Nielsen Holdings N.V.
Form 10-Q
April 25, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission file number 001-35042

Nielsen Holdings N.V.

(Exact name of registrant as specified in its charter)

The Netherlands	98-0662038
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
770 Broadway	Diemerhof 2
New York, New York 10003	1112 XL Diemen
(646) 654-5000	The Netherlands
	+31 (0) 20 398 87 77

(Address of principal executive offices) (Zip Code) (Registrant s telephone numbers including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

There were 360,772,260 shares of the registrant s Common Stock outstanding as of March 31, 2012.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
Nielsen Holdings N.V.

Condensed Consolidated Statements of Operations (Unaudited)

(IN MILLIONS EXCEPT SHARE AND PER SHARE DATA)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues	$ 1,340	$ 1,302
Cost of revenues, exclusive of depreciation and amortization shown separately below	565	549
Selling, general and administrative expenses, exclusive of depreciation and amortization shown separately below	453	543
Depreciation and amortization	131	136
Restructuring charges	37	23
Operating income	154	51
Interest income	1	1
Interest expense	(106)	(140)
Loss on derivative instruments		(1)
Foreign currency exchange transaction (losses)/gains, net	(9)	7
Other expense, net	(6)	(230)
Income/(loss) from continuing operations before income taxes and equity in net loss of affiliates	34	(312)
(Provision)/benefit for income taxes	(7)	134
Equity in net loss of affiliates	(2)	(2)
Income/(loss) from continuing operations	25	(180)
Loss from discontinued operations, net of tax		(1)
Net income/(loss)	25	(181)
Net income attributable to noncontrolling interests		1
Net income/(loss) attributable to Nielsen stockholders	$ 25	$ (182)
Net income/(loss) per share of common stock, basic and diluted		
Income/(loss) from continuing operations	$ 0.07	$ (0.55)
Net income/(loss) attributable to Nielsen stockholders	$ 0.07	$ (0.55)
Weighted-average shares of common stock outstanding, basic	360,881,693	331,248,626
Dilutive shares of common stock	4,839,365	
Weighted-average shares of common stock outstanding, diluted	365,721,058	331,248,626

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Nielsen Holdings N.V.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(IN MILLIONS)	**2012**	**2011**
Net income/(loss)	$ 25	$ (181)
Other comprehensive income, net of tax		
Foreign currency translation adjustments, net of tax	87	43
Changes in the fair value of cash flow hedges, net of tax	(1)	7
Defined benefit pension plan adjustments, net of tax	2	(1)
Total other comprehensive income	88	49
Total comprehensive income/(loss)	113	(132)
Less: comprehensive income attributable to noncontrolling interests		2
Total comprehensive income/(loss) attributable to Nielsen stockholders	$ 113	$ (134)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Nielsen Holdings N.V.

Condensed Consolidated Balance Sheets

(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)	March 31, 2012 (Unaudited)	December 31, 2011
Assets:		
Current assets		
Cash and cash equivalents	$ 295	$ 319
Trade and other receivables, net of allowances for doubtful accounts and sales returns of $25 and $24 as of March 31, 2012 and December 31, 2011, respectively	1,057	1,080
Prepaid expenses and other current assets	297	266
Total current assets	1,649	1,665
Non-current assets		
Property, plant and equipment, net	611	609
Goodwill	7,232	7,155
Other intangible assets, net	4,544	4,561
Deferred tax assets	179	198
Other non-current assets	322	316
Total assets	$ 14,537	$ 14,504
Liabilities and equity:		
Current liabilities		
Accounts payable and other current liabilities	$ 898	$ 1,025
Deferred revenues	424	443
Income tax liabilities	67	80
Current portion of long-term debt, capital lease obligations and short-term borrowings	293	144
Total current liabilities	1,682	1,692
Non-current liabilities		
Long-term debt and capital lease obligations	6,563	6,619
Deferred tax liabilities	972	996
Other non-current liabilities	548	556
Total liabilities	9,765	9,863
Commitments and contingencies (Note 10)		
Equity:		
Nielsen stockholders equity		
Common stock, 0.07 par value, 1,185,000,000 shares authorized; 361,232,014 and 360,107,359 shares issued and 360,772,260 and 359,647,605 shares outstanding at March 31, 2012 and December 31, 2011, respectively	30	30
Additional paid-in capital	6,445	6,427
Accumulated deficit	(1,500)	(1,525)
Accumulated other comprehensive loss, net of income taxes	(211)	(299)
Total Nielsen stockholders equity	4,764	4,633
Noncontrolling interests	8	8
Total equity	4,772	4,641

Total liabilities and equity	$ 14,537	$ 14,504

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(IN MILLIONS)	Three Months Ended March 31, 2012	2011
Operating Activities		
Net income/(loss)	$ 25	$ (181)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Stock-based compensation expense	8	4
Currency exchange rate differences on financial transactions and other losses	15	223
Loss on derivative instruments		1
Equity in net loss of affiliates, net of dividends received	5	6
Depreciation and amortization	131	136
Changes in operating assets and liabilities, net of effect of businesses acquired and divested:		
Trade and other receivables, net	51	57
Prepaid expenses and other current assets	(25)	(25)
Accounts payable and other current liabilities and deferred revenues	(227)	(155)
Other non-current liabilities	(1)	2
Interest payable	31	47
Income taxes payable	(16)	(167)
Net cash used in operating activities	(3)	(52)
Investing Activities		
Acquisition of subsidiaries and affiliates, net of cash acquired	(16)	(60)
Additions to property, plant and equipment and other assets	(42)	(20)
Additions to intangible assets	(40)	(32)
Other investing activities		(1)
Net cash used in investing activities	(98)	(113)
Financing Activities		
Net borrowings under revolving credit facility	120	
Proceeds from issuances of debt, net of issuance costs	1,209	277
Repayment of debt	(1,271)	(1,751)
Increase in other short-term borrowings	6	12
Proceeds from the issuance of common stock		1,801
Activity under stock plans	10	(2)
Settlement of derivatives and other financing activities	(4)	(212)
Net cash provided by financing activities	70	125
Effect of exchange-rate changes on cash and cash equivalents	7	15
Net decrease in cash and cash equivalents	(24)	(25)
Cash and cash equivalents at beginning of period	319	421
Cash and cash equivalents at end of period	$ 295	$ 396
Supplemental Cash Flow Information		
Cash paid for income taxes	$ (23)	$ (31)
Cash paid for interest, net of amounts capitalized	$ (75)	$ (93)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Nielsen Holdings N.V.

Notes to Condensed Consolidated Financial Statements (continued)

1. Background and Basis of Presentation

Background

Nielsen Holdings N.V. (Nielsen or the Company), together with its subsidiaries, is a leading global information and measurement company that provides clients with a comprehensive understanding of consumers and consumer behavior. Nielsen is aligned into three reporting segments: what consumers buy (Buy), what consumers watch (Watch) and Expositions. Nielsen has a presence in approximately 100 countries, with its headquarters located in Diemen, the Netherlands and New York, USA.

The Company was formed by several private equity groups through Valcon Acquisition Holding (Luxembourg) S.à r.l. (Luxco). As of December 31, 2011, Luxco owned 270,746,445 shares (or approximately 75%) of the Company s common stock. On March 26, 2012, Luxco and certain Nielsen employees (the selling shareholders) completed a public offering of 34,500,000 shares of Nielsen s common stock at a price of $30.25 per share. Subsequent to this offering Luxco owned 236,266,399 shares (or approximately 66%) of the Company s common stock.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited but, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company s financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) applicable to interim periods. For a more complete discussion of significant accounting policies, commitments and contingencies and certain other information, refer to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. All amounts are presented in U.S. Dollars ($), except for share data or where expressly stated as being in other currencies, e.g., Euros ( ). The condensed consolidated financial statements include the accounts of Nielsen and all subsidiaries and other controlled entities. The Company has evaluated events occurring subsequent to March 31, 2012 for potential recognition or disclosure in the condensed consolidated financial statements and concluded there were no subsequent events that required recognition or disclosure.

Earnings per Share

Basic net income or loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted-average number of shares of common stock and dilutive potential shares of common stock outstanding during the period. Dilutive potential shares of common stock consist of employee stock options and restricted stock as well as the amount of potential shares to be converted associated with the mandatory convertible subordinated bonds due 2013.

