2,589	\$ (512)	\$ 45,128

⁽¹⁾ Amounts reflect our historical accounting prior to the adoption of the new revenue guidance.

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

	Quarter Ended June 29, 2019					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	\$ 6,338	\$ 4,911	\$ 1,728	\$ 1,533	\$ (601)	\$ 13,909
Europe	295	776	889	473	(80)	2,353
Asia Pacific	63	837	874	1,187	(56)	2,905
Latin America	17	51	345	665	—	1,078
Total revenues	\$ 6,713	\$ 6,575	\$ 3,836	\$ 3,858	\$ (737)	\$ 20,245

	Nine months ended June 29, 2019					
	Media Networks	Parks, Experiences and Products	Studio Entertainment	Direct-to-Consumer & International	Eliminations	Consolidated
United States and Canada	\$ 17,464	\$ 14,742	\$ 3,840	\$ 2,078	\$ (970)	\$ 37,154
Europe	585	2,261	1,878	846	(118)	5,452
Asia Pacific	195	2,399	1,548	1,566	(67)	5,641
Latin America	73	168	551	1,431	—	2,223
Total revenues	\$ 18,317	\$ 19,570	\$ 7,817	\$ 5,921	\$ (1,155)	\$ 50,470

Revenues recognized in the current period from performance obligations satisfied (or partially satisfied) in previous reporting periods primarily relate to revenues earned on theatrical and TV/SVOD distribution licensee sales on titles made available to the licensee in previous reporting periods. For the quarter ended June 29, 2019, \$0.6 billion was recognized related to performance obligations satisfied prior to March 31, 2019. For the nine months ended June 29, 2019, \$0.9 billion was recognized related to performance obligations satisfied prior to September 30, 2018.

As of June 29, 2019, revenue for unsatisfied performance obligations expected to be recognized in the future is \$16 billion, which primarily relates to content to be delivered in the future under existing agreements with television station affiliates and TV/SVOD licensees. Of this amount, we expect to recognize approximately \$2 billion in the remainder of fiscal 2019, \$6 billion in fiscal 2020, \$4 billion in fiscal 2021 and \$5 billion thereafter. These amounts include only fixed consideration or minimum guarantees and do not include amounts related to (i) contracts with an original expected term of one year or less (such as most advertising contracts) or (ii) licenses of IP that are solely based on the sales of the licensee.

Payment terms vary by the type and location of our customers and the products or services offered. For certain products or services and customer types, we require payment before the products or services are provided to the customer; in other cases, after appropriate credit evaluations, payment is due in arrears. Advertising contracts, which are generally short term, are billed

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

monthly with payments generally due within 30 days. Payments due under affiliate arrangements are calculated monthly and are generally due within 30 days of month end. Home entertainment terms generally include payment within 60 to 90 days of availability date to the customer. Licensing payment terms vary by contract but are generally collected in advance or over the license term. The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties (see Note 13). These receivables are discounted to present value at an appropriate discount rate at contract inception, and the related revenues are recognized at the discounted amount.

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

	June 29, 2019	September 30, 2018
Contract assets	\$ 99	\$ 89
Accounts Receivable		
Current	14,414	8,553
Non-current	2,008	1,640
Allowance for doubtful accounts	(265)	(226)
Deferred revenues		
Current	4,135	2,926
Non-current	581	609

Contract assets relate to certain multi-season TV/SVOD licensing contracts. Activity for the quarter and nine months ended June 29, 2019 related to contract assets and the allowance for doubtful accounts was not material.

Deferred revenue primarily relates to non-refundable consideration received in advance for (i) licensing contracts, theme park annual passes, theme park tickets and vacation packages and (ii) the deferral of advertising revenues due to ratings shortfalls. The increase in the deferred revenue balance for the nine months ended June 29, 2019 was primarily due to the receipt of additional prepaid park admissions, non-refundable travel deposits and advances on certain licensing arrangements, as well as the acquisition of 21CF and consolidation of Hulu (see Note 4) on March 20, 2019. The acquisition of 21CF and consolidation of Hulu increased deferred revenues by \$0.7 billion, of which \$0.4 billion was recognized during the quarter ended June 29, 2019. For the quarter and nine months ended June 29, 2019, the Company recognized revenues of \$0.3 billion and \$2.5 billion, respectively, primarily related to theme park admissions and vacation packages included in the deferred revenue balance at September 30, 2018.

4. Acquisitions

Twenty-First Century Fox

On March 20, 2019, the Company acquired the outstanding capital stock of 21CF, a diversified global media and entertainment company. Prior to the acquisition, 21CF and a newly-formed subsidiary of 21CF (New Fox) entered into a separation agreement, pursuant to which 21CF transferred to New Fox a portfolio of 21CF's news, sports and broadcast businesses and certain other assets. 21CF retained all of the assets and liabilities not transferred to New Fox, including the Twentieth Century Fox film and television studios, certain cable networks and 21CF's international TV businesses; these remaining assets and businesses are held directly or indirectly by the acquired 21CF entity.

The acquisition purchase price totaled \$69.5 billion, of which the Company paid \$35.7 billion in cash and \$33.8 billion in Disney shares (307 million shares at a price of \$110.00 per share).

We acquired 21CF to enhance the Company's position as a premier, global entertainment company by increasing our portfolio of creative assets and branded content to be monetized through our film and television studio, theme parks and direct-to-consumer offerings.

In connection with the acquisition, outstanding 21CF performance stock units and restricted stock units were either vested upon closing of the acquisition or replaced with new restricted stock units (which require additional service for vesting). The purchase price for 21CF includes \$361 million related to 21CF awards that were settled or replaced in connection with the

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

acquisition, and the Company recognized compensation expense of \$164 million related to awards that were accelerated to vest upon closing of the acquisition. Additionally, compensation expense of \$219 million related to awards that were replaced with new restricted stock units will be recognized over the post-acquisition service period of up to approximately two years.

As part of the 21CF acquisition, the Company acquired 21CF's 30% interest in Hulu increasing our ownership to 60%. As a result, the Company began consolidating Hulu and recorded a one-time gain of \$4.8 billion (Hulu Gain) from remeasuring our initial 30% interest to its estimated fair value, which was determined based on a discounted cash flow analysis.

On April 15, 2019, Hulu redeemed Warner Media LLC's (WM) 10% interest in Hulu for \$1.4 billion. The redemption was funded by the Company and Hulu's remaining noncontrolling interest holder, NBC Universal (NBCU). This resulted in the Company's and NBCU's interests in Hulu increasing to 67% and 33%, respectively. NBCU's participation in the redemption resulted in an update to the Company's estimated fair value of its initial 30% interest decreasing the Hulu Gain by \$123 million.

On May 13, 2019, the Company entered into a put/call agreement with NBCU that provided the Company with full operational control of Hulu. Under the agreement, beginning in January 2024, NBCU has the option to require the Company to purchase NBCU's interest in Hulu and the Company has the option to require NBCU to sell its interest in Hulu, based on NBCU's equity ownership percentage of the greater of Hulu's then fair value or \$27.5 billion. Hulu's future equity capital calls are limited to \$1.5 billion in the aggregate each year, with any excess funding requirements funded with member loans. NBCU has the right, but not the obligation, to fund its proportionate share of future capital calls. If NBCU elects not to fund its share of future equity capital calls its ownership will be diluted. However, Disney has agreed that NBCU's ownership interest in Hulu cannot be diluted below 21%. Additionally, the agreement provides NBCU with 50% of the tax benefit related to the exercise of the put or call.

NBCU's interest is classified as a redeemable noncontrolling interest on the Company's Condensed Consolidated Balance Sheet and will generally not be allocated Hulu's losses as it is required to be carried at a minimum value representing its fair value as of the May 13, 2019 agreement date accreted to its January 2024 redemption value. The accretion of NBCU's interest will be based on an interest method and recorded in "Net income attributable to noncontrolling interests" on the Consolidated Statement of Income. At June 29, 2019, NBCU's interest in Hulu is recorded in the Company's financial statements at \$7.8 billion.

Upon closing of the 21CF acquisition, the Company exchanged new Disney notes for outstanding notes issued by 21st Century Fox America, Inc. (21CFA Notes) with a principal balance of \$16.8 billion (see Note 6).

The Company also assumed 21CF commitments totaling \$31 billion, of which \$22 billion relate to the RSNs (see Discontinued Operations below). The remaining commitments are primarily for sports and entertainment programming rights. In addition, we entered into commitments with New Fox totaling \$0.3 billion, primarily for the lease of production facilities and office space. Hulu commitments total \$3.4 billion and relate primarily to programming rights.

The Company is required to allocate the 21CF purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill. The Company is in the process of obtaining additional information necessary to finalize the valuation of the assets acquired and liabilities assumed including income tax related amounts. Therefore, the preliminary fair values set forth below are subject to adjustment as additional information is obtained and the valuations are completed.

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

The following table summarizes our preliminary allocation of the March 20, 2019 purchase price:

	Initial Allocation	Valuation Adjustments	Updated Allocation
Cash and cash equivalents	\$ 25,666	\$ —	\$ 25,666
Receivables	4,746	154	4,900
Film and television costs	20,120	(2,135)	17,985
Investments	1,471	53	1,524
Intangible assets	20,385	(1,325)	19,060
Net assets held for sale	11,704	(414)	11,290
Accounts payable and other liabilities	(10,753)	(1,357)	(12,110)
Borrowings	(21,723)	—	(21,723)
Deferred income taxes	(6,497)	975	(5,522)
Other net liabilities acquired	(3,865)	1,060	(2,805)
Noncontrolling interests	(10,638)	96	(10,542)
Goodwill	43,751	2,770	46,521
Fair value of net assets acquired	74,367	(123)	74,244
Less: Disney's previously held 30% interest in Hulu	(4,860)	123	(4,737)
Total purchase price	\$ 69,507	\$ —	\$ 69,507

These changes to the preliminary values, with a corresponding net increase to goodwill, are based on more detailed information obtained about the specific assets and liabilities acquired. The changes made to the initial amounts during the quarter ended June 29, 2019 resulted in no material changes to the amortization expense recorded in the previous quarter.

Intangible assets primarily consist of MVPD agreements, advertising networks and trade names with estimated useful lives ranging from 2 to 40 years and a weighted average life of 12 years.

The goodwill reflects the value to Disney of increasing our global portfolio of creative assets and branded content to be monetized through our film and television studio, theme parks and direct-to-consumer offerings.

The goodwill is not deductible for tax purposes.

The fair value of investments acquired in the acquisition include \$1.2 billion of equity method investments and \$0.3 billion of equity investments. Equity method investments primarily consist of a 50% interest in Endemol Shine Group, a global multi-platform content provider and a 30% interest in Tata Sky Limited, a satellite operator in India.

The fair value of the assets acquired includes current trade receivables of \$4.9 billion. The gross amount due under the contracts is \$5.1 billion, of which \$0.2 billion is expected to be uncollectible.

For the nine months ended June 29, 2019, the Company incurred \$258 million of acquisition-related expenses, of which \$158 million is included in Selling, general, administrative and other, and \$100 million related to financing fees is included in Interest expense, net in the Company's Condensed Consolidated Statement of Income.

The following table summarizes the revenues and net loss from continuing operations (including purchase accounting amortization and the impact of intercompany eliminations and excluding restructuring and impairment charges) of 21CF and Hulu included in the Company's Condensed Consolidated Statement of Income since the date of acquisition for the quarter and nine months ended June 29, 2019:

	Quarter	Nine Months
21CF:		
Revenues	\$ 3,490	\$ 3,863
Net loss from continuing operations	(556)	(611)
Hulu:		
Revenues	\$ 906	\$ 1,039
Net loss from continuing operations	(357)	(416)

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

The following pro forma summary presents consolidated information of the Company as if the acquisition of 21CF and consolidation of Hulu had occurred on October 1, 2017:

	Nine Months Ended	
	June 29, 2019	June 30, 2018
Revenues	\$ 59,017	\$ 58,223
Net income	6,259	11,800
Net income attributable to Disney	6,147	11,971
Earnings per share attributable to Disney:		
Diluted	\$ 3.22	\$ 6.58
Basic	3.24	6.62

These pro forma results include adjustments for purposes of consolidating the historical financial results of 21CF and Hulu (net of adjustments to eliminate transactions between Disney and 21CF, Disney and Hulu and Hulu and 21CF). These pro formas also include \$2.7 billion and \$2.8 billion (including \$0.4 billion and \$0.6 billion of amortization related to the RSNs) for the nine months ended June 29, 2019 and June 30, 2018, respectively, to reflect the preliminary estimate of incremental amortization as a result of recording film and television programming and production costs and finite lived intangible assets at fair value. Interest expense of \$0.3 billion is included to reflect the cost of borrowings to finance the 21CF acquisition in both the nine months ended June 29, 2019 and June 30, 2018.

Additionally, the nine months ended June 30, 2018 pro forma earnings include the Hulu Gain, compensation expense of \$0.2 billion related to 21CF equity awards that were accelerated to vest upon closing of the acquisition, and \$0.4 billion of acquisition-related expenses. These amounts were recognized by Disney and 21CF in the nine months ended June 29, 2019, but have been excluded from the nine months ended June 29, 2019 pro forma earnings.

The pro forma results exclude a \$10.8 billion gain on sale and \$0.3 billion of equity earnings recorded by 21CF for the nine months ended June 29, 2019 and June 30, 2018, respectively, related to its 39% interest in Sky plc, which was sold by 21CF in October 2018. The pro forma results include \$0.6 billion and \$0.5 billion of net income recorded by 21CF for the nine months ended June 29, 2019 and June 30, 2018, respectively, related to the 21CF businesses that we are required to divest as a condition of the acquisition (see the Assets to be Disposed and Discontinued Operations section below).

These pro forma results do not represent financial results that would have been realized had the acquisition actually occurred on October 1, 2017, nor are they intended to be a projection of future results.

Assets to be Disposed and Discontinued Operations

Pursuant to a consent decree with the U.S. Department of Justice (DOJ), we are required to sell 21CF's twenty-two RSNs (the RSN Divestiture). The DOJ must approve the purchaser(s) and terms and conditions of the RSN Divestiture and file a motion with the federal court requesting the court to approve the consent decree. The sale must be completed within five days of notice of the federal court approving the consent decree, with the possibility that the DOJ can grant extensions of time up to 90 days. On May 3, 2019, the Company entered into a definitive agreement with Sinclair Broadcast Group, Inc. to sell twenty-one of the RSNs (not including the YES Network), for a sales price of approximately \$10 billion. Completion of the transaction is subject to customary closing conditions, including the approval of the DOJ.

Additionally, the Company has agreed with Conselho Administrativo de Defesa Economica (CADE) to sell 21CF's sports media operations in Brazil (the Brazil Divestiture) and agreed with the Instituto Federal de Telecomunicaciones (IFT) to sell 21CF's sports media operations in Mexico (the Mexico Divestiture). The Company will have 180 days from the date of the 21CF acquisition to complete the Brazil Divestiture. The Company will have six months, with the possibility that the IFT can grant extensions of time up to another six months, for the Mexico Divestiture. CADE and the IFT must approve the purchaser(s) and terms and conditions of the Brazil and Mexico Divestitures, respectively.

The European Commission approved the acquisition on the condition that the Company divest its interests in certain cable channels in the European Economic Area that are controlled by A+E, including History, H2, Crime & Investigation, Blaze and Lifetime (the EEA Channels). The Company divested its interests in the entities that operate the EEA Channels on April 12, 2019. The EEA Channels are not presented as discontinued operations.

The RSNs and the Brazil and Mexico sports media operations are presented as assets held for sale and discontinued operations in the Condensed Consolidated Balance Sheets and Statements of Income, respectively.

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

The major classes of assets and liabilities of the RSNs and the Brazil and Mexico sports media operations at June 29, 2019 classified as held for sale on our Condensed Consolidated Balance Sheets are presented below and are subject to change based on developments during the sales process.

Cash	\$	591
Receivables and other current assets		964
Television costs and advances		337
Total current assets classified as held for sale		1,892
Film and television costs		1,704
Property and equipment and other assets		69
Intangible assets, net		7,748
Goodwill		3,070
Total assets classified as held for sale	\$	14,483
Accounts payable and other accrued liabilities	\$	246
Current portion of borrowings		44
Deferred revenue and other		3
Total current liabilities classified as held for sale		293
Borrowings		1,057
Other long-term liabilities		241
Redeemable noncontrolling interests		1,055
Total liabilities classified as held for sale	\$	2,646

Goodwill

The changes in the carrying amount of goodwill for the nine months ended June 29, 2019 are as follows:

	Media Networks	Parks and Resorts	Studio Entertainment	Consumer Products & Interactive Media	Parks, Experiences and Products	Direct-to-Consumer & International	Unallocated	Total
Balance at Sept. 29, 2018	\$ 19,388	\$ 291	\$ 7,164	\$ 4,426	\$ —	\$ —	\$ —	\$ 31,269
Segment recast ⁽¹⁾	(3,399)	(291)	(70)	(4,426)	4,487	3,699	—	—
Acquisitions ⁽²⁾	—	—	—	—	—	—	46,521	46,521
Other, net	—	—	4	—	—	7	—	11
Balance at June 29, 2019	<u>\$ 15,989</u>	<u>\$ —</u>	<u>\$ 7,098</u>	<u>\$ —</u>	<u>\$ 4,487</u>	<u>\$ 3,706</u>	<u>\$ 46,521</u>	<u>\$ 77,801</u>

⁽¹⁾ Represents the reallocation of goodwill as a result of the Company recasting its segments (see Note 2).

