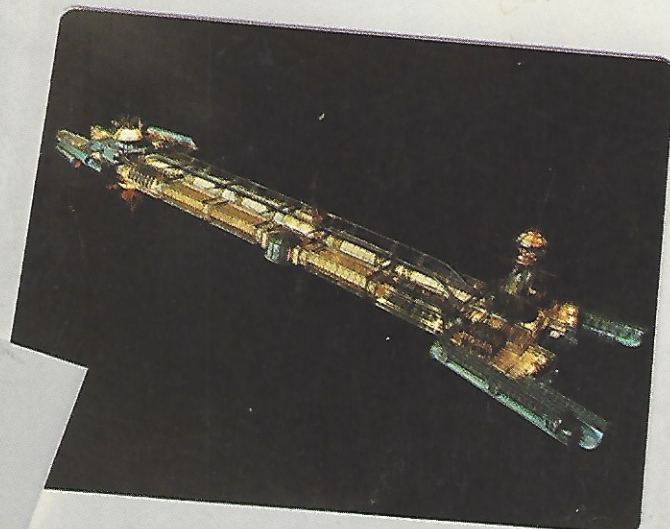


Walt Disney Productions Annual Report 1978



ICC WORLD CONGRESS: Card Walker reviews Disney plans for EPCOT Center with President Jimmy Carter at Walt Disney World.



SPECIAL REPORT

On October 2, 1978, Card Walker, President and Chief Executive Officer of Walt Disney Productions, announced the Company's decision to move forward with the EPCOT Center project. We were particularly proud to be able to make this announcement before the 26th World Congress of the International Chamber of Commerce meeting at Walt Disney World. For, the ICC is perhaps the most august business organization in the world and, until this year, had never assembled outside the capital city of a host nation. The more than 2500 international business and political leaders attending, including President Jimmy Carter, showed great interest and enthusiasm for EPCOT Center which was announced with the following remarks:

"We are proud that you have chosen Walt Disney World for the site of the 26th World Congress addressing the theme: "Enterprise, freedom and the future." For, in many ways, those three words crystallize the principles upon which our company has been founded. I can assure you that we stand with the optimists on all three of these subjects.

It is our belief that the private enterprise system and individual freedom are keys which can open a positive and exciting future for the world.

This is why it gives me such great pleasure to announce to this gathering that with the support of corporation and government interests around the world, we are about to take a major new step in the realization of Walt Disney's greatest dream.

More than a dozen years ago, Walt Disney outlined his belief that the critical problems facing the world can and will be solved by creative people who are both dreamers and doers ...people in universities, government, business and industry. Even then, he was convinced that solutions to many of our problems already existed and that every day others were emerging from the world's creative centers. He believed that if these ideas could be communicated to people in ways they understand and believe, the decisions they make for tomorrow would provide all of us a better world.

Walt Disney dreamed of a showplace for the concepts of tomorrow that would never be completed. But always introducing, testing and demonstrating new ideas, new materials and new systems. A center for the communication of new concepts that would always be in a state of becoming...giving voice to an optimistic future and confidence in the ingenuity and imagination of free, enterprising men and women. He called his dream EPCOT—Experimental Prototype Community Of Tomorrow.

For more than seven years that dream has been taking shape here on our 43-square mile property in Florida. Since its opening in 1971, Walt Disney World has become an important showplace for new concepts, introducing and demonstrating scores of innovative systems and technologies—including new energy systems, advanced central computer systems, electric-powered transportation systems, trash disposal and water control systems, electronic telephone systems and many more. And, as Walt Disney dreamed, this showplace for the concepts of tomorrow continues to be in a state of becoming.

Today, with enormous enthusiasm and excitement we are announcing that EPCOT Center—a vast new project for public interface with the concepts of tomorrow—will open October 1, 1982. This new project will be located just two miles from the Contemporary Resort Hotel and will be linked to the present Vacation Kingdom by Monorail.

At a cost approximating one-half billion dollars, EPCOT Center will consist of two major themed areas: Future World and The World Showcase. The first of these will dramatize the history and future challenges of the critical problems facing us today—providing a public window onto the worlds of energy, transportation, the land, the seas, space, life and health and other subjects. Future World will also include a “global marketplace of new ideas” which we shall call Future World Mall.

In this communications core of EPCOT Center, industry and the public will participate in a “hands on” exchange of new and exciting systems, products and technologies.

The World Showcase will be a “community of nations,” the only permanent international exposition of its kind anywhere, focusing on the culture, traditions, tourism and accomplishments of people around the world. A model for true people-to-people exchange, The World Showcase will offer participating nations an opportunity to send their outstanding young adults to operate the attractions, shops, restaurants, and exhibits of their pavilion. And these young people who will work, play and learn together for a period of up to one year will help to generate international understanding.

Both Future World and The World Showcase will also include major introductory theme shows. At the entrance to EPCOT Center, Spaceship Earth will introduce the EPCOT concept and invite guests to explore the many pavilions of Future World. Acting as a gateway and host to the nations of The World Showcase, The American Adventure will present the remarkable history of the American people.

From the beginning we have known that a project of this magnitude could not and should not move forward on the creative or financial strength of any one organization. And I am pleased to tell you today that EPCOT Center has already received an exciting response and considerable support from American as well as international interests.

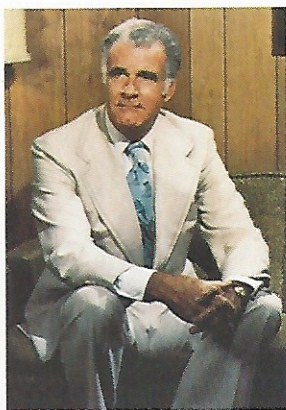
As of now, Walt Disney Productions has received letters of intent or contracts from four of the world's largest corporations for participation in EPCOT Center's Future World. General Motors will present transportation, Exxon will present energy, Kraft will present the land. In addition, a major show is being designed for presentation by American Telephone and Telegraph.

We have also received letters of intent from business or government interests in ten nations for participation in the first phase of The World Showcase—including the United Mexican States, Japan, The Federal Republic of Germany, The Kingdom of Morocco, Canada, The State of Israel, The United Kingdom, The French Republic, United Arab Emirates, and The Italian Republic. And in the months to come we anticipate substantial additional support both for this and the planned second phase of EPCOT Center.

Ladies and gentlemen, we believe this new project can have importance to the international business community. We believe EPCOT Center can be a landmark in the promotion of private enterprise, individual freedom and international cooperation. For this reason we are eager to give you an opportunity to preview EPCOT Center as our first public audience. I would like to extend a special invitation to every one of you to explore, at your convenience, our plans and concepts for this new project.”

Transcript of Remarks by Card Walker
Before the International Chamber of Commerce
October 2, 1978

**To our
shareholders,
employees,
and associates:**



As our special report indicates, we have now undertaken the greatest project in the history of Walt Disney Productions. There could be no better finishing touch to Mickey Mouse's 50th birthday year and fiscal 1978. For, the full measure of our success this year is perhaps best reflected in the business confidence and financial foundation it has provided for our decision to proceed with EPCOT Center.

For our fiscal year ended September 30, 1978, we completed our eleventh consecutive year of record revenues and net income. Revenues for the year increased 18% to \$741,143,000, while net income increased 20% to \$98,385,000 or \$3.04 per share.

The Board of Directors, at its meeting on November 29, 1978, increased the indicated annual dividend to 48¢ per share from the 32¢ per share paid during fiscal year 1978, an increase of 50% over the prior year. This is the third increase in the cash dividend in the past 3 years.

During 1978, the Disney theme parks demonstrated a remarkable vitality, with both Disneyland and Walt Disney World establishing new all-time attendance records. Disneyland, which is approaching its 25th birthday in 1980, reconfirmed its continuing growth potential by turning in a second straight record year. Walt Disney World, already the most popular destination resort in the world, once again surpassed even our own expectations, breaking the 14 million mark in total guest attendance.

We are also able to report a new all-time high for our motion picture business. In fact, new records were achieved in both domestic and foreign film rentals.

The domestic reissue of "The Jungle Book" in June of 1978 proved extremely strong. And the Company's other two summer releases, "Hot Lead and Cold Feet" and "The Cat From Outer Space," also achieved good results, helping to establish 1978 as our best year in history for domestic film rentals.

However, even these outstanding performances were overshadowed by what has now become a truly astounding foreign achievement from our newest animated feature film, "The Rescuers." In worldwide first release rentals, "The Rescuers" is now the Disney box office champion, having passed even the \$45 million record of "Mary Poppins." "Herbie Goes to Monte Carlo," our second sequel to the highly successful "Love Bug,"

was another major contributor to our record year in foreign film business.

At the same time virtually every one of the ancillary activities within our Consumer Products Division achieved record results.

The passage by Congress this year of the Sawtooth National Recreation Bill, an omnibus parks measure, has officially added the Mineral King Valley to Sequoia National Park. This action brings to an end our proposed Mineral King project.

The status of our Independence Lake project remains the same as reported in the Company's third quarter report. Although the Company has extended complete cooperation to both the Forest Service and the agencies of the State of California which are involved, we have not received the requested assurances of a positive, responsive, and responsible attitude and action plan for the project. Our desire to provide America's most populous state with high-quality year-round recreational opportunities has not diminished, but we are frankly still discouraged at the prospects of achieving this objective.

In line with our policy of constantly enhancing our business opportunities, we have this year, for the first time, made a limited number of non-classic feature films available to the cable television industry. We will, of course, continue to evaluate the place for cable television in our future before launching into any extensive activity in this area.

We are currently negotiating a final definitive agreement for the Tokyo Disneyland Project. Though we remain optimistic that these negotiations will be concluded by the end of the year, we do not intend to move forward with the project until the agreement is finalized.

As regards 1979 and the future, our solid financial position, the success of the past year and the enthusiastic support our EPCOT Center project has received from business and government interests around the world make us optimistic. Despite our country's somewhat troubled economy, which we will, of course, continue to closely monitor as it affects our business, we are confident that Walt Disney Productions faces the brightest future in its history.

A year ago we noted that our Company stood on another new threshold, ready to raise the curtain on a new generation of Disney entertainment. As you review this annual report of 1978, you will see that this new generation has now come of age, taking center stage in this year's success as well as our plans for the future.

Card Walker
President and Chief Executive Officer

November 29, 1978



FIREWORKS SPECTACULAR: A brilliant finale for the 26th World Congress of the International Chamber of Commerce staged in the skies above Walt Disney World.



LAKE BUENA VISTA: 64 new cluster homes were designed to blend with the natural beauty of the surroundings.

Walt Disney World

1978 was a landmark year at Walt Disney World, in attendance and revenues as well as operational aspects.

In fiscal 1978 the Magic Kingdom theme park established a new all-time attendance record of 14,071,000, up 7.8% over the prior year. Total revenues at Walt Disney World for the year ending September 30, 1978 increased 15% to \$345,638,000.

During the same period the Vacation Kingdom's three resort hotels—the Contemporary, Polynesian Village and Golf Resort—Fort Wilderness Campgrounds and the variety of Disney accommodations in Lake Buena Vista, all operated at virtually full occupancy. This included the 144-room addition at the Polynesian Village and 64 new cluster homes in Lake Buena Vista, both of which opened at mid-summer.

In addition, the record year in Florida was reflected in substantially improved operations for Walt Disney World Village in Lake Buena Vista. This improved picture is also being impacted by our continuing efforts to expand the entertainment opportunities available to our Lake Buena Vista guests and visitors. This includes an on-going re-evaluation and modification of the shopping and dining experience we offer at the Village and the presentation of art shows, boat shows, Halloween parades, the annual Christmas pageant and other activities.

The year-long celebration of Mickey Mouse's 50th birthday highlighted the year's schedule of entertainment, with a special daily parade and salute to Mickey and a weekend party on November 18 and 19 featuring top-name stars and other birthday activities.

The most important event of 1978, however, occurred at fiscal year's end when the 26th World Congress of the International Chamber of Commerce convened at the Contemporary Resort Hotel. This prestigious gathering introduced more than 2500 of the world's top business and political leaders to the vast entertainment and recreational facilities available at our Florida property as well as providing an excellent platform for our announcement of the EPCOT Center project. We believe this meeting will prove extremely valuable as regards both the realization of EPCOT Center and the future success of Walt Disney World.

Gross Revenues

	1978	1977*	1976*	1975*	1974*
Admissions and rides	\$114,687,000	\$100,792,000	\$ 93,367,000	\$ 80,456,000	\$ 64,686,000
Merchandise sales	86,860,000	72,906,000	64,492,000	54,460,000	42,174,000
Food sales	84,319,000	73,245,000	67,279,000	57,120,000	44,568,000
Lodging	44,972,000	39,902,000	36,107,000	31,712,000	27,360,000
Participant and other rentals ..	9,574,000	9,220,000	10,342,000	8,998,000	6,168,000
Other	5,226,000	4,453,000	3,799,000	3,588,000	1,907,000
Total revenues	\$345,638,000	\$300,518,000	\$275,386,000	\$236,334,000	\$186,863,000
Total theme park attendance ..	14,071,000	13,057,000	13,107,000	12,515,000	10,834,000

*Reclassified for comparative purposes and to comply with reporting for business segment requirements adopted in 1978.

Walt Disney World

Phase 2:

EPCOT CENTER

On October 2, 1978, immediately following Card Walker's announcement of our decision to proceed with EPCOT Center, Florida Governor Reubin Askew spoke before a gathering of business and political leaders from Central Florida. In part, he said:

"... We have every right to be pleased from a tremendous sense of pride in the accomplishments and quality of service that this great organization furnishes. But more than that we're going to have an opportunity to furnish a forum hopefully to try to make this earth a better place in which to live. And that's why I've been enthused. That's why I say that this isn't just another undertaking of a private corporation. This is a stimulation and a re-commitment to the entire system of private enterprise—without which whatever economy we may have in the industrialized West couldn't be what it is today."