The effect of 5,978,758 shares of common stock equivalents under stock compensation plans were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2012 as such shares would have been anti-dilutive. The effect of 16,596,428 shares of common stock equivalents under stock compensation plans were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2011 due to our net loss position in that period. Of that amount and assuming dilution, 4,664,215 potential common shares would have been included in the calculation of diluted earnings per share and 1,984,085 anti-dilutive stock options would have been excluded from the calculation.

Additionally, the Company s mandatory convertible subordinated bonds due 2013 are convertible into between 10,416,700 and 12,499,925 shares of common stock, of which a weighted-average number of potential common shares of 10,416,700 and 7,563,394 were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2012 and 2011, respectively, as such shares would have been anti-dilutive.

2. Summary of Recent Accounting Pronouncements

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting update that amends Accounting Standards Codification (ASC) 820 - Fair Value Measurement regarding fair value measurements and disclosure requirements. The amendments were effective for

Nielsen as of January 1, 2012. The adoption of this update did not have a significant impact on the Company s condensed consolidated financial statements.

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Presentation of Comprehensive Income

In June 2011, the FASB issued an accounting update that amends ASC 220 - Presentation of Comprehensive Income , which eliminates the option to present other comprehensive income and its components in the statement of equity. The Company has presented the items of net income and other comprehensive income in two separate, but consecutive statements and this amended guidance does not have any other impact on the Company s condensed consolidated financial statements.

Testing Goodwill for Impairment

In September 2011, the FASB issued an accounting update that amends ASC 350 - Goodwill and Other Intangible Assets , which is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. The amended guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company will apply the updated guidance to its October 1, 2012 annual impairment test and has considered the results of its 2011 impairment test in forming the basis for its assumptions upon adoption of this update. The adoption of this update will not have a significant impact on the Company s consolidated financial statements.

3. Business Acquisitions

For the three months ended March 31, 2012, Nielsen paid cash consideration of $16 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisitions occurred as of January 1, 2012, the impact on Nielsen s consolidated results of operations would not have been material.

For the three months ended March 31, 2011, Nielsen paid cash consideration of $60 million associated with both that period s and previously executed acquisitions, net of cash acquired. Had that period s acquisitions occurred as of January 1, 2011, the impact on Nielsen s consolidated results of operations would not have been material.

4. Goodwill and Other Intangible Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2012.

(IN MILLIONS)	Buy	Watch	Expositions	Total
Balance, December 31, 2011	$ 3,055	$ 3,540	$ 560	$ 7,155
Acquisitions, divestitures and other adjustments	12			12
Effect of foreign currency translation	60	5		65
Balance, March 31, 2012	$ 3,127	$ 3,545	$ 560	$ 7,232

At March 31, 2012, $165 million of the goodwill is expected to be deductible for income tax purposes.

Other Intangible Assets

	Gross Amounts		Accumulated Amortization	
(IN MILLIONS)	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Indefinite-lived intangibles:				
Trade names and trademarks	$ 1,921	$ 1,921	$	$

Amortized intangibles:								
Trade names and trademarks	$	114	$	113	$	(39)	$	(37)
Customer-related intangibles		2,848		2,823		(788)		(747)
Covenants-not-to-compete		32		32		(23)		(22)
Computer software		1,130		1,089		(686)		(648)
Patents and other		84		83		(49)		(46)
Total	$	4,208	$	4,140	$	(1,585)	$	(1,500)

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Amortization expense associated with the above intangible assets was $79 million for the three months ended March 31, 2012 and 2011. These amounts included amortization expense associated with computer software of $39 million for the three months ended March 31, 2012 and 2011.

5. Restructuring Activities

A summary of the changes in the liabilities for restructuring activities is provided below:

(IN MILLIONS)	Total Initiatives
Balance at December 31, 2011	$ 67
Charges	37
Payments	(25)
Effect of foreign currency translation and reclassification adjustments	
Balance at March 31, 2012	$ 79

Nielsen recorded $37 million and $23 million in restructuring charges, primarily relating to severance costs, for the three months ended March 31, 2012 and 2011, respectively.

Of the $79 million in remaining liabilities for restructuring actions, $66 million is expected to be paid within one year and is classified as a current liability within the condensed consolidated financial statements as of March 31, 2012.

6. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally unobservable and may not be corroborated by market data.

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Financial Assets and Liabilities Measured on a Recurring Basis

The Company s financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, and long-term debt. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company s assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table summarizes the valuation of the Company s material financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

(IN MILLIONS)	March 31, 2012	Level 1	Level 2	Level 3
Assets:				
Investments in equity securities[1]	$ 21	$ 21	$	$
Plan assets for deferred compensation[2]	22	22		
Investment in mutual funds[3]	2	2		
Total	$ 45	$ 45	$	$
Liabilities:				
Interest rate swap arrangements[4]	$ 26	$	$ 26	$
Deferred compensation liabilities[5]	22	22		
Total	$ 48	$ 22	$ 26	$

(IN MILLIONS)	December 31, 2011	Level 1	Level 2	Level 3
Assets:				
Investments in equity securities[1]	$ 21	$ 21	$	$
Plan assets for deferred compensation[2]	20	20		
Investment in mutual funds[3]	2	2		
Total	$ 43	$ 43	$	$
Liabilities:				
Interest rate swap arrangements[4]	$ 24	$	$ 24	$
Deferred compensation liabilities[5]	20	20		
Total	$ 44	$ 20	$ 24	$

(1) Investments in equity securities are carried at fair value, which is based on the quoted market price at period end in an active market. These investments are classified as available-for-sale with any unrealized gains or losses resulting from changes in fair value recorded, net of tax, as a component of accumulated other comprehensive income/(loss) until realized.

(2) Plan assets are comprised of investments in mutual funds, which are intended to fund liabilities arising from deferred compensation plans. These investments are carried at fair value, which is based on quoted market prices at period end in active markets. These investments are classified as trading securities with any gains or losses resulting from changes in fair value recorded in other expense, net.

(3) Investments in mutual funds are money-market accounts held with the intention of funding certain specific retirement plans.

(4)

Derivative financial instruments include interest rate swap arrangements recorded at fair value based on externally-developed valuation models that use readily observable market parameters and the consideration of counterparty risk.

(5) The Company offers certain employees the opportunity to participate in a deferred compensation plan. A participant s deferrals are invested in a variety of participant directed stock and bond mutual funds and are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation.

Derivative Financial Instruments

Nielsen uses interest rate swap derivative instruments principally to manage the risk that changes in interest rates will affect the cash flows of its underlying debt obligations.

To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. Nielsen documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions as well as the hedge effectiveness assessment, both at the hedge inception and on an ongoing basis. Nielsen recognizes all derivatives at fair value either as assets or liabilities in the consolidated balance sheets and changes in the fair values of such instruments are recognized currently in earnings unless specific hedge accounting criteria are met. If specific cash flow hedge accounting criteria are met, Nielsen recognizes the changes in fair value of these instruments in accumulated other comprehensive income/(loss).

Nielsen manages exposure to possible defaults on derivative financial instruments by monitoring the concentration of risk that Nielsen has with any individual bank and through the use of minimum credit quality standards for all counterparties. Nielsen does not require collateral or other security in relation to derivative financial instruments. A derivative contract entered into between Nielsen or certain of its subsidiaries and a counterparty that was also a lender under Nielsen s senior secured credit facilities at the time the derivative contract was entered into is guaranteed under the senior secured credit facilities by Nielsen and certain of its subsidiaries (see Note 7 - Long-term Debt and Other Financing Arrangements for more information). Since it is Nielsen s policy to only enter into derivative contracts with banks of internationally acknowledged standing, Nielsen considers the counterparty risk to be remote.

It is Nielsen s policy to have an International Swaps and Derivatives Association (ISDA) Master Agreement established with every bank with which it has entered into any derivative contract. Under each of these ISDA Master Agreements, Nielsen agrees to settle only the net amount of the combined market values of all derivative contracts outstanding with any one counterparty should that counterparty default. Certain of the ISDA Master Agreements contain cross-default provisions where if the Company either defaults in payment obligations under its credit facility or if such obligations are accelerated by the lenders, then the Company could also be declared in default on its derivative obligations. At March 31, 2012, Nielsen had no material exposure to potential economic losses due to counterparty credit default risk or cross-default risk on its derivative financial instruments.