⁽²⁾ Represents the acquisition of 21CF and consolidation of Hulu.

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

5. Other Income

Other income is as follows:

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Hulu Gain ⁽¹⁾	\$ (123)	\$ —	\$ 4,794	\$ —
Insurance recoveries related to legal matters	—	—	46	38
Gain on the sale of property rights and other	—	—	—	56
Other income	\$ (123)	\$ —	\$ 4,840	\$ 94

⁽¹⁾ The quarter ended June 29, 2019, reflects an adjustment to the amount recognized in the second quarter of fiscal 2019. See Note 4 for further details.

6. Cash, Cash Equivalents, Restricted Cash and Borrowings

Cash, 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 Statements of Cash Flows.

	June 29, 2019	September 29, 2018
Cash and cash equivalents	\$ 6,728	\$ 4,150
Restricted cash included in:		
Other current assets	1	1
Other assets	37	4
Cash included in current assets held for sale	591	—
Total cash, cash equivalents and restricted cash in the statement of cash flows	\$ 7,357	\$ 4,155

Borrowings

During the nine months ended June 29, 2019, the Company's borrowing activity was as follows:

	September 29, 2018	Borrowings	Payments	Borrowings Assumed in Acquisition of 21CF	Other Activity	June 29, 2019
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 50	\$ 819	\$ —	\$ —	\$ 19	\$ 888
Commercial paper with original maturities greater than three months	955	4,110	(1,956)	—	17	3,126
U.S. and European notes	17,942	—	(2,250)	21,174	(66)	36,800
Credit facilities to acquire 21CF	—	31,100	(16,100)	—	—	15,000
Asia Theme Parks borrowings	1,145	—	(48)	—	44	1,141
Foreign currency denominated debt and other ⁽²⁾	782	248	(641)	549	341	1,279
	20,874	36,277	(20,995)	21,723	355	58,234
Liabilities held for sale	—	50	(18)	1,069	—	1,101
	\$ 20,874	\$ 36,327	\$ (21,013)	\$ 22,792	\$ 355	\$ 59,335

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

⁽²⁾ The other activity is due to market value adjustments for debt with qualifying hedges, partially offset by the impact of changes in foreign currency exchange rates.

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

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 2020	\$ 6,000	\$ —	\$ 6,000
Facility expiring March 2021	2,250	—	2,250
Facility expiring March 2023	4,000	—	4,000
Total	<u>\$ 12,250</u>	<u>\$ —</u>	<u>\$ 12,250</u>

All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard & Poor's. The spread above LIBOR can range from 0.18% to 1.63%. The facilities specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants, or events of default and contain only one financial covenant relating to interest coverage, which the Company met on June 29, 2019 by a significant margin. The Company also has the ability to issue up to \$500 million of letters of credit under the facility expiring in March 2023, which if utilized, reduces available borrowings under this facility. As of June 29, 2019, the Company has \$1.2 billion of outstanding letters of credit, of which none were issued under this facility. Outstanding letters of credit include letters of credit assumed in the acquisition of 21CF primarily in support of international sports programming rights.

U.S. and European Notes

On March 20, 2019, the Company assumed public debt with a fair value of \$21.2 billion (principal balance of \$17.4 billion) upon the completion of the 21CF acquisition. The debt has maturities ranging from 1 to 77 years and stated rates ranging from 3.00% to 9.50%. On March 20, 2019, 96% (\$16.8 billion) of the assumed debt was exchanged for senior notes of TWDC, with essentially the same terms. The exchange was with qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States with investors who are not U.S. persons pursuant to Regulation S under the Securities Act. At June 29, 2019, the weighted-average stated and effective interest rates were 5.94% and 4.11%, respectively.

Credit Facilities to Acquire 21CF

On March 20, 2019, the Company borrowed \$31.1 billion under two 364-day unsecured bridge loan facilities with a bank syndicate to fund the cash component of the 21CF acquisition. On March 21, 2019, the Company repaid one bridge loan facility in the amount of \$16.1 billion, utilizing cash acquired in the 21CF transaction, and terminated the facility. The remaining 364-day unsecured bridge loan facility has \$15.0 billion outstanding and is anticipated to be paid down with the after-tax net proceeds from the divestiture of the RSNs. The \$15.0 billion loan facility bears interest at LIBOR plus 0.875% (3.26% as of June 29, 2019).

Foreign Currency Denominated Debt and Other

On March 20, 2019 upon the completion of the 21CF acquisition, the Company assumed a term loan and unsecured credit facilities with outstanding balances totaling \$211 million and a weighted-average stated interest rate of approximately 7.30%.

On March 20, 2019, the Company consolidated Hulu, which had a \$338 million term loan that was repaid on June 4, 2019.

Liabilities Held for Sale

On March 20, 2019, as part of the 21CF acquisition, the Company assumed debt related to The Yankees Entertainment and Sports Network (the YES Network). The YES Network has a \$1.6 billion secured revolving credit facility and term loan facility that expires in December 2023. As of June 29, 2019, outstanding borrowings under the term loan facility and secured revolving credit facility were \$1.1 billion and \$50 million, respectively. The credit facilities bear interest at rates that are reset quarterly and are based on the leverage ratio of the YES Network. The credit facilities contain restrictive covenants and are collateralized by a substantial portion of assets of the YES Network. The YES Network is one of the RSNs that is held for sale (see Note 4).

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, another \$1.1 billion is available beginning in May 2022 and another \$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 loans and interest will be payable semi-annually over a 12-year period from the borrowing date. Early repayment is permitted subject to cancellation fees.

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

Interest expense, net

Interest expense, interest and investment income, and net periodic pension and postretirement benefit costs (other than service costs) (see Note 9) are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Interest expense	\$ (472)	\$ (175)	\$ (833)	\$ (493)
Interest and investment income	34	32	139	78
Net periodic pension and postretirement benefit costs (other than service costs)	27	—	77	—
Interest expense, net	<u>\$ (411)</u>	<u>\$ (143)</u>	<u>\$ (617)</u>	<u>\$ (415)</u>

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

7. International Theme Parks

The Company has a 47% ownership interest in the operations of Hong Kong Disneyland Resort and a 43% ownership interest in the operations of Shanghai Disney Resort. 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 June 29, 2019 and September 29, 2018:

	June 29, 2019	September 29, 2018
Cash and cash equivalents	\$ 825	\$ 834
Other current assets	392	400
Total current assets	1,217	1,234
Parks, resorts and other property	8,860	8,973
Other assets	86	103
Total assets ⁽¹⁾	<u>\$ 10,163</u>	<u>\$ 10,310</u>
Current liabilities	\$ 653	\$ 921
Long-term borrowings	1,141	1,106
Other long-term liabilities	367	382
Total liabilities ⁽¹⁾	<u>\$ 2,161</u>	<u>\$ 2,409</u>

⁽¹⁾ Total assets of the Asia Theme Parks were \$8 billion at both June 29, 2019 and September 29, 2018 including parks, resorts and other property of \$7 billion. Total liabilities of the Asia Theme Parks were \$2 billion at both June 29, 2019 and September 29, 2018.

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 nine months ended June 29, 2019:

	June 29, 2019
Revenues	\$ 2,794
Costs and expenses	(2,688)
Equity in the loss of investees	(12)

Asia Theme Parks' royalty and management fees of \$131 million for the nine months ended June 29, 2019 are eliminated in consolidation, but are considered in calculating earnings attributable to noncontrolling interests.

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

International Theme Parks' cash flows included in the Company's Condensed Consolidated Statement of Cash Flows for the nine months ended June 29, 2019 were \$656 million generated from operating activities, \$635 million used in investing activities and \$20 million in cash from financing activities. Approximately two thirds of cash flows generated from operating activities and 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 a 53% and a 47% equity interest in Hong Kong Disneyland Resort, respectively.

The Company and HKSAR have both provided loans to Hong Kong Disneyland Resort with outstanding balances of \$145 million and \$97 million, respectively. The interest rate is three month HIBOR plus 2%, and the maturity date is September 2025. The Company's loan is eliminated in consolidation.

The Company has provided Hong Kong Disneyland Resort with a revolving credit facility of HK \$2.1 billion (\$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 June 29, 2019.

Shanghai Disney Resort

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

The Company has provided Shanghai Disney Resort with loans totaling \$821 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 \$152 million due from Shanghai Disney Resort primarily related to royalties. The Company has also provided Shanghai Disney Resort with a \$157 million line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at June 29, 2019. These balances are eliminated in consolidation.

Shendi has provided Shanghai Disney Resort with loans totaling 7.2 billion yuan (approximately \$1.0 billion), bearing interest at rates up to 8% and maturing in 2036, with early repayment permitted. Shendi has also provided Shanghai Disney Resort with a 1.4 billion yuan (approximately \$0.2 billion) line of credit bearing interest at 8%. There is no outstanding balance under the line of credit at June 29, 2019.

8. Income Taxes

U.S. Tax Cuts and Jobs Act

In December 2017, new federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act), was signed into law. The most significant impacts on the Company are as follows:

- Effective January 1, 2018, the U.S. corporate federal statutory income tax rate was reduced from 35.0% to 21.0%. Because of our fiscal year end, the Company's fiscal 2018 statutory federal tax rate was 24.5%. The Company's statutory federal tax rate is 21.0% for fiscal 2019 (and thereafter).
- The Company remeasured its U.S. federal deferred tax assets and liabilities at the rate that the Company expects to be in effect when those deferred taxes are realized (either 24.5% if in 2018 or 21.0% thereafter) (Deferred Remeasurement). The Company recognized a benefit of approximately \$2.2 billion from the Deferred Remeasurement, the majority of which was recognized in the first quarter of fiscal 2018.
- A one-time tax is due on certain accumulated foreign earnings (Deemed Repatriation Tax), which is payable over eight years. The effective tax rate is generally 15.5% on the portion of the earnings held in cash and cash equivalents and 8% on the remainder. The Company recognized a charge for the Deemed Repatriation Tax of approximately \$0.4 billion, the majority of which was recognized in the first quarter of fiscal 2018. Generally, there will no longer be a U.S. federal income tax cost arising from the repatriation of foreign earnings.
- The Company is eligible to claim an immediate deduction for investments in qualified fixed assets acquired and film and television productions that commenced after September 27, 2017 and that are placed in service by the end of fiscal 2022. The immediate deduction phases out for assets placed in service in fiscal years 2023 through 2027.
- Beginning in fiscal 2019:
 - The domestic production activity deduction is eliminated.
 - 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%.

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

- Certain foreign earnings will be taxed at a minimum effective rate of approximately 13%, which increases to approximately 16% in 2025. The Company's policy is to expense the tax on these earnings in the period the earnings are taxable in the U.S.

Intra-Entity Transfers of Assets Other Than Inventory

At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance that requires recognition of the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs instead of when the asset is ultimately sold to an outside party. In the first quarter of fiscal 2019, the Company recorded a \$0.1 billion deferred tax asset with an offsetting increase to retained earnings.

Unrecognized Tax Benefits

During the nine months ended June 29, 2019, the Company increased its gross unrecognized tax benefits by \$2.1 billion from \$0.6 billion to \$2.7 billion (before interest and penalties). The increase includes \$1.9 billion related to 21CF. In addition, interest and penalty reserves related to 21CF unrecognized tax benefits are \$0.7 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 \$0.2 billion, of which \$0.1 billion would reduce our income tax expense and effective tax rate if recognized.

9. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Nine Months Ended		Quarter Ended		Nine Months Ended	
	Jun. 29, 2019	Jun. 30, 2018	Jun. 29, 2019	Jun. 30, 2018	Jun. 29, 2019	Jun. 30, 2018	Jun. 29, 2019	Jun. 30, 2018
Service costs	\$ 89	\$ 87	\$ 255	\$ 262	\$ 2	\$ 3	\$ 6	\$ 8
Other costs (benefits):								
Interest costs	152	122	441	367	17	15	50	45
Expected return on plan assets	(250)	(225)	(729)	(677)	(14)	(13)	(42)	(39)
Amortization of prior-year service costs	3	3	10	11	—	—	—	—
Recognized net actuarial loss	65	86	196	261	—	3	—	10
Total other costs (benefits)	(30)	(14)	(82)	(38)	3	5	8	16
Net periodic benefit cost	<u>\$ 59</u>	<u>\$ 73</u>	<u>\$ 173</u>	<u>\$ 224</u>	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ 14</u>	<u>\$ 24</u>

At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance on the presentation of the components of net periodic pension and postretirement benefit cost ("net periodic benefit cost"). This guidance requires the Company to present the service cost component of net periodic benefit cost in the same line items on the statement of operations as other compensation costs of the related employees (i.e. "Costs and expenses" in the Condensed Consolidated Statement of Income). All of the other components of net periodic benefit cost ("other costs / benefits") are presented as a component of "Interest expense, net" in the Condensed Consolidated Statement of Income (see Note 6). The other costs/benefits in fiscal 2018 were not material and are reported in Costs and expenses.

In connection with our acquisition of 21CF, we assumed net pension obligations of \$237 million (\$824 million in obligations and \$587 million in plan assets), which is anticipated to have an immaterial impact on our fiscal 2019 Consolidated Statement of Income. During the nine months ended June 29, 2019, the Company made \$712 million of contributions to its pension and postretirement medical plans. The Company currently expects to make additional contributions to its pension and postretirement medical plans during the remainder of fiscal 2019 of approximately \$250 million. However, final funding amounts for fiscal 2019 will be assessed based on our January 1, 2019 funding actuarial valuation, which will be available by the end of the fourth quarter of fiscal 2019.

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

10. 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		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,802	1,491	1,607	1,502
Weighted average dilutive impact of Awards	12	7	9	8
Weighted average number of common and common equivalent shares outstanding (diluted)	1,814	1,498	1,616	1,510
Awards excluded from diluted earnings per share	4	12	10	12

11. Equity

The Company paid the following dividends in fiscal 2019 and 2018:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.88	\$1.6 billion	Fourth quarter of Fiscal 2019	First Half of 2019
\$0.88	\$1.3 billion	Second quarter of Fiscal 2019	Second Half of 2018
\$0.84	\$1.2 billion	Fourth Quarter of Fiscal 2018	First Half of 2018
\$0.84	\$1.3 billion	Second Quarter of Fiscal 2018	Second Half of 2017

As a result of the acquisition of 21CF, TWDC became the parent entity of both 21CF and TWDC Enterprises 18 Corp. (formerly known as The Walt Disney Company and referred to herein as Legacy Disney). TWDC issued 307 million shares of common stock to acquire 21CF (see Note 4), and all the outstanding shares of Legacy Disney (other than shares of Legacy Disney held in treasury that were not held on behalf of a third party) were converted on a one-for-one basis into new publicly traded shares of TWDC.

On March 20, 2019, Legacy Disney terminated its share repurchase program, and 1.4 billion treasury shares were canceled, which resulted in a decrease to common stock and retained earnings of \$17.6 billion and \$49.1 billion, respectively. The cost of treasury shares canceled was allocated to common stock based on the ratio of treasury shares to total shares outstanding, with the excess allocated to retained earnings. At June 29, 2019, TWDC held 19 million treasury shares.

TWDC's authorized share capital consists of 4.6 billion common shares at \$0.01 par value and 100 million preferred shares at \$0.01 par value, both of which represent the same authorized capital structure in effect prior to the completion of the 21CF acquisition and as of September 29, 2018. As of September 29, 2018, Legacy Disney had 40 thousand preferred series B shares authorized with \$0.01 par value, which were eliminated during the first quarter of fiscal 2019.