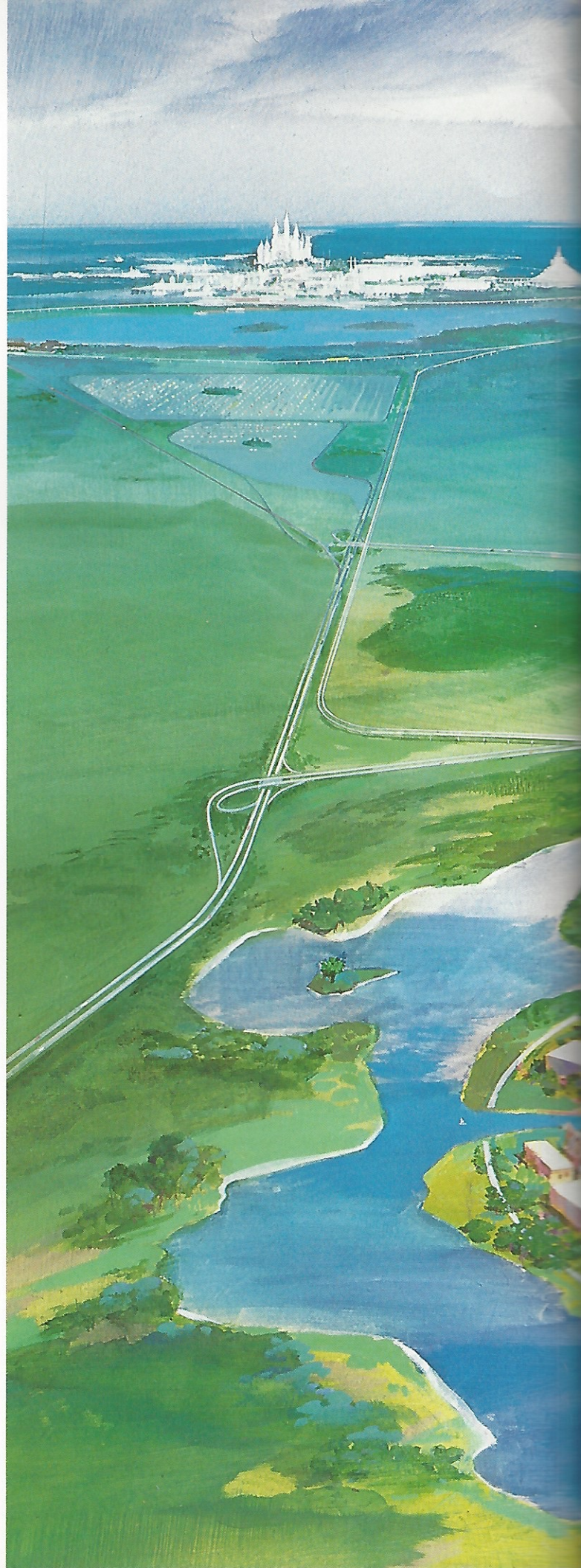
This and the numerous other indications of support we have received from around the world have established a bright beginning for the second phase of Walt Disney World.

As pointed out in the president's special report, we have already received letters of intent or contracts from four of the world's largest corporations for participation in EPCOT Center's Future World: General Motors; Exxon, USA; Kraft Inc.; and American Telephone and Telegraph and as of now, the following foreign companies and nations in the World Showcase:

adidas—Adi Dassler KG
Alfredo, the Original of Rome
Associated Biscuits Ltd.
Bass Export Ltd.
Brauerei Beck & Co.
British Airways
British Railways
Canada
Canshow, Inc.
Cartier
Dunbee-Combex-Marx Ltd.
Federal Republic of Germany
French Republic
Goebel Art GmbH
Guinness Overseas Ltd.
Heraldic Promotions
Hutschenreuther AG
Italian Republic

Japan
Japan Air Lines Co. Ltd.
Kingdom of Morocco
Librairie Hachette
E. Leitz Inc.
K. Mikimoto & Co. Ltd.
Mitsukoshi Ltd.
Noritake Co., Inc.
Penicault Group
Royal Doulton Tableware Ltd.
St. Ursula Weingut und
Weinkellerei GmbH
Seiko Time Corp.
Selfridges Ltd.
State of Israel
United Kingdom
United Arab Emirates
United Mexican States

Based upon this excellent reception and our own strong confidence in the project, we are proud to present the following summary and graphic overview of our most current plans for EPCOT Center and its two major themed areas: Future World and the World Showcase.



EPCOT Center

Location: EPCOT Center will be located approximately 2 miles southeast of the Contemporary Resort Hotel in the heart of the 27,400 acre Walt Disney World site, 20 miles from Orlando, Florida.

Size: The project will cover approximately 600 acres including guest parking and service and support facilities, with provisions for future expansion through a unique expanding circle concept.

Cost: Although still an estimate, the cost of EPCOT Center's initial phase will approximate \$500 million and increase total investment in Walt Disney World to well over \$1 billion.

Admission: One admission media will become a passport to all pavilions and adventures in EPCOT Center.

Attendance: In its first year of operation it is estimated that the new project will host 8—10 million guests from around the world.

Construction Schedule: The opening of EPCOT Center is set for October 1, 1982. Site work will begin in 1979 and major construction in early 1980.





Boyle

EPCOT CENTER

Future World

Future World will pose the challenges and preview the alternatives for the "Community of the Future." A forum for private enterprise, it introduces a new generation of Disney entertainment—as different from Disneyland and the Magic Kingdom of Walt Disney World as those American landmarks are from the original concept of an amusement park. The Future World presentations will be larger in scope and more sophisticated than any show in the history of Disney Imagineering, offering a unique new blend of entertainment and education. The principal components of Future World as outlined in last year's report will include:

Spaceship Earth: Inside this spectacular dome which dominates the entrance to EPCOT Center, Disney "Imagineers" have created an exciting "time machine" theatrical experience to introduce the concept and meaning of EPCOT.

Future World Mall: Serving as a marketplace for new ideas, systems and technologies this "Mainstreet of Tomorrow" will give the public a "hands on" opportunity to sample future concepts and products.

Energy: Presented by Exxon, USA, the Energy Pavilion will portray the major choices we must consider today... racing against the clock in a search for new energy and finally harvesting tomorrow's vast new sources for "The Future World of Energy."

Transportation: Presented by General Motors, the Transportation Pavilion illustrates how we have progressed through time in direct relation to our "freedom of mobility," simulating many of today's modes of transportation and previewing a variety of future transportation concepts.

The Land: Presented by Kraft Inc., the Land Pavilion will feature a variety of shows and attractions dramatizing the challenges in the important areas of nutrition, food production and the wise harvest of the land, focusing on the earth as a garden to be cultivated for its own and humankind's most beneficial use.

The Seas: Through an exciting ride-attraction, including an authentic ocean environment with marine life and an undersea restaurant, this pavilion will give guests a greater understanding of our relationship with the seas and the need for harmony between humankind and the vast world of water around us.

Life & Health: In theatrical and participatory experiences, visitors to the Life & Health Pavilion will gain a new awareness and appreciation of themselves, learning that good health is based, more than anything else, on their own responsibility and behavior.

Space: The passengers of this huge interstellar "Space Vehicle" will be transported to the edge of the universe in a journey that highlights our efforts to reach the stars, and the challenges and possibilities of future space technology and exploration.

The American Adventure: Serving as the gateway and host to the nations of the World Showcase, this cross-roads pavilion of EPCOT Center will trace the story of the American people from the first step onto Plymouth Rock to the first step onto the moon.

During this year preceding our decision to move forward with EPCOT Center, the artists, designers, architects and other "Imagineers" at WED Enterprises have continued to develop and refine our concepts for Future World. We are pleased to tell you that they have made substantial progress on all of the planned pavilions. As part of this "work in progress" they have created several new and extremely exciting entertainment/communications techniques including new advances in our Audio-Animatronics process which promise the most life-like figures we have ever presented. In addition, we are working on a new concept for possible three-dimensional film projection, an exciting new variation of our exclusive CircleVision 360 process, new theatre-environments, and innovative new ways to move people.

At the same time, "imagineering" teams from WED are continuing to interface with creative research and development centers around the world to bring the greatest amount of expertise possible to bear on each subject covered by the EPCOT Center pavilions and Future World Mall.



The World Showcase

The World Showcase will provide guests an opportunity to experience the endless variety of today's "Community of Nations," promoting better international understanding. Visitors here will discover the culture, traditions, tourism and accomplishments of the participating countries through a wide variety of exciting shows and attractions, restaurants and shopping streets unique to the individual nations. In this true people-to-people concept, sponsoring nations will stand side by side in friendship along the banks of a broad lagoon and will be invited to send their country's outstanding young adults to operate their pavilions. The current preliminary design concepts for the participants in the first phase of World Showcase include:

Japan Pavilion: A traditional wooden archway marks the entrance to this pavilion. A carousel theater show, "The Winds of Change," will be located just past a ceremonial temple bell and an ornately-decorated pagoda. The four-act show features Audio-Animatronics figures and film. A section of the Ginza, Tokyo's famous nighttime shopping and entertainment district will also be a part of the pavilion.

United Kingdom Pavilion: Green lawns, ornamental gardens, gable roofs and spires form the setting for this pavilion. An English pub and many themed shops, including the distinct beaux arts facade of Selfridges Department Store can be visited, and the iron and glass work of St. Pancras or Victoria Station can be seen. A 200-seat theater features a film tour of the United Kingdom.

French Republic Pavilion: The street life and flavor of Paris which revolve around the River Seine are captured in this pavilion. There will be a sidewalk cafe, a gourmet restaurant and shops. The street leads to Montmartre, the artists' quarter of Paris. There will be two full floors of shops featuring French perfumes, gift items and art.

Italian Republic Pavilion: The classic grace of Italy's art and architecture form the backdrop for this pavilion, with colonnades, gardens and shops. Re-creations of great Renaissance buildings can be seen from the center courtyard, as can the famous northeast tower of Naples' Nuovo Castle. Shops will feature jewelry, ceramics, porcelain, leather, basketry, marble work and glass.

Kingdom of Morocco Pavilion: The Koutoubia Minaret stands above re-creations of the rustic Hesperides Gardens and Jemaa Square. Beyond lies the labyrinth of the



Medina, where shops line the walkways. A "Magic of Morocco" dinner show will be presented in the evenings.

United Arab Emirates Pavilion: Ancient Arabic Dhows (sailing ships) and a Bedouin encampment will be featured. The tents will house a variety of Arabian art objects, both on exhibit and for sale. Cultural displays and a restaurant offering traditional Arab food will also be featured. A magic carpet ride through the Arab World's fascinating cultures will include information on early Arabic contributions in the fields of astronomy, navigation and mathematics.

United Mexican States Pavilion: The highlight of this pavilion is a water excursion whose colorful boats are themed to the famous Xochimilco Gardens. They convey guests through a dramatization of Mexico's colorful and exciting history. Shops will offer authentic handicrafts. There will also be live entertainment and a Mexican dinner theater.

State of Israel Pavilion: Olive and cypress trees line the entrance, leading to a courtyard setting with shops clustered around the perimeter. Through an archway in the court can be seen a covered amphitheater characterized after the theater at Caesarea, where Israeli musicians will perform.

Federal Republic of Germany Pavilion: German architecture highlights the pavilion filled with themed shops. There will be a cruise down Germany's most famous rivers—the Rhine, the Tauber, the Ruhr and the Isar.

Detailed miniatures of famous landmarks will also be seen, including one of the Cologne Cathedral. Also planned is an authentic beer garden. Working artists and craftsmen will demonstrate their crafts.

Canada Pavilion: Based on an outdoors theme which re-creates the majesty of the Canadian wilderness, the pavilion features a Northwest Indian village, a suspension bridge spanning a "bottomless" river gorge and a steep mountain path. Guests will also be able to visit the Chateau Frontenac Hotel in the heart of French Quebec, where the street is lined with shops filled with gift items from Canada.

All roads in the pavilion converge on Salmon Island where the rugged natural beauty of the Canadian outdoors stands alone, with waterfalls, tall pine trees, an abandoned mine tunnel and a Canadian CircleVision Theater. Also featured will be a Klondike-era frontier tavern.





PEAK ATTENDANCE: August 12, 1978 saw 69,835 guests visit Disneyland, the highest single day attendance of the year.

Disneyland

Disneyland's total attendance reached 10,807,000 during fiscal 1978, the fourth consecutive year of attendance growth and the highest total attendance figure in the Park's 23-year history.

The re-opening of the Matterhorn, which now features ice caverns, a snowstorm and the Abominable Snowman; the continued popularity of Space Mountain; the return of the Electrical Parade; and the inclusion of a new multi-media stage show, "The Magnificent Music in Motion Machine," all contributed to Disneyland's most successful summer ever.

Revenues for the fiscal year were a record-breaking \$158,274,000, up 13% from 1977.

Foreign guest attendance rose 14.8% over last year perhaps due in part to the favorable currency exchange rate. Domestically, out-of-state attendance was up 10.5%, generally due to the lower air fare rates offered by the nation's major airlines. Fiscal 1978 had the rainiest season in California in 88 years and local attendance declined slightly for the period.

Construction continued on Big Thunder Railway, with the new Frontierland attraction scheduled to open in the summer of 1979.

Mickey's 50th birthday was celebrated all year long, with a daily "Happy Birthday Mickey Mouse" parade and topped by a giant weekend birthday party on November 18 and 19, with free admission to those born in 1928, an 8-foot cake, appearances by the original and new Mouseketeers, free posters and special entertainment.