Interest Rate Risk

Nielsen is exposed to cash flow interest rate risk on the floating-rate U.S. Dollar and Euro Term Loans, and uses floating-to-fixed interest rate swaps to hedge this exposure. For these derivatives, Nielsen reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income/(loss) and reclassifies it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction.

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As of March 31, 2012 the Company had the following outstanding interest rate swaps utilized in the management of its interest rate risk:

	Notional Amount	Maturity Date	Currency
Interest rate swaps designated as hedging instruments			
US Dollar term loan floating-to-fixed rate swaps	$ 500,000,000	November 2012	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 250,000,000	March 2013	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 1,000,000,000	November 2013	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 250,000,000	November 2014	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 250,000,000	September 2015	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 125,000,000	November 2015	US Dollar
Euro term loan floating-to-fixed rate swaps	125,000,000	November 2015	Euro

Nielsen expects to recognize approximately $20 million of net pre-tax losses from accumulated other comprehensive loss to interest expense in the next 12 months associated with its interest-related derivative financial instruments.

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

The fair values of the Company s derivative instruments as of March 31, 2012 and December 31, 2011 were as follows:

Derivatives Designated as Hedging Instruments	**March 31, 2012**		**December 31, 2011**	
(IN MILLIONS)	**Accounts Payable and Other Current Liabilities**	**Other Non-Current Liabilities**	**Accounts Payable and Other Current Liabilities**	**Other Non-Current Liabilities**
Interest rate swaps	$ 11	$ 15	$ 10	$ 14

Derivatives in Cash Flow Hedging Relationships

The pre-tax effect of derivative instruments in cash flow hedging relationships for the three months ended March 31, 2012 and 2011 was as follows:

Derivatives in Cash Flow Hedging Relationships	**Amount of (Loss)/Gain Recognized in OCI (Effective Portion) Three Months Ended March 31,**		**Location of (Loss)/ Gain Reclassified from OCI into Income (Effective Portion)**	**Amount of Loss Reclassified from OCI into Income (Effective Portion) Three Months Ended March 31,**		**Amount of Loss Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended March 31,**	
(IN MILLIONS)	**2012**	**2011**		**2012**	**2011**	**2012**	**2011**
Interest rate swaps	$ (8)	$ 1	Interest expense	$ 6	$ 5	$	$ 5

Derivatives Not Designated as Hedging Instruments

The pre-tax effect of derivative instruments not designated as hedges for the three months ended March 31, 2012 and 2011 was as follows:

Derivatives Not Designated as Hedging Instruments (IN MILLIONS)	Location of Loss Recognized in Statement of Operations on Derivatives	Three Months Ended March 31, 2012	2011
Interest rate swaps	Loss on derivative instruments	$	$ 1
Total		$	$ 1

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is required, on a nonrecurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements. The Company s equity method investments, cost method investments, and non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

The Company did not measure any material non-financial assets or liabilities at fair value during the three months ended March 31, 2012.

7. Long-term Debt and Other Financing Arrangements

Unless otherwise stated, interest rates are as of March 31, 2012.

	March 31, 2012			**December 31, 2011**		
(IN MILLIONS)	**Weighted Interest Rate**	**Carrying Amount**	**Fair Value**	**Weighted Interest Rate**	**Carrying Amount**	**Fair Value**
USD senior secured term loan (LIBOR based variable rate of 2.24%) due 2013		$ 218	$ 218		$ 1,287	$ 1,270
USD senior secured term loan (LIBOR based weighted-average variable rate of 3.70%) due 2016		2,332	2,331		2,338	2,290
USD senior secured term loan (LIBOR based weighted-average variable rate of 2.49%) due 2017		1,222	1,175			
Euro senior secured term loan (Euro LIBOR based variable rate of 2.43%) due 2013		35	35		186	183
Euro senior secured term loan (Euro LIBOR based weighted-average variable rate of 4.00%) due 2016		354	354		345	338
$500 million 8.50% senior secured term loan due 2017		500	538		500	538
$635 million senior secured revolving credit facility (weighted-average variable rate of 2.99%) due 2016		120	120			
Total senior secured credit facilities (with weighted-average contractual interest rate)	**4.08%**	**4,781**	**4,771**	**4.13%**	**4,656**	**4,619**
$325 million 11.50% senior debenture loan due 2016		307	354		307	350
$215 million 11.625% senior debenture loan due 2014		205	236		204	234
$1,080 million 7.75% senior debenture loan due 2018		1,084	1,191		1,084	1,165
50 million private placement debenture loan (EMTN) (3-month EURIBOR based variable rate of 2.56%) due 2012		67	67		65	64
30 million 6.75% private placement debenture loan (EMTN) due 2012					39	39
$288 million 6.25% mandatory convertible subordinated bonds due 2013		288	336		288	346
Total debenture loans (with weighted-average contractual interest rate)	**9.76%**	**1,951**	**2,184**	**9.72%**	**1,987**	**2,198**
Other loans		2	2		4	4
Total long-term debt	**5.72%**	**6,734**	**6,957**	**5.80%**	**6,647**	**6,821**
Capital lease and other financing obligations		114			115	
Bank overdrafts		8			1	
Total debt and other financing arrangements		**6,856**			**6,763**	
		293			144	

Less: Current portion of long-term debt, capital lease and other financing obligations and other short-term borrowings[1]		
Non-current portion of long-term debt and capital lease and other financing obligations	**$ 6,563**	**$ 6,619**

(1) Current portion of long-term debt includes $120 million outstanding under the senior secured revolving credit facility due 2016 and does not include the $288 million mandatory convertible subordinated bonds due 2013 as such bonds will be converted into shares of the Company s common stock.

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The fair value of the Company s long-term debt instruments was based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities.

In February 2012, the Company s 30 million 6.75% EMTN matured and was repaid.

Annual maturities of Nielsen s long-term debt are as follows:

(IN MILLIONS)	
For April 1, 2012 to December 31, 2012	$ 260
2013[2]	631
2014	340
2015	149
2016	3,037
2017	1,233
Thereafter	1,084
	$ 6,734

(2) Includes the $288 million mandatory convertible subordinated bonds due 2013.

Amendment to Senior Secured Credit Facility

In February 2012, the Senior Secured Credit Agreement was amended and restated to provide for a new five-year amortizing term loan facility in an aggregate principal amount of $1,222 million, the proceeds from which were used to repay a corresponding amount of the existing senior secured term loans due 2013. The Company accounted for this as a new term loan due 2017 and an extinguishment of the amounts repaid under the existing term loan due 2013 and recorded a charge of $6 million associated with the combined elements of this transaction as a component of other expense, net in the condensed consolidated financial statements.

Borrowings under the new term loan facility bear interest at a rate as determined by the type of borrowing, equal to either the base rate or LIBOR rate, plus, in each case, an applicable margin. The applicable margin on base rate loans under this new term loan facility ranges from 0.75% to 1.50% based on a total leverage ratio. The applicable margin on LIBOR loans under this new term loan facility ranges from 1.75% to 2.50% based on the total leverage ratio. Loans under this new term loan facility mature in full in February 2017, but the maturity date shall be January 2016 if at such time there is more than $750 million in the aggregate of existing other term loans under the Senior Secured Credit Agreement with a maturity of May 2016. The loans under this new term loan facility are required to be repaid in an amount equal to 5% of the original principal amount in the first year after the closing date, 5% in the second year, 10% in the third year, 10% in the fourth year and 70% in the fifth year (with payments in each year being made in equal quarterly installments other than the fifth year, in which payments shall be equal to 3.33% of the original principal amount of loans in each of the first three quarters and the remaining principal balance due in February 2017 (unless repayment is required in January 2016 as indicated above)). Loans under this new term loan facility are secured on a pari passu basis with the Company s existing obligations under the Senior Secured Credit Agreement and Senior Secured Loan Agreement.

8. Stockholders Equity

Common stock activity is as follows:

	Three Months Ended March 31, 2012
Actual number of shares of common stock outstanding	
Beginning of period	359,647,605
Shares of common stock issued through compensation plans	1,124,655

End of period	360,772,260

Cumulative shares of treasury stock were 459,754 with a corresponding cost of $8 million as of March 31, 2012 and December 31, 2011. No dividends were declared or paid during the three months ended March 31, 2012.