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:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	
AOCI, before tax	Investments	Cash Flow Hedges			AOCI
Third quarter of fiscal 2019					
Balance at March 30, 2019	\$ (5)	\$ 62	\$ (4,163)	\$ (728)	\$ (4,834)
Quarter Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	6	34	(37)	48	51
Reclassifications of realized net (gains) losses to net income	—	(55)	69	—	14
Balance at June 29, 2019	\$ 1	\$ 41	\$ (4,131)	\$ (680)	\$ (4,769)
Third quarter of fiscal 2018					
Balance at March 31, 2018	\$ 24	\$ (197)	\$ (4,690)	\$ (358)	\$ (5,221)
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	1	296	—	(286)	11
Reclassifications of realized net (gains) losses to net income	—	26	96	—	122
Balance at June 30, 2018	\$ 25	\$ 125	\$ (4,594)	\$ (644)	\$ (5,088)
Nine months ended fiscal 2019					
Balance at September 29, 2018	\$ 24	\$ 177	\$ (4,323)	\$ (727)	\$ (4,849)
Nine Months Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	1	(21)	(18)	47	9
Reclassifications of net (gains) losses to net income	—	(116)	210	—	94
Reclassifications to retained earnings	(24)	1	—	—	(23)
Balance at June 29, 2019	\$ 1	\$ 41	\$ (4,131)	\$ (680)	\$ (4,769)
Nine months ended fiscal 2018					
Balance at September 30, 2017	\$ 15	\$ (108)	\$ (4,906)	\$ (523)	\$ (5,522)
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	10	150	24	(121)	63
Reclassifications of net (gains) losses to net income	—	83	288	—	371
Balance at June 30, 2018	\$ 25	\$ 125	\$ (4,594)	\$ (644)	\$ (5,088)

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
<u>Tax on AOCI</u>	Investments	Cash Flow Hedges			
<i>Third quarter of fiscal 2019</i>					
Balance at March 30, 2019	\$ 1	\$ (14)	\$ 984	\$ 77	\$ 1,048
Quarter Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	(3)	(7)	8	5	3
Reclassifications of realized net (gains) losses to net income	—	13	(16)	—	(3)
Balance at June 29, 2019	\$ (2)	\$ (8)	\$ 976	\$ 82	\$ 1,048
<i>Third quarter of fiscal 2018</i>					
Balance at March 31, 2018	\$ (10)	\$ 41	\$ 1,778	\$ 67	\$ 1,876
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	—	(56)	(2)	38	(20)
Reclassifications of realized net (gains) losses to net income	—	(6)	(24)	—	(30)
Balance at June 30, 2018	\$ (10)	\$ (21)	\$ 1,752	\$ 105	\$ 1,826
<i>Nine months ended fiscal 2019</i>					
Balance at September 29, 2018	\$ (9)	\$ (32)	\$ 1,690	\$ 103	\$ 1,752
Nine Months Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	(2)	6	2	(5)	1
Reclassifications of net (gains) losses to net income	—	27	(49)	—	(22)
Reclassifications to retained earnings ⁽¹⁾	9	(9)	(667)	(16)	(683)
Balance at June 29, 2019	\$ (2)	\$ (8)	\$ 976	\$ 82	\$ 1,048
<i>Nine months ended fiscal 2018</i>					
Balance at September 30, 2017	\$ (7)	\$ 46	\$ 1,839	\$ 116	\$ 1,994
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	(3)	(44)	(5)	(11)	(63)
Reclassifications of net (gains) losses to net income	—	(23)	(82)	—	(105)
Balance at June 30, 2018	\$ (10)	\$ (21)	\$ 1,752	\$ 105	\$ 1,826

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, after tax	Investments	Cash Flow Hedges			AOCI
Third quarter of fiscal 2019					
Balance at March 30, 2019	\$ (4)	\$ 48	\$ (3,179)	\$ (651)	\$ (3,786)
Quarter Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	3	27	(29)	53	54
Reclassifications of realized net (gains) losses to net income	—	(42)	53	—	11
Balance at June 29, 2019	\$ (1)	\$ 33	\$ (3,155)	\$ (598)	\$ (3,721)
Third quarter of fiscal 2018					
Balance at March 31, 2018	\$ 14	\$ (156)	\$ (2,912)	\$ (291)	\$ (3,345)
Quarter Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	1	240	(2)	(248)	(9)
Reclassifications of realized net (gains) losses to net income	—	20	72	—	92
Balance at June 30, 2018	\$ 15	\$ 104	\$ (2,842)	\$ (539)	\$ (3,262)
Nine months ended fiscal 2019					
Balance at September 29, 2018	\$ 15	\$ 145	\$ (2,633)	\$ (624)	\$ (3,097)
Nine Months Ended June 29, 2019:					
Unrealized gains (losses) arising during the period	(1)	(15)	(16)	42	10
Reclassifications of net (gains) losses to net income	—	(89)	161	—	72
Reclassifications to retained earnings (1)	(15)	(8)	(667)	(16)	(706)
Balance at June 29, 2019	\$ (1)	\$ 33	\$ (3,155)	\$ (598)	\$ (3,721)
Nine months ended fiscal 2018					
Balance at September 30, 2017	\$ 8	\$ (62)	\$ (3,067)	\$ (407)	\$ (3,528)
Nine Months Ended June 30, 2018:					
Unrealized gains (losses) arising during the period	7	106	19	(132)	—
Reclassifications of net (gains) losses to net income	—	60	206	—	266
Balance at June 30, 2018	\$ 15	\$ 104	\$ (2,842)	\$ (539)	\$ (3,262)

⁽¹⁾ At the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, and reclassified \$691 million from AOCI to retained earnings.

In addition, at the beginning of fiscal 2019, the Company adopted new FASB accounting guidance, Recognition and Measurement of Financial Assets and Liabilities, and reclassified \$24 million (\$15 million after tax) of market value adjustments on investments previously recorded in AOCI to retained earnings.

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		Nine Months Ended	
		June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Cash flow hedges	Primarily revenue	\$ 55	\$ (26)	\$ 116	\$ (83)
Estimated tax	Income taxes	(13)	6	(27)	23
		<u>42</u>	<u>(20)</u>	<u>89</u>	<u>(60)</u>
Pension and postretirement medical expense	Costs and expenses	—	(96)	—	(288)
	Interest expense, net	(69)		(210)	—
Estimated tax	Income taxes	16	24	49	82
		<u>(53)</u>	<u>(72)</u>	<u>(161)</u>	<u>(206)</u>
Total reclassifications for the period		<u>\$ (11)</u>	<u>\$ (92)</u>	<u>\$ (72)</u>	<u>\$ (266)</u>

12. Equity-Based Compensation

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

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Stock options	\$ 21	\$ 21	\$ 64	\$ 67
RSUs ⁽¹⁾	114	92	527	240
Total equity-based compensation expense ⁽²⁾	<u>\$ 135</u>	<u>\$ 113</u>	<u>\$ 591</u>	<u>\$ 307</u>
Equity-based compensation expense capitalized during the period	<u>\$ 22</u>	<u>\$ 17</u>	<u>\$ 60</u>	<u>\$ 54</u>

⁽¹⁾ Includes 21CF RSUs converted to Company RSUs in connection with the acquisition of 21CF (see Note 4). For the quarter and nine months ended, the Company recognized \$39 million and \$279 million, respectively, of equity based compensation in connection with the 21CF acquisition.

⁽²⁾ 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 \$149 million and \$716 million, respectively, as of June 29, 2019.

The weighted average grant date fair values of options granted during the nine months ended June 29, 2019 and June 30, 2018 were \$28.74 and \$28.01, respectively.

During the nine months ended June 29, 2019, the Company made equity compensation grants consisting of 4.0 million stock options and 3.4 million RSUs.

13. Commitments and Contingencies

Legal Matters

The Company, together with, in some instances, certain of its directors and officers, is a defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not believe that the Company has incurred a probable material loss by reason of any of those actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds, which have various maturities through 2037. In the event of a debt service shortfall, the Company will be responsible to

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

fund the shortfall. As of June 29, 2019, the remaining debt service obligation guaranteed by the Company was \$290 million. To the extent that tax revenues exceed the debt service payments subsequent to the Company funding a shortfall, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Long-Term Receivables and the Allowance for Credit Losses

The Company has accounts receivable with original maturities greater than one year related to the sale of film and television program rights and vacation club properties. Allowances for credit losses are established against these receivables as necessary.

The Company estimates the allowance for credit losses related to receivables from the sale of film and television programs based upon a number of factors, including historical experience and the financial condition of individual companies with which we do business. The balance of film and television program sales receivables recorded in other non-current assets, net of an immaterial allowance for credit losses, was \$1.5 billion as of June 29, 2019. The activity for the quarter and nine-month periods ended June 29, 2019 and June 30, 2018 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 club properties based primarily on historical collection experience. Estimates of uncollectible amounts also consider the economic environment and the age of receivables. The balance of mortgage receivables recorded in other non-current assets, net of a related allowance for credit losses of approximately 4%, was \$0.8 billion as of June 29, 2019. The activity for the quarter and nine-month periods ended June 29, 2019 and June 30, 2018 related to the allowance for credit losses was not material.

14. 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 June 29, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 17	\$ —	\$ —	\$ 17
Derivatives				
Interest rate	—	52	—	52
Foreign exchange	—	502	—	502
Other	—	2	—	2
Liabilities				
Derivatives				
Interest rate	—	(64)	—	(64)
Foreign exchange	—	(422)	—	(422)
Other	—	(3)	—	(3)
Total recorded at fair value	\$ 17	\$ 67	\$ —	\$ 84
Fair value of borrowings	\$ —	\$ 44,194	\$ 17,417	\$ 61,611

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 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	\$ 38	\$ —	\$ —	\$ 38
Derivatives				
Foreign exchange	—	469	—	469
Other	—	15	—	15
Liabilities				
Derivatives				
Interest rate	—	(410)	—	(410)
Foreign exchange	—	(274)	—	(274)
Total recorded at fair value	\$ 38	\$ (200)	\$ —	\$ (162)
Fair value of borrowings	\$ —	\$ 19,826	\$ 1,171	\$ 20,997

The fair values of Level 2 derivatives are primarily determined by internal discounted cash flow models that use observable inputs such as interest rates, yield curves and foreign currency exchange rates. Counterparty credit risk, which is mitigated by master netting agreements and collateral posting arrangements with certain counterparties, did not have a material impact on derivative fair value estimates.

Level 2 borrowings, which include commercial paper, U.S. and European notes and certain foreign currency denominated borrowings, are valued based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

Level 3 borrowings include the Asia Theme Park borrowings, which are valued based on the current borrowing cost and credit risk of the Asia Theme Parks as well as prevailing market interest rates. Level 3 borrowings at June 29, 2019 also include a bridge loan facility used to finance the acquisition of 21CF. The carrying value approximates fair value of this floating rate financial instrument.

The Company's financial instruments also include cash, cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate the fair values.

The Company also has assets that are required to be recorded at fair value on a non-recurring basis. These assets are evaluated when certain triggering events occur (including a decrease in estimated future cash flows) that indicate the asset should be evaluated for impairment. For the nine-month period ending June 29, 2019, the Company recorded impairment charges of \$523 million on equity investments as a result of a level 3 fair value measurement. The impairment was recorded in "Equity in the income / (loss) of investees, net" in the Condensed Consolidated Statements of Income.

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

The Company's derivative positions measured at fair value are summarized in the following tables:

As of June 29, 2019				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 169	\$ 181	\$ (74)	\$ (147)
Interest rate	—	52	(43)	—
Other	2	—	(2)	(1)
Derivatives not designated as hedges				
Foreign exchange	41	111	(127)	(74)
Interest rate	—	—	—	(21)
Gross fair value of derivatives	212	344	(246)	(243)
Counterparty netting	(150)	(245)	215	180
Cash collateral (received)/paid	(4)	—	18	—
Net derivative positions	\$ 58	\$ 99	\$ (13)	\$ (63)
As of September 29, 2018				
	Current Assets	Other Assets	Other Current Liabilities	Other Long-Term Liabilities
Derivatives designated as hedges				
Foreign exchange	\$ 166	\$ 169	\$ (80)	\$ (39)
Interest rate	—	—	(329)	—
Other	13	2	—	—
Derivatives not designated as hedges				
Foreign exchange	38	96	(95)	(60)
Interest rate	—	—	—	(81)
Gross fair value of derivatives	217	267	(504)	(180)
Counterparty netting	(158)	(227)	254	131
Cash collateral (received)/paid	—	—	135	5
Net derivative positions	\$ 59	\$ 40	\$ (115)	\$ (44)

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 June 29, 2019 and September 29, 2018, the total notional amount of the Company's pay-floating interest rate swaps was \$6.5 billion and \$7.6 billion, respectively.

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

The following table summarizes fair value hedge adjustments to hedged borrowings at June 29, 2019 and September 29, 2018:

	Carrying Amount of Hedged Borrowings ⁽¹⁾		Fair Value Adjustments Included in Hedged Borrowings ⁽¹⁾	
	June 29, 2019	September 29, 2018	June 29, 2019	September 29, 2018
Borrowings:				
Current	\$ 1,246	\$ 1,585	\$ (3)	\$ (14)
Long-term	6,001	6,425	35	(290)
	<u>\$ 7,247</u>	<u>\$ 8,010</u>	<u>\$ 32</u>	<u>\$ (304)</u>

⁽¹⁾ Includes \$38 million and \$41 million of gains on terminated interest rate swaps as of June 29, 2019 and September 29, 2018, respectively.

The following amounts are included in "Interest expense, net" in the Condensed Consolidated Statements of Income:

	Quarter Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Gain (loss) on:				
Pay-floating swaps	\$ 112	\$ (25)	\$ 346	\$ (191)
Borrowings hedged with pay-floating swaps	(112)	25	(346)	191
Benefit (expense) associated with interest accruals on pay-floating swaps	(15)	(9)	(47)	(2)

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 June 29, 2019 or at September 29, 2018, and gains and losses related to pay-fixed swaps recognized in earnings for the quarter and nine months ended June 29, 2019 and June 30, 2018 were not material.

To facilitate its interest rate risk management activities, the Company sold options in November 2016, October 2017 and April 2018 to enter into future pay-floating interest rate swaps indexed to LIBOR for \$2.0 billion in future borrowings. The fair values of these contracts as of June 29, 2019 or at September 29, 2018 were not material. The options are not designated as hedges and do not qualify for hedge accounting; accordingly, changes in their fair value are recorded in earnings. Gains and losses on the options for the quarter and nine months ended June 29, 2019 and June 30, 2018 were not material.

Foreign Exchange Risk Management

The Company transacts business globally and is subject to risks associated with changing foreign currency exchange rates. The Company's objective is to reduce earnings and cash flow fluctuations associated with foreign currency exchange rate changes, enabling management to focus on core business issues and challenges.

The Company enters into option and forward contracts that change in value as foreign currency exchange rates change to protect the value of its existing foreign currency assets, liabilities, firm commitments and forecasted but not firmly committed foreign currency transactions. In accordance with policy, the Company hedges its forecasted foreign currency transactions for periods generally not to exceed four years within an established minimum and maximum range of annual exposure. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related forecasted transaction, asset, liability or firm commitment. The principal currencies hedged are the euro, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings into U.S. dollar denominated borrowings.

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of June 29, 2019 and September 29, 2018, the notional amounts of the Company's net foreign exchange cash flow hedges were \$6.5 billion and \$6.2 billion, respectively. Mark-to-market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Net deferred gains recorded in AOCI for contracts that will mature in the next

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

twelve months total \$104 million. The following table summarizes the effect of foreign exchange cash flow hedges on AOCI for the quarter and nine months ended June 29, 2019:

Quarter Ended:	
Gain/(loss) recognized in Other Comprehensive Income	\$ 36
Gain/(loss) reclassified from AOCI into the Statement of Income ⁽¹⁾	55

Nine Months Ended:	
Gain/(loss) recognized in Other Comprehensive Income	\$ (5)
Gain/(loss) reclassified from AOCI into the Statement of Income ⁽¹⁾	112

⁽¹⁾ Primarily recorded in revenue.

Foreign exchange risk management contracts with respect to foreign currency denominated assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at June 29, 2019 and September 29, 2018 were \$3.6 billion and \$3.3 billion, respectively. The following table summarizes the net foreign exchange gains or losses recognized on foreign currency denominated assets and liabilities and the net foreign exchange gains or losses on the foreign exchange contracts we entered into to mitigate our exposure with respect to foreign currency denominated assets and liabilities for the quarter and nine months ended June 29, 2019 and June 30, 2018 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	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Quarter Ended:						
Net gain (loss) on foreign currency denominated assets and liabilities	\$ 13	\$ (175)	\$ (25)	\$ 28	\$ (1)	\$ 35
Net gain (loss) on foreign exchange risk management contracts not designated as hedges	(25)	164	23	(34)	(6)	(31)
Net gain (loss)	<u>\$ (12)</u>	<u>\$ (11)</u>	<u>\$ (2)</u>	<u>\$ (6)</u>	<u>\$ (7)</u>	<u>\$ 4</u>
Nine Months Ended:						
Net gains (losses) on foreign currency denominated assets and liabilities	\$ (13)	\$ (94)	\$ 3	\$ 55	\$ 14	\$ 23
Net gains (losses) on foreign exchange risk management contracts not designated as hedges	(5)	73	(5)	(62)	(28)	(15)
Net gains (losses)	<u>\$ (18)</u>	<u>\$ (21)</u>	<u>\$ (2)</u>	<u>\$ (7)</u>	<u>\$ (14)</u>	<u>\$ 8</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 June 29, 2019 and September 29, 2018 and related gains or losses recognized in earnings for the quarter and nine months ended June 29, 2019 and June 30, 2018 were not material.

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 June 29, 2019 and September 29, 2018 were not material. The related gains or losses recognized in earnings for the quarter and nine months ended June 29, 2019 and June 30, 2018 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

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

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 \$94 million and \$299 million on June 29, 2019 and September 29, 2018, respectively.

16. Restructuring Charges

The Company has begun implementing a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of 21CF. Although our plans are not yet finalized, we currently anticipate that the total severance and related costs could be on the order of \$1.5 billion. To date, we have recorded severance and related costs totaling \$608 million in connection with the plan. In addition, we recorded charges totaling \$261 million for equity based compensation, primarily for 21CF awards that were accelerated to vest upon the closing of the 21CF acquisition. These charges are recorded in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income. The Company may incur other costs in connection with the plan such as lease termination costs, but is unable to estimate those amounts at this time. For the prior-year quarter and nine-month period, restructuring and impairment charges were not material.

The following table summarizes the changes in restructuring reserves related to 21CF integration efforts and excludes approximately \$20 million of prior restructuring activities:

	Quarter Ended June 29, 2019			Nine Months Ended June 29, 2019		
	One-time Termination Benefits	Contract Termination	Total	One-time Termination Benefits	Contract Termination	Total
Beginning Balance:	\$ 288	\$ 115	\$ 403	\$ —	\$ —	\$ —
Additions:						
Media Networks	8	8	16	41	29	70
Parks, Experiences and Products	1	—	1	5	3	8
Studio Entertainment	24	32	56	94	55	149
Direct-to-Consumer & International	81	21	102	174	54	228
Corporate	19	11	30	107	46	153
Total Additions	133	72	205	421	187	608
Payments	(53)	(10)	(63)	(53)	(10)	(63)
Other	—	—	—	—	—	—
Ending Balance:	\$ 368	\$ 177	\$ 545	\$ 368	\$ 177	\$ 545

17. Condensed Consolidating Financial Information

Legacy Disney has outstanding public debt that has been fully and unconditionally guaranteed by TWDC. In addition, Legacy Disney has provided a full and unconditional guarantee of debt held by TWDC. Legacy Disney is a 100% owned subsidiary of TWDC.

