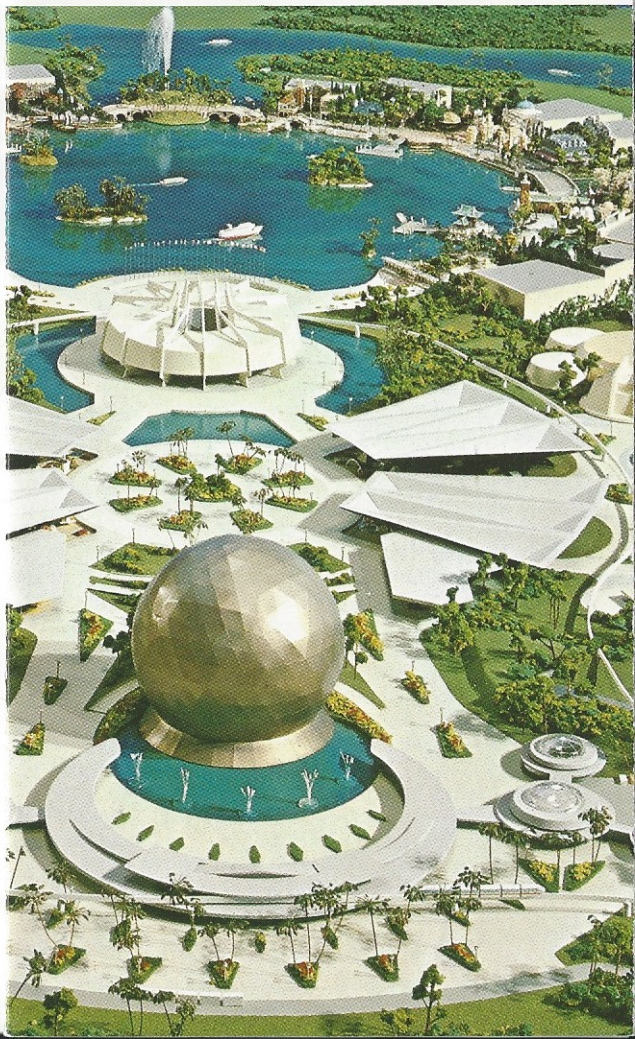


Walt Disney Productions

Quarterly
Report

THREE MONTHS DECEMBER 31, 1978



To our shareholders, employees and associates:

We are very pleased to report record revenues and net income for our first fiscal quarter.

For the period ended December 31, 1978, total revenues of Walt Disney Productions increased 13% to \$154,672,000, while net income advanced 35% to \$18,007,000.

Worldwide film rentals, including television, were \$26,543,000 as compared to \$26,896,000 in the prior year. Operating income for motion pictures increased 3% over the prior period.

The highlight of our film distribution program continued to be the outstanding success of "Herbie Goes to Monte Carlo" and "The Rescuers" in the foreign marketplace. As we previously reported, "The Rescuers" has become our all-time record grossing picture, which should produce worldwide revenues of approximately \$45,000,000 in its first release.

"Pinocchio," which was the Company's 1978 Christmas release, is expected to achieve domestic film rentals of approximately \$8,000,000 in its fifth reissue since the original release in 1940.

Revenues from entertainment and recreational activities increased 18% with both Walt Disney World and Disneyland experiencing gains. Operating income for entertainment and recreation increased 43% over the preceding first quarter.

Total attendance at Walt Disney World for the first quarter was 2,473,000, an increase of 4.7% over the prior year.

Disneyland had total attendance of 1,989,000

which was 4.9% ahead of the previous year.

The Consumer Products Division increased both revenues and operating income over the prior year's first quarter by 11% and 12%, respectively.

Interest income received by the Company on investments increased 125% over the prior year to \$5,770,000.

As outlined in the annual report, our main thrust and efforts are being concentrated on the planning and marketing of EPCOT. We are making excellent progress in this regard.

We are continuing to make progress in the negotiations of the final definitive agreement for our Tokyo Disneyland project and do not intend to move forward until the agreement is finalized.

We are optimistic as to the progress of our major projects as well as the prospects for the Company's business during the remainder of the year.