9. Income Taxes

The effective tax rates for the three months ended March 31, 2012 and 2011 were 21% and 43% (benefit), respectively. The tax rate for the three months ended March 31, 2012 was lower than the statutory expense rate as the favorable

impact of certain financing activities and tax audit settlements more than offset the tax rate differences in other jurisdictions where the Company files tax returns. The tax rate benefit for the three months ended March 31, 2011 was higher than the statutory benefit rate would have been primarily due to the favorable impact of certain financing activities and the tax rate differences in other jurisdictions where the Company files tax returns.

Liabilities for unrecognized income tax benefits totaled $97 million and $96 million as of March 31, 2012 and December 31, 2011, respectively. If the Company s tax positions are favorably sustained by the taxing authorities, the reversal of the underlying liabilities would reduce the Company s effective tax rate in future periods.

The Company files numerous consolidated and separate income tax returns in the U.S. Federal jurisdiction and in many state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal income tax examinations for 2006 and prior periods. In addition, the Company has subsidiaries in various states, provinces and countries that are currently under audit for years ranging from 2001 through 2010.

The Company is under Canadian audit for the years 2007 and 2008. It is anticipated that these examinations will be completed within the next twelve months. To date, the Company is not aware of any material adjustments not already accrued related to any of the current Federal, state or foreign audits under examination.

10. Commitments and Contingencies

Legal Proceedings and Contingencies

Nielsen is subject to litigation and other claims in the ordinary course of business, some of which include claims for substantial sums. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While the ultimate results of claims and litigation cannot be determined, the Company does expect that the ultimate disposition of these matters will not have a material adverse effect on its operations or financial condition. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect the Company s future results of operations or cash flows in a particular period.

11. Segments

The Company aligns its operating segments in order to conform to management s internal reporting structure, which is reflective of service offerings by industry. Management aggregates such operating segments into three reporting segments: what consumers buy (Buy), consisting principally of market research information and analytical services; what consumers watch (Watch), consisting principally of television, online and mobile audience and advertising measurement and corresponding analytics and Expositions, consisting principally of trade shows, events and conferences.

Corporate consists principally of unallocated items such as certain facilities and infrastructure costs as well as intersegment eliminations. Certain corporate costs, other than those described above, including those related to selling, finance, legal, human resources, and information technology systems, are considered operating costs and are allocated to the Company s segments based on either the actual amount of costs incurred or on a basis consistent with the operations of the underlying segment. Information with respect to the operations of each of Nielsen s business segments is set forth below based on the nature of the services offered and geographic areas of operations.

Business Segment Information

(IN MILLIONS)	Buy	Watch	Expositions	Corporate	Total
Three Months Ended March 31, 2012					
Revenues	$ 799	$ 480	$ 61	$	$ 1,340
Depreciation and amortization	$ 53	$ 70	$ 6	$ 2	$ 131
Restructuring charges	$ 31	$ 5	$	$ 1	$ 37
Stock-based compensation expense	$ 2	$ 2	$	$ 4	$ 8
Other items[(1)]	$	$	$	$ 2	$ 2
Operating income/(loss)	$ 35	$ 108	$ 30	$ (19)	$ 154
Business segment income/(loss)[(2)]	$ 121	$ 185	$ 36	$ (10)	$ 332

Total assets as of March 31, 2012	$ 6,879	$ 6,582	$ 797	$ 279	$ 14,537

(IN MILLIONS)	Buy	Watch	Expositions	Corporate	Total
Three Months Ended March 31, 2011					
Revenues	$ 778	$ 468	$ 56	$	$ 1,302
Depreciation and amortization	$ 48	$ 79	$ 7	$ 2	$ 136

(IN MILLIONS)	Buy	Watch	Expositions	Corporate	Total
Restructuring charges	$ 17	$ 4	$	$ 2	$ 23
Stock-based compensation expense	$ 2	$ 1	$	$ 1	$ 4
Other items[1]	$	$	$	$ 106	$ 106
Operating income/(loss)	$ 53	$ 93	$ 26	$ (121)	$ 51
Business segment income/(loss)[2]	$ 120	$ 177	$ 33	$ (10)	$ 320
Total assets as of December 31, 2011	$ 6,782	$ 6,560	$ 794	$ 368	$ 14,504

(1) Other items include costs associated with Nielsen s secondary public offering of common stock and other transaction related costs of $2 million for the three months ended March 31, 2012 and fees associated with certain consulting arrangements and preparatory costs for Nielsen s initial public offering of common stock of $4 million for the three months ended March 31, 2011. Other items for the three months ended March 31, 2011 also include $102 million for the termination and settlement of the Sponsor Advisory Agreements.

(2) The Company s chief operating decision making group uses business segment income/(loss) to measure performance from period to period both at the consolidated level as well as within its operating segments.

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

The following discussion and analysis supplements management s discussion and analysis of Nielsen Holdings N.V. (the Company or Nielsen) for the year ended December 31, 2011 as contained in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on February 22, 2012, and presumes that readers have read or have access to such discussion and analysis. The following discussion and analysis should also be read together with the accompanying Condensed Consolidated Financial Statements and related notes thereto. Further, this report may contain material that includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect, when made, Nielsen s current views with respect to current events and financial performance. Statements, other than those based on historical facts, which address activities, events or developments that we expect or anticipate may occur in the future are forward-looking statements. Such forward-looking statements are subject to many risks, uncertainties and factors relating to Nielsen s operations and business environment that may cause actual results to be materially different from any future results, express or implied, by such forward-looking statements, including but not limited to, those set forth in this Item 2 and Part II, Item 1A, if any, and those noted in our 2011 Annual Report on Form 10-K under Risk Factors. Forward-looking statements speak only as of the date of this report or as of the date they were made. We disclaim any intention to update the current expectations or forward-looking statements contained in this report. Unless required by context, references to we , us , and our refer to Nielsen and each of its consolidated subsidiaries.

Background and Executive Summary

We are a global information and measurement company that provides clients with a comprehensive understanding of consumers and consumer behavior. We deliver critical media and marketing information, analytics and industry expertise about what consumers buy (referred to herein as Buy) and what consumers watch on a global and local basis (consumer interaction across the television, online and mobile viewing platforms referred to herein as Watch). Our information, insights and solutions help our clients maintain and strengthen their market positions and identify opportunities for profitable growth. We have a presence in approximately 100 countries, including many developing and emerging markets, and hold leading market positions in many of our services and geographies.

We believe that important measures of our results of operations include revenue, operating income and adjusted EBITDA (defined below). Our long-term financial objectives include consistent revenue growth and expanding operating margins. Accordingly, we are focused on geographic market and service offering expansion to drive revenue growth and improving operating efficiencies including effective resource utilization, information technology leverage and overhead cost management.

Our business strategy is built upon a model that has traditionally yielded consistent revenue performance. Typically, before the start of each year, nearly 70% of our annual revenue has been committed under contracts in our combined Buy and Watch segments, which provides us with a high degree of stability to our revenue and allows us to effectively manage our profitability and cash flows. We continue to look for growth opportunities through global expansion, specifically within developing markets, as well as through the cross-platform expansion of our insights services and measurement services.

Our restructuring and other productivity initiatives have been focused on a combination of improving operating leverage through targeted cost-reduction programs, business process improvements, portfolio restructuring actions while at the same time investing in key programs to enhance future growth opportunities.

Achieving our business objectives requires us to manage a number of key risk areas. Our growth objective of geographic market and service expansion requires us to maintain the consistency and integrity of our information and underlying processes on a global scale, and to invest effectively our capital in technology and infrastructure to keep pace with our clients demands and our competitors. Our operating footprint across approximately 100 countries requires disciplined global and local resource management of internal and third party providers to ensure success. In addition, our high level of indebtedness requires active management of our debt profile, with a focus on underlying maturities, interest rate risk, liquidity and operating cash flows.

Business Segment Overview

Our Buy and Watch segments, which together generate substantially all of our revenues, are built on a foundation of proprietary data assets that are designed to yield essential insights for our clients to successfully measure, analyze and grow their businesses.

Our Buy segment provides Information services, which includes our core tracking and scan data (primarily transactional measurement data and consumer behavior information) and Insights services (primarily comprised of our analytical solutions) to businesses in the consumer packaged

goods industry. Our services also enable our clients to better manage their brands, uncover new sources of demand, launch and grow new products, analyze their sales, improve their marketing mix and establish more effective consumer relationships. Our data is used by our clients to measure their market share, tracking billions of sales transactions per month in retail outlets around the world. Our extensive database of retail and consumer information, combined with our advanced analytical

capabilities, helps generate strategic insights that influence our clients key business decisions. Within our Buy segment, we have two primary geographic groups, developed and developing markets. Developed markets primarily include the United States, Canada, Western Europe, Japan and Australia while developing markets include Latin America, Eastern Europe, Russia, China, India and Southeast Asia.

Our Watch segment provides viewership data and analytics primarily to the media and advertising industries across television, online and mobile screens. Our Watch data is used by our media clients to understand their audiences, establish the value of their advertising inventory and maximize the value of their content, and by our advertising clients to plan and optimize their spending. We are a leader in providing cross-platform measurement services.

Our Expositions segment operates one of the largest portfolios of business-to-business trade shows and conference events in the United States. Each year, we produce more than 40 trade shows and conference events, which in 2011 connected over 300,000 buyers and sellers across 20 industries.

Certain corporate costs, other than those described above, including those related to selling, finance, legal, human resources, and information technology systems, are considered operating costs and are allocated to our segments based on either the actual amount of costs incurred or on a basis consistent with the operations of the underlying segment.

Factors Affecting Nielsen s Financial Results

Acquisitions and Investments in Affiliates

For the three months ended March 31, 2012, we paid cash consideration of $16 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisition occurred as of January 1, 2012, the impact on our consolidated results of operations would not have been material.

For the three months ended March 31, 2011, we paid cash consideration of $60 million associated with both that period s and previously executed acquisitions, net of cash acquired. Had that period s acquisitions occurred as of January 1, 2011, the impact on our consolidated results of operations would not have been material.

Foreign Currency

Our financial results are reported in U.S. dollars and are therefore subject to the impact of movements in exchange rates on the translation of the financial information of individual businesses whose functional currencies are other than U.S. dollars. Our principal foreign exchange revenue exposure is spread across several currencies, primarily the Euro. The table below sets forth the profile of our revenue by principal currency.

	Three Months Ended March 31,	
	2012	2011
U.S. Dollar	52%	52%
Euro	12%	13%
Other Currencies	36%	35%
Total	100%	100%

As a result, fluctuations in the value of foreign currencies relative to the U.S. dollar impact our operating results. Impacts associated with fluctuations in foreign currency are discussed in more detail under Item 3. Quantitative and Qualitative Disclosures about Market Risk. In countries with currencies other than the U.S. dollar, assets and liabilities are translated into U.S. dollars using end-of-period exchange rates; revenues, expenses and cash flows are translated using average rates of exchange. The average U.S. dollar to Euro exchange rate was $1.31 to 1.00 and $1.37 to 1.00 for the three months ended March 31, 2012 and 2011, respectively. Constant currency growth rates used in the following discussion of results of operations eliminate the impact of year-over-year foreign currency fluctuations.

We evaluate our results of operations on both an as reported and a constant currency basis. The constant currency presentation is a non-GAAP financial measure, which excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our prior-period local currency financial results using the current period foreign currency exchange rates and comparing these adjusted amounts to our current period reported results. This calculation may differ from similarly-titled measures used by others and, accordingly, the constant currency presentation is not meant to be a substitution for recorded amounts presented in conformity with GAAP nor should such amounts be considered in isolation.

Results of Operations Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

The following table sets forth, for the periods indicated, the amounts included in our Condensed Consolidated Statements of Operations:

	Three Months Ended March 31,	
(IN MILLIONS)	**2012**	**2011**
Revenues	$ 1,340	$ 1,302
Cost of revenues, exclusive of depreciation and amortization shown separately below	565	549
Selling, general and administrative expenses, exclusive of depreciation and amortization shown separately below	453	543
Depreciation and amortization	131	136
Restructuring charges	37	23
Operating income	154	51
Interest income	1	1
Interest expense	(106)	(140)
Loss on derivative instruments		(1)
Foreign currency exchange transaction (losses)/gains, net	(9)	7
Other expense, net	(6)	(230)
Income/(loss) from continuing operations before income taxes and equity in net loss of affiliates	34	(312)
(Provision)/benefit for income taxes	(7)	134
Equity in net loss of affiliates	(2)	(2)
Income/(loss) from continuing operations	25	(180)
Loss from discontinued operations, net of tax		(1)
Net income/(loss)	25	(181)

Net Income/(Loss) to Adjusted EBITDA Reconciliation

We define Adjusted EBITDA as net income or loss from our consolidated statements of operations before interest income and expense, income taxes, depreciation and amortization, restructuring charges, goodwill and intangible asset impairment charges, stock compensation expense and other non-operating items from our consolidated statements of operations as well as certain other items specifically described below.

Adjusted EBITDA is not a presentation made in accordance with GAAP, and our use of the term Adjusted EBITDA may vary from the use of similarly-titled measures by others in our industry due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation.

We use Adjusted EBITDA to measure our performance from period to period both at the consolidated level as well as within our operating segments, to evaluate and fund incentive compensation programs and to compare our results to those of our competitors. In addition to Adjusted EBITDA being a significant measure of performance for management purposes, we also believe that this presentation provides useful information to investors regarding financial and business trends related to our results of operations and that when non-GAAP financial

information is viewed with GAAP financial information, investors are provided with a more meaningful understanding of our ongoing operating performance.

Adjusted EBITDA should not be considered as an alternative to net income or loss, operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance or cash flows as measures of liquidity. Adjusted EBITDA has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

The below table presents a reconciliation from net income/(loss) to Adjusted EBITDA for the three months ended March 31, 2012 and 2011:

(IN MILLIONS)	Three Months Ended March 31, 2012	2011
Net income/(loss)	$ 25	$ (181)
Loss from discontinued operations, net		1
Interest expense, net	105	139
Provision/(benefit) for income taxes	7	(134)
Depreciation and amortization	131	136
EBITDA	268	(39)
Equity in net loss of affiliates	2	2
Other non-operating expense, net	15	224
Restructuring charges	37	23
Stock-based compensation expense	8	4
Other items[(a)]	2	106
Adjusted EBITDA	$ 332	$ 320

(a) Other items include costs associated with our secondary public offering of common stock and other transaction related costs of $2 million for the three months ended March 31, 2012 and fees associated with certain consulting arrangements and preparatory costs for our initial public offering of common stock of $4 million for the three months ended March 31, 2011. Other items for the three months ended March 31, 2011 also include $102 million for the termination and settlement of the Sponsor Advisory Agreements.

Consolidated Results for the Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Revenues

Our revenues increased 2.9% to $1,340 million for the three months ended March 31, 2012 from $1,302 million for the three months ended March 31, 2011, or 4.2% on a constant currency basis, which excludes a 1.3% unfavorable impact of changes in foreign currency exchange rates. These increases were driven by a 2.7% increase within our Buy segment (4.6% on a constant currency basis), a 2.6% increase within our Watch segment (3.0% on a constant currency basis), and an 8.9% increase in our Expositions segment.

Cost of Revenues, Exclusive of Depreciation and Amortization

Cost of revenues increased 2.9% to $565 million for the three months ended March 31, 2012 from $549 million for the three months ended March 31, 2011, or 4.4% on a constant currency basis, excluding a 1.5% favorable impact of changes in foreign currency exchange rates. These increases resulted from a 3.8% increase within our Buy segment (6.2% on a constant currency basis) due primarily to investments in the continued global expansion of our services. Costs within our Watch segment increased 1.1% (1.6% on a constant currency basis).

Selling, General and Administrative Expenses, Exclusive of Depreciation and Amortization

Selling, general and administrative expenses decreased 16.6% to $453 million for the three months ended March 31, 2012 from $543 million for the three months ended March 31, 2011, or 16.0% on a constant currency basis, excluding a 0.6% favorable impact of changes in foreign currency exchange rates. These decreases were driven primarily by a $99 million decrease in Corporate costs as a result of the $102 million charge for the termination and settlement of the Sponsor Advisory Agreements in 2011. Costs within our Buy segment increased 2.2% (3.5% on a constant currency basis) due to increases in client service costs and other investments associated with the continued global expansion of our services and costs within our Watch segment increased 2.9% (3.9% on a constant currency basis) due primarily to increased investment in cross-platform measurement initiatives.

Depreciation and Amortization

Depreciation and amortization expense was $131 million for the three months ended March 31, 2012 as compared to $136 million for the three months ended March 31, 2011. Depreciation and amortization expense associated with tangible and intangible assets acquired in business combinations decreased to $42 million for the three months ended March 31, 2012 from $50 million for the three months ended March 31, 2011 resulting from lower amortization on purchase price adjustments for certain assets that became fully amortized. This decline was slightly offset by increases in depreciation and amortization expense associated with ongoing capital expenditures.

Restructuring Charges

We recorded $37 million and $23 million in restructuring charges relating to employee severance associated with productivity initiatives during the three months ended March 31, 2012 and 2011, respectively.

Operating Income

Operating income for the three months ended March 31, 2012 was $154 million as compared to operating income of $51 million for the three months ended March 31, 2011. Operating income within our Buy segment was $35 million for the three months ended March 31, 2012 as compared to $53 million for the three months ended March 31, 2011. Operating income within our Watch segment was $108 million for the three months ended March 31, 2012 as compared to $93 million for the three months ended March 31, 2011. Operating income within our Expositions segment was $30 million for the three months ended March 31, 2012 as compared to $26 million for the three months ended March 31, 2011. Corporate operating expenses decreased to $19 million for the three months ended March 31, 2012 from $121 million for the three months ended March 31, 2011.

Interest Expense

Interest expense was $106 million for the three months ended March 31, 2012 as compared to $140 million for the three months ended March 31, 2011. The decline related to the impact of debt retirements from our initial public offering of common stock in 2011, partially offset by increases in interest costs associated with our senior secured term loans.

Foreign Currency Exchange Transaction (Losses)/Gains, Net

Foreign currency exchange transaction (losses)/gains, net, represent the net loss or gain on revaluation of external debt, intercompany loans and other receivables and payables denominated in currencies other than the underlying functional currency. Fluctuations in the value of foreign currencies relative to the U.S. Dollar have a significant effect on our operating results, particularly the Euro. The average U.S. Dollar to Euro exchange rate was $1.31 to 1.00 for the three months ended March 31, 2012 as compared to $1.37 to 1.00 for the three months ended March 31, 2011.

Foreign currency exchange resulted in a $9 million loss for the three months ended March 31, 2012 as compared to $7 million gain for the three months ended March 31, 2011. The loss in 2012 resulted primarily from fluctuations in certain currencies associated with a portion of our intercompany loan portfolio. The gain in 2011 resulted primarily from the fluctuation in Japanese Yen as compared to the Euro applied to a debenture loan that has matured and was repaid as well as fluctuations in certain currencies associated with a portion of our intercompany loan portfolio.

Other Expense, net

The $6 million of other expense, net amount for the three months ended March 31, 2012 primarily relates to the write-off of deferred financing costs and other costs associated with the amendment and restatement of the Senior Secured Credit Facility.

The $230 million other expense, net amount for the three months ended March 31, 2011 includes charges of approximately $231 million associated with the redemption and subsequent retirement of certain indebtedness through the use of proceeds generated from our initial public offering of common stock and concurrent offering of mandatory convertible subordinated bonds. The charges related to the associated redemption premiums and recognition of previously deferred financing costs. These charges were partially offset by $1 million of other gains.

Income Taxes

The effective tax rates for the three months ended March 31, 2012 and 2011 were 21% and 43% (benefit), respectively. The tax rate for the three months ended March 31, 2012 was lower than the statutory expense rate as the favorable impact of certain financing activities and tax audit settlements more than offset the tax rate differences in other jurisdictions where we file tax returns. The tax rate benefit for the three months ended March 31, 2011 was higher than the statutory benefit rate would have been primarily due to the favorable impact of certain financing activities and the tax rate differences in other jurisdictions where we file tax returns.

Liabilities for unrecognized income tax benefits totaled $97 million and $96 million as of March 31, 2012 and December 31, 2011, respectively. If the Company s tax positions are favorably sustained by the taxing authorities, the reversal of the underlying liabilities would reduce the

Company s effective tax rate in future periods.

Adjusted EBITDA

Our Adjusted EBITDA increased 3.8% to $332 million for the three months ended March 31, 2012 from $320 million for the three months ended March 31, 2011, or 5.1% on a constant currency basis, excluding a 1.3% unfavorable impact of changes in foreign currency exchange rates. See Results of Operations Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011 for the reconciliation of net income to Adjusted EBITDA.

Business Segment Results for the Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Revenues

The table below sets forth our segment revenue performance data for the three months ended March 31, 2012 compared to the three months ended March 31, 2011, both on an as-reported and constant currency basis.

(IN MILLIONS)	Three Months Ended March 31, 2012 Reported	Three Months Ended March 31, 2011 Reported	% Variance 2012 vs. 2011 Reported	Three Months Ended March 31, 2011 Constant Currency	% Variance 2012 vs. 2011 Constant Currency
Revenues by segment					
Buy	$ 799	$ 778	2.7%	$ 764	4.6%
Watch	480	468	2.6%	466	3.0%
Expositions	61	56	8.9%	56	8.9%
Total	$ 1,340	$ 1,302	2.9%	$ 1,286	4.2%

Buy Segment Revenues

Revenues increased 2.7% to $799 million for the three months ended March 31, 2012 from $778 million for the three months ended March 31, 2011, or 4.6% on a constant currency basis driven by a 7.2% increase in Developing markets (10.8% on a constant currency basis), as our customers continue to expand geographically and increase their spending on analytical services.

Revenues from Information services increased 2.0% to $612 million for the three months ended March 31, 2012 from $600 million for the three months ended March 31, 2011, or 3.9% on a constant currency basis. These increases were driven by 6.4% growth in Developing markets (9.9% on a constant currency basis) as a result of continued expansion of both our retail measurement and consumer panel services to both new and existing customers and new markets. Revenues from Developed markets were relatively flat for the three months ended March 31, 2012 as compared to the three months March 31, 2011.

Revenues from Insights services increased 5.1% to $187 million for the three months ended March 31, 2012 from $178 million for the three months ended March 31, 2011, or 6.9% on a constant currency basis. These increases were driven by growth in both Developed and Developing markets.

Watch Segment Revenues

Revenues increased 2.6% to $480 million for the three months ended March 31, 2012 from $468 million for the three months ended March 31, 2011, or 3.0% on a constant currency basis driven by 3.6% growth in Television measurement as a result of increases in spending from existing customers.

Expositions Segment Revenues

Revenues increased 8.9% to $61 million for the three months ended March 31, 2012 from $56 million for the three months ended March 31, 2011. These increases predominately relate to growth driven by certain sectors of existing shows.

Business Segment Profitability

We do not allocate items below operating income/(loss) to our business segments and therefore the tables below set forth a reconciliation of operating income/(loss) at the business segment level for the three months ended March 31, 2012 and 2011, adjusting for certain items affecting operating income/(loss), such as restructuring charges, depreciation and amortization, stock-based compensation expense and certain other items described below resulting in a presentation of our non-GAAP business segment profitability. Non-GAAP business segment profitability provides useful supplemental information to management and investors regarding financial and business trends related to our results of operations. When this non-GAAP financial information is viewed with our GAAP financial information, investors are provided with a meaningful understanding of our ongoing operating performance. It is important to note that the non-GAAP business segment profitability corresponds in total to our consolidated Adjusted EBITDA

described within our consolidated results of operations above, which our chief operating decision making group and other members of management use to measure our performance from period to period both at the consolidated level as well as within our operating segments, to evaluate and fund incentive compensation programs and to compare our results to those of our competitors. These non-GAAP measures should not be considered as an alternative to net income/(loss), operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance or cash flows as measures of liquidity. These non-GAAP measures have important limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

THREE MONTHS ENDED MARCH 31, 2012 (IN MILLIONS)	Operating Income/(Loss)	Restructuring Charges	Depreciation and Amortization	Stock-Based Compensation Expense	Other Items[(1)]	Non-GAAP Business Segment Income/(Loss)
Buy	$ 35	$ 31	$ 53	$ 2	$	$ 121
Watch	108	5	70	2		185
Expositions	30		6			36
Corporate and Eliminations	(19)	1	2	4	2	(10)
Total Nielsen	$ 154	$ 37	$ 131	$ 8	$ 2	$ 332

THREE MONTHS ENDED MARCH 31, 2011 (IN MILLIONS)	Operating Income/(Loss)	Restructuring Charges	Depreciation and Amortization	Stock-Based Compensation Expense	Other Items[(1)]	Non-GAAP Business Segment Income/(Loss)
Buy	$ 53	$ 17	$ 48	$ 2	$	$ 120
Watch	93	4	79	1		177
Expositions	26		7			33
Corporate and Eliminations	(121)	2	2	1	106	(10)
Total Nielsen	$ 51	$ 23	$ 136	$ 4	$ 106	$ 320

(1) Other items include costs associated with our secondary public offering of common stock and other transaction related costs of $2 million for the three months ended March 31, 2012 and fees associated with certain consulting arrangements and preparatory costs for our initial public offering of common stock of $4 million for the three months ended March 31, 2011. Other items for the three months ended March 31, 2011 also include $102 million for the termination and settlement of the Sponsor Advisory Agreements.

(IN MILLIONS)	Three Months Ended March 31, 2012 Reported	Three Months Ended March 31, 2011 Reported	% Variance 2012 vs. 2011 Reported	Three Months Ended March 31, 2011 Constant Currency	% Variance 2012 vs. 2011 Constant Currency
Non-GAAP Business Segment Income/(Loss)					
Buy	$ 121	$ 120	0.8%	$ 117	3.4%
Watch	185	177	4.5%	176	5.1%
Expositions	36	33	9.1%	33	9.1%
Corporate and Eliminations	170	(77)	(1)		
Interest rate				(16)	
Gross fair value of derivatives	140	405	(147)	(51)	

Counterparty netting	(98)	(24)	98	24
Total Derivatives [(1)]	$ 42	$ 381	$ (49)	$ (27)

The following table summarizes the gross fair value of the Company s derivative positions as of October 1, 2011:

	Current Assets	**Other Assets**	**Other Accrued Liabilities**	**Other Long-Term Liabilities**
Derivatives designated as hedges				
Foreign exchange	$ 133	$ 33	$ (100)	$ (90)
Interest rate	1	213		
Other			(1)	
Derivatives not designated as hedges				
Foreign exchange	103	229	(51)	(21)
Interest rate				(18)
Gross fair value of derivatives	237	475	(152)	(129)
Counterparty netting	(111)	(56)	111	56
Total Derivatives [(1)]	$ 126	$ 419	$ (41)	$ (73)

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

(1) Refer to Note 12 for further information on derivative fair values and counterparty netting.

Interest Rate Risk Management

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company s objective is to mitigate the impact of interest rate changes on earnings and cash flows and on the market value of its borrowings. In accordance with its policy, the Company targets its fixed-rate debt as a percentage of its net debt between a minimum and maximum percentage. The Company typically uses pay-floating and pay-fixed interest rate swaps to facilitate its interest rate management activities.

The Company designates pay-floating interest rate swaps as fair value hedges of fixed-rate borrowings effectively converting fixed-rate borrowings to variable rate borrowings indexed to LIBOR. As of March 31, 2012 and October 1, 2011, the total notional amount of the Company s pay-floating interest rate swaps was $3.1 billion and $1.2 billion, respectively. The following table summarizes adjustments related to fair value hedges included in net interest expense in the Condensed Consolidated Statements of Income.

	Quarter Ended		**Six Months Ended**	
	March 31, 2012	April 2, 2011	**March 31, 2012**	April 2, 2011
Gain (loss) on interest rate swaps	**$ (12)**	$ (24)	**$ (16)**	$ (77)
Gain (loss) on hedged borrowings	**12**	24	**16**	77

The Company may designate pay-fixed interest rate swaps as cash flow hedges of interest payments on floating-rate borrowings. Pay-fixed swaps effectively convert floating-rate borrowings to fixed-rate borrowings. The unrealized gain or losses from these cash flow hedges are deferred in accumulated other comprehensive income (AOCI) and recognized in interest expense as the interest payments occur. The Company did not have pay-fixed interest rate swaps that were designated as cash flow hedges of interest payments at March 31, 2012 nor at October 1, 2011.

Foreign Exchange Risk Management

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

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

THE WALT DISNEY COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; tabular dollars in millions, except for per share data)

The Company designates foreign exchange forward and option contracts as cash flow hedges of firmly committed and forecasted foreign currency transactions. As of March 31, 2012 and October 1, 2011, the notional amounts of the Company s net foreign exchange cash flow hedges were $4.8 billion and $3.6 billion, respectively. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of the foreign currency transactions. Gains and losses recognized related to ineffectiveness for the six months ended March 31, 2012 and April 2, 2011 were not material. Net deferred gains recorded in AOCI for contracts that will mature in the next twelve months totaled $25 million. The following table summarizes the pre-tax adjustments to AOCI for foreign exchange cash flow hedges.

	Quarter Ended		**Six Months Ended**	
	March 31, 2012	April 2, 2011	**March 31, 2012**	April 2, 2011
Gain (loss) recorded in AOCI	**$ 20**	$ (59)	**$ 74**	$ (135)
Reclassification of (gains) losses from AOCI into revenues and costs and expenses	**1**	32	**8**	57
Net change in AOCI	**$ 21**	$ (27)	**$ 82**	$ (78)

Foreign exchange risk management contracts with respect to foreign currency assets and liabilities are not designated as hedges and do not qualify for hedge accounting. The notional amounts of these foreign exchange contracts at March 31, 2012 and October 1, 2011 were $2.8 billion and $2.6 billion, respectively. During the quarters ended March 31, 2012 and April 2, 2011, the Company recognized net losses of $105 million and $91 million, respectively, in costs and expenses on these foreign exchange contracts which offset net gains of $92 million and $81 million on the related economic exposures for the three months ended March 31, 2012 and April 2, 2011, respectively. During the six months ended March 31, 2012 and April 2, 2011, the Company recognized net losses of $52 million and $64 million, respectively, in costs and expenses on these foreign exchange contracts which offset net gains of $27 million and $56 million on the related economic exposures for the six months ended March 31, 2012 and April 2, 2011, respectively.

Commodity Price Risk Management

The Company is subject to the volatility of commodities prices and designates certain commodity forward contracts as cash flow hedges of forecasted commodity purchases. Mark to market gains and losses on these contracts are deferred in AOCI and are recognized in earnings when the hedged transactions occur, offsetting changes in the value of commodity purchases. The fair value of the commodity hedging contracts was not material at March 31, 2012 nor at October 1, 2011.

Risk Management Other Derivatives Not Designated as Hedges

The Company enters into certain other risk management contracts that are not designated as hedges and do not quality for hedge accounting. These contracts, which include pay fixed interest rate swaps and commodity swap contracts, are intended to offset economic exposures of the Company and are carried at market value with any changes in value recorded in earnings.

The notional amounts of these contracts at March 31, 2012 and October 1, 2011 were $168 million and $184 million, respectively. For the six months ended March 31, 2012 and April 2, 2011, gains and losses on these contracts recognized in income were not material.

Contingent Features

The Company s derivative financial instruments may require the Company to post collateral in the event that a net liability position with a counterparty exceeds limits defined by contract and that vary with the Company s credit rating. If the Company s credit ratings were to fall below investment grade,

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such counterparties would also have the right to terminate our derivative contracts, which could lead to a net payment to or from the Company for the aggregate net value by counterparty of our derivative contracts. The aggregate fair value of derivative instruments with credit-risk-related contingent features in a net liability position by counterparty were $75 million and $114 million on March 31, 2012 and October 1, 2011, respectively.

14. *Restructuring and Impairment Charges*

The Company recorded $44 million of restructuring and impairment charges in the current six months related to organizational and cost structure initiatives. In the prior-year six months, the Company recorded $12 million of restructuring and impairment charges.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION

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

ORGANIZATION OF INFORMATION

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

Overview

Seasonality

Business Segment Results

Quarter Results

Six-Month Results

Other Financial Information

Financial Condition

Commitments and Contingencies

Other Matters

Market Risk

OVERVIEW

Our summary consolidated results are presented below:

	Quarter Ended		%Change	**Six Months Ended**		%Change
(in millions, except per share data)	**March 31, 2012**	April 2, 2011	Better/ (Worse)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues	**$ 9,629**	$ 9,077	6%	**$ 20,408**	$ 19,793	3%
Costs and expenses	**(7,942)**	(7,549)	(5)%	**(16,529)**	(16,325)	(1)%
Restructuring and impairment charges	**(38)**		nm	**(44)**	(12)	>(100)%
Other income	**184**		nm	**184**	75	>100%
Net interest expense	**(95)**	(83)	(14)%	**(185)**	(178)	(4)%
Equity in the income of investees	**138**	123	12%	**283**	279	1%
Income before income taxes	**1,876**	1,568	20%	**4,117**	3,632	13%
Income taxes	**(650)**	(558)	(16)%	**(1,370)**	(1,288)	(6)%
Net income	**1,226**	1,010	21%	**2,747**	2,344	17%
Less: Net income attributable to noncontrolling interests	**(83)**	(68)	(22)%	**(140)**	(100)	(40)%

Net income attributable to Disney	**$ 1,143**	$ 942	21%	**$ 2,607**	$ 2,244	16%
Diluted earnings per share	**$ 0.63**	$ 0.49	29%	**$ 1.43**	$ 1.16	23%

Quarter Results

Diluted earnings per share (EPS) increased 29% for the quarter driven by improved segment performance and a decrease in weighted average shares outstanding as well as the gain on an acquisition discussed below. Improved segment results were driven by increased fees from Multi-channel Video Service Providers (MVSP) (Affiliate Fees) including a benefit from a decrease in revenue deferrals related to annual programming commitments at Cable Networks and higher advertising revenues at both the Cable Networks and the ABC Television Network. Improvements also reflected higher attendance and guest spending at our domestic theme parks and resorts and an increase at Tokyo Disney Resort which was impacted by the March 2011 earthquake and tsunami in Japan in the prior-year. These increases were partially offset by lower worldwide theatrical results and higher film cost write-downs at our Studio driven by the performance of *John Carter*, increased operating expenses at our domestic parks and resorts and higher programming and production costs at ESPN.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

The Company recorded a $184 million ($116 million after tax) non-cash gain in connection with the Company s acquisition of an incremental interest in UTV Software Communication Limited (UTV Gain) and $38 million ($24 million after tax) of restructuring and impairment charges in the current quarter. See Note 3 to the Condensed Consolidated Financial Statements for discussion of the UTV Gain.

Six-Month Results

Diluted EPS increased 23% for the six months driven by improved segment performance and a decrease in weighted average shares outstanding as well as the UTV Gain. Improved segment results were driven by increased Media Networks performance, higher attendance and guest spending at our domestic parks and resorts, and an increase at Tokyo Disney Resort. Media Networks results were driven by increased Affiliate Fees including a benefit from a decrease in revenue deferrals related to annual programming commitments at Cable Networks and higher advertising revenues at both the Cable Networks and the ABC Television Network. These increases were partially offset by higher film cost write-downs and lower worldwide theatrical results at our Studio driven by the performance of *John Carter*, increased operating expenses at our domestic parks and resorts, higher programming and production costs at ESPN and lower political advertising revenues at our local television stations.

In the current six months, the Company recorded the UTV Gain and $44 million ($28 million after tax) of restructuring and impairment charges. In the prior-year six months, the Company recorded $12 million of restructuring and impairment charges and gains on the sale of Miramax and BASS totaling $75 million. Restructuring and impairment charges in the prior-year quarter included an impairment related to assets that had tax basis in excess of the book value resulting in a $31 million tax benefit on the restructuring and impairment charges. The book value of Miramax included allocated goodwill totaling $217 million which is not tax deductible. Accordingly, the taxable gain on the sales of Miramax and BASS exceeded the $75 million book gain resulting in tax expense of $107 million. The table below shows the pretax and after tax impact of the prior year items.

	Benefit / (Expense)		
(in millions)	Pretax	Tax Effect	After Tax
Restructuring and impairment charges	$ (12)	$ 31	$ 19
Gains on sales of businesses	75	(107)	(32)
	$ 63	$ (76)	$ (13)

SEASONALITY

The Company s businesses are subject to the effects of seasonality. Consequently, the operating results for the quarter and six months ended March 31, 2012 for each business segment, and for the Company as a whole, are not necessarily indicative of results to be expected for the full year.

Media Networks revenues are subject to seasonal advertising patterns and changes in viewership levels. In general, advertising revenues are somewhat higher during the fall and somewhat lower during the summer months. Affiliate revenues are typically collected ratably throughout the year. Certain affiliate revenues at ESPN are deferred until annual programming commitments are met, and these commitments are typically satisfied during the second half of the Company s fiscal year which generally results in higher revenue recognition during that period.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

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

Studio Entertainment revenues fluctuate due to the timing and performance of releases in the theatrical, home entertainment, and television markets. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods.

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

Interactive Media revenues fluctuate due to the timing and performance of video game releases which are determined by several factors, including theatrical releases and cable programming broadcasts, competition and the timing of holiday periods. Revenues from certain of our internet and mobile operations are subject to similar seasonal trends.

BUSINESS SEGMENT RESULTS

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

	Quarter Ended		% Change	**Six Months Ended**		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues:						
Media Networks	**$ 4,692**	$ 4,322	9%	**$ 9,471**	$ 8,967	6%
Parks and Resorts	**2,899**	2,630	10%	**6,054**	5,498	10%
Studio Entertainment	**1,180**	1,340	(12)%	**2,798**	3,272	(14)%
Consumer Products	**679**	626	8%	**1,627**	1,548	5%
Interactive Media	**179**	159	13%	**458**	508	(10)%
	$ 9,629	$ 9,077	6%	**$ 20,408**	$ 19,793	3%
Segment operating income (loss):						
Media Networks	**$ 1,729**	$ 1,524	13%	**$ 2,922**	$ 2,590	13%
Parks and Resorts	**222**	145	53%	**775**	613	26%
Studio Entertainment	**(84)**	77	nm	**329**	452	(27)%
Consumer Products	**148**	142	4%	**461**	454	2%
Interactive Media	**(70)**	(115)	39%	**(98)**	(128)	23%
	$ 1,945	$ 1,773	10%	**$ 4,389**	$ 3,981	10%

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

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

(in millions)	Quarter Ended March 31, 2012	Quarter Ended April 2, 2011	% Change Better/ (Worse)	Six Months Ended March 31, 2012	Six Months Ended April 2, 2011	% Change Better/ (Worse)
Segment operating income	**$ 1,945**	$ 1,773	10%	**$ 4,389**	$ 3,981	10%
Corporate and unallocated shared expenses	**(120)**	(122)	2%	**(227)**	(234)	3%
Restructuring and impairment charges	**(38)**		nm	**(44)**	(12)	>(100)%
Other income	**184**		nm	**184**	75	>100%
Net interest expense	**(95)**	(83)	(14)%	**(185)**	(178)	(4)%
Income before income taxes	**$ 1,876**	$ 1,568	20%	**$ 4,117**	$ 3,632	13%

Depreciation expense is as follows:

(in millions)	Quarter Ended March 31, 2012	Quarter Ended April 2, 2011	% Change Better/ (Worse)	Six Months Ended March 31, 2012	Six Months Ended April 2, 2011	% Change Better/ (Worse)
Media Networks						
Cable Networks	**$ 37**	$ 34	(9)%	**$ 71**	$ 65	(9)%
Broadcasting	**25**	27	7%	**48**	51	6%
Total Media Networks	**62**	61	(2)%	**119**	116	(3)%
Parks and Resorts						
Domestic	**233**	203	(15)%	**457**	409	(12)%
International	**78**	79	1%	**157**	158	1%
Total Parks and Resorts	**311**	282	(10)%	**614**	567	(8)%
Studio Entertainment	**13**	13	%	**26**	30	13%
Consumer Products	**14**	13	(8)%	**27**	25	(8)%
Interactive Media	**4**	4	%	**8**	9	11%
Corporate	**45**	36	(25)%	**91**	74	(23)%
Total depreciation expense	**$ 449**	$ 409	(10)%	**$ 885**	$ 821	(8)%

Amortization of intangible assets is as follows:

(in millions)	Quarter Ended March 31, 2012	Quarter Ended April 2, 2011	% Change Better/ (Worse)	Six Months Ended March 31, 2012	Six Months Ended April 2, 2011	% Change Better/ (Worse)
Media Networks	**$ 2**	$ 2	%	**$ 4**	$ 4	%

Parks and Resorts			%			%
Studio Entertainment	**14**	21	33%	**38**	31	(23)%
Consumer Products	**15**	14	(7)%	**30**	28	(7)%
Interactive Media