Set forth below are condensed consolidating financial statements presenting the results of operations, financial position and cash flows of TWDC, Legacy Disney and non-guarantor subsidiaries on a combined basis along with eliminations necessary to arrive at the reported information on a consolidated basis. This condensed consolidating financial information has been prepared and presented pursuant to the Securities and Exchange Commission Regulation S-X Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or being Registered." This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with U.S. GAAP. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions.

TWDC was formed in June 2018, was a subsidiary of Legacy Disney until March 20, 2019, and did not have any balances or activity prior to fiscal 2019.

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

Certain amounts in the September 29, 2018 Condensed Consolidating Balance Sheets have been revised for offsetting \$294 million understatements of Legacy Disney's investments in subsidiaries and intercompany payables. Non-Guarantor Subsidiaries had corresponding understatements in intercompany receivables and shareholders' equity. The adjustments, which the Company has determined are not material to this disclosure, are eliminated in consolidation and therefore have no impact on the Company's consolidated financial statements.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Quarter Ended June 29, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 20,176	\$ 69	\$ 20,245
Costs and expenses					
Operating expenses	—	—	(12,819)	—	(12,819)
Selling, general, administrative and other	—	(133)	(3,229)	—	(3,362)
Depreciation and amortization	—	—	(1,304)	—	(1,304)
Total costs and expenses	—	(133)	(17,352)	—	(17,485)
Restructuring and impairment charges	—	—	(207)	—	(207)
Allocations to non-guarantor subsidiaries	—	120	(120)	—	—
Other income/(expense), net	43	7	(104)	(69)	(123)
Interest income/(expense), net	(172)	(299)	60	—	(411)
Equity in the income (loss) of investees, net	—	—	(1)	—	(1)
Income from continuing operations before income taxes	(129)	(305)	2,452	—	2,018
Income taxes from continuing operations	25	59	(479)	—	(395)
Earnings from subsidiary entities	1,505	2,654	—	(4,159)	—
Net income from continuing operations	1,401	2,408	1,973	(4,159)	1,623
Income (loss) from discontinued operations	359	—	359	(359)	359
Net income	1,760	2,408	2,332	(4,518)	1,982
Less: Net income from continuing operations attributable to noncontrolling interests	—	—	(186)	—	(186)
Less: Net income from discontinued operations attributable to noncontrolling interests	—	—	(36)	—	(36)
Net income excluding noncontrolling interests	\$ 1,760	\$ 2,408	\$ 2,110	\$ (4,518)	\$ 1,760
Comprehensive income excluding noncontrolling interests	\$ 1,825	\$ 2,422	\$ 2,138	\$ (4,560)	\$ 1,825

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

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Quarter Ended June 30, 2018
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 15,271	\$ (42)	\$ 15,229
Costs and expenses					
Operating expenses	—	—	(8,348)	—	(8,348)
Selling, general, administrative and other	—	(160)	(2,053)	—	(2,213)
Depreciation and amortization	—	(1)	(743)	—	(744)
Total costs and expenses	—	(161)	(11,144)	—	(11,305)
Restructuring and impairment charges	—	—	—	—	—
Allocations to non-guarantor subsidiaries	—	150	(150)	—	—
Other income/(expense), net	—	113	(155)	42	—
Interest income/(expense), net	—	(179)	36	—	(143)
Equity in the income (loss) of investees, net	—	—	73	—	73
Income before taxes	—	(77)	3,931	—	3,854
Income taxes	—	13	(808)	—	(795)
Earnings from subsidiary entities	—	2,980	—	(2,980)	—
Net income	—	2,916	3,123	(2,980)	3,059
Less: Net income attributable to noncontrolling interests	—	—	(143)	—	(143)
Net income excluding noncontrolling interests	\$ —	\$ 2,916	\$ 2,980	\$ (2,980)	\$ 2,916
Comprehensive income excluding noncontrolling interests	\$ —	\$ 2,999	\$ 2,756	\$ (2,756)	\$ 2,999

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Nine Months Ended June 29, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 50,320	\$ 150	\$ 50,470
Costs and expenses					
Operating expenses	—	—	(30,196)	—	(30,196)
Selling, general, administrative and other	—	(492)	(7,352)	—	(7,844)
Depreciation and amortization	—	(1)	(2,863)	—	(2,864)
Total costs and expenses	—	(493)	(40,411)	—	(40,904)
Restructuring and impairment charges	—	—	(869)	—	(869)
Allocations to non-guarantor subsidiaries	—	450	(450)	—	—
Other income/(expense), net	43	102	4,845	(150)	4,840
Interest income/(expense), net	(346)	(535)	264	—	(617)
Equity in the income (loss) of investees, net	—	—	(234)	—	(234)
Income from continuing operations before income taxes	(303)	(476)	13,465	—	12,686
Income taxes from continuing operations	63	96	(2,846)	—	(2,687)
Earnings from subsidiary entities	1,821	11,487	—	(13,308)	—
Net income from continuing operations	1,581	11,107	10,619	(13,308)	9,999
Income (loss) from discontinued operations	380	—	380	(380)	380
Net income	1,961	11,107	10,999	(13,688)	10,379
Less: Net income from continuing operations attributable to noncontrolling interests	—	—	(343)	—	(343)
Less: Net income from discontinued operations attributable to noncontrolling interests	—	—	(36)	—	(36)
Net income excluding noncontrolling interests	\$ 1,961	\$ 11,107	\$ 10,620	\$ (13,688)	\$ 10,000
Comprehensive income excluding noncontrolling interests	\$ 2,026	\$ 11,138	\$ 10,623	\$ (13,705)	\$ 10,082

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

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Nine Months Ended June 30, 2018
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
Revenues	\$ —	\$ —	\$ 45,224	\$ (96)	\$ 45,128
Costs and expenses					
Operating expenses	—	—	(24,618)	—	(24,618)
Selling, general, administrative and other	—	(445)	(6,094)	—	(6,539)
Depreciation and amortization	—	(1)	(2,216)	—	(2,217)
Total costs and expenses	—	(446)	(32,928)	—	(33,374)
Restructuring and impairment charges	—	—	(28)	—	(28)
Allocations to non-guarantor subsidiaries	—	416	(416)	—	—
Other income/(expense), net	—	(14)	12	96	94
Interest income/(expense), net	—	(493)	78	—	(415)
Equity in the income (loss) of investees, net	—	—	122	—	122
Income before taxes	—	(537)	12,064	—	11,527
Income taxes	—	47	(927)	—	(880)
Earnings from subsidiary entities	—	10,766	—	(10,766)	—
Net income	—	10,276	11,137	(10,766)	10,647
Less: Net income attributable to noncontrolling interests	—	—	(371)	—	(371)
Net income excluding noncontrolling interests	\$ —	\$ 10,276	\$ 10,766	\$ (10,766)	\$ 10,276
Comprehensive income excluding noncontrolling interests	\$ —	\$ 10,542	\$ 10,683	\$ (10,683)	\$ 10,542

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of June 29, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 752	\$ —	\$ 5,976	\$ —	\$ 6,728
Receivables, net	434	—	15,240	(1)	15,673
Inventories	—	4	1,512	—	1,516
Television costs and advances	—	—	4,526	—	4,526
Other current assets	99	8	928	—	1,035
Assets held for sale	—	—	1,892	—	1,892
Total current assets	1,285	12	30,074	(1)	31,370
Film and television costs	—	—	22,552	—	22,552
Investments in subsidiaries	127,471	279,884	—	(407,355)	—
Other investments	—	—	3,872	—	3,872
Parks, resorts and other property, net	—	10	31,382	—	31,392
Intangible assets, net	—	—	25,114	—	25,114
Goodwill	—	—	77,801	—	77,801
Noncurrent assets held for sale	—	—	12,591	—	12,591
Intercompany receivables	4,001	—	134,412	(138,413)	—
Other assets	311	501	4,479	(508)	4,783
Total assets	\$ 133,068	\$ 280,407	\$ 342,277	\$ (546,277)	\$ 209,475
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	\$ 1,905	\$ 267	\$ 15,476	\$ (1)	\$ 17,647
Current portion of borrowings	19,014	2,757	152	—	21,923
Deferred revenues and other	16	37	4,880	(203)	4,730
Liabilities held for sale	—	—	293	—	293
Total current liabilities	20,935	3,061	20,801	(204)	44,593
Non-current liabilities					
Borrowings	\$ 20,319	\$ 13,770	\$ 2,222	\$ —	\$ 36,311
Deferred income taxes	—	—	10,709	(305)	10,404
Noncurrent liabilities held for sale	—	—	2,353	—	2,353
Other long-term liabilities	860	2,175	7,526	—	10,561
Intercompany payables	482	133,930	4,001	(138,413)	—
Total non-current liabilities	21,661	149,875	26,811	(138,718)	59,629
Redeemable noncontrolling interests	—	—	8,897	—	8,897
Total Disney Shareholders' equity	90,472	127,471	279,884	(407,355)	90,472
Noncontrolling interests	—	—	5,884	—	5,884
Total equity	90,472	127,471	285,768	(407,355)	96,356
Total liabilities and equity	\$ 133,068	\$ 280,407	\$ 342,277	\$ (546,277)	\$ 209,475

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 29, 2018
(unaudited; in millions)

	TWDC		Legacy Disney		Non-Guarantor Subsidiaries		Reclassifications & Eliminations		Total	
ASSETS										
Current assets										
Cash and cash equivalents	\$	—	\$	1,367	\$	2,783	\$	—	\$	4,150
Receivables, net		—		155		9,179		—		9,334
Inventories		—		4		1,388		—		1,392
Television costs and advances		—		—		1,314		—		1,314
Other current assets		—		152		483		—		635
Total current assets		—		1,678		15,147		—		16,825
Film and television costs		—		—		7,888		—		7,888
Investments in subsidiaries		—		149,880		—		(149,880)		—
Other investments		—		—		2,899		—		2,899
Parks, resorts and other property, net		—		12		29,528		—		29,540
Intangible assets, net		—		—		6,812		—		6,812
Goodwill		—		—		31,269		—		31,269
Intercompany receivables		—		—		79,793		(79,793)		—
Other assets		—		911		3,178		(724)		3,365
Total assets	\$	—	\$	152,481	\$	176,514	\$	(230,397)	\$	98,598
LIABILITIES AND EQUITY										
Current liabilities										
Accounts payable and other accrued liabilities	\$	—	\$	688	\$	8,791	\$	—	\$	9,479
Current portion of borrowings		—		3,751		39		—		3,790
Deferred revenues and other		—		115		4,476		—		4,591
Total current liabilities		—		4,554		13,306		—		17,860
Non-current liabilities										
Borrowings	\$	—	\$	15,676	\$	1,408	\$	—	\$	17,084
Deferred income taxes		—		—		3,833		(724)		3,109
Other long-term liabilities		—		3,685		2,905		—		6,590
Intercompany payables		—		79,793		—		(79,793)		—
Total non-current liabilities		—		99,154		8,146		(80,517)		26,783
Redeemable noncontrolling interests		—		—		1,123		—		1,123
Total Disney Shareholders' equity		—		48,773		149,880		(149,880)		48,773
Noncontrolling interests		—		—		4,059		—		4,059
Total equity		—		48,773		153,939		(149,880)		52,832
Total liabilities and equity	\$	—	\$	152,481	\$	176,514	\$	(230,397)	\$	98,598

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended June 29, 2019
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations	\$ 133	\$ (1,170)	\$ 5,463	\$ (160)	\$ 4,266
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	—	(3,567)	—	(3,567)
Acquisitions	(35,702)	—	25,801	—	(9,901)
Intercompany investing activities, net	16,400	(11)	(1,014)	(15,375)	—
Other	—	—	(317)	—	(317)
Cash used in investing activities	(19,302)	(11)	20,903	(15,375)	(13,785)
FINANCING ACTIVITIES					
Commercial paper, net	3,983	(1,010)	—	—	2,973
Borrowings	31,100	—	248	—	31,348
Reduction of borrowings	(16,100)	(2,250)	(689)	—	(19,039)
Dividends	—	(1,310)	—	—	(1,310)
Repurchases of common stock	—	—	—	—	—
Proceeds from exercise of stock options	194	84	—	—	278
Intercompany financing, net	805	4,552	(20,892)	15,535	—
Contributions from / sales of noncontrolling interest	—	—	544	—	544
Acquisition of noncontrolling and redeemable noncontrolling interests	—	—	(1,430)	—	(1,430)
Other	(61)	(252)	(518)	—	(831)
Cash used in financing activities	19,921	(186)	(22,737)	15,535	12,533
Discontinued operations	—	—	141	—	141
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	47	—	47
Change in cash, cash equivalents and restricted cash	752	(1,367)	3,817	—	3,202
Cash, cash equivalents and restricted cash, beginning of year	—	1,367	2,788	—	4,155
Cash, cash equivalents and restricted cash, end of period	\$ 752	\$ —	\$ 6,605	\$ —	\$ 7,357

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended June 30, 2018
(unaudited; in millions)

	TWDC	Legacy Disney	Non-Guarantor Subsidiaries	Reclassifications & Eliminations	Total
OPERATING ACTIVITIES					
Cash provided by operations	\$ —	\$ 250	\$ 10,298	\$ (106)	\$ 10,442
INVESTING ACTIVITIES					
Investments in parks, resorts and other property	—	(2)	(3,262)	—	(3,264)
Acquisitions	—	—	(1,581)	—	(1,581)
Intercompany investing activities, net	—	(1,601)	—	1,601	—
Other	—	—	(298)	—	(298)
Cash used in investing activities	—	(1,603)	(5,141)	1,601	(5,143)
FINANCING ACTIVITIES					
Commercial paper, net	—	453	—	—	453
Borrowings	—	997	59	—	1,056
Reduction of borrowings	—	(1,300)	(56)	—	(1,356)
Dividends	—	(1,266)	(106)	106	(1,266)
Repurchases of common stock	—	(3,577)	—	—	(3,577)
Intercompany financing, net	—	6,116	(4,515)	(1,601)	—
Proceeds from exercise of stock options	—	129	—	—	129
Contributions from / sales of noncontrolling interest	—	—	363	—	363
Other	—	(221)	(562)	—	(783)
Cash used in financing activities	—	1,331	(4,817)	(1,495)	(4,981)
Impact of exchange rates on cash, cash equivalents and restricted cash	—	—	(51)	—	(51)
Change in cash, cash equivalents and restricted cash	—	(22)	289	—	267
Cash, cash equivalents and restricted cash, beginning of year	—	693	3,371	—	4,064
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 671	\$ 3,660	\$ —	\$ 4,331

18. New Accounting Pronouncements

Accounting Pronouncements Adopted in Fiscal 2019

- Revenues from Contracts with Customers - See Note 3
- Intra-Entity Transfers of Assets Other Than Inventory - See Note 8
- Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - See Note 9
- Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income - See Note 11
- Recognition and Measurement of Financial Assets and Liabilities - See Note 11
- Targeted Improvements to Accounting for Hedging Activities - The adoption of the new guidance did not have a material impact on our consolidated financial statements

Leases

In February 2016, the FASB issued new lease accounting guidance, which requires the present value of committed operating lease payments to be recorded as right-of-use lease assets and lease liabilities on the balance sheet. The guidance is effective at the beginning of the Company's 2020 fiscal year. We expect to adopt the guidance without restating prior periods.

The new guidance provides a number of practical expedients for transition upon adoption. The Company expects to elect the practical expedients that permit the Company not to reassess its prior conclusions concerning whether:

- Arrangements contain a lease
- The Company's lease arrangements are operating or capital leases (financing)

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

- Initial direct costs should be capitalized
- Existing land easements are leases

The Company is currently assessing the impact of the new guidance on its financial statements. We believe the most significant effects of adoption will be:

- Recognizing new right-of-use assets and lease liabilities on our balance sheet for our operating leases
- Reclassifying a deferred gain of approximately \$350 million related to a prior sale-leaseback transaction to retained earnings

As of September 29, 2018, the Company had an estimated \$3.6 billion in undiscounted future minimum lease commitments. The Company also assumed an estimated \$1 billion in undiscounted future minimum lease commitments in connection with the acquisition of 21CF and consolidation of Hulu.

Improvements to Accounting for Costs of Films and License Agreements for Program Materials

In March 2019, the FASB updated guidance for the accounting for film and television content costs. The new guidance impacts the capitalization, amortization and impairment of these costs as follows:

- Eliminates the limitation on capitalization of production costs for episodic content, aligning the capitalization model with film content;
- Requires production costs amortized using estimated usage to be reviewed and updated each reporting period, with any changes in estimated usage applied prospectively; and
- Requires produced and acquired programming costs to be tested for impairment using the lowest level of identifiable cash flows based on the predominant monetization strategy for the content (i.e., monetized individually or in a group)

While we currently do not expect the new guidance will have a material impact on our financial statements, it is relevant to the accounting for content to be used on our streaming services. The guidance is effective at the beginning of the Company's 2021 fiscal year (with early adoption permitted) and requires prospective adoption. The Company plans to adopt the new guidance by the beginning of fiscal 2020.