Respectfully submitted,



*Card Walker
President and Chief Executive Officer*

*Burbank, California
January 12, 1979*

WALT DISNEY PRODUCTIONS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited) In Thousands of Dollars

	Three Months Ended December 31	
	1978	1977
REVENUES		
Entertainment and recreation	\$106,327	\$ 90,490
Motion pictures	26,543	26,896
Consumer products and other	21,802	19,720
Total revenues	<u>154,672</u>	<u>137,106</u>
COSTS AND EXPENSES OF OPERATIONS		
Entertainment and recreation	91,694	80,275
Motion pictures	18,439	18,999
Consumer products and other	11,106	10,193
Total costs and expenses of operations	<u>121,239</u>	<u>109,467</u>
OPERATING INCOME BEFORE CORPORATE EXPENSES		
Entertainment and recreation	14,633	10,215
Motion pictures	8,104	7,897
Consumer products and other	10,696	9,527
Total operating income before corporate expenses	<u>33,433</u>	<u>27,639</u>
CORPORATE EXPENSES		
General and administrative	4,635	4,154
Design projects abandoned	461	299
Interest income—net	(5,770)	(2,567)
Total corporate expenses	<u>(674)</u>	<u>1,886</u>
INCOME BEFORE TAXES ON INCOME	34,107	25,753
Taxes on income	<u>16,100</u>	<u>12,400</u>
NET INCOME	<u>\$ 18,007</u>	<u>\$ 13,353</u>
EARNINGS		
Per common and common equivalent share	\$.56	\$.41
Average number of common and common equivalent shares outstanding	32,416	32,380

CONSOLIDATED BALANCE SHEET

(Unaudited) In Thousands of Dollars

December 31

1978

1977

ASSETS

CURRENT ASSETS

Cash	\$ 13,844	\$ 7,879
Short term investments, at cost		
which approximates market	253,546	161,014
Accounts receivable	29,723	25,424
Inventories—Film production costs	30,846	48,906
— Merchandise, materials and supplies	43,967	35,535
Prepaid expenses	<u>16,881</u>	<u>18,358</u>
Total current assets	388,807	297,116

FILM PRODUCTION COSTS—NON-CURRENT	48,490	31,151
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PROPERTY, PLANT AND EQUIPMENT, at cost

Land	16,888	16,888
Entertainment attractions, buildings and equipment	855,498	823,881
Construction and design projects in progress	<u>47,103</u>	<u>38,384</u>
	919,489	879,153
Less accumulated depreciation	<u>(282,658)</u>	<u>(247,079)</u>

OTHER ASSETS	15,807	14,563
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	<u>\$1,089,935</u>	<u>\$974,904</u>
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LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Accounts payable, payroll and other accrued liabilities	\$ 64,866	\$ 52,397
Taxes on income	<u>40,468</u>	<u>31,494</u>
Total current liabilities	105,334	83,891

LONG TERM LIABILITIES AND NON-CURRENT ADVANCES	11,296	10,967
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DEFERRED TAXES ON INCOME AND

INVESTMENT CREDITS	97,639	97,769
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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY

Common shares, no par	534,619	532,662
Retained earnings	<u>341,047</u>	<u>249,615</u>
	875,666	782,277

	<u>\$1,089,935</u>	<u>\$974,904</u>
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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited) In Thousands of Dollars

*Three Months Ended
December 31*

1978 1977

FINANCIAL RESOURCES WERE PROVIDED BY:

Operations

Net income	\$18,007	\$13,353
Expenses not affecting working capital		
Depreciation	7,089	7,014
Amortization of prepaid pension costs	181	125
Amortization of film production costs, non-current	1,160	1,869
Deferred taxes on income and investment credits	800	1,729
Working capital provided from operations	27,237	24,090
Increase in long term liabilities	483	451
Proceeds from exercise of stock options and tax benefits	295	255
	<u>28,015</u>	<u>24,796</u>

FINANCIAL RESOURCES WERE USED FOR:

Additions to property, plant and equipment	10,035	9,148
Additions to non-current film production costs	11,623	6,257
Transfers to current film production costs	(2,795)	(5,190)
Decrease in long term liabilities and non-current advances	580	265
Cash dividends	3,871	2,537
Prepaid pension funding	1,975	1,535
Other	27	465
	<u>25,316</u>	<u>15,017</u>