Gross Revenues

	1978	1977*	1976*	1975*	1974*
Disneyland					
Admissions and rides	\$ 70,909,000	\$ 65,913,000	\$ 57,013,000	\$ 53,360,000	\$ 48,947,000
Merchandise sales	49,312,000	39,485,000	32,862,000	27,881,000	23,061,000
Food sales	32,710,000	29,700,000	26,046,000	23,086,000	20,055,000
Participant and other rentals	4,676,000	4,784,000	5,352,000	5,487,000	5,214,000
Other	667,000	673,000	1,200,000	538,000	507,000
Total revenues	<u>\$158,274,000</u>	<u>\$140,555,000</u>	<u>\$122,473,000</u>	<u>\$110,352,000</u>	<u>\$ 97,784,000</u>
Total theme park attendance	<u>10,807,000</u>	<u>10,678,000</u>	<u>10,211,000</u>	<u>10,062,000</u>	<u>9,694,000</u>
Celebrity Sports Center and Walt Disney Travel Co.					
	<u>\$ 4,532,000</u>	<u>\$ 4,092,000</u>	<u>\$ 3,754,000</u>	<u>\$ 2,980,000</u>	<u>\$ 2,316,000</u>

*Reclassified for comparative purposes and to comply with reporting for business segment requirements adopted in 1978.



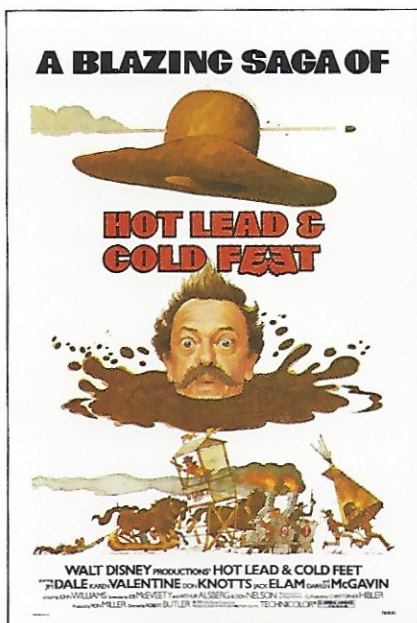
Tokyo Disneyland

Currently, a final definitive agreement with Mitsui Real Estate Development Co., Ltd. and Keisei Electric Railway Co. Ltd. to proceed with Tokyo Disneyland is being negotiated which calls for the park to open in the spring of 1982 at an initial cost of approximately \$300 million.

Located on Tokyo Bay about 8 miles from downtown Tokyo, the project is anticipated to host some ten million guests during its first full year of operation. Tokyo Disneyland, which will be similar in size and concept to Disneyland, will consist of five theme areas: Adventureland; Fantasyland; Westernland; Tomorrowland; and the World Bazaar, an area akin to Disneyland's Main Street.

We will master plan and design the project as well as provide guidance with regard to construction and operational aspects. We have agreed to invest \$2.5 million in the equity of the Japanese company which will be formed to own and operate Tokyo Disneyland. This will represent 10% of the total equity of \$25 million contemplated for the company. However, the financing requirements will be the responsibility of the Japanese interests. We will receive a royalty on the gross revenues generated from the Park on rides and admissions, food, beverages and merchandise as well as a participation in future peripheral area development.





OVERSEAS ORVILLE: H.R.H. Prince Charles meets "The Rescuers" albatross star at the East of England Show in Peterborough, England.

Motion Picture and Television Distribution

Worldwide film rentals, including television, reached a record level in fiscal 1978, increasing 29% to \$152,135,000.

Domestic theatrical revenues increased 18% to \$69,010,000, while foreign theatrical revenues climbed to \$57,912,000, up 58%.

The phenomenal success of "The Rescuers" in Germany, France and other overseas markets led the way for the Company's foreign releases. This new animated feature has now outperformed every film in Disney history, establishing a record for foreign film rentals of \$31,200,000, and displacing 1964's "Mary Poppins" as the Company's top grossing picture, with estimated film rentals of \$45,400,000 in its initial worldwide release. During 1978, "The Rescuers" became the number one all-time film in Germany as well as the first place motion picture for the year in France, with more than one million admissions in Paris alone.

In addition, our third "Herbie" film, "Herbie Goes to Monte Carlo," turned in a fine foreign performance. With estimated foreign film rentals of \$15,000,000, it is now the Company's most successful live-action foreign release.

Domestically, the Disney program of film releases included a surprising performance this summer from "Hot Lead and Cold Feet" which achieved the excellent result of \$9,900,000 in estimated film rentals. The first reissue of the animated classic, "The Jungle Book," received an enthusiastic reception from American and Canadian families, bringing estimated domestic film rentals of \$13,000,000, while the summer's other new release, "The Cat From Outer Space," also turned in a good performance.

This fall, the Company released a special Mickey Mouse Birthday Celebration Show featuring "Davy Crockett, King of the Wild Frontier" plus five Mickey Mouse cartoons.

In television, domestically, we are continuing our efforts to revitalize our Sunday night show, "The Wonderful World of Disney." This year, for the first time, we presented three made-for-TV features and in September the show began its recordbreaking 25th season, kicked off by a two-hour NBC salute, followed by a showing of the 1941 classic "Dumbo." The new year continues this energetic schedule with a 90-minute all star special "Mickey's 50" which aired on November 19, 1978 and "The Walt Disney World Christmas Special," another special which was broadcast during the holiday season.

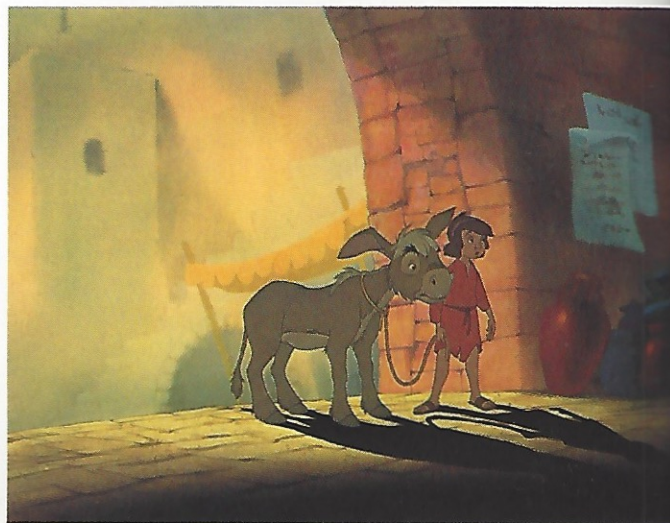
In foreign distribution, Disney television programs continue to be enjoyed by families from more than 58 countries.

Gross Revenues

	1978	1977	1976	1975	1974
Theatrical					
Domestic	\$ 69,010,000	\$ 58,723,000	\$ 60,535,000	\$ 61,224,000	\$ 48,586,000
Foreign	57,912,000	36,585,000	39,790,000	37,584,000	29,872,000
Television					
Worldwide	25,213,000	22,750,000	18,808,000	13,720,000	11,932,000
Total revenues	\$152,135,000	\$118,058,000	\$119,133,000	\$112,528,000	\$ 90,390,000

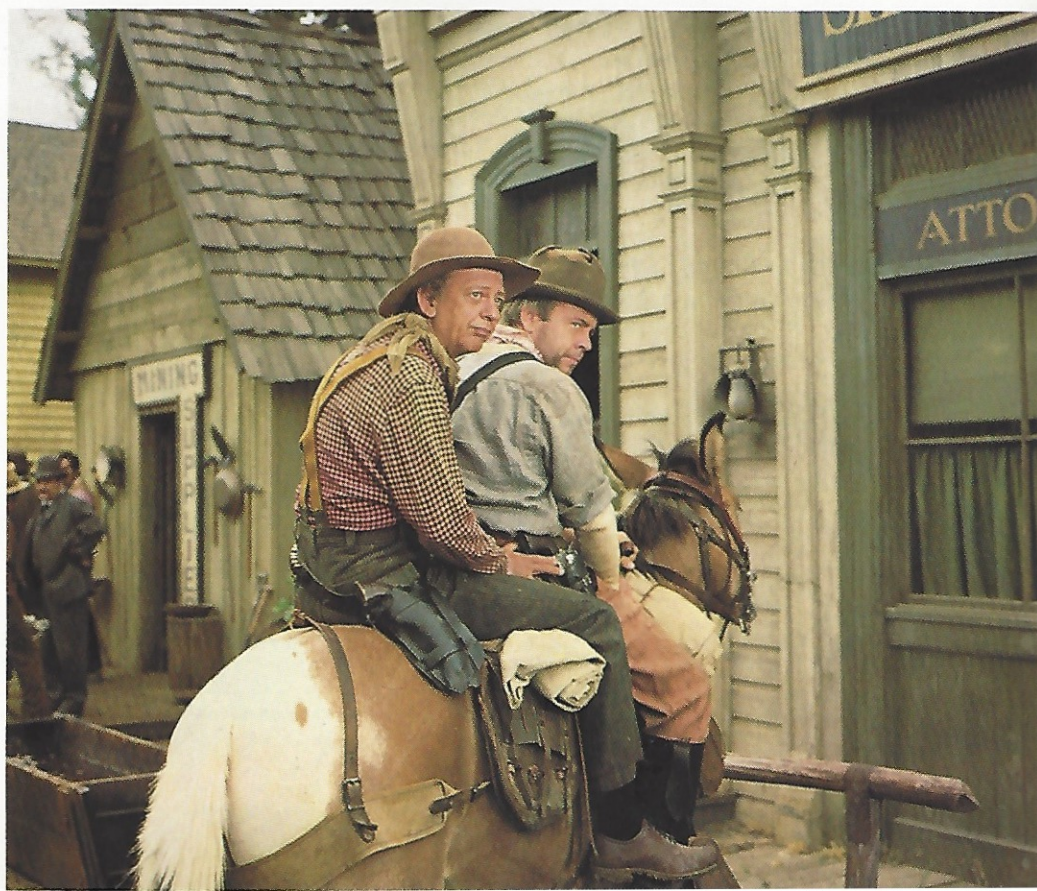
THE SMALL ONE: A new generation of animators joined forces with veteran Disney artists to produce this touching Christmas featurette.

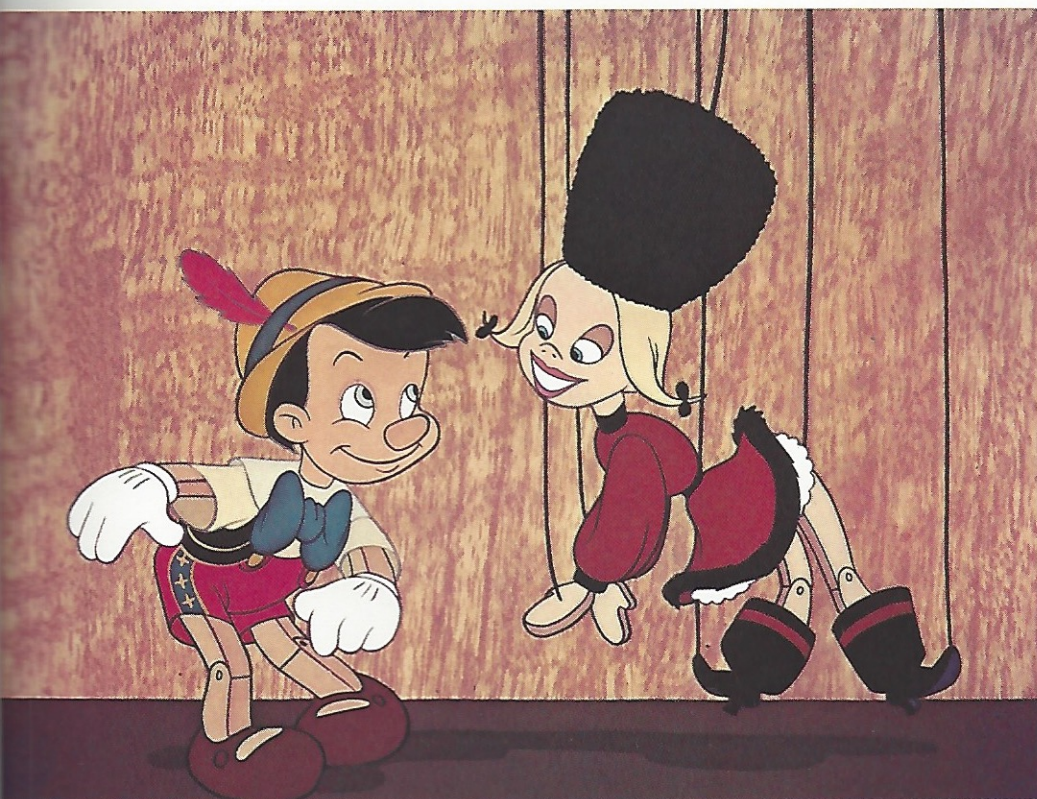
THE NORTH AVENUE IRREGULARS: A band of hilarious housewives turn "private eye" in this new comedy set for February release.



101 DALMATIANS: This ever-popular animated feature returns to screens this summer.

THE APPLE DUMPLING GANG RIDES AGAIN: A talented comedy team returns to the scene to highlight this summer's western spoof.





PINOCCHIO: A milestone in the art of animation is reissued especially for this Christmas season.

MOTION PICTURES • 1979:

A year of Disney magic, music and mirth

The classic beauty and charm of "Pinocchio," re-released at Christmas, leads the Company's extremely strong lineup of films for 1979, with several important new features debuting throughout the United States and Canada this year.

Paired with "Pinocchio" for the holiday season is "The Small One," an animated featurette that showcases the talents of a whole new generation of Disney animators. Destined to become a holiday favorite, "The Small One" is the heartwarming tale of a young boy in ancient Nazareth who must sell his beloved donkey on the eve of Christ's birth.

The remainder of the schedule for 1979 is as follows:

THE LOVE BUG: The classic comedy that first introduced a loveable Volkswagen named Herbie returns to motion picture screens once again. Dean Jones, Michele Lee, Buddy Hackett and David Tomlinson lend their considerable talents to this hilarious story of the car with a mind of its own. Bill Walsh produced and Robert Stevenson directed this January 1979 re-release.

* **NORTH AVENUE IRREGULARS:** All heaven breaks loose when the newly appointed minister of a small town clashes head-on with a major crime syndicate and organizes his female followers into a crimebusting squad. Based on a true story, the madcap comedy stars Edward Herrmann, Susan Clark, Cloris Leachman, Barbara Harris, Karen Valentine, Patsy Kelly and Virginia Capers. Ron Miller and Tom Leetch produced and Bruce Bilson directed. Release date: February 1979.

BEDKNOBS AND BROOMSTICKS: A dazzling combination of live-action and animation, this 1979 Easter re-release stars Angela Lansbury as an amateur witch determined to magically save World War II England from a foreign invasion. Joined by a bogus professor of witchcraft and three Cockney kids, she whisks off to a musical fantasyland called Naboombu. The film, with music by Oscar-winners Richard M. and Robert B. Sherman ("Mary Poppins") returns to screens for the first time since its initial release.

101 DALMATIANS: This summer's re-release is sure to capture hearts anew as the Disney animators bring to life a screenful of loveable pups and one of the Company's most memorable villains. Production design by veteran Disney artist Ken Anderson. Directing animators included Milt Kahl, Marc Davis, Ollie Johnston, Frank Thomas, John Lounsbery and Eric Larson, all part of the famed "Nine Old Men." Another member of that team, Wolfgang Reitherman, served as one of the film's directors.



LADY AND THE TRAMP: Always a favorite, this animated classic returns at Christmas, 1979.

THE APPLE DUMPLING GANG RIDES AGAIN: Tim Conway and Don Knotts reprise their roles as the two bumbling outlaws of 1975's hit comedy, "The Apple Dumpling Gang." This time out they bungle a bank job, join the Army and destroy an entire fort before riding off into the sunset. The top-notch cast also stars Tim Matheson, Elyssa Davalos, Jack Elam, Harry Morgan, Kenneth Mars and Ruth Buzzi. The summer release was produced by Ron Miller and Tom Leetch and directed by Vince McEveety.

THE SPACEMAN AND KING ARTHUR: Filmed on location at an 11th Century castle near London, England, this innovative comedy uses a spectrum of special effects to help tell the tale of a 20th Century scientist who is transported back to the legendary days of King Arthur. Dennis Dugan stars as the scientist, with Kenneth More as the King, Jim Dale ("Pete's Dragon," "Hot Lead and Cold Feet") as an evil knight, Ron Moody as Merlin the magician, John LeMesurier as Sir Gawain and Sheila White as the lovely damsel, Alisande. Russ Mayberry directed the summer release for producer Ron Miller and associate producers Don Tait (who also wrote the script) and Hugh Attwooll.

THE HAPPIEST MILLIONAIRE: One of Disney's happiest musicals, starring Fred MacMurray, Tommy Steele, Greer Garson, Geraldine Page, Lesley Ann Warren and John Davidson, the song-filled comedy returns in its first re-release. Philadelphia, circa 1916, provides the picturesque setting for this story of an eccentric millionaire and his family. Music is by Richard M. and Robert B.

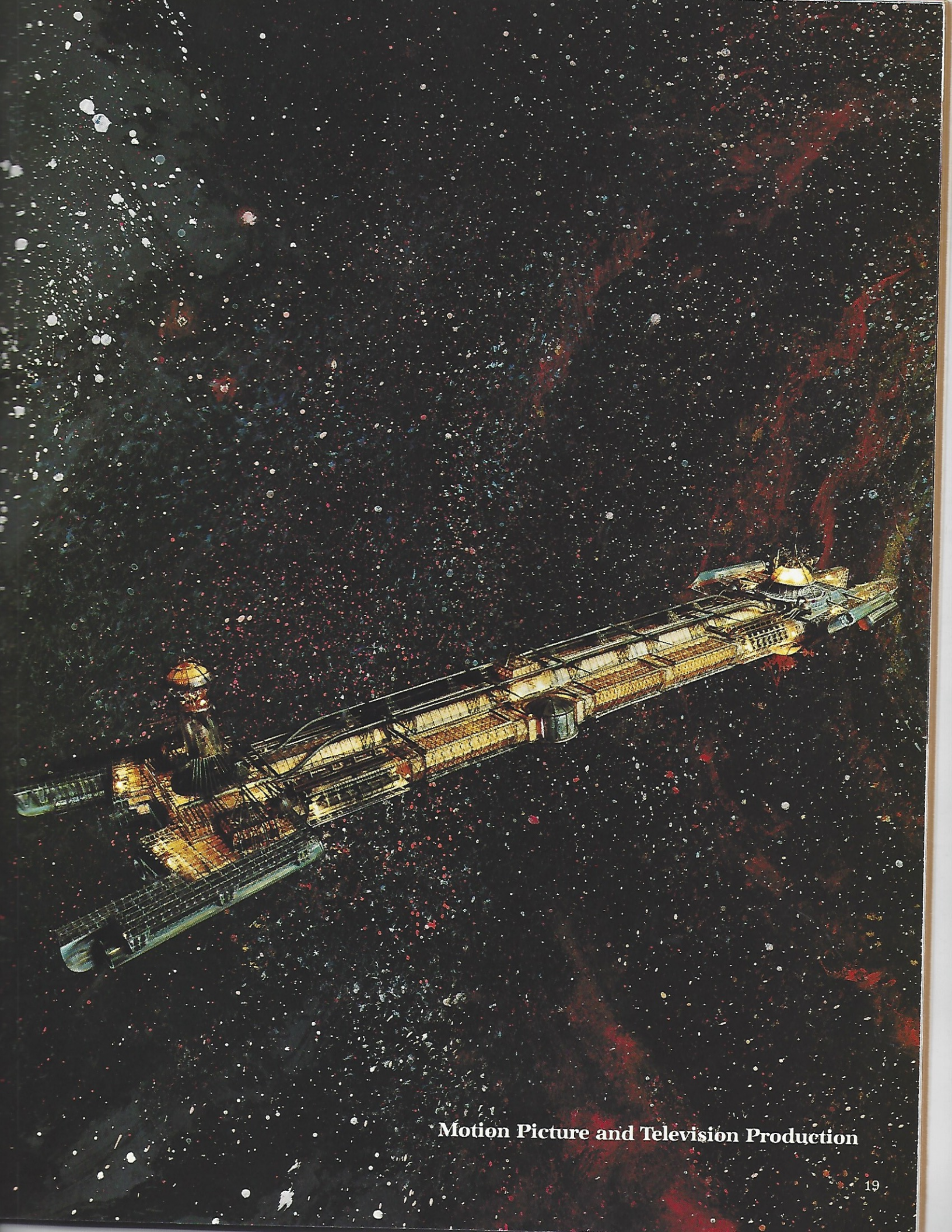


THE SPACEMAN AND KING ARTHUR: Modern-day technology meets medieval villainy with hilarious results in this summer release.

Sherman. Bill Anderson co-produced and Norman Tokar directed this fall re-release.

LADY AND THE TRAMP: Perhaps the most romantic of the Company's animated films, this touching tale of a rough-and-tumble mutt and his love for a refined "lady" spaniel features the finest of Disney animation and music by songstress Peggy Lee. The first all-cartoon feature to be made in Cinemascope, "Lady and the Tramp" is expected to be well received by audiences during its broad re-release at Christmas 1979.

THE BLACK HOLE: This enormously exciting project, which is discussed in detail later in this report, is scheduled for release on a limited basis at Christmas 1979.



Motion Picture and Television Production

THE BLAC

DRAMATIC ANNOUNCEMENT: The studio's most ambitious film production is introduced to the entertainment industry.

On October 11, 1978, we began production of the most ambitious motion picture in the history of the Disney studio, "The Black Hole." Nearly everything about this mammoth undertaking sets it apart from our efforts of the past.

"The Black Hole" has the largest budget we have ever committed to a film project, more than 17 million dollars.

All but one of the principal cast are newcomers to the Disney family, including Maximilian Schell, Anthony Perkins, Robert Forster, Joseph Bottoms and Ernest Borgnine. Yvette Mimieux, who joins this excellent team of actors, has appeared for us only once before.

Director Gary Nelson, nominated for an Emmy for ABC-TV's "Washington: Behind Closed Doors," will oversee the longest production schedule in the history of Disney live-action filming. Nearly 14 months of simultaneous and post-production filming and processing will be required.

The entire studio creative team plus a group of "Imagineers" at WED Enterprises and four Academy Award winners (Peter Ellenshaw, Production Design; Eustace Lycett and Art Cruickshank, Special Photographic Effects; and Danny Lee, Special Visual Effects) are working together to create one of the most exciting films ever made. To accomplish this, an all-new computer camera system known as ACES (Automated Camera Effects System) has been developed and, in some scenes, as many as 12 different photo processes will be on the screen at once.

Black holes are the universe's ultimate phenomena. Neither the science nor imagination of man has provided answers to the questions they pose. Some say that time stops as one enters the mouth of these dragons of space. Others suggest they are doorways to another universe. Most simply refuse to speculate. And yet this is where our story begins: At the edge or event horizon of a black hole.



With the release of "The Black Hole," scheduled tentatively for Christmas 1979, we anticipate a major new addition to the Disney library of classic films.

During 1979 we are also planning production of several other exciting projects. Co-producer Jan Williams is now preparing "The Last Flight of Noah's Ark." Scheduled for filming in the spring, this action-adventure tells the story of a plane load of passengers—including a woman missionary, two stowaway orphans and a menagerie of animals—who crash land on a deserted South Pacific island. With the aid of two Japanese sailors, stranded on the isle since World War II, they turn a wrecked B-29 into a modern day Noah's Ark in an attempt to escape the island.

Mary Rodgers who wrote "Freaky Friday" has provided us with another excellent screenplay in "Miracle Max." Jerry Courtland will co-produce this humorous story of a man who is given the chance to save his soul providing he can recruit three replacements for the devil.

"A Watcher in The Woods," will be produced by Tom Leetch. Under the eyes of a watching alien, a threatened teenaged girl and her family solve a fifty-year-old enigma in this mystery thriller with elements of science fiction.

Love and adventure will lure Herbie to exotic South America in "Herbie Goes Bananas." Written by Don Tait, this fourth outing for the popular car star finds Herbie risking life and carburetor to be reunited with his beloved Lancia, narrowly averting being converted into a dune buggy along the way. A valuable archeological find, the charged atmosphere of Rio's Carnival and an exciting jungle escape are all part of the high octane humor Herbie has in store for his audiences.

Co-producer Jan Williams is working with writer Marc Stirdivant to develop "Condor Man," a contemporary adventure comedy introducing the zaniest spy alive, comic book writer Woody Wilkins. In this, his first assignment, Woody assumes the identity of his comic crea-



THE SECRET OF LOST VALLEY: One of several made-for-television movies produced by the Studio for "The Wonderful World of Disney."

tion Condor Man to escort a defecting Russian agent from behind the iron curtain. Using all the crazy gimmicks and contraptions he has invented in his comics, the writer-turned-superhero travels around the world to keep himself and the agent, an attractive female, out of enemy hands.

In addition to this strong production line-up for 1979, we are continuing to make excellent progress on our next animated feature, "The Fox and The Hound." Release for this new full-length cartoon is scheduled for Christmas, 1980.

For the 1978-79 season of "The Wonderful World of Disney" we are now developing several new properties. In "The Secret of Lost Valley," an exciting adventure of survival, a family camping trip turns into a nightmare when a 12-year-old boy becomes lost in the wilderness. Three youngsters, playing detective, get involved in a case of international intrigue that threatens not only their own lives but the very peace of the world in "The

Whisper in the Gloom." A comedy-adventure set in the Southwest of 1910, "Digger," features a wildly inventive black man, a custom-built automobile and a race to catch a villain who is an ingenious master of disguises. "Run Far, Run Fast," is the story of an orphaned 16-year-old boy who runs into timber 'rustlers' when he runs away.

Once again, I would like to express my appreciation for the support I continue to receive from our entire creative team at Walt Disney Productions. With their help I am convinced that these new projects will meet the challenge of providing the finest in family entertainment.

Ron Miller

Ron Miller
Executive Vice President,
Production and Creative Affairs



Consumer Products and Other

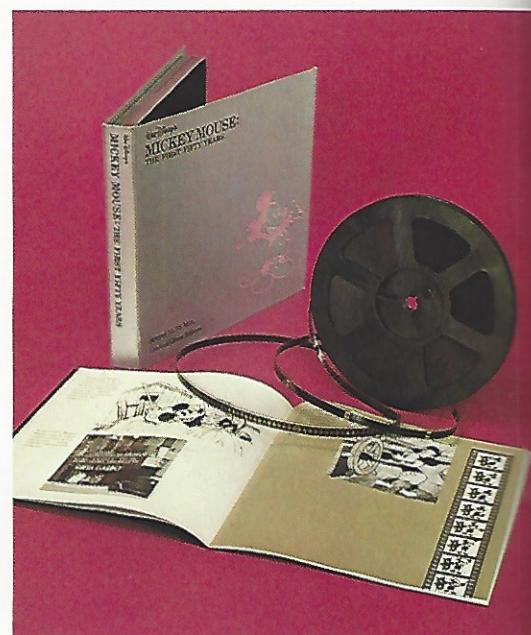


50 YEARS OF MUSIC: Ovation Records released this impressive 4-record set for Mickey's 50th birthday.



DISNEY SCHOOLHOUSE: A new line of low-cost teaching aids from WDEMCO debuted this year.

DELUXE FILM PACKAGE: Mickey Mouse's career is recalled on Super 8 sound film in this commemorative album from WDEMCO.



Mickey's 50th birthday and greatly increased character merchandising and publications activities provided the impetus for the most successful year of the Consumer Products Group, with revenues of \$80,564,000, up 21% over the previous year.

Some 140 licensees participated in the massive Mickey's 50th retail promotion, with over 20,000 outlets nationwide involved in displaying and promoting Disney-licensed merchandise. This immense effort was backed by personal appearances in nearly 50 major markets by our costumed characters, 40,000 point-of-sale displays and a giant sweepstakes contest. Similar promotions occurred simultaneously in countries around the world.

Character Merchandising and Publications revenues increased 19% to \$36,404,000 capping a decade of steady growth.

New deluxe book items include the recently published Disney's "America" from Abbeville Press; "Treasury of Children's Classics" (Harry N. Abrams, Inc.), featuring art from 17 classic Disney animated films; a \$200 art book on "Snow White and the Seven Dwarfs," published by Circle Galleries; a continuing expansion of Disney book clubs to 1,200,000 a month world-wide; and multi-million dollar revenues from direct mail projects in 14 countries.

Records and Music Publishing revenues increased 24% to \$17,218,000, with domestic record sales reaching their highest level.

"Pete's Dragon" sold over 600,000 record units, and the warm theatrical reception to "The Jungle Book" re-release generated record sales in excess of 400,000 units.

New products include "The Magical Music of Walt Disney," on the Ovation Records label, an official commemorative album for Mickey's 50th birthday, and the recently released "Small One" Storyteller album.

Music Publishing has reached agreement with The Big 3 Music Corporation for them to print and distribute Disney's music publications. A complete new halftime show package for high school and marching bands,

themed to Mickey's 50th birthday, was successfully marketed during the year.

The continued success of all three operating divisions of the Walt Disney Educational Media Company (WDEMCO) was reflected in its 20% growth to revenues of \$24,809,000 for the year. Revenues for Super 8mm home movies rose 13%, largely due to WDEMCO's continuing development of a strong domestic sales organization. Non-theatrical film rentals also had a record year, increasing 22%. This increase was largely based on the success of its direct sales program. The educational film and materials division increased 23%, an especially impressive record in a declining market.

There were a number of other highlights to the year. During the summer, WDEMCO announced an arrangement whereby it became the exclusive worldwide distributor for all filmstrips of The Cousteau Society and also to the award-winning "Cousteau Odyssey" film series.

An entirely new line of classroom materials dubbed "Disney Schoolhouse" was introduced in August. These low-cost items, including bulletin board kits, duplicating spirit master books, and reward stick-ons in a variety of subjects are expected to contribute significantly to overall WDEMCO revenues in the future.

MICKEY MOUSE, THE FIRST 50 YEARS—a Super 8mm home movie retrospective of Mickey Mouse's career was released in conjunction with the star's 50th birthday. This limited edition collector's film is destined to be one of the largest selling home movies of all time.

Five million copies of a new comic book MICKEY MOUSE AND GOOFY EXPLORE ENERGY CONSERVATION, were distributed by Exxon, U.S.A. to educators and students nationwide, following the enormous success of last year's MICKEY MOUSE AND GOOFY EXPLORE ENERGY comic book, which was part of an innovative multimedia kit. A third comic book, MICKEY AND GOOFY EXPLORE BUSINESS, will be available as part of a new multimedia kit, DISNEY'S WIDE WORLD OF ECONOMICS AND ENTERPRISE, in 1979.

The International Division of WDEMCO also performed well, accounting for approximately one-third of the company's activity.

Gross Revenues

	1978	1977*	1976*	1975*	1974*
Educational media	\$ 24,809,000	\$ 20,714,000	\$ 17,743,000	\$ 15,809,000	\$ 12,534,000
Character merchandising	21,359,000	17,743,000	21,058,000	20,811,000	15,128,000
Records and music publishing .	17,218,000	13,858,000	12,173,000	10,203,000	15,233,000
Publications	15,045,000	12,861,000	11,090,000	9,907,000	8,633,000
Other	2,133,000	1,426,000	1,086,000	1,082,000	1,008,000
Total revenues	\$ 80,564,000	\$ 66,602,000	\$ 63,150,000	\$ 57,812,000	\$ 52,536,000

*Reclassified for comparative purposes and to comply with reporting for business segment requirements adopted in 1978.

Financial Review

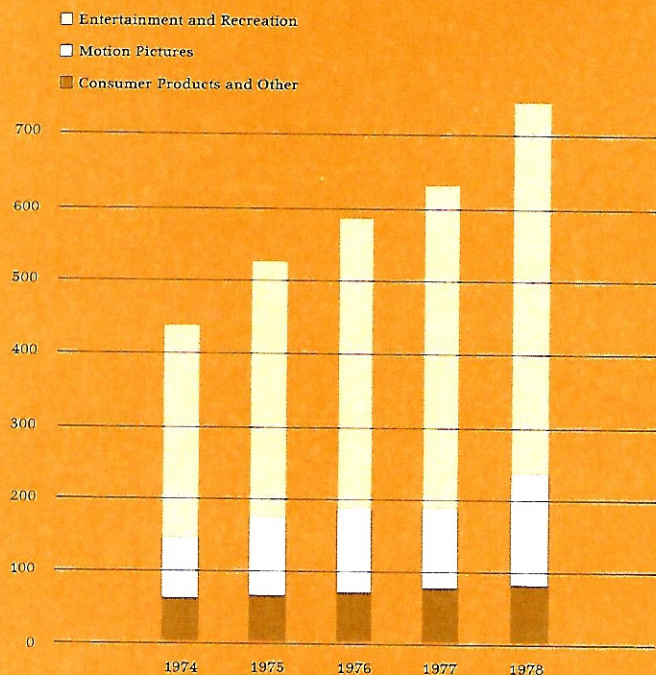
The financial statements and notes provide information about operating results, financial position and changes therein for the fiscal years 1978 and 1977. Operating results for 1978 are compared with 1977 by business segment in the forepart of this report together with summaries of revenues for the last five years.

Certain of the financial information in this report has been reclassified in order to comply with Statement of Financial Accounting Standards No. 14—Financial Reporting for Segments of a Business Enterprise. The revenues and costs and expenses of Lake Buena Vista Communities and Walt Disney World Village have been classified with the Entertainment and Recreation segment (previously under Consumer Products and Other), and certain general and administrative costs and expenses have been allocated to the segments (previously classified as Corporate Expenses). A description of the Company's business segments can be found under Summary of Significant Accounting Policies.

ANALYSIS OF OPERATIONS

The following analysis is presented to assist the reader in an understanding and evaluation of the material periodic changes in the various items of the Summary of Operations (page 38) (tables are in thousands of dollars, except earnings per share).

REVENUES (In millions of dollars)



In summary. Revenues and income in 1978 and the two prior years were:

	1978	Change	1977	Change	1976
Revenues	\$741,143	+ 18%	\$629,825	+ 8%	\$583,896
Operating income					
(before corporate					
expenses)	197,540	+ 17%	169,500	+ 12%	151,924
Net income	98,385	+ 20%	81,947	+ 10%	74,599
Per share	\$3.04		\$2.53		\$2.30

In detail. An analysis of these results by business segment and corporate expense follows:

Entertainment and Recreation

	1978	Change	1977	Change	1976
Revenues	\$508,444	+ 14%	\$445,165	+ 11%	\$401,613
Operating income ..	105,952	+ 15%	92,062	+ 31%	70,423
Theme park					
attendance-					
combined	24,878	+ 4.8%	23,735	+ 1.8%	23,318

Revenues and Operating Income increased in 1978 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 expanded business activities at Lake Buena Vista Communities, including 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. Theme park and resort hotel costs and expenses in 1978 increased primarily due to increases in labor costs which are attributable to higher union rates and the number of man-hours worked. Gross profit margins for food and merchandise activities were maintained. Overall operating margins decreased slightly in the theme parks and resort hotels.

Revenues and Operating Income increased in 1977 due to increased attendance at Disneyland, increased per capita spending at both Disneyland and Walt Disney World, and increased revenue-producing activities at Lake Buena Vista Communities and the Walt Disney World Village. Theme park per capita spending was influenced by admission media price increases averaging eight percent at Disneyland in May 1977 and six percent at Walt Disney World in June 1977. Theme park and resort hotel labor costs increased due to higher union rates, but were offset in part by effective cost controls resulting in a reduction in man-hours worked. Other increases in costs and expenses were experienced in depreciation, property taxes and utilities, caused in part by the addition of new attractions in the previous two years. Gross profit margins for food and merchandise improved for the year.

Motion Pictures

	1978	Change	1977	Change	1976
Revenues	\$152,135	+ 29%	\$118,058	- 1%	\$119,133
Operating income ..	54,119	+ 17%	46,094	- 14%	53,801

Motion picture production and distribution is a highly competitive business, wherein the public's reaction to a given motion picture can have a major impact on the success of that product and, hence, a significant impact on the motion picture business for any particular year. Whereas the Company experienced a one percent decrease in total motion picture revenues in 1977, theatrical revenues rebounded to record levels in 1978, led by the high grosses realized from the initial release of "Pete's Dragon," the first reissue of "The Jungle Book" and the outstanding success of "The Rescuers" in the foreign market, far exceeding what the picture had done domestically a year earlier.

The Company's television revenues are increasing due primarily to additional theatrical features being made available for television viewing, as well as to feature motion pictures that are being made specifically for television.

The major areas of cost in motion picture distribution are the amortization of film negative costs (which is explained more fully under Summary of Significant Accounting Policies) and distribution expenses. Amortization of negative costs is up significantly in 1978, due in part to higher production costs applicable to the current year's new theatrical releases, as well as higher television production costs. In addition, the Company has written down the cost of producing the New Mickey Mouse Club television program during the year to its expected net realizable value. Domestic and foreign distribution expense increased in 1978 due primarily to the increase in the theatrical business.

The decrease in Operating Income in 1977 was due primarily to higher amortization of negative costs attributable to higher production costs of theatrical and television films currently in release.

Consumer Products and Other

	1978	Change	1977	Change	1976
Revenues	\$80,564	+ 21%	\$66,602	+ 5%	\$63,150
Operating income ..	37,469	+ 20%	31,344	+ 13%	27,700

The character merchandising and publications, records and music publishing, and educational media divisions, comprising the Consumer Products business segment of the Company, all produced improved operating results both in 1978 and 1977. The most significant growth in 1978 was experienced with character merchandising and publications, particularly in the foreign market where licensing activities continued to expand (due in part to the theatrical success of "The Rescuers") and new product (including that which has been successful in this country in past years) was being introduced in publications activities.

An improvement in the operating margin for character merchandising and publications also contributed to higher operating income for the segment in 1977.

General and Administrative Expense

	1978	Change	1977	Change	1976
Amount	\$17,212	+ 3%	\$16,754	+ 38%	\$12,113
Percent of revenues	2%		3%		2%

Corporate general and administrative expense represents those functions and services which are not allocable to costs and expenses of operations, and include corporate management, corporate finance, management information services pertaining to systems development and programming, corporate retail merchandising, corporate marketing and certain other expenses. Other general and administrative services (including legal, accounting, employee relations, data processing operations and facilities-use costs) have been allocated to the business segments and to General and Administrative Expense.

The Company has experienced the normal cost increases in labor, materials and supplies. In 1977, such increases were accompanied by increased EPCOT Center marketing costs and the creation of the corporate retail merchandising activities.

All costs pertaining to both the Mineral King and Independence Lake projects have been charged against income as incurred.

Design Projects Abandoned

	1978	Change	1977	Change	1976
Amount	\$3,311	+ 90%	\$1,740	- 45%	\$3,182

At the close 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 future use are abandoned. Additional information on design projects in progress is given in Note 2 of Notes to Consolidated Financial Statements.

Interest Income—Net

	1978	Change	1977	Change	1976
Amount	\$12,468	+ 97%	\$6,341	+ 78%	\$3,570

The Company has realized net interest income (after interest expense) from short term investments, such income being dependent upon variances in interest rates and the amount of such investments. (See discussion under total assets below.) Interest expense amounted to \$2,017,000, \$278,000 and \$175,000 for fiscal years 1978, 1977 and 1976, respectively. The increase in interest expense in 1978 was due to the tax settlement with the Internal Revenue Service for fiscal years 1974 and 1975.

Taxes on Income

	1978	Change	1977	Change	1976
Amount	\$91,100	+ 21%	\$75,400	+ 15%	\$65,600
Percent of income before taxes on income	48.1%		47.9%		46.8%

Financial Review (continued)

A full explanation of the provisions for taxes on income for 1978 and 1977 is given in Note 3 of Notes to Consolidated Financial Statements.

The tax portion of the settlement referred to under Interest Income-Net, amounted to \$6,573,000. This amount had been substantially provided for in prior years and resulted in a decrease in Deferred Taxes on Income and Investment Credits of \$5,391,000 and a corresponding increase in Taxes on Income (under current liabilities).

HIGHLIGHTS OF FINANCIAL GROWTH

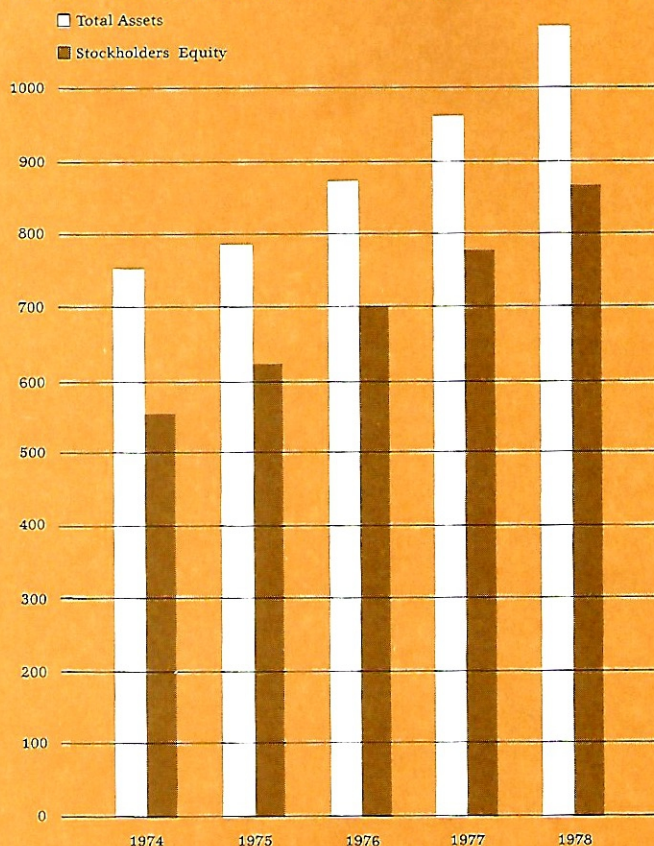
(tables are in thousands of dollars, except per share data)

Total assets. For the first time in its history, the Company has exceeded one billion dollars in total assets. The increase in assets of 12.3% in 1978 is reflected predominantly in short term investments.

	1978	Change	1977	Change	1976
Total assets	\$1,083,141	+ 12%	\$964,475	+ 10%	\$873,925

Short term investments of \$278,281,000 at September 30, 1978 consist primarily of Bankers Acceptances, negotiable Certificates of Deposit and various United States Government issues. They have an average matur-

TOTAL ASSETS AND STOCKHOLDERS EQUITY (in millions of dollars)



ity of 111 days and a weighted average yield at cost of 8.23%. It is contemplated that an undesignated amount of these funds may be used to finance the EPCOT Center project.

Financial position. The Company's financial position continues to improve, with working capital provided from operations (sometimes referred to as cash flow) increasing by 11% to \$148,081,000 for 1978.

	1978	Change	1977	Change	1976
Working capital provided from operations	\$148,081	+ 11%	\$133,096	+ 3%	\$128,699

The Company is virtually debt-free and has had no borrowings since 1975 against an available unsecured revolving line of credit of \$50,000,000.

Cash dividends. In recognition of the changing investment climate and the Company's present strong position, the Board of Directors has doubled the quarterly cash dividend rate in the past year.

	1978	Change	1977	Change	1976
Cash dividends	\$10,273	+ 117%	\$4,725	+ 29%	\$3,659
Percent of net income	10.4%		5.8%		4.9%
Per share	\$3.32		\$1.15		\$1.12

Capital and motion picture additions. The Company continues to enhance and to expand its productive capacity, particularly at Disneyland and Walt Disney World. Similarly, film production activities continue to provide new product for the theatrical and television markets while increasing the value of the Company's film library.

	1978	Change	1977	Change	1976
Additions to property, plant and equipment	\$45,367	+ 2%	\$44,517	+ 2%	\$43,708
Additions to film production costs	\$32,716	+ 6%	\$34,699	- 2%	\$35,559

The Company currently anticipates that expenditures during Fiscal 1979 will approximate \$70,000,000 and \$55,000,000 for capital additions and film production, respectively. The significant increase in capital additions is due to the initial development of the EPCOT Center and the increase in film production is attributable to the production of "The Black Hole."

Stockholders equity. Total stockholders equity has increased at the compounded average rate of 10.9% per year for the last five years.

	1978	Change	1977	Change	1976
Stockholders equity	\$861,235	+ 12%	\$771,206	+ 11%	\$692,382
Per share	\$26.58		\$23.82		\$21.36

Market price and dividend data. The principal market for trading Walt Disney Productions common

stock is the New York Stock Exchange. Market data (adjusted for stock dividends) and dividend data by fiscal quarters for the past two years were:

1978

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Price per share:				
High.....	\$42-1/8	\$39-3/4	\$45-1/4	\$47-1/8
Low.....	33-1/8	31-3/4	31-1/2	39-1/4
Dividend per share..	\$.08	\$.08	\$.08	\$.08

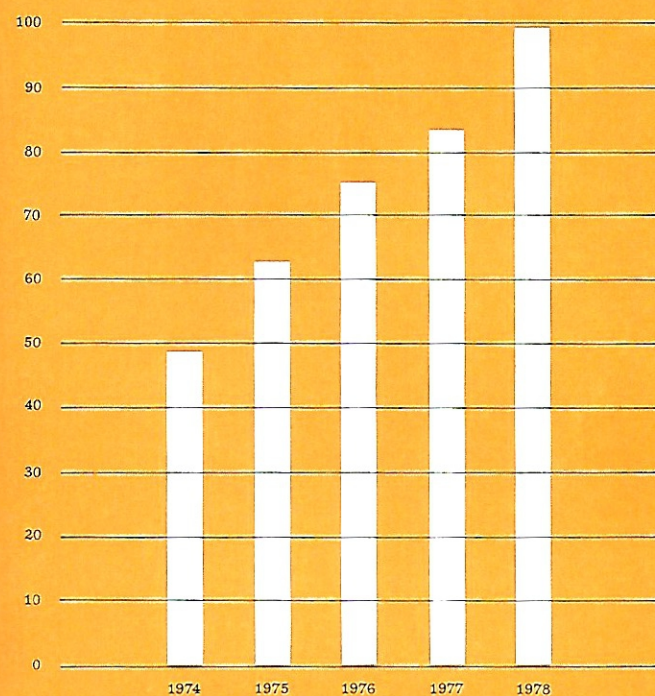
1977

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Price per share:				
High.....	\$48-1/2	\$46-7/8	\$37-1/8	\$40-7/8
Low.....	39-1/4	33-3/8	31-5/8	35
Dividend per share..	\$.03	\$.04	\$.04	\$.04

Magnitude of taxes paid. The Company incurred in excess of \$118,000,000 in taxes—on income, property and employment—in fiscal year 1978. This tax burden has increased 48% in just two years.

	1978	Change	1977	Change	1976
Income, property and employment taxes	\$118,500	+29%	\$91,700	+15%	\$79,800
Percent of income before taxes.....	55%		53%		52%

In addition to these taxes, which are absorbed by the Company, \$64,300,000 was collected from customers and guests or withheld from employees and passed on to various governmental agencies during fiscal year 1978.

NET INCOME (in millions of dollars)

**Walt Disney Productions
and Subsidiaries
Consolidated Statement
of Income**

	Year Ended September 30	
	1978	1977*
Revenues		
Entertainment and recreation	\$508,444,000	\$445,165,000
Motion pictures	152,135,000	118,058,000
Consumer products and other	80,564,000	66,602,000
Total revenues	741,143,000	629,825,000
Costs and Expenses of Operations		
Entertainment and recreation	402,492,000	353,103,000
Motion pictures	98,016,000	71,964,000
Consumer products and other	43,095,000	35,258,000
Total costs and expenses of operations	543,603,000	460,325,000
Operating Income Before Corporate Expenses		
Entertainment and recreation	105,952,000	92,062,000
Motion pictures	54,119,000	46,094,000
Consumer products and other	37,469,000	31,344,000
Total operating income before corporate expenses	197,540,000	169,500,000
Corporate Expenses		
General and administrative	17,212,000	16,754,000
Design projects abandoned	3,311,000	1,740,000
Interest income—net	(12,468,000)	(6,341,000)
Total corporate expenses	8,055,000	12,153,000
Income Before Taxes on Income	189,485,000	157,347,000
Taxes on income (note 3)	91,100,000	75,400,000
Net Income	\$ 98,385,000	\$ 81,947,000
Earnings Per Share	\$3.04	\$2.53

**Consolidated Statement
of Retained Earnings**

Balance at beginning of the year	\$257,899,000	\$221,189,000
Net income for the year	98,385,000	81,947,000
Dividends		
Cash (32¢ and 15¢)	(10,273,000)	(4,725,000)
Stock (1.5% and 3%) (note 5)	(19,100,000)	(40,512,000)
Balance at end of the year	\$326,911,000	\$257,899,000

*Reclassified for comparative purposes and to comply with reporting for business segment requirements adopted in 1978.
See notes to consolidated financial statements and summary of significant accounting policies.

**Walt Disney Productions
and Subsidiaries
Consolidated Balance Sheet**

	September 30	
	1978	1977
ASSETS		
Current Assets		
Cash	\$ 9,318,000	\$ 10,744,000
Short term investments, at cost which approximates market (note 2)	278,281,000	164,134,000
Accounts receivable	26,708,000	22,832,000
Inventories		
Film production costs (note 1)	32,453,000	48,694,000
Merchandise, materials and supplies	39,404,000	33,680,000
Prepaid expenses	8,284,000	9,810,000
Total current assets	394,448,000	289,894,000
Film Production Costs—Non-Current (note 1)	40,822,000	31,953,000
Property, Plant and Equipment, at cost		
Land	16,888,000	17,013,000
Entertainment attractions, buildings and equipment	853,381,000	821,875,000
Construction and design projects in progress (note 2)	39,374,000	31,211,000
	909,643,000	870,099,000
Less accumulated depreciation	(275,758,000)	(240,159,000)
	633,885,000	629,940,000
Other Assets (note 4)	13,986,000	12,688,000
	<u>\$1,083,141,000</u>	<u>\$964,475,000</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable, payroll and other accrued liabilities	\$ 65,059,000	\$ 50,891,000
Taxes on income (note 3)	48,615,000	35,557,000
Total current liabilities	113,674,000	86,448,000
Long Term Liabilities and Non-Current Advances (note 4)	11,393,000	10,781,000
Deferred Taxes on Income and Investment Credits (note 3)	96,839,000	96,040,000
Commitments and Contingencies (note 7)		
Stockholders Equity (notes 4 and 5)		
Preferred shares, no par		
Authorized—5,000,000 shares, none issued		
Common shares, no par		
Authorized—75,000,000 shares		
Issued and outstanding—32,246,251 and 31,704,918 shares	534,324,000	513,307,000
Retained earnings	326,911,000	257,899,000
	861,235,000	771,206,000
	<u>\$1,083,141,000</u>	<u>\$964,475,000</u>

See notes to consolidated financial statements and summary of significant accounting policies.

**Walt Disney Productions
and Subsidiaries
Consolidated Statement
of Changes in Financial Position**

	Year Ended September 30	
	1978	1977
Financial Resources Were Provided by:		
Operations		
Net income	\$ 98,385,000	\$ 81,947,000
Expenses not affecting working capital		
Depreciation	39,014,000	37,360,000
Amortization of preopening and prepaid pension costs	500,000	790,000
Amortization of film production costs, non-current	6,975,000	5,262,000
Design projects abandoned	2,408,000	759,000
Deferred taxes on income and investment credits	799,000	6,978,000
Working capital provided from operations	148,081,000	133,096,000
Increase in long term liabilities	1,858,000	1,603,000
Proceeds from exercise of stock options and tax benefits	1,917,000	1,602,000
	151,856,000	136,301,000
Financial Resources Were Used for:		
Additions to property, plant and equipment	45,367,000	44,517,000
Additions to non-current film production costs *.	32,716,000	34,699,000
Transfers to current film production costs	(16,872,000)	(43,004,000)
Decrease in long term liabilities and non-current advances	1,246,000	1,583,000
Cash dividends	10,273,000	4,725,000
Prepaid pension funding	1,535,000	3,900,000
Other	263,000	591,000
	74,528,000	47,011,000
Increase in Working Capital	\$ 77,328,000	\$ 89,290,000
Increase (Decrease) in Components of Working Capital:		
Cash	\$ (1,426,000)	\$ 2,177,000
Short term investments	114,147,000	63,016,000
Accounts receivable	3,876,000	1,545,000
Inventories	(10,517,000)	24,904,000
Prepaid expenses	(1,526,000)	2,376,000
Accounts payable, payroll and other accrued liabilities	(14,168,000)	(261,000)
Taxes on income	(13,058,000)	(4,467,000)
	\$ 77,328,000	\$ 89,290,000

See notes to consolidated financial statements and summary of significant accounting policies.

Walt Disney Productions and Subsidiaries

Summary of Significant Accounting Policies

WALT DISNEY PRODUCTIONS is a diversified international company engaged in family entertainment and operates in three business segments:

Entertainment and Recreation

The Company operates an amusement theme park, "Disneyland" in California; a destination resort, "Walt Disney World" in Florida; and a recreational facility, "Celebrity Sports Center" in Denver, Colorado. In addition to an amusement theme park, the Walt Disney World complex includes three hotels, camping, golfing and other recreational facilities, a shopping village and other lodging accommodations.

Motion Pictures

The Company produces motion pictures for theatrical and television distribution, including both network and independent television station broadcasting. The Company distributes its filmed product through its own distribution company in the United States and through foreign subsidiaries in certain countries and independent distribution companies throughout the rest of the world.

Consumer Products and Other

The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company also produces, manufactures and distributes phonograph recordings, 8 millimeter prints of excerpts from its film library, 16 millimeter prints of product taken from the film library or developed on educational subjects, and a broad range of teaching aids. These activities are conducted through the character merchandising and publications, records and music publishing, and educational media divisions and subsidiaries of the Company.

The following summary of the Company's significant accounting policies is presented as an integral part of the financial statements.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, substantially all wholly owned.

FILM PRODUCTION COSTS AND AMORTIZATION

Costs of completed theatrical and television film productions (negative costs), together with applicable capitalized exploitation costs, are amortized by charges to income in the proportion that gross revenue received by the Company during the year for each production bears to the estimated total gross revenue to be received. Estimates of total gross revenue are reviewed periodically and amortization is adjusted accordingly. When unamortized cost exceeds the estimated producers share

of film rentals, the carrying value of the film is adjusted to net realizable value.

INVENTORIES

Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and are stated at the lower of cost or market.

PROPERTY, PLANT AND EQUIPMENT

The Company, at any one point in time, will have a number of projects in the concept, design, or construction phases related to entertainment attractions, buildings and equipment. All projects in progress are evaluated on a continuing basis and upon completion costs of major replacements and betterments are capitalized. When it is determined that a project in progress has no future use, the costs of such project are charged to income under the caption "Design Projects Abandoned."

Depreciation is provided principally on the straight line method using estimated service lives ranging from four to fifty years. Depreciation and maintenance and repairs are charged either directly to costs and expenses as incurred or to film production costs which are then amortized against income. The cost and related accumulated depreciation of property sold or retired are removed from the accounts and any resulting gain or loss is recorded in income.

TAXES ON INCOME

Taxes are provided on all revenue and expense items included in the consolidated statement of income, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income. Investment tax credits, accounted for by the deferral method, are amortized as a reduction of the provision for taxes on income over the average service lives of the related assets.

STOCK OPTIONS

Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions and no charges or credits are made to income in connection with the plans.

EARNINGS PER SHARE

Earnings per common and common equivalent share are computed on the basis of the average number of shares outstanding during each year, retroactively adjusted to give effect to all stock splits and stock dividends. It is assumed that all dilutive stock options are exercised at the beginning of each year and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the year.

Walt Disney Productions and Subsidiaries Notes to Consolidated Financial Statements

NOTE 1

Inventories—Film Production Costs:

Inventories of theatrical and television film productions consist of the following components:

	1978	1977
Released, less amortization	\$ 34,979,000	\$ 38,977,000
Completed, not yet released	6,677,000	22,492,000
In process	31,619,000	19,178,000
	<u>73,275,000</u>	<u>80,647,000</u>
Less: Non-current film production costs	40,822,000	31,953,000
Current film production costs	\$ <u>32,453,000</u>	\$ <u>48,694,000</u>

Non-current film production costs include costs of theatrical and television films in process of production, portions of completed theatrical film costs allocated to television and portions of completed television film costs allocated to foreign markets.

NOTE 2

EPCOT Center Project:

On October 2, 1978, the Company announced its plans to proceed with the design and construction of the EPCOT Center at Walt Disney World, with an anticipated opening of October 1982. The cost of the project, which will consist of two major themed areas, Future World and the World Showcase, is currently estimated at five hundred million dollars. It is contemplated that an undesignated amount of the short term investments held by the Company may be used to fund the project, together with payments by participants and cash generated from future operations.

Construction and Design Projects in Progress include design costs for the EPCOT Center of \$13,223,000 at September 30, 1978 (\$7,426,000—1977). Marketing costs related to the project are expensed as they are incurred.

NOTE 3

Taxes on Income:

The provision for taxes is composed of the following:

	1978	1977
Currently payable		
— Federal	\$ 75,506,000	\$ 57,385,000
— State	8,298,000	6,030,000
— Foreign	3,975,000	3,824,000
Deferred		
— Federal	6,619,000	10,426,000
— State	602,000	735,000
— Investment credits amortized	(3,900,000)	(3,000,000)
	<u>\$ 91,100,000</u>	<u>\$ 75,400,000</u>

The significant components of deferred taxes on income included in the provision for taxes on income are as follows:

	1978	1977
Excess of tax over book depreciation	\$ 6,262,000	\$ 9,068,000
Difference between investment credits claimed for tax purposes and amortization under deferral method for financial reporting purposes	(988,000)	399,000
Other	(1,953,000)	(1,306,000)
Total provision for deferred taxes on income	\$ <u>3,321,000</u>	\$ <u>8,161,000</u>

The difference between the U.S. federal income tax rate of 48% and the Company's effective income tax rate is explained below:

	1978	1977
Federal income tax rate	48.0%	48.0%
State income taxes, net of federal income tax benefit	2.4	2.2
Reduction in taxes resulting from:		
Investment tax credits	(2.1)	(1.9)
Other	(.2)	(.4)
Effective income tax rate	<u>48.1%</u>	<u>47.9%</u>

Net deferred taxes of \$9,959,000 at September 30, 1978 (\$7,437,000—1977) are included in taxes on income shown under current liabilities on the balance sheet.

Deferred investment tax credits amount to \$16,671,000 at September 30, 1978 (\$17,659,000—1977).

Federal income tax returns of the Company have been examined by the Internal Revenue Service through fiscal year 1975 and all material matters have been settled and are reflected in the financial statements.

NOTE 4

Employee Benefits:

The Company contributes to various domestic trustee pension plans under union and industry-wide agreements. Contributions are based on the hours worked by or gross wages paid to covered employees.

The Company has pension plans covering substantially all of its domestic employees not covered by union or industry pension plans. The plans are funded by Company and employee payments to a trust administered by a bank. At June 30, 1978, the date of the latest actuarial evaluation, the market value of the fund's assets exceeded the actuarially computed vested benefits by \$5,496,000. In October of 1978, 1977 and 1976, the Company has prepaid a total of \$8,346,000 to the trust, which represents the actuarially computed past service liability of the plans determined as of June 30. The pre-

paid amounts through September 30, 1978, are deferred in other assets and are being amortized over periods ranging to eleven more years.

The Company has also established a non-qualified and unfunded key employee retirement plan providing for Company and domestic employee contributions. The amount accrued as a long term liability under this plan was \$7,380,000 at September 30, 1978 (\$5,810,000—1977); the actuarially computed unaccrued past service liability at the date of the latest computation was approximately \$4,800,000.

The aggregate amount expensed for all of these plans was \$4,995,000 and \$4,668,000 for fiscal years 1978 and 1977, respectively, including amortization of actuarially computed prior service costs, where applicable, over periods ranging to thirty-four more years.

Stock options are granted to key executive, management and creative personnel at prices equal to market price at date of grant. The options and prices set forth below have been adjusted, where applicable, for all subsequent stock splits and stock dividends.

Transactions under the plans during fiscal year 1978 were as follows:

	Number of Shares	
	Options Granted	Available For Grant
September 30, 1977		
(\$20.77 to \$86.58 per share)	445,413	320,413
Added for 1.5% stock dividend	11,170	169
Options terminated	(32,655)	30,788
Options granted (\$40.21 and \$40.81 per share)	317,050	(317,050)
Options exercised (\$20.77 and \$21.08 per share)	(65,610)	
September 30, 1978		
(\$20.77 to \$46.72 per share)	675,368	34,320

Options are exercisable beginning not less than one year after date of grant. Qualified options expire five years after date of grant and non-qualified options expire ten years after date of grant. At September 30, 1978, 6,345 shares granted under the 1967 plan were exercisable at \$43.52 to \$46.72 per share and 234,827 shares granted under the 1973 plan were exercisable at \$20.77 to \$37.84 per share.

Under the Company's 1967 and 1973 stock option plans, \$1,365,000 was received in fiscal year 1978 (\$1,126,000—1977) and credited to common shares for 65,610 and 53,138 option shares exercised in fiscal years 1978 and 1977, respectively. Income tax benefit from sale of option shares by employees of \$552,000 was credited to common shares in fiscal year 1978 (\$476,000—1977).

The Company established, effective in 1976, an Employee Stock Ownership Plan (ESOP) for salaried employees, under the terms of the Tax Reduction Act

of 1975. The Act allows the Company to claim an additional 1% of the Company's qualified capital investments as an investment tax credit if such an amount is paid to a trust which then purchases shares of the Company's stock in the open market for the employees' benefit. Since inception of the Plan, \$450,600 and \$266,200 have been used to purchase 10,730 and 7,211 shares of stock, relating to fiscal years 1977 and 1976, respectively.

NOTE 5

Stockholders Equity:

A 1.5% stock dividend was issued to stockholders of record on December 12, 1977, resulting in the issuance of 475,723 common shares in fiscal year 1978 and in a transfer of \$19,100,000 from retained earnings to common shares. A 3% stock dividend was issued to stockholders of record on December 22, 1976, resulting in the issuance of 922,196 common shares in fiscal year 1977 and in a transfer of \$40,512,000 from retained earnings to common shares.

NOTE 6

Information About the Company's Operations in Different Business Segments:

The Company operates in three business segments: Entertainment and Recreation, Motion Pictures and Consumer Products and Other. These business segments are described in the Summary of Significant Accounting Policies on page 33 of this report.

The Consolidated Statement of Income presents the revenue and operating income by business segment. Additional financial information relative to business segments follows:

Total revenues of \$741,143,000 (\$629,825,000—1977) includes foreign revenues (considered as export sales) related to the following geographic areas:

	1978	1977
Europe	\$ 66,824,000	\$ 41,562,000
Western Hemisphere (excluding the United States)	18,543,000	14,538,000
Other	11,202,000	11,619,000
	<u>\$ 96,571,000</u>	<u>\$ 67,719,000</u>

Walt Disney Productions and Subsidiaries

Notes to Consolidated Financial Statements (continued)

Capital expenditures and depreciation expense of property, plant and equipment by business segment were:

	Capital Expenditures	Depreciation Expense
1978		
Entertainment and recreation	\$ 43,705,000	\$ 37,936,000
Motion pictures	1,428,000	705,000
Consumer products and other	32,000	241,000
Corporate	202,000	132,000
	<u>\$ 45,367,000</u>	<u>\$ 39,014,000</u>
1977		
Entertainment and recreation	\$ 42,741,000	\$ 36,372,000
Motion pictures	1,297,000	655,000
Consumer products and other	329,000	212,000
Corporate	150,000	121,000
	<u>\$ 44,517,000</u>	<u>\$ 37,360,000</u>

Amortization expense of film production costs (classified under Motion Pictures) was \$40,088,000 and \$24,730,000 for fiscal years 1978 and 1977, respectively.

Identifiable assets by business segment are:

	1978	1977
Entertainment and recreation	\$ 676,038,000	\$661,900,000
Motion pictures	95,979,000	104,334,000
Consumer products and other	20,978,000	18,721,000
Corporate	290,146,000	179,520,000
	<u>\$1,083,141,000</u>	<u>\$964,475,000</u>

Corporate assets are principally cash and short term investments.

NOTE 7

Commitments and Contingencies:

Pursuant to an agreement for the use of the name of Walt Disney, Retlaw Enterprises, Inc. (a company owned by the family of the late Walter E. Disney) earned royalties of approximately \$5,707,000 and \$4,714,000 from the Company for fiscal years 1978 and 1977, respectively; in accordance with such name agreement, the amounts in fiscal year 1978 included \$3,219,000 (\$2,649,000—1977) as a participation by Retlaw of 5% in the profits, as defined in that agreement, of certain Walt Disney World operations.

Under an agreement with a bank, the Company has available an unsecured revolving line of credit of \$50,000,000 under which the Company maintains on deposit 10% of the committed funds plus 10% of any borrowings. During the year ended September 30, 1978, the Company had no borrowings under the agreement.

The Company is a defendant with other motion picture producers or distributors in a number of private treble damage actions asserting claims under the federal anti-trust laws. These actions, which seek damages aggregating hundreds of millions of dollars, are in various stages of pre-trial proceedings. The Company has

denied the material allegations of the complaints in these actions and in the opinion of management and counsel the Company will not suffer any material liability by reason thereof.

NOTE 8

Operations by Quarter (Unaudited):

A summary of certain information pertaining to operating results for each quarter of fiscal years 1978 and 1977 is shown below (in thousands of dollars, except for per share data). The information has been reclassified from that previously reported to shareholders to comply with reporting for business segment requirements adopted in 1978.

	December 31	March 31	June 30	September 30
1978				
Revenues				
Entertainment and recreation	\$ 90,490	\$110,111	\$136,602	\$171,241
Motion pictures	26,896	41,189	36,023	48,027
Consumer products and other	19,720	18,620	19,733	22,491
Total revenues	<u>\$137,106</u>	<u>\$169,920</u>	<u>\$192,358</u>	<u>\$241,759</u>
Operating income before corporate expenses				
Entertainment and recreation	\$ 10,215	\$ 19,211	\$ 29,579	\$ 46,947
Motion pictures	7,897	17,800	10,275	18,147
Consumer products and other	9,527	9,372	9,498	9,072
Total operating income before corporate expenses	<u>\$ 27,639</u>	<u>\$ 46,383</u>	<u>\$ 49,352</u>	<u>\$ 74,166</u>
Income before taxes on income	\$ 25,753	\$ 44,228	\$ 47,234	\$ 72,270
Net income	\$ 13,353	\$ 23,028	\$ 24,534	\$ 37,470
Earnings per share	\$.41	\$.71	\$.76	\$ 1.16
1977				
Revenues				
Entertainment and recreation	\$ 77,363	\$ 91,478	\$126,116	\$150,208
Motion pictures	26,158	30,045	23,965	37,890
Consumer products and other	16,008	18,473	15,022	17,099
Total revenues	<u>\$119,529</u>	<u>\$139,996</u>	<u>\$165,103</u>	<u>\$205,197</u>
Operating income before corporate expenses				
Entertainment and recreation	\$ 6,176	\$ 15,534	\$ 28,782	\$ 41,570
Motion pictures	11,186	12,327	6,469	16,112
Consumer products and other	7,601	9,339	6,926	7,478
Total operating income before corporate expenses	<u>\$ 24,963</u>	<u>\$ 37,200</u>	<u>\$ 42,177</u>	<u>\$ 65,160</u>
Income before taxes on income	\$ 22,528	\$ 33,886	\$ 38,855	\$ 62,078
Net income	\$ 11,828	\$ 17,786	\$ 20,355	\$ 31,978
Earnings per share	\$.37	\$.54	\$.63	\$.99

NOTE 9

Replacement Cost Information (Unaudited):

The Company has experienced the normal effects of inflation in recent years. By improving productivity, controlling costs and increasing selling prices, where competitive conditions permit, the Company has sought to lessen the impact of inflation. The Company does not anticipate that its future cash flow will be significantly affected by capital expenditures for replacement of plant and equipment.

In compliance with Securities and Exchange Commission requirements, the Company has presented replacement cost information in its Form 10-K Report with that agency (a copy of which is available upon request). In issuing its requirements, the Commission expressed caution and warning concerning inconsistency, lack of comparability, and simplistic use of the replacement cost data. Further, the Company does not believe

that the required techniques and related calculations produce meaningful data because of the highly theoretical nature of and the imprecisions inherent in the replacement cost exercise and the subjectivity necessarily involved in making those estimates. In addition, the requirement ignores circumstances, such as exist with the Company, where existing capacity can be maintained on a cost competitive basis by a comprehensive maintenance and refurbishment program.

Regardless of the reservations expressed above, the Company has sought conscientiously to formulate the replacement cost data in accordance with the SEC's requirements. The disclosure contains specific information with respect to estimates of the current replacement cost of the productive capacity of the Company and its subsidiaries as of September 30, 1977 and September 30, 1978 together with related amounts of costs and expenses on the basis of replacement cost for the years then ended.

Report of Independent Accountants



1880 CENTURY PARK EAST
WEST LOS ANGELES, CALIFORNIA 90067

November 20, 1978

To the Board of Directors and Stockholders
of Walt Disney Productions

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings and changes in financial position present fairly the financial position of Walt Disney Productions and its subsidiaries at September 30, 1978 and 1977, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Five Year Review

(Dollar amounts and shares in thousands, except per share data)

SUMMARY OF OPERATIONS BY BUSINESS SEGMENTS

Revenues

	1978	1977*	1976*	1975*	1974*
Entertainment and recreation	\$508,444	\$445,165	\$401,613	\$349,666	\$286,963
Motion pictures	152,135	118,058	119,133	112,528	90,390
Consumer products and other	80,564	66,602	63,150	57,812	52,536
Total revenues	\$741,143	\$629,825	\$583,896	\$520,006	\$429,889

Operating Income Before Corporate Expenses

Entertainment and recreation	\$105,952	\$ 92,062	\$ 70,423	\$ 60,987	\$ 42,499
Motion pictures	54,119	46,094	53,801	53,055	42,644
Consumer products and other	37,469	31,344	27,700	21,020	21,262
Total operating income before corporate expenses	197,540	169,500	151,924	135,062	106,405

Corporate Expenses

General and administrative	17,212	16,754	12,113	9,964	8,883
Design projects abandoned	3,311	1,740	3,182	6,702	1,285
Interest (income) expense—net	(12,468)	(6,341)	(3,570)	2,655	7,266
Total corporate expenses	8,055	12,153	11,725	19,321	17,434

Income Before Taxes on Income

Taxes on income	189,485	157,347	140,199	115,741	88,971
	91,100	75,400	65,600	54,000	40,444

Net Income	\$ 98,385	\$ 81,947	\$ 74,599	\$ 61,741	\$ 48,527
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Earnings per Share	\$3.04	\$2.53	\$2.30	\$1.91	\$1.51
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Cash Dividends per Share	\$.32	\$.15	\$.12	\$.12	\$.12
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FINANCIAL POSITION

Current assets less current liabilities	\$280,774	\$203,446	\$114,156	\$ 51,356	\$ 42,240
Property, plant and equipment—net of depreciation	633,885	629,940	623,542	616,660	611,627
Other non-current assets	54,808	44,641	54,507	40,632	38,829

	969,467	878,027	792,205	708,648	692,696
Less other non-current liabilities	108,232	106,821	99,823	89,905	132,525

Stockholders equity	\$861,235	\$771,206	\$692,382	\$618,743	\$560,171
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Stockholders equity per share	\$26.58	\$23.82	\$21.36	\$19.17	\$17.48
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Average number of common and common equivalent shares outstanding during the year	32,397	32,373	32,418	32,278	32,051
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CERTAIN CHANGES IN FINANCIAL POSITION

Working capital provided from operations	\$148,081	\$133,096	\$128,699	\$117,244	\$ 95,291
Additions to property, plant and equipment	45,367	44,517	43,708	42,565	67,241
Additions to film production costs	32,716	34,699	35,559	22,137	22,220
Cash dividends	10,273	4,725	3,659	3,553	3,483

OTHER DATA

Shareholders at close of year	66,000	65,000	61,000	59,000	57,000
Employees at close of year	21,000	18,000	16,000	15,000	14,000

*Reclassified for comparative purposes and to comply with reporting for business segment requirements adopted in 1978.
See notes to consolidated financial statements and summary of significant accounting policies.

Parent Company

WALT DISNEY PRODUCTIONS
500 S. Buena Vista Street, Burbank, California
Produces motion pictures for theatrical and television distribution—operates Disneyland Park—conducts ancillary activities.

Board of Directors

CAROLINE LEONETTI AHMANSON,
Business woman, civic leader and philanthropist

WILLIAM H. ANDERSON,
Independent Producer

ROY E. DISNEY,
*Chairman of the Board,
Shamrock Broadcasting Co., Inc.
(radio and television broadcasting)*

PHILIP M. HAWLEY,
*President, Carter Hawley Hale Stores, Inc.
(retail merchandising)*

RONALD W. MILLER,
*Executive Vice President-
Production and Creative Affairs*

RICHARD T. MORROW,
Vice President-General Counsel

DONN B. TATUM,
Chairman of the Board

E. CARDON WALKER,
President and Chief Executive Officer

RAYMOND L. WATSON,
*President, The Newport Development Co.
(land development)*

Director Emeritus

GORDON E. YOUNGMAN

Members of Executive Committee

RONALD W. MILLER
DONN B. TATUM
E. CARDON WALKER

Members of Audit Committee

CAROLINE LEONETTI AHMANSON
ROY E. DISNEY
RAYMOND L. WATSON

Members of Compensation Committee

CAROLINE LEONETTI AHMANSON
PHILIP M. HAWLEY
RAYMOND L. WATSON

Corporate Officers

Donn B. Tatum
Chairman of the Board

E. Cardon Walker
President and Chief Executive Officer

Ronald W. Miller
*Executive Vice President-Production
and Creative Affairs*

Michael L. Bagnall
Vice President-Finance and Treasurer

Barton K. Boyd
Vice President-Retail Merchandising

Ronald J. Cayo
Vice President-Business Affairs

Robert W. Gibeau
Vice President-Studio Operations

Vincent H. Jefferds
*Vice President-Marketing-
Consumer Products Division*

Jack B. Lindquist
*Vice President-Marketing-
Disneyland and Walt Disney World-
Outdoor Recreation*

Luther R. Marr
*Vice President-Corporate and
Stockholder Affairs*

Richard T. Morrow
Vice President-General Counsel

Richard A. Nunis
*Vice President-Operations-Disneyland
and Walt Disney World-Outdoor Recreation*

Howard Roland
*Vice President-Construction Contract
Administration and Purchasing*

Franklin Waldheim
Vice President and Eastern Counsel

Doris A. Smith
Secretary

Bruce F. Johnson
Controller

Neal E. McClure
Assistant Secretary

Leland L. Kirk
Assistant Secretary-Treasurer

William Allen Jones
Assistant Treasurer

Donald A. Escen
Assistant Treasurer and Assistant Controller

Douglas E. Houck
Assistant Controller

Donald E. Tucker
Assistant Controller

PRINCIPAL DOMESTIC SUBSIDIARIES AND DIVISIONS

BUENA VISTA DISTRIBUTION CO., INC.

Irving H. Ludwig—President

Distributes, syndicates and sells domestically the product of Walt Disney Productions, including 35mm theatrical film, television shows and records and albums.

BUENA VISTA INTERNATIONAL, INC.

Harold P. Archinal—President

Supervises the distribution of Walt Disney Productions: 35mm theatrical film, 16mm film and television shows in foreign countries.

CELEBRITIES, INC.

Richard A. Nunis—President

Operates Celebrity Sports Center.

DISNEYLAND DIVISION

E. Cardon Walker—President

Richard A. Nunis—Executive Vice President

Michael L. Bagnall—Vice President-Administration

Ronald K. Dominguez—Vice President-Operations

James P. Passilla—Vice President-Employee Relations

Larry L. Pontius—Vice President-Marketing

Doris A. Smith—Secretary

Robert J. Risteen—Treasurer

Nancy Mize—Controller

Operates Disneyland Park.

LAKE BUENA VISTA COMMUNITIES, INC.

E. Cardon Walker—President

Edward L. Moriarty—Vice President-Operations

Owns the community of Lake Buena Vista, operates the Village, and leases townhouses, residences and hotel sites.

WALT DISNEY EDUCATIONAL MEDIA COMPANY

E. Cardon Walker—President

James P. Jimirro—Executive Vice President

Distributes 16mm film, audio-visual educational materials and 8mm home movies.

WALT DISNEY MUSIC COMPANY

E. Cardon Walker—Chairman of the Board

Vincent H. Jefferds—Executive Vice President

Gary Krisel—Vice President-General Manager

Music Publishing—ASCAP affiliate.

WALT DISNEY TRAVEL CO., INC.

Jack B. Lindquist—President

Markets wholesale and retail tour packages.

WALT DISNEY WORLD CO.

Donn B. Tatum—Chairman of the Board

E. Cardon Walker—President

Richard A. Nunis—Executive Vice President

Robert C. Allen—Vice President-Walt Disney World

James P. Armstrong—Vice President-Resorts and Food Administration

Carl G. Bongirno—Vice President-Treasurer

Edward B. Crowell—Vice President-Facilities

Robert K. Matheison—Vice President-Operations

Larry L. Pontius—Vice President-Marketing

James P. Passilla—Vice President-Employee Relations

Howard Roland—Vice President-Construction Contract

Administration and Purchasing

Philip N. Smith—Vice President-Legal and Secretary

Charles Ray Maxwell—Controller

Operates Walt Disney World.

WED ENTERPRISES DIVISION

E. Cardon Walker—President

John C. Hench—Executive Vice President and Chief Operating Officer

L. Gordon Cooper, Jr.—Vice President-Research and Development

Orlando Ferrante—Vice President-Administration and Production

Martin A. Sklar—Vice President-Concepts/Planning

C. Langhorne Washburn—Vice President-Epcot/World Showcase

John Zovich—Vice President-Engineering

Michael L. Bagnall—Secretary-Treasurer

Master plans, designs and engineers for outdoor entertainment projects.

WONDERLAND MUSIC COMPANY, INC.

E. Cardon Walker—Chairman of the Board

Vincent H. Jefferds—Executive Vice President

Gary Krisel—Vice President-General Manager

Music Publishing—BMI affiliate.

FOREIGN SUBSIDIARIES WITH PRINCIPAL MARKETING EXECUTIVES

Distribute, sell and license Walt Disney products in foreign territories.

AUSTRALIA

Walt Disney Productions Pty. Limited

Walter A. Granger

Music publishing.

BELGIUM

Walt Disney Productions (Benelux) S.A.

Andre Vanneste

Character merchandising, publications and educational materials.

CANADA

Walt Disney Music of Canada Limited

James K. Rayburn

Records and music publishing.

DENMARK

Walt Disney Productions A/S Denmark

Gunnar Mansson

Publications.

FRANCE

Walt Disney Productions (France) S.A.

Armand Bigle, Richard Dassonville

35mm theatrical film, 16mm film, audio-visual educational materials, 8mm home movies, character merchandising, publications, records and music publishing.

GERMANY

Walt Disney Productions (Germany) GmbH

Horst Koblicsek

Character merchandising, publications, 8mm home movies, records and music publishing.

ITALY

Creazioni Walt Disney S.p.A.I.

Antonio Bertini

Character merchandising, publications, educational materials, 8mm home movies and records.

JAPAN

Walt Disney Enterprises of Japan Ltd.

Matsuo Yokoyama

Character merchandising, publications, 8mm home movies and music publishing.

SPAIN

Walt Disney Iberica, S.A.

Enrique Stuyck

Character merchandising and publications.

SWEDEN

Walt Disney Productions A/B

Gunnar Mansson, Abbe Drisin

35mm theatrical film, 8mm home movies, character merchandising and publications.

UNITED KINGDOM

Walt Disney Productions Limited

Gustave A. Zelnick, Monty Mendelson, Terry Byrne,

Keith Bales

35mm theatrical film, 16mm film, audio-visual educational materials, 8mm home movies, character merchandising, publications records and music publishing.

STOCK TRANSFER AGENT AND REGISTRAR

Bank of America, N.T.&S.A., San Francisco

STOCK EXCHANGES

The Common stock of the Company is listed for trading on the New York and Pacific Stock Exchanges

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co., West Los Angeles

ANNUAL MEETING OF STOCKHOLDERS

First Wednesday in February

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to the Secretary, Walt Disney Productions, 500 S. Buena Vista Street, Burbank, California 91521.

Walt Disney Productions makes available to its Shareholders a Dividend Reinvestment Plan. Those wishing a pamphlet about the plan should write to the Stockholder Relations Department, Walt Disney Productions, 500 S. Buena Vista Street, Burbank, California 91521.

This report is distributed for the information of stockholders and employees of the Company. It is not to be considered as either a prospectus or circular in connection with the purchase and/or sale of securities nor is it to be considered a part of the proxy soliciting material of the Company for the annual meeting of its stockholders.



Mickey Mouse dedicates his sidewalk star in front of the Chinese Theatre, the only animated figure honored among the 1700 stars already in place in Hollywood's Walk of Fame.



Look to the name Walt Disney for the finest in family entertainment.