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

Restructuring in Connection with the Acquisition of 21CF

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

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

CONSOLIDATED RESULTS AND NON-SEGMENT ITEMS

Our summary consolidated results are presented below:

	Quarter Ended		% Change	Nine Months Ended		% Change
(in millions, except per share data)	June 29, 2019	June 30, 2018	Better/ (Worse)	June 29, 2019	June 30, 2018	Better/ (Worse)
Revenues:						
Services	\$ 18,022	\$ 13,143	37 %	\$ 43,899	\$ 38,647	14 %
Products	2,223	2,086	7 %	6,571	6,481	1 %
Total revenues	20,245	15,229	33 %	50,470	45,128	12 %
Costs and expenses:						
Cost of services (exclusive of depreciation and amortization)	(11,445)	(7,124)	(61) %	(26,176)	(20,761)	(26) %
Cost of products (exclusive of depreciation and amortization)	(1,374)	(1,224)	(12) %	(4,020)	(3,857)	(4) %
Selling, general, administrative and other	(3,362)	(2,213)	(52) %	(7,844)	(6,539)	(20) %
Depreciation and amortization	(1,304)	(744)	(75) %	(2,864)	(2,217)	(29) %
Total costs and expenses	(17,485)	(11,305)	(55) %	(40,904)	(33,374)	(23) %
Restructuring and impairment charges	(207)	—	nm	(869)	(28)	>(100) %
Other income/(expense), net	(123)	—	nm	4,840	94	>100 %
Interest expense, net	(411)	(143)	>(100) %	(617)	(415)	(49) %
Equity in the income / (loss) of investees, net	(1)	73	nm	(234)	122	nm
Income from continuing operations before income taxes	2,018	3,854	(48) %	12,686	11,527	10 %
Income taxes from continuing operations	(395)	(795)	50 %	(2,687)	(880)	>(100) %
Net income from continuing operations	1,623	3,059	(47) %	9,999	10,647	(6) %
Income from discontinued operations (net of income taxes of \$100, \$0, \$105 and \$0, respectively)	359	—	nm	380	—	nm
Net income	1,982	3,059	(35) %	10,379	10,647	(3) %
Less: Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests	(186)	(143)	(30) %	(343)	(371)	8 %
Less: Net income from discontinued operations attributable to noncontrolling interests	(36)	—	nm	(36)	—	nm
Net income attributable to Disney	\$ 1,760	\$ 2,916	(40) %	\$ 10,000	\$ 10,276	(3) %
Diluted earnings per share from continuing operations attributable to Disney	\$ 0.79	\$ 1.95	(59) %	\$ 5.98	\$ 6.81	(12) %

The Company's financial results for fiscal 2019 are presented in accordance with new accounting guidance for revenue recognition (ASC 606) that we adopted at the beginning of fiscal 2019. Prior period results have not been restated to reflect this change in accounting guidance. Current quarter segment operating income includes a \$53 million unfavorable impact from the ASC 606 adoption while the current nine-month segment operating income includes a \$35 million benefit. For the current quarter the most significant ASC 606 impacts were a \$23 million decrease at Parks, Experiences and Products, which reflected the deferral of revenues related to sales of vacation club properties, and a \$16 million decrease at Media Networks, which reflected a change in timing of revenue recognition on contracts with minimum guarantees. For the nine months, the most significant benefit from ASC 606 was an \$86 million increase at Studio Entertainment for the timing of revenue recognition at our TV/SVOD distribution business, partially offset by a \$52 million decrease at Parks, Experiences and Products, which reflected the deferral of revenues related to sales of vacation club properties. We do not anticipate the impact of adoption of ASC 606 on our full-year fiscal 2019 results will be material. Further information about our adoption of ASC 606 is provided in Note 3 to the Condensed Consolidated Financial Statements.

Quarter Results

Revenues for the quarter increased 33%, or \$5.0 billion, to \$20.2 billion; net income attributable to Disney decreased 40%, or \$1.2 billion, to \$1.8 billion; and diluted earnings per share from continuing operations attributable to Disney (EPS) decreased 59% from \$1.95 to \$0.79. The EPS decrease for the quarter was due to amortization of intangibles and fair value step-up on film and television costs from the 21CF acquisition and consolidation of Hulu, an increase in shares outstanding.

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

higher interest expense, lower segment operating income, which included a \$0.3 billion adverse impact from the consolidation of 21CF and Hulu in the current quarter, restructuring costs in connection with the integration of 21CF and investment impairments. The increases in shares outstanding and interest expense were due to the acquisition of 21CF. Segment operating income from our legacy operations increased due to growth at Studio Entertainment and Parks, Experiences and Products, partially offset by increased losses at Direct-to-Consumer & International.

Revenues

Service revenues for the quarter increased 37%, or \$4.9 billion, to \$18.0 billion due to the consolidation of 21CF and Hulu's operations and to a lesser extent, growth at our legacy operations. The increase at our legacy operations was due to growth in theatrical distribution revenue and higher guest spending at our theme parks and resorts, partially offset by a decrease in TV/SVOD distribution revenue. Service revenues reflected an approximate 1 percentage point decrease due to an unfavorable movement of the U.S. dollar against major currencies including the impact of our hedging program ("FX Impact").

Product revenues for the quarter increased 7%, or \$0.1 billion, to \$2.2 billion primarily due to the consolidation of 21CF's operations and growth at our legacy operations. The increase at our legacy operations was due to guest spending growth at our theme parks and resorts, partially offset by lower home entertainment volumes. Product revenues reflected an approximate 1 percentage point decrease due to an unfavorable FX Impact.

Costs and expenses

Cost of services for the quarter increased 61%, or \$4.3 billion, to \$11.4 billion due to the consolidation of 21CF and Hulu's operations and, to a lesser extent, higher costs at our legacy operations. The increase at our legacy operations reflected higher programming and production costs, an increase in film cost amortization due to higher theatrical distribution revenue, and labor cost inflation at our theme parks and resorts. Cost of services reflected an approximate 1 percentage point decrease due to a favorable FX Impact.

Cost of products for the quarter increased 12%, or \$150 million, to \$1.4 billion due to higher costs at our legacy operations and the consolidation of 21CF's operations. The increase in costs at our legacy operations was due to labor cost inflation and higher sales of food, beverage and merchandise at our theme parks and resorts, partially offset by lower home entertainment volumes. Cost of products reflected an approximate 2 percentage point decrease due to a favorable FX Impact.

Selling, general, administrative and other costs increased 52%, or \$1.1 billion, to \$3.4 billion primarily due to the consolidation of 21CF and Hulu's operations and to a lesser extent, higher marketing costs at our legacy operations. Selling, general, administrative and other costs reflected an approximate 2 percentage point decrease due to a favorable FX Impact.

Depreciation and amortization increased 75%, or \$560 million, to \$1,304 million, due to the amortization of intangible assets arising from the consolidation of 21CF and Hulu's operations.

Restructuring and impairment charges

Restructuring and impairment charges of \$207 million for the current quarter were primarily for severance in connection with the acquisition and integration of 21CF.

Other income/(expense), net

Other income/(expense), net of \$123 million in the current quarter was due to an adjustment to the non-cash gain recognized in the second quarter of the current year in connection with the acquisition of a controlling interest in Hulu ("Hulu Gain") (See Note 4 to the Condensed Consolidated Financial Statements).

Interest expense, net

Interest expense, net is as follows:

(in millions)	Quarter Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Interest expense	\$ (472)	\$ (175)	>(100) %
Interest income, investment income and other	61	32	91 %
Interest expense, net	<u>\$ (411)</u>	<u>\$ (143)</u>	>(100) %

The increase in interest expense was due to higher debt balances as a result of the 21CF acquisition.

The increase in interest income, investment income and other was due to higher interest income on cash balances and the inclusion of a \$27 million benefit related to pension and postretirement benefit costs, other than service cost, partially offset by higher investment impairments. The Company adopted new accounting guidance in fiscal 2019 and now presents the elements

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

of pension and postretirement plan costs, other than service cost, in "Interest expense, net." The comparable benefit of \$9 million in the prior-year quarter was reported in "Costs and expenses." The benefit in the current quarter was due to the expected return on pension plan assets exceeding interest expense on plan liabilities and amortization of prior net actuarial losses.

Equity in the income / (loss) of investees

Equity in the income / (loss) of investees decreased from income of \$73 million to a loss of \$1 million for the quarter due to investment impairments, partially offset by the impact of consolidating Hulu. In the current quarter, Hulu's results are reported in revenues and expenses. In the prior-year quarter, the Company recognized its ownership share of Hulu's results in equity in the income of investees.

Effective Income Tax Rate

	Quarter Ended		Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Effective income tax rate	19.6%	20.6%	1.0 ppt

The decrease in the effective income tax rate was due to U.S. federal income tax legislation, the "Tax Cuts and Jobs Act" (Tax Act) enacted in the prior year (See Note 8 to the Condensed Consolidated Financial Statements). The Tax Act reduced the Company's U.S. statutory federal income tax rate to 21.0% in fiscal 2019 from 24.5% in fiscal 2018. This was partially offset by the comparison to a one-time \$0.1 billion benefit from the Tax Act in the prior-year quarter.

Noncontrolling Interests

(in millions)	Quarter Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Net income from continuing operations attributable to noncontrolling interests	\$ (186)	\$ (143)	(30) %

The increase in net income from continuing operations attributable to noncontrolling interests was primarily due to the accretion of the redeemable noncontrolling interest in Hulu (See Note 4 to the Condensed Consolidated Financial Statements), the consolidation of 21CF's operations and growth at ESPN. These increases were partially offset by a higher loss from our direct-to-consumer sports business. The impact from 21CF was primarily due to the allocation of income to the National Geographic noncontrolling interest holder.

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

Certain Items Impacting Comparability

Results for the quarter ended June 29, 2019 were impacted by the following:

- Amortization of \$779 million related to 21CF and Hulu intangible assets and fair value step-up on film and television costs
- Restructuring charges of \$207 million
- Equity investment impairments totaling \$185 million
- An adjustment of \$123 million to the Hulu Gain recognized in the second quarter of fiscal 2019

Results for the quarter ended June 30, 2018 were impacted by the following:

- A benefit of \$110 million from the Tax Act

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

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

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense) ⁽¹⁾	After-Tax Income/(Loss)	EPS Favorable/(Adverse) ⁽²⁾
Quarter Ended June 29, 2019:				
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	\$ (779)	\$ 168	\$ (611)	\$ (0.34)
Restructuring and impairment charges	(207)	48	(159)	(0.09)
Impairment of equity investments	(185)	42	(143)	(0.08)
Hulu Gain adjustment	(123)	28	(95)	(0.05)
Total	\$ (1,294)	\$ 286	\$ (1,008)	\$ (0.56)
Quarter Ended June 30, 2018:				
Net benefit from the Tax Act	\$ —	\$ 110	\$ 110	\$ 0.07

⁽¹⁾ Tax benefit/expense adjustments are determined using the tax rate applicable to the individual item affecting comparability.

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

⁽³⁾ Includes amortization of intangibles related to 21CF equity investees.

Nine-Month Results

Revenues for the nine-month period increased 12%, or \$5.3 billion, to \$50.5 billion; net income attributable to Disney decreased 3%, or \$0.3 billion, to \$10.0 billion; and EPS decreased 12% from \$6.81 to \$5.98. The EPS decrease for the nine-month period was due to the comparison to a benefit from the Tax Act in the prior year, lower segment operating income, which included a \$0.3 billion adverse impact from the consolidation of 21CF and Hulu from the March 20, 2019 acquisition date, amortization expense from intangibles and fair value step-up on film and television costs from the 21CF acquisition and consolidation of Hulu, an increase in shares outstanding, restructuring costs in connection with the integration of 21CF and investment impairments. These decreases were partially offset by the Hulu Gain. The increase in shares outstanding reflects shares issued for the acquisition of 21CF. Segment operating income from our legacy operations decreased due to lower results at Studio Entertainment and increased losses at Direct-to-Consumer & International, partially offset by growth at Parks, Experiences and Products.

Revenues

Service revenues for the nine-month period increased 14%, or \$5.3 billion, to \$43.9 billion due to the consolidation of 21CF and Hulu's operations and to a lesser extent, growth at our legacy operations. The increase at our legacy operations was due to higher guest spending at our theme parks and resorts and affiliate fee growth, partially offset by lower theatrical and TV/SVOD distribution revenue. Service revenues reflected an approximate 1 percentage point decrease due to an unfavorable FX Impact.

Product revenues for the nine-month period increased 1%, or \$90 million, to \$6.6 billion due the consolidation of 21CF's operations. Product revenues at our legacy operations were comparable to the prior year as guest spending growth at our theme parks and resorts was essentially offset by lower volumes and net effective pricing on home entertainment distribution. Product revenues reflected an approximate 1 percentage point decrease due to an unfavorable FX Impact.

Costs and expenses

Cost of services for the nine-month period increased 26%, or \$5.4 billion, to \$26.2 billion, due to the consolidation of 21CF and Hulu's operations and higher costs at our legacy operations. The increase in costs at our legacy operations reflected higher programming and production costs, labor cost inflation at our theme parks and resorts and an increase in film cost amortization. Cost of services reflected an approximate 1 percentage point decrease due to a favorable FX Impact.

Cost of products for the nine-month period increased 4%, or \$163 million, to \$4.0 billion, due the consolidation of 21CF's operations and to a lesser extent, higher costs at our legacy operations. The increase in costs at our legacy operations was due to labor cost inflation and higher sales of food, beverage and merchandise at our theme parks and resorts, partially offset by a decrease in home entertainment volumes.

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

Selling, general, administrative and other costs for the nine-month period increased 20%, or \$1.3 billion, to \$7.8 billion, primarily due to the consolidation of 21CF and Hulu's operations and higher marketing costs at our legacy operations. Selling, general, administrative and other costs reflected an approximate 2 percentage point decrease due to a favorable FX Impact.

Depreciation and amortization increased 29%, or \$647 million, to \$2.9 billion, due to the amortization of intangible assets arising from the consolidation of 21CF and Hulu's operations.

Restructuring and impairment charges

Restructuring and impairment charges of \$0.9 billion for the current period were primarily for severance and equity compensation costs in connection with the acquisition and integration of 21CF.

Restructuring and impairment charges of \$28 million in the prior-year period were primarily for severance costs.

Other income/(expense), net

Other income of \$4.8 billion in the current period was due to the Hulu Gain.

Other income of \$94 million for the prior-year period reflects a gain from the sale of property rights and insurance recoveries related to a legal matter.

Interest expense, net

Interest expense, net is as follows:

(in millions)	Nine Months Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Interest expense	\$ (833)	\$ (493)	(69) %
Interest income, investment income and other	216	78	>100 %
Interest expense, net	<u>\$ (617)</u>	<u>\$ (415)</u>	(49) %

The increase in interest expense for the nine-month period was due to higher average debt balances, which includes debt assumed and financing costs incurred related to the 21CF acquisition and, to a lesser extent, higher average interest rates. These increases were partially offset by higher capitalized interest and market value adjustments on pay-floating interest rate swap options.

The increase in interest income, investment income and other was due to a \$77 million benefit related to pension and postretirement benefit costs, other than service cost, and higher interest income on cash balances. The comparable benefit related to pension and postretirement benefit costs of \$22 million in the prior-year nine month period was reported in "Costs and expenses." The benefit in the current nine month period was due to the expected return on pension plan assets exceeding interest expense on plan liabilities and amortization of prior net actuarial losses.

Equity in the income / (loss) of investees

Equity in the income / (loss) of investees decreased \$356 million to a loss of \$234 million for the current period due to investment impairments, partially offset by lower equity losses from Hulu as a result of our consolidation of Hulu following the 21CF acquisition.

Effective Income Tax Rate

	Nine Months Ended		Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Effective income tax rate	21.2%	7.6%	(13.6) ppt

The increase in the effective income tax rate reflected the comparison to a \$1.8 billion net benefit related to the Tax Act that was recognized in the prior-year period. The current period benefited from a reduction in the Company's U.S. statutory federal income tax rate to 21.0% in fiscal 2019 from 24.5% in fiscal 2018.

See Note 8 of the Condensed Consolidated Financial Statements for further information on the impact of the Tax Act on the Company.

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

Noncontrolling Interests

(in millions)	Nine Months Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Net income from continuing operations attributable to noncontrolling interests	\$ (343)	\$ (371)	8%

The decrease in net income from continuing operations attributable to noncontrolling interests for the nine-month period was due to higher losses from our direct-to-consumer sports business and at Shanghai Disney Resort, partially offset by the acquisition of 21CF and growth at Hong Kong Disneyland Resort. The impact from 21CF was primarily due to the allocation of income to the National Geographic noncontrolling interest holder.

Certain Items Impacting Comparability

Results for the nine months ended June 29, 2019 were impacted by the following:

- The Hulu Gain of \$4.8 billion
- A benefit of \$46 million from insurance recoveries related to a legal matter
- A benefit of \$34 million from the Tax Act
- Restructuring charges of \$869 million
- Amortization of \$884 million related to 21CF and Hulu intangible assets and fair value step-up on film and television costs
- Equity investment impairments totaling \$538 million

Results for the nine months ended June 30, 2018 were impacted by the following:

- A benefit of \$1.8 billion from the Tax Act
- Gains of \$53 million from the sale of property rights
- A benefit of \$38 million from insurance recoveries related to a legal matter
- Restructuring charges of \$28 million

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

(in millions, except per share data)	Pre-Tax Income/(Loss)	Tax Benefit/(Expense) ⁽¹⁾	After-Tax Income/(Loss)	EPS Favorable/(Adverse) ⁽²⁾
Nine Months Ended June 29, 2019:				
Hulu Gain	\$ 4,794	\$ (1,103)	\$ 3,691	\$ 2.28
Insurance recoveries related to a legal matter	46	(11)	35	0.02
Net benefit from the Tax Act	—	34	34	0.02
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽³⁾	(884)	191	(693)	(0.43)
Restructuring and impairment charges	(869)	200	(669)	(0.42)
Impairment of equity investments	(538)	123	(415)	(0.26)
Total	\$ 2,549	\$ (566)	\$ 1,983	\$ 1.23
Nine Months Ended June 30, 2018:				
Net benefit from the Tax Act	\$ —	\$ 1,801	\$ 1,801	\$ 1.17
Gain from sale of property rights	53	(12)	41	0.03
Insurance recoveries related to a legal matter	38	(10)	28	0.02
Restructuring and impairment charges	(28)	6	(22)	(0.01)
Total	\$ 63	\$ 1,785	\$ 1,848	\$ 1.21

⁽¹⁾ Tax benefit/expense adjustments are determined using the tax rate applicable to the individual item affecting comparability.

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

⁽³⁾ Includes amortization of intangibles related to 21CF equity investees.

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

SEASONALITY

The Company's businesses are subject to the effects of seasonality. Consequently, the operating results for the nine months ended June 29, 2019 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. Affiliate fees are generally recognized ratably throughout the year. Effective at the beginning of fiscal 2019, the Company adopted ASC 606, which changed the timing of affiliate revenue recognition for certain contracts, which may result in higher revenue in the first quarter of our fiscal year.

Parks, Experiences and Products revenues fluctuate with changes in theme park attendance and resort occupancy resulting from the seasonal nature of vacation travel and leisure activities and seasonal consumer purchasing behavior, which generally results in increased revenues during the Company's first and fourth fiscal quarter. Peak attendance and resort occupancy generally occur during the summer months when school vacations occur and during early-winter and spring-holiday periods. In addition, licensing revenues fluctuate with the timing and performance of our theatrical releases and cable programming broadcasts.

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.

Direct-to-Consumer & International revenues fluctuate based on: the timing and performance of releases of our digital media content; viewership levels on our cable channels and digital platforms; changes in subscriber levels; and the demand for sports and our content. Each of these may depend on the availability of content, which varies from time to time throughout the year based on, among other things, sports seasons and content production schedules.

In general, 21CF revenues are similar to revenues generated at Media Networks and Studio Entertainment and are subject to similar fluctuations.

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	Nine Months Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better/ (Worse)	June 29, 2019	June 30, 2018	Better/ (Worse)
<i>Revenues:</i>						
Media Networks	\$ 6,713	\$ 5,534	21 %	\$ 18,317	\$ 16,597	10 %
Parks, Experiences and Products	6,575	6,136	7 %	19,570	18,566	5 %
Studio Entertainment	3,836	2,880	33 %	7,817	7,888	(1) %
Direct-to-Consumer & International	3,858	827	>100 %	5,921	2,589	>100 %
Eliminations	(737)	(148)	>(100) %	(1,155)	(512)	>(100) %
	<u>\$ 20,245</u>	<u>\$ 15,229</u>	33 %	<u>\$ 50,470</u>	<u>\$ 45,128</u>	12 %
<i>Segment operating income/(loss):</i>						
Media Networks	\$ 2,136	\$ 1,995	7 %	\$ 5,696	\$ 5,496	4 %
Parks, Experiences and Products	1,719	1,655	4 %	5,377	4,918	9 %
Studio Entertainment	792	701	13 %	1,607	2,400	(33) %
Direct-to-Consumer & International	(553)	(168)	>(100) %	(1,074)	(398)	>(100) %
Eliminations	(133)	6	nm	(174)	(4)	>(100) %
	<u>\$ 3,961</u>	<u>\$ 4,189</u>	(5) %	<u>\$ 11,432</u>	<u>\$ 12,412</u>	(8) %

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

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

(in millions)	Quarter Ended		% Change Better/ (Worse)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018	
Income from continuing operations before income taxes	\$ 2,018	\$ 3,854	(48) %	\$ 12,686	\$ 11,527	10 %
Add/(subtract):						
Corporate and unallocated shared expenses	238	192	(24) %	678	536	(26) %
Restructuring and impairment charges	207	—	nm	869	28	>(100) %
Other income	123	—	nm	(4,840)	(94)	>100 %
Interest expense, net	411	143	>(100) %	617	415	(49) %
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	779	—	nm	884	—	nm
Impairment of equity investments	185	—	nm	538	—	nm
Segment Operating Income	\$ 3,961	\$ 4,189	(5) %	\$ 11,432	\$ 12,412	(8) %

⁽¹⁾ Includes amortization of intangibles related to 21CF equity investees.

Depreciation expense is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018	
Media Networks						
Cable Networks	\$ 29	\$ 26	(12) %	\$ 79	\$ 83	5 %
Broadcasting	22	22	— %	62	68	9 %
Total Media Networks	51	48	(6) %	141	151	7 %
Parks, Experiences and Products						
Domestic	366	348	(5) %	1,085	1,075	(1) %
International	181	194	7 %	549	561	2 %
Total Parks, Experiences and Products	547	542	(1) %	1,634	1,636	— %
Studio Entertainment	22	15	(47) %	53	42	(26) %
Direct-to-Consumer & International	86	26	>(100) %	155	75	>(100) %
Corporate	43	47	9 %	124	138	10 %
Total depreciation expense	\$ 749	\$ 678	(10) %	\$ 2,107	\$ 2,042	(3) %

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

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018	
Media Networks	\$ —	\$ —	nm	\$ —	\$ —	nm
Parks, Experiences and Products	27	27	— %	81	82	1 %
Studio Entertainment	15	16	6 %	46	48	4 %
Direct-to-Consumer & International	23	23	— %	68	45	(51) %
21CF and Hulu	490	—	nm	562	—	nm
Total amortization of intangible assets	<u>\$ 555</u>	<u>\$ 66</u>	>(100) %	<u>\$ 757</u>	<u>\$ 175</u>	>(100) %

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Affiliate fees	\$ 3,564	\$ 2,981	20 %
Advertising	1,874	1,677	12 %
TV/SVOD distribution and other	1,275	876	46 %
Total revenues	6,713	5,534	21 %
Operating expenses	(4,092)	(3,257)	(26) %
Selling, general, administrative and other	(626)	(431)	(45) %
Depreciation and amortization	(51)	(48)	(6) %
Equity in the income of investees	192	197	(3) %
Operating Income	<u>\$ 2,136</u>	<u>\$ 1,995</u>	7 %

Revenues

The increase in affiliate fees was due to increases of 16% from the consolidation of 21CF's operations and 8% from higher contractual rates, partially offset by decreases of approximately 2 and one-half percent from fewer subscribers and 1% from the adoption of ASC 606.

The increase in advertising revenues was due to an increase of \$229 million at Cable Networks, from \$786 million to \$1,015 million, partially offset by a decrease of \$32 million at Broadcasting, from \$891 million to \$859 million. Cable Networks advertising revenue reflected increases of 18% from the consolidation of 21CF's operations, 6% from higher rates and 5% from higher impressions. Rates were positively impacted by two additional NBA finals games. The increase in impressions reflected more units delivered, partially offset by lower average viewership. Broadcasting advertising revenue reflected decreases of 11% from lower network impressions, due to lower average viewership, and 1% at the owned television stations, partially offset by increases of 6% from higher network rates and 4% from the consolidation of 21CF's operations.

TV/SVOD distribution and other revenue increased \$399 million due to the consolidation of 21CF's operations, which reflected sales of Twentieth Century Fox Television programs. This increase was partially offset by a decrease in ABC Studios program sales reflecting the prior-year sale of *Luke Cage* and lower sales of *How to Get Away With Murder*, *Designated Survivor*, *Scandal* and *Agents of S.H.I.E.L.D.*

Costs and Expenses

Operating expenses include programming and production costs, which increased \$724 million, from \$3,057 million to \$3,781 million. At Cable Networks, programming and production costs increased \$482 million due to the consolidation of 21CF's operations, timing of Freeform programming and production cost amortization and contractual rate increases for NBA and MLB programming. At Broadcasting, programming and production costs increased \$242 million due to the consolidation of 21CF's operations, partially offset by lower costs at our legacy operations. The decrease at our legacy operations was due to

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

lower ABC Studios program sales, a decrease in average cost programming compared to the prior-year quarter, which included airings of *Roseanne*, and lower program cost write-downs.

Selling, general, administrative and other costs increased \$195 million, from \$431 million to \$626 million, due to the consolidation of 21CF's operations.

Segment Operating Income

Segment operating income increased 7%, or \$141 million, to \$2,136 million due to the consolidation of 21CF's operations and increases at ESPN and the ABC Network, partially offset by lower income from ABC Studios program sales.

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

	Quarter Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better/ (Worse)
<i>Supplemental revenue detail</i>			
Cable Networks	\$ 4,464	\$ 3,597	24 %
Broadcasting	2,249	1,937	16 %
	<u>\$ 6,713</u>	<u>\$ 5,534</u>	21 %
<i>Supplemental operating income detail</i>			
Cable Networks	\$ 1,637	\$ 1,429	15 %
Broadcasting	307	369	(17) %
Equity in the income of investees	192	197	(3) %
	<u>\$ 2,136</u>	<u>\$ 1,995</u>	7 %

Items Excluded from Segment Operating Income Related to Media Networks

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

(in millions)	Quarter Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (322)	\$ —	nm
Restructuring and impairment charges	(20)	—	nm
Impairment of equity investments	(185)	—	nm

⁽¹⁾ Amortization of step-up on film and television costs was \$186 million and amortization of intangible assets was \$136 million.

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

Parks, Experiences and Products

Operating results for the Parks Experiences and Products segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Theme park admissions	\$ 1,956	\$ 1,834	7 %
Parks & Experiences merchandise, food and beverage	1,515	1,442	5 %
Resorts and vacations	1,610	1,530	5 %
Merchandise licensing and retail	993	918	8 %
Parks licensing and other	501	412	22 %
Total revenues	6,575	6,136	7 %
Operating expenses	(3,482)	(3,189)	(9) %
Selling, general, administrative and other	(800)	(718)	(11) %
Depreciation and amortization	(574)	(569)	(1) %
Equity in the loss of investees	—	(5)	— %
Operating Income	\$ 1,719	\$ 1,655	4 %

Revenues

Parks, Experiences and Products results include a benefit from a shift in the timing of the Easter holiday. In the current year, the entire Easter holiday fell in the third quarter, while the third quarter of the prior year only included one week of the Easter holiday.

The increase in theme park admissions revenue was due to an increase of 12% from higher average ticket prices, partially offset by decreases of 4% from lower attendance and 1% from an unfavorable FX Impact.

Parks & Experiences merchandise, food and beverage revenue growth was due to an increase of 7% from higher average guest spending, partially offset by a decrease of 2% from lower volumes.

The increase in resorts and vacations revenue was driven by increases of 2% each from average ticket prices for cruise line sailings and average daily hotel room rates, partially offset by a decrease 1% from lower vacation club unit sales.

Merchandise licensing and retail revenues were higher due to increases of 6% from merchandise licensing, 2% from our retail stores and 1% from publishing. The increase in merchandise licensing revenues was driven by higher revenue from Toy Story merchandise, partially offset by a decrease from Star Wars merchandise. The increase at our retail business was due to increases in comparable store sales and online revenue. Higher revenue at our publishing business was due to the consolidation of 21CF's operations.

The increase in parks licensing and other revenue was primarily due to the adoption of ASC 606, which required certain cost reimbursements from licensees to be recognized as revenue (rather than recorded as an offset to operating expenses).

**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	
	Quarter Ended		Quarter Ended		Quarter Ended	
	Jun. 29, 2019	Jun. 30, 2018	Jun. 29, 2019	Jun. 30, 2018	Jun. 29, 2019	Jun. 30, 2018
Parks						
Increase/(decrease)						
Attendance	(3) %	1%	(7) %	2%	(4) %	1%
Per Capita Guest Spending	10 %	5%	17 %	4%	12 %	4%
Hotels ⁽¹⁾						
Occupancy	88 %	86%	83 %	87%	87 %	86%
Available Room Nights (in thousands)	2,503	2,517	793	793	3,296	3,310
Per Room Guest Spending	\$366	\$357	\$350	\$324	\$362	\$349

⁽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 2018 third quarter average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$118 million, from \$1,469 million to \$1,587 million, cost of goods sold and distribution costs, which increased \$29 million, from \$669 million to \$698 million, and infrastructure costs, which increased \$49 million, from \$558 million to \$607 million. The increase in operating labor was due to inflation, including the impact of wage increases for our union employees. The increase in cost of goods sold and distribution costs was driven by higher sales of food, beverage and merchandise at our theme parks and resorts. Higher infrastructure costs were primarily due to an increase in technology spending and costs for new guest offerings, including expenses associated with *Star Wars: Galaxy's Edge*. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased \$97 million, from \$493 million to \$590 million primarily due to the recognition of certain cost reimbursements as revenue (rather than recorded as an offset to operating expenses) and inflation.

Selling, general, administrative and other costs increased \$82 million from \$718 million to \$800 million driven by inflation and higher marketing spend.

Segment Operating Income

Segment operating income increased 4%, or \$64 million, to \$1,719 million due to increases at our consumer products businesses and Disneyland Paris, partially offset by a decrease at our domestic theme parks and resorts.

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

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment to provide continuity with our legacy reporting:

	Quarter Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better / (Worse)
Supplemental revenue detail			
Parks & Experiences			
Domestic	\$ 4,420	\$ 4,089	8 %
International	1,126	1,104	2 %
Consumer Products	1,029	943	9 %
	<u>\$ 6,575</u>	<u>\$ 6,136</u>	7 %
Supplemental operating income detail			
Parks & Experiences			
Domestic	\$ 1,157	\$ 1,195	(3)%
International	189	144	31 %
Consumer Products	373	316	18 %
	<u>\$ 1,719</u>	<u>\$ 1,655</u>	4 %

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Theatrical distribution	\$ 2,240	\$ 1,505	49 %
Home entertainment	432	388	11 %
TV/SVOD distribution and other	1,164	987	18 %
Total revenues	3,836	2,880	33 %
Operating expenses	(2,013)	(1,426)	(41) %
Selling, general, administrative and other	(994)	(722)	(38) %
Depreciation and amortization	(37)	(31)	(19) %
Operating Income	<u>\$ 792</u>	<u>\$ 701</u>	13 %

Revenues

The increase in theatrical distribution revenue was due to the performance of *Avengers: Endgame* and *Toy Story 4* in the current quarter compared to *Avengers: Infinity War* and *Incredibles 2* in the prior-year quarter. Additionally, the current quarter included *Aladdin* and 21CF's *Dark Phoenix* whereas the prior-year quarter included *Solo: A Star Wars Story*.

Higher home entertainment revenue was due to an increase of 34% from the consolidation of 21CF's operations, partially offset by decreases of 17% from lower unit sales and 4% from net effective pricing at our legacy operations. The decrease in unit sales at our legacy operations was driven by the performance of *Black Panther* in the prior-year quarter compared to *Captain Marvel* in the current quarter. The decrease in net effective pricing at our legacy operations was driven by a decrease in sales of new release titles, which have a higher sales price compared to catalog titles. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns.

Growth in TV/SVOD distribution and other revenue was due to an increase of 19% from TV/SVOD distribution driven by the consolidation of 21CF's operations, partially offset by a decrease at our legacy operations due to sales of *Star Wars: The Last Jedi* and *Thor: Ragnarok* in domestic pay television in the prior-year quarter with no comparable titles 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 \$475 million in film cost amortization, from \$1,080 million to \$1,555 million, due to the consolidation of 21CF's operations and an increase at our legacy operations. The increase in film cost amortization at our legacy operations was due to higher theatrical revenues in the current quarter, partially offset by lower film cost impairments. Operating expenses also include cost of goods sold and distribution costs, which increased \$112 million, from \$346 million to \$458 million primarily due to the consolidation of 21CF's operations.

Selling, general, administrative and other costs increased \$272 million from \$722 million to \$994 million, due to the consolidation of 21CF's operations.

Segment Operating Income

Segment operating income increased 13%, or \$91 million, to \$792 million due to higher theatrical distribution results and lower film cost impairments at our legacy operations, partially offset by the consolidation of 21CF's operations and lower TV/SVOD and home entertainment distribution results at our legacy operations.

Items Excluded from Segment Operating Income Related to Studio Entertainment

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

(in millions)	Quarter Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (121)	\$ —	nm
Restructuring and impairment charges	(59)	—	nm

⁽¹⁾ Amortization of step-up on film and television costs was \$92 million and amortization of intangible assets was \$29 million.

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Affiliate fees	\$ 993	\$ 351	>100 %
Advertising	1,489	310	>100 %
Subscription fees and other	1,376	166	>100 %
Total revenues	3,858	827	>100 %
Operating expenses	(3,562)	(622)	>(100) %
Selling, general, administrative and other	(747)	(205)	>(100) %
Depreciation and amortization	(109)	(49)	>(100) %
Equity in the income/(loss) of investees	7	(119)	nm
Operating Loss	\$ (553)	\$ (168)	>(100) %

Revenues

The increase in affiliate fees was due to the consolidation of 21CF's operations.

The increase in advertising revenues was due to increases of \$621 million at our International Channels driven by the consolidation of 21CF's operations, and \$558 million in addressable ad sales driven by the consolidation of Hulu's operations. Prior to March 20, 2019, the Company's share of Hulu results was reported in equity in the loss of investees.

Subscription fees and other revenue increased due to the inclusion of Hulu subscription fees and 21CF international program sales and to a lesser extent, higher subscription fees for ESPN+, which launched in April 2018.

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

Costs and Expenses

Operating expenses include a \$2,609 million increase in programming and production costs, from \$387 million to \$2,996 million and a \$331 million increase in other operating expenses, from \$235 million to \$566 million. The increase in programming and production costs was due to the consolidation of 21CF and Hulu's operations, and to a lesser extent, the ramp up of our investment in ESPN+ and the upcoming launch of Disney+. Other operating expenses, which include technical support and distribution costs, increased due to the consolidation of Hulu and 21CF's operations.

Selling, general, administrative and other costs increased \$542 million from \$205 million to \$747 million due to the consolidation of 21CF and Hulu's operations.

Depreciation and amortization increased \$60 million from \$49 million to \$109 million driven by the consolidation of 21CF and Hulu's operations.

Equity in the Income/(Loss) of Investees

Loss from equity investees in the prior-year quarter was \$119 million and improved by \$126 million to income from equity of investees of \$7 million in the current quarter, due to the consolidation of Hulu. In the current quarter, Hulu's results are reported in revenues and expenses. In the prior-year quarter, the Company recognized its ownership share of Hulu's results in equity in the loss of investees.

Segment Operating Loss

Segment operating loss increased to \$553 million due to the consolidation of Hulu's operations, our ramp up of investment in ESPN+ and costs associated with the upcoming launch of Disney+. Results for the quarter also reflected a benefit from the consolidation of 21CF's operations due to income at the Fox and National Geographic international channels, partially offset by a loss at Star India.

The following table presents supplemental revenue and operating income/(loss) detail for the Direct-to-Consumer & International segment to provide information on International Channels that were historically reported in the Media Networks segment. Fiscal 2019 also includes revenues and operating income from the consolidation of 21CF and Hulu's operations:

	Quarter Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better / (Worse)
Supplemental revenue detail			
International Channels	\$ 1,957	\$ 470	>100 %
Direct-to-Consumer businesses and other	1,901	357	>100 %
	<u>\$ 3,858</u>	<u>\$ 827</u>	>100 %
Supplemental operating income/(loss) detail			
International Channels	\$ 202	\$ 98	>100 %
Direct-to-Consumer businesses and other	(762)	(147)	>(100) %
Equity in the income/(loss) of investees	7	(119)	nm
	<u>\$ (553)</u>	<u>\$ (168)</u>	>(100) %

Items Excluded from Segment Operating Loss Related to Direct-to-Consumer & International

The following table presents supplemental information for items related to the Direct-to-Consumer & International segment that are excluded from segment operating loss:

(in millions)	Quarter Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (334)	\$ —	nm
Adjustment to Hulu Gain	(123)	—	nm
Restructuring and impairment charges	(106)	—	nm

⁽¹⁾ Amortization of intangible assets was \$323 million, amortization of intangible assets related to 21CF equity investees was \$15 million and amortization of step-up on film and television costs was a benefit of \$4 million.

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

Eliminations

Intersegment content transactions are as follows:

(in millions)	Quarter Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (41)	\$ (25)	(64) %
Content transactions with Direct-to-Consumer & International	(82)	(8)	>(100) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(614)	(115)	>(100) %
Total	<u>\$ (737)</u>	<u>\$ (148)</u>	>(100) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ (16)	\$ 7	nm
Content transactions with Direct-to-Consumer & International	(35)	—	nm
Media Networks:			
Content transactions with Direct-to-Consumer & International	(82)	(1)	>(100) %
Total	<u>\$ (133)</u>	<u>\$ 6</u>	nm

Revenues and Operating Income

The increase in the impact from eliminations was driven by the elimination of sales of ABC Studios and Twentieth Century Fox Television programs to Hulu.

BUSINESS SEGMENT RESULTS - Nine Month Results

Media Networks

Operating results for the Media Networks segment are as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Affiliate Fees	\$ 9,873	\$ 8,891	11 %
Advertising	5,521	5,283	5 %
TV/SVOD distribution and other	2,923	2,423	21 %
Total revenues	<u>18,317</u>	<u>16,597</u>	10 %
Operating expenses	(11,439)	(10,137)	(13) %
Selling, general, administrative and other	(1,594)	(1,351)	(18) %
Depreciation and amortization	(141)	(151)	7 %
Equity in the income of investees	553	538	3 %
Operating Income	<u>\$ 5,696</u>	<u>\$ 5,496</u>	4 %

Revenues

The increase in affiliate fees was due to increases of 7% from higher contractual rates and 6% from the consolidation of 21CF's operations, partially offset by a decrease of 2% from fewer subscribers.

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

The increase in advertising revenues was due to an increase of \$242 million at Cable Networks, from \$2,532 million to \$2,774 million, partially offset by a decrease of \$4 million at Broadcasting, from \$2,751 million to \$2,747 million. Cable Networks advertising revenue reflected increases of 7% from the consolidation of 21CF's operations and 3% from higher rates. Impressions were comparable to the prior-year period as higher units delivered were offset by lower average viewership. Rates were positively impacted by two additional NBA finals games. Broadcasting advertising revenue reflected a decrease of 10% from lower network impressions due to lower average viewership, which was largely offset by increases of 7% from higher network rates and 2% from the owned television stations. The increase at the owned television stations was due to higher rates driven by higher political advertising.

TV/SVOD distribution and other revenue increased \$500 million due to the consolidation of 21CF's operations, which reflected sales of Twentieth Century Fox Television programs. This increase was partially offset by a decrease in ABC Studios program sales reflecting the prior-year sale of *Luke Cage* and lower sales of *Scandal*, *Designated Survivor*, *Once Upon a Time* and *Grey's Anatomy*, partially offset by the current-year sale of *The Punisher*.

Costs and Expenses

Operating expenses include programming and production costs, which increased \$1,181 million, from \$9,647 million to \$10,828 million. At Cable Networks, programming and production costs increased \$721 million due to the consolidation of 21CF's operations and contractual rate increases for college sports, NFL and NBA programming. At Broadcasting, programming and production costs increased \$460 million due to the consolidation of 21CF's operations, partially offset by the impact of lower ABC Studios program sales.

Selling, general, administrative and other costs increased \$243 million, from \$1,351 million to \$1,594 million, due to the consolidation of 21CF's operations.

Segment Operating Income

Segment operating income increased 4%, or \$200 million, to \$5,696 million due to the consolidation of 21CF's operations and growth at the Domestic Disney Channels, the owned television stations and ESPN, partially offset by lower income from ABC Studios program sales.

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

	Nine Months Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better/ (Worse)
<i>Revenues</i>			
Cable Networks	\$ 12,243	\$ 11,083	10 %
Broadcasting	6,074	5,514	10 %
	<u>\$ 18,317</u>	<u>\$ 16,597</u>	10 %
<i>Segment operating income</i>			
Cable Networks	\$ 4,169	\$ 3,950	6 %
Broadcasting	974	1,008	(3) %
Equity in the income of investees	553	538	3 %
	<u>\$ 5,696</u>	<u>\$ 5,496</u>	4 %

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

Items Excluded from Segment Operating Income Related to Media Networks

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

(in millions)	Nine Months Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (372)	\$ —	nm
Restructuring and impairment charges	(84)	(6)	>(100) %
Impairment of equity investments	(185)	—	nm

⁽¹⁾ Amortization of step-up on film and television costs was \$218 million and amortization of intangible assets was \$154 million.

Parks, Experiences and Products

Operating results for the Parks, Experiences and Products segment are as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Theme park admissions	\$ 5,657	\$ 5,356	6 %
Parks & Experiences merchandise, food and beverage	4,491	4,289	5 %
Resorts and vacations	4,644	4,454	4 %
Merchandise licensing and retail	3,285	3,240	1 %
Parks licensing and other	1,493	1,227	22 %
Total revenues	19,570	18,566	5 %
Operating expenses	(10,229)	(9,763)	(5) %
Selling, general, administrative and other	(2,237)	(2,148)	(4) %
Depreciation and amortization	(1,715)	(1,718)	— %
Equity in the loss of investees	(12)	(19)	37 %
Operating Income	\$ 5,377	\$ 4,918	9 %

Revenues

The increase in theme park admissions revenue was due to an increase of 8% from higher average ticket prices, partially offset by decreases of 1% from lower attendance and 1% from an unfavorable FX Impact.

Parks & Experiences merchandise, food and beverage revenue growth was due to an increase of 5% from higher average guest spending.

The increase in resorts and vacations revenue was primarily due to increases of 2% from higher average daily hotel room rates, 1% from an increase in average ticket prices for cruise line sailings and 1% from higher occupied hotel room nights. These increases were partially offset by a decrease of 1% from lower vacation club unit sales.

Merchandise licensing and retail revenue growth was driven by an increase of 2% from our games business due to the sale of rights to a video game and royalties from the licensed title, *Kingdom Hearts III*.

The increase in parks licensing and other revenue was driven by the adoption of ASC 606, which required certain cost reimbursements from licensees to be recognized as revenue (rather than recorded as an offset to operating expenses).

**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	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Parks						
Increase/(decrease)						
Attendance	—%	4%	(5) %	4%	(2) %	4%
Per Capita Guest Spending	7%	6%	12 %	7%	8 %	6%
Hotels ⁽¹⁾						
Occupancy	92%	89%	83 %	85%	89 %	88%
Available Room Nights (in thousands)	7,477	7,540	2,381	2,380	9,858	9,920
Per Room Guest Spending	\$359	\$349	\$319	\$304	\$350	\$339

⁽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 2018 nine-month average foreign exchange rate.

Costs and Expenses

Operating expenses include operating labor, which increased \$211 million from \$4,384 million to \$4,595 million, cost of sales and distribution costs, which increased \$72 million from \$2,079 million to \$2,151 million, and infrastructure costs, which increased \$32 million from \$1,722 million to \$1,754 million. The increase in operating labor was primarily due to inflation, including the impact of wage increases for our union employees, partially offset by a favorable FX Impact and the comparison to a special domestic employee bonus that was recognized in fiscal 2018. Higher cost of sales and distribution costs were driven by higher sales of food, beverage and merchandise at our theme parks and resorts and inflation, partially offset by the impact of lower attendance. The increase in infrastructure costs was driven by higher technology spending and an increase in property taxes, partially offset by cost efficiency initiatives. Other operating expenses, which include costs for such items as supplies, commissions and entertainment offerings, increased \$151 million, from \$1,578 million to \$1,729 million, due to the recognition of certain cost reimbursements as revenue (rather than recorded as an offset to operating expenses).

Selling, general, administrative and other costs increased \$89 million from \$2,148 million to \$2,237 million driven by higher marketing spend.

Segment Operating Income

Segment operating income increased 9%, or \$459 million, to \$5,377 million due to growth at our domestic and international theme parks and resorts and our games business.

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

The following table presents supplemental revenue and operating income detail for the Parks, Experiences and Products segment to provide continuity with our legacy reporting:

	Nine Months Ended		% Change Better / (Worse)
(in millions)	June 29, 2019	June 30, 2018	
Supplemental revenue detail			
Parks & Experiences			
Domestic	\$ 13,100	\$ 12,223	7%
International	3,068	3,003	2%
Consumer Products	3,402	3,340	2%
	<u>\$ 19,570</u>	<u>\$ 18,566</u>	5%
Supplemental operating income detail			
Parks & Experiences			
Domestic	\$ 3,685	\$ 3,366	9%
International	331	275	20%
Consumer Products	1,361	1,277	7%
	<u>\$ 5,377</u>	<u>\$ 4,918</u>	9%

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Theatrical distribution	\$ 3,365	\$ 3,630	(7) %
Home entertainment	1,127	1,220	(8) %
TV/SVOD distribution and other	3,325	3,038	9 %
Total revenues	<u>7,817</u>	<u>7,888</u>	(1) %
Operating expenses	(3,891)	(3,445)	(13) %
Selling, general, administrative and other	(2,220)	(1,953)	(14) %
Depreciation and amortization	(99)	(90)	(10) %
Operating Income	<u>\$ 1,607</u>	<u>\$ 2,400</u>	(33) %

Revenues

The decrease in theatrical distribution revenue was due to the comparison of three Marvel titles, *Avengers: Infinity War*, *Black Panther* and *Thor: Ragnarok* and two Star Wars titles, *Star Wars: The Last Jedi* and *Solo: A Star Wars Story* in the prior-year period to two Marvel titles, *Avengers: Endgame* and *Captain Marvel* and no Star Wars title in the current period. This decrease was partially offset by the comparison of three Disney live action titles, *Aladdin*, *Mary Poppins Returns* and *Dumbo*, in the current period to no Disney live action titles in the prior-year period. Other significant titles included *Ralph Breaks the Internet* and *Toy Story 4* in the current period and *Coco* and *Incredibles 2* in the prior-year period. The current period also included an increase from the consolidation of 21CF's operations.

Lower home entertainment revenue was due to decreases of 14% from lower unit sales and 4% from net effective pricing at our legacy operations, partially offset by an increase of 11% from the consolidation of 21CF's operations. The decrease in unit sales was due to the release of *Star Wars: The Last Jedi* in the prior-year period compared to no Star Wars release in the current period. Other significant titles in release included *Ant-Man and the Wasp*, *Ralph Breaks the Internet*, *Captain Marvel* and *Avengers: Infinity War* in the current period and *Thor: Ragnarok*, *Black Panther*, *Coco* and *Guardians of the Galaxy Vol. 2* in the prior-year period.

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

Higher TV/SVOD distribution and other revenue was due to an increase of 12% from TV/SVOD distribution, partially offset by a decrease of 2% from Lucasfilm's special effects business due to fewer projects. The increase in TV/SVOD distribution was due to the consolidation of 21CF's operations and the impact of the adoption of ASC 606.

Costs and Expenses

Operating expenses include an increase of \$378 million in film cost amortization, from \$2,493 million to \$2,871 million, due to the consolidation of 21CF's operations. Operating expenses also include cost of goods sold and distribution costs, which increased \$68 million, from \$952 million to \$1,020 million, due to the consolidation of 21CF's operations, partially offset by fewer projects at Lucasfilm's special effects business and lower home entertainment volumes at our legacy operations.

Selling, general, administrative and other costs increased \$267 million from \$1,953 million to \$2,220 million due to the consolidation of 21CF's operations.

Segment Operating Income

Segment operating income decreased 33%, or \$793 million, to \$1,607 million due to decreases in theatrical and home entertainment distribution results at our legacy operations and the impact of the consolidation of 21CF's operations.

Items Excluded from Segment Operating Income Related to Studio Entertainment

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

(in millions)	Nine Months Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (121)	\$ —	nm
Restructuring and impairment charges	(170)	(5)	>(100) %

⁽¹⁾ Amortization of step-up on film and television costs was \$87 million and amortization of intangible assets was \$34 million.

Direct-to-Consumer & International

Operating results for the Direct-to-Consumer & International segment are as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Affiliate fees	\$ 1,728	\$ 1,043	66 %
Advertising	2,360	1,022	>100 %
Subscription fees and other	1,833	524	>100 %
Total revenues	5,921	2,589	>100 %
Operating expenses	(5,311)	(1,757)	>(100) %
Selling, general, administrative and other	(1,239)	(713)	(74) %
Depreciation and amortization	(223)	(120)	(86) %
Equity in the loss of investees	(222)	(397)	44 %
Operating Loss	\$ (1,074)	\$ (398)	>(100) %

Revenues

The increase in affiliate fees was due to the consolidation of 21CF's operations and to a lesser extent, higher rates at our legacy operations, partially offset by an unfavorable FX Impact.

The increase in advertising revenues was due to increases of \$684 million at our International Channels driven by the consolidation of 21CF's operations, and \$654 million in addressable ad sales driven by the consolidation of Hulu's operations.

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

Subscription fees and other revenue increased due to the inclusion of Hulu subscription fees and 21CF international program sales and to a lesser extent, higher subscription fees for ESPN+, which launched in April 2018.

Costs and Expenses

Operating expenses include a \$3,032 million increase in programming and production costs, from \$1,179 million to \$4,211 million, and a \$522 million increase in other operating expenses, from \$578 million to \$1,100 million. The increase in programming and production costs was due to the consolidation of 21CF and Hulu's operations and to a lesser extent, the ramp up of our investment in ESPN+ and the upcoming launch of Disney+. Other operating expenses, which include technical support and distribution costs, increased due to the consolidation of Hulu and 21CF's operations.

Selling, general, administrative and other costs increased \$526 million, from \$713 million to \$1,239 million, due to the the consolidation of 21CF and Hulu's operations.

Depreciation and amortization increased \$103 million, from \$120 million to \$223 million, due to increased investment in technology and the consolidation of 21CF and Hulu's operations.

Equity in the Loss of Investees

Loss from equity investees decreased \$175 million, from \$397 million to \$222 million, due to the consolidation of Hulu.

Segment Operating Loss

Segment operating loss increased from \$398 million to \$1,074 million due to our ramp up of investment in ESPN+, which launched in April 2018, the consolidation of Hulu's operations and costs associated with the upcoming launch of Disney+.

The following table presents supplemental revenue and operating income/(loss) detail for the Direct-to-Consumer & International segment to provide information on International Channels that were historically reported in the Media Networks segment. Fiscal 2019 also includes revenues and operating income from the consolidation of 21CF and Hulu's operations:

	Nine Months Ended		% Change
(in millions)	June 29, 2019	June 30, 2018	Better / (Worse)
<i>Supplemental revenue detail</i>			
International Channels	\$ 3,066	\$ 1,438	>100 %
Direct-to-Consumer businesses and other	2,855	1,151	>100 %
	<u>\$ 5,921</u>	<u>\$ 2,589</u>	>100 %
<i>Supplemental operating income/(loss) detail</i>			
International Channels	\$ 452	\$ 255	77 %
Direct-to-Consumer businesses and other	(1,304)	(256)	>(100) %
Equity in the loss of investees	(222)	(397)	44 %
	<u>\$ (1,074)</u>	<u>\$ (398)</u>	>(100) %

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

Items Excluded from Segment Operating Loss Related to Direct-to-Consumer & International

The following table presents supplemental information for items related to the Direct-to-Consumer & International segment that are excluded from segment operating loss:

(in millions)	Nine Months Ended		% Change Better/(Worse)
	June 29, 2019	June 30, 2018	
Amortization of 21CF and Hulu intangible assets and fair value step-up on film and television costs ⁽¹⁾	\$ (389)	\$ —	nm
Hulu Gain	4,794	—	nm
Restructuring and impairment charges	(244)	(6)	>(100) %
Impairment of equity investments	(353)	—	nm

⁽¹⁾ Amortization of intangible assets was \$373 million, amortization of intangible assets related to 21CF equity investees was \$15 million and amortization of step-up on film and television costs was \$1 million.

Eliminations

Intersegment content transactions are as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Revenues			
Studio Entertainment:			
Content transactions with Media Networks	\$ (75)	\$ (120)	38 %
Content transactions with Direct-to-Consumer & International	(182)	(24)	>(100) %
Media Networks:			
Content transactions with Direct-to-Consumer & International	(898)	(368)	>(100) %
Total	\$ (1,155)	\$ (512)	>(100) %
Operating income			
Studio Entertainment:			
Content transactions with Media Networks	\$ (11)	\$ (2)	>(100) %
Content transactions with Direct-to-Consumer & International	(79)	—	nm
Media Networks:			
Content transactions with Direct-to-Consumer & International	(84)	(2)	>(100) %
Total	\$ (174)	\$ (4)	>(100) %

Revenues and Operating Income

The increase in the impact from eliminations was driven by the elimination of sales of ABC Studios and Twentieth Century Fox Television programs to Hulu.

CORPORATE AND UNALLOCATED SHARED EXPENSES

(in millions)	Quarter Ended		% Change Better/ (Worse)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018	
Corporate and unallocated shared expenses	\$ (238)	\$ (192)	(24) %	\$ (678)	\$ (536)	(26) %

Corporate and unallocated shared expenses increased \$46 million to \$238 million in the current quarter and increased \$142 million to \$678 million for the nine-month period due to costs incurred in connection with the acquisition and integration of 21CF.

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

RESTRUCTURING IN CONNECTION WITH THE ACQUISITION OF 21CF

As discussed in Note 16 to the Condensed Consolidated Financial Statements, in connection with the acquisition of 21CF the Company has begun implementing a restructuring and integration plan as a part of its initiative to realize cost synergies from the acquisition of 21CF. Although our plans are not yet finalized, we currently anticipate that the total severance and related costs could be on the order of \$1.5 billion. To date, we have recorded severance and related costs totaling \$608 million in connection with the plan. In addition, we recorded charges totaling \$261 million for equity-based compensation, primarily for 21CF awards that were accelerated to vest upon the closing of the 21CF acquisition. These charges are recorded in "Restructuring and impairment charges" in the Condensed Consolidated Statements of Income. The Company may incur other costs in connection with the plan such as lease termination costs, but is unable to estimate those amounts at this time. For the prior-year quarter and nine-month period, restructuring and impairment charges were not material.

The following table summarizes the changes in restructuring reserves related to 21CF integration efforts:

	Beginning Balance	Additions	Payments	Other	Ending Balance
Nine Months Ended June 29, 2019:					
Restructuring reserves	\$ —	\$ 608	\$ (63)	\$ —	\$ 545

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

(in millions)	Nine Months Ended		% Change Better/ (Worse)
	June 29, 2019	June 30, 2018	
Cash provided by operations - continuing operations	\$ 4,266	\$ 10,442	(59) %
Cash used in investing activities - continuing operations	(13,785)	(5,143)	>(100) %
Cash provided by / (used in) financing activities - continuing operations	12,533	(4,981)	nm
Cash provided by operations - discontinued operations	320	—	nm
Cash used in financing activities - discontinued operations	(179)	—	nm
Impact of exchange rates on cash, cash equivalents and restricted cash	47	(51)	nm
Change in cash, cash equivalents and restricted cash	\$ 3,202	\$ 267	>100 %

Operating Activities

Cash provided by continuing operating activities decreased 59% to \$4.3 billion for the current nine months compared to \$10.4 billion in the prior-year nine months due to the payment of certain tax obligations that arose from the spin-off of Fox Corporation in connection with the 21CF acquisition, lower operating cash flows at our segments, and higher payments for interest. The decrease in operating cash flows at our segments was lower operating cash flows at Direct-to-Consumer & International driven by higher programming and technical support costs, partially offset by higher operating cash flows at Parks, Experiences and Products and Products due to higher operating cash receipts.

Film and Television Costs

The Company's Studio Entertainment, Media Networks and Direct-to-Consumer & International 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, television stations and direct-to-consumer streaming services. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

**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 nine months ended June 29, 2019 and June 30, 2018 are as follows:

(in millions)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Beginning balances:		
Production and programming assets	\$ 9,202	\$ 8,759
Programming liabilities	(1,178)	(1,108)
	<u>8,024</u>	<u>7,651</u>
Spending:		
Television program licenses and rights	8,076	6,252
Film and television production	5,581	4,303
	<u>13,657</u>	<u>10,555</u>
Amortization:		
Television program licenses and rights	(8,621)	(6,280)
Film and television production	(5,223)	(3,674)
	<u>(13,844)</u>	<u>(9,954)</u>
Change in discontinued operations	128	—
Change in film and television production and programming costs	(59)	601
Film and television production costs from the 21CF acquisition and consolidation of Hulu, net of programming liabilities assumed	15,156	—
Other non-cash activity	(61)	(192)
Ending balances:		
Production and programming assets	27,078	8,925
Programming liabilities	(4,018)	(865)
	<u>\$ 23,060</u>	<u>\$ 8,060</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 nine months ended June 29, 2019 and June 30, 2018 are as follows:

(in millions)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Media Networks		
Cable Networks	\$ 60	\$ 90
Broadcasting	65	54
Total Media Networks	<u>125</u>	<u>144</u>
Parks, Experiences and Products		
Domestic	2,491	2,379
International	611	468
Total Parks, Experiences and Products	<u>3,102</u>	<u>2,847</u>
Studio Entertainment	61	72
Direct-to-Consumer & International	137	85
Corporate	142	116
	<u>\$ 3,567</u>	<u>\$ 3,264</u>

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

Capital expenditures for the Parks, Experiences and Products segment are principally for theme park and resort expansion, new attractions, cruise ships, capital improvements and systems infrastructure.

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

Capital expenditures at Direct-to-Consumer & International primarily reflect investments in technology.

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

The Company currently expects its fiscal 2019 capital expenditures will be approximately \$0.5 billion higher than fiscal 2018 capital expenditures of \$4.5 billion due to increased investments at our domestic and international parks and resorts.

Other Investing Activities

Cash used for acquisitions of \$9.9 billion in the current period reflects \$35.7 billion of cash paid to acquire 21CF less \$25.7 billion of cash acquired in the transaction (See Note 4 to the Condensed Consolidated Financial Statements).

Financing Activities

Cash provided by financing activities was \$12.5 billion in the current nine-month period due to borrowings to finance the acquisition of 21CF, partially offset by dividend payments and the acquisition of noncontrolling interests.

Cash provided by financing activities of \$12.5 billion in the current nine-month period was \$17.5 billion higher than the \$5.0 billion used in the prior-year nine-month period. In the current nine-month period, the Company had higher net borrowings (\$15.3 billion increase in the current nine-month period compared to \$0.2 billion increase in the prior-year nine-month period) and there were no repurchases of common stock compared to \$3.6 billion of common stock repurchases in the prior-year nine-month period. These increases were partially offset by \$1.2 billion in higher cash used in transactions with noncontrolling interests (\$0.9 billion decrease in the current nine-month period compared to \$0.4 billion increase in the prior-year nine-month period).

See Note 6 to the Condensed Consolidated Financial Statements for a summary of the Company's borrowing activities during the nine months ended June 29, 2019 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 11 to the Condensed Consolidated Financial Statements for a summary of the Company's dividends in fiscal 2019 and 2018. During the nine month ended June 29, 2019, the Company did not repurchase any of its common stock to hold as treasury shares.

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 June 29, 2019, Moody's Investors Service's long- and short-term debt ratings for the Company were A2 and P-1, respectively, Standard and Poor's long- and short-term debt ratings for the Company were A and A-1, and Fitch's long- and short-term debt ratings for the Company were A and F1, respectively. The Company's bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on June 29, 2019, by a significant margin. The Company's bank facilities also specifically exclude certain entities, including the Asia Theme Parks, from any representations, covenants or events of default.

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

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 13 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 14 to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K for information regarding the Company's guarantees.

Tax Matters

As disclosed in Note 9 to the Consolidated Financial Statements in the 2018 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 2018 Annual Report on Form 10-K for information regarding the Company's contractual commitments and see Note 4 to the Condensed Consolidated Financial Statements for contractual commitments assumed in the 21CF acquisition.

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 2018 Annual Report on Form 10-K. In addition, for our revenue recognition policy, see Note 3 to the Condensed Consolidated Financial Statements.

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

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

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.

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

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. We have updated our revenue recognition policies in conjunction with our adoption of the new revenue recognition guidance as further described in Note 3 to the Condensed Consolidated Financial Statements.

Fixed license fees charged for the right to use our television and motion picture productions are recognized as revenue when the content is available for use by the licensee. TV/SVOD distribution contracts may contain more than one title and/or provide that certain titles are only available for use during defined periods of time during the contract term. In these instances, each title and/or period of availability is generally considered a separate performance obligation. For these contracts, license fees are allocated to each title and period of availability at contract inception based on relative standalone selling price using management's best estimate. Estimates used to determine a performance obligations' standalone selling price impact the timing of revenue recognition, but not the total revenue to be recognized under the arrangements.

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 2018 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 amount of 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

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

reporting units was licensed to an unrelated third party at its fair market value. 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.

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 13 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

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

from those recognized in our future financial statements based on a number of factors, including the Company's decision to settle rather than litigate a matter, relevant legal precedent related to similar matters and the Company's success in supporting its filing positions with taxing authorities.

New Accounting Pronouncements

See Note 18 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, Japanese yen, British pound, Chinese yuan and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures. The economic or political conditions in a country could reduce our ability to hedge exposure to currency fluctuations in the country or our ability to repatriate revenue from the country.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 15 to the Condensed Consolidated Financial Statements.

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 June 29, 2019, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Changes in Internal Controls – There have been no changes in our internal controls over financial reporting during the third quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as noted below.

In the second quarter of fiscal 2019, we completed the 21CF acquisition and began consolidating Hulu (see Note 4 to the Condensed Consolidated Financial Statements for more information). We are currently integrating 21CF and Hulu into our operations and internal control processes and, pursuant to the SEC's guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of our internal controls over financial reporting at September 28, 2019 will not include 21CF and Hulu.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As disclosed in Note 13 to the Condensed Consolidated Financial Statements, the Company is engaged in certain legal matters, and the disclosure set forth in Note 13 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.

The seasonality of certain of our businesses could exacerbate negative impacts on our operations.

Each of our businesses is normally subject to seasonal variations, as described in “Management’s Discussion and Analysis - Seasonality.”

Accordingly, if a short-term negative impact on our business occurs during a time of high seasonal demand (such as hurricane damage to our parks during the summer travel season), the effect could have a disproportionate effect on the results of that business for the year.

Consummation of the 21CF acquisition has increased our exposure to the risks of operating internationally.

We are a diversified entertainment company that offers entertainment, travel and consumer products worldwide. Although many of our businesses increasingly depend on acceptance of our offerings and products by consumers outside of the U.S., the combination with 21CF has increased the importance of international operations to our future operations, growth and prospects. The risks of operating internationally that we face have increased following the completion of the 21CF acquisition.

Our consolidated indebtedness has increased substantially following completion of the 21CF acquisition. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.

Our consolidated indebtedness as of September 29, 2018 was approximately \$20.9 billion. Upon completion of the 21CF acquisition, we assumed \$23 billion of outstanding debt of 21CF. In addition, we have \$15 billion of additional debt under a 364-day credit agreement used to finance a portion of the cash consideration for the 21CF acquisition. We anticipate using proceeds from the sale of the 21CF RSNs to pay down indebtedness when those proceeds become available.

The increased indebtedness could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. The increased levels of indebtedness could also reduce funds available for capital expenditures, share repurchases and dividends, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels. Our financial flexibility may be further constrained by the issuance of shares of common stock in the 21CF acquisition, because of dividend payments.

Risks that impact our business as a whole may also impact the success of our direct-to-consumer business.

We may not successfully execute on technology development, service promotion, or creative development. Consumers may not be willing to pay for an expanding set of Direct-to-Consumer (DTC) services, potentially exacerbated by an economic downturn. We face competition for creative talent and may not be successful in recruiting and retaining talent. Government regulation, including revised foreign content and ownership regulations, may impact the implementation of our DTC business plans. Poor quality broadband infrastructure in certain markets may impact our customers’ access to our DTC products and may diminish our customers’ experience with our DTC products. These and other risks may impact the profitability and success of our DTC businesses.

Additional factors are discussed in the 2018 Annual Report on Form 10-K 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 June 29, 2019:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
March 31, 2019 - April 30, 2019	26,620	\$ 130.42	—	n/a
May 1, 2019 - May 31, 2019	27,174	134.02	—	n/a
June 1, 2019 - June 29, 2019	22,480	139.73	—	n/a
Total	<u>76,274</u>	134.45	<u>—</u>	n/a

⁽¹⁾ 76,274 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan. These purchases were not made pursuant to a publicly announced repurchase plan or program.

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

ITEM 5. Other Items

None.

ITEM 6. Exhibits

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	Equity Purchase Agreement, dated as of May 3, 2019, among The Walt Disney Company, Fox Cable Networks, LLC and Diamond Sports Group, LLC. *	Exhibit 2.1 to the Current Report on Form 8-K of the Company filed May 3, 2019
10.1	Form of Assignment and Assumption of Indemnification Agreement for certain officers and directors	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 June 29, 2019 formatted in Inline Extensible Business Reporting Language (iXBRL): (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 Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

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

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

August 6, 2019
Burbank, California

Assignment and Assumption of Indemnification Agreement

AGREEMENT, effective as of , among The Walt Disney Company, a Delaware corporation (“TWDC”), TWDC Enterprises 18 Corp, a Delaware corporation (formerly known as The Walt Disney Company) (“Old Disney”) and (the “Indemnatee”).

WHEREAS, Old Disney and Indemnatee are parties to that certain Indemnification Agreement dated as of (the “Indemnification Agreement”);

WHEREAS, in connection with the acquisition of Twenty-First Century Fox, Inc. and certain of its subsidiaries (the “21CF Acquisition”), Old Disney became a wholly owned subsidiary of TWDC;

WHEREAS, following the 21CF Acquisition, Indemnatee is a director and/or officer of TWDC;

WHEREAS, the Indemnification Agreement contemplates it will be assigned and assumed by a successor to Old Disney under certain circumstances;

WHEREAS, the parties hereto desire to cause the rights and obligations of Old Disney pursuant to the Indemnification Agreement to be assigned to TWDC; and

WHEREAS, the parties hereto desire to confirm that the 21CF Acquisition did not constitute an occurrence of a “Change in Control” or “Potential Change in Control” (each as defined in the Indemnification Agreement) pursuant to the Indemnification Agreement.

NOW, THEREFORE, in consideration of the premises and of Indemnatee continuing to provide services to TWDC directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. *Assignment.* Old Disney hereby assigns, and TWDC hereby assumes, Old Disney’s rights and obligations pursuant to the Indemnification Agreement. TWDC agrees to perform the Indemnification Agreement in the same manner and to the same extent that Old Disney would have been required to perform the Indemnification Agreement if such assignment had not taken place.

2. *No Change in Control.* The parties hereto hereby acknowledge and agree that no Change in Control or Potential Change in Control occurred in connection with the 21CF Acquisition and the transactions related thereto.

3. *Amendments, Etc.* No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

4. *Binding Effect, Etc.* This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of TWDC, spouses, heirs, and personal and legal representatives.

5. *Severability.* The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, which is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

6. *Governing Law.* This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the date first set forth above.

THE WALT DISNEY COMPANY

By: _____

TWDC ENTERPRISES 18 CORP.

By: _____

[Indemnitee name]

**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: August 6, 2019

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: August 6, 2019

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 June 29, 2019 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
August 6, 2019

* 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 June 29, 2019 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
August 6, 2019

* 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.