INCREASE IN WORKING CAPITAL	\$ <u>2,699</u>	\$ <u>9,779</u>
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**INCREASE (DECREASE) IN COMPONENTS OF
WORKING CAPITAL:**

Cash	\$ 4,526	\$ (2,865)
Short term investments	(24,735)	(3,120)
Accounts receivable	3,015	2,592
Inventories	2,956	2,067
Prepaid expenses	8,597	8,548
Accounts payable, payroll and other accrued liabilities	193	(1,506)
Taxes on income	8,147	4,063
	<u>\$ 2,699</u>	<u>\$ 9,779</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

The following information is presented to assist in an understanding and evaluation of material periodic changes in the various items on the Consolidated Statement of Income. The Company's business is materially affected by seasonal factors and interim results are therefore only comparable if similar quarters are reviewed. Summer, spring vacation, Easter, Christmas and holiday periods represent the largest portion of the Company's theatrical film, entertainment and recreation business. The quarter ended December 31, 1978 (referred to below as "the December 1978 Quarter") is compared to the quarters ended December 31, 1977 ("the December 1977 Quarter") and September 30, 1978 ("the September 1978 Quarter"). As to the comparison between the current quarter and the immediately preceding quarter only those unusual items not attributable to the seasonality of the Company's business, as mentioned above, are noted in the discussion.

Entertainment and Recreation

Revenues and Operating Income (Before Corporate Expenses) increased in the December 1978 Quarter over the December 1977 Quarter due to increased attendance and per capita spending at both Disneyland and Walt Disney World, increased occupancy and per capita spending at the resort hotels at Walt Disney World and increased business at Lake Buena Vista Communities and the Walt Disney World Village. Theme park per capita spending was influenced by admission media price increases averaging six percent at Walt Disney World in June 1978. Costs and expenses (of operations) increased in the December 1978 Quarter over the December 1977 Quarter due primarily to increases in labor costs and costs of goods sold. Labor cost increases are attributable to both higher union rates and the number of man-hours worked. The gross profit margin for food and merchandise combined is virtually unchanged. The overall operating margin improved for the December 1978 Quarter over the December 1977 Quarter.

Motion Pictures

Revenues and Operating Income for the December 1978 Quarter are virtually the same as they were for the December 1977 Quarter. Foreign theatrical revenues have improved due to the continued success of both "The Rescuers" and "Herbie Goes to Monte Carlo" while domestic theatrical revenues are lower as a result of the success of "Pete's Dragon" a year earlier compared to "Pinocchio" and "The

Small One," which were released during the current Christmas season. Costs and expenses are lower due to a decrease in amortization of film negative costs, even though during the December 1978 Quarter the Company has written down the cost of "The Small One," an animated featurette, to its expected net realizable value.

Consumer Products and Other

Revenues and Operating Income for the December 1978 Quarter have improved over the December 1977 Quarter due to the continued success of the Company's licensing activities in character merchandising and publications throughout the world. The educational media division showed little change during the same period while the records and music publishing division decreased slightly. The overall operating margin for consumer products improved in the December 1978 Quarter over both the December 1977 and September 1978 Quarters.

General and Administrative Expense

Corporate general and administrative expense, representing those functions and services not allocable to costs and expenses of operations, has not significantly changed in the December 1978 Quarter as compared to the December 1977 and September 1978 Quarters. The Company has experienced the normal cost increases in labor, services and certain other corporate expenses.

Design Projects Abandoned

At the completion of each fiscal quarter, management evaluates projects in the concept and design stages which have been in progress for varying periods of time. Those which are determined to have no immediate foreseeable use are abandoned.

Interest Income—Net

The Company has realized interest income (after interest expense amounting to less than 5% of such interest income) from short-term investments during the quarters under review, such income being dependent upon variances in interest rates and the amount of such investments.

Taxes On Income

The tax provision was calculated at 47% and 48% for the December 1978 and December 1977 Quarters, respectively. The lower rate in the current period reflects a reduction in the corporate federal income tax rate as provided for in the Revenue Act of 1978. The effective income tax rate for Fiscal Year 1978 was 48.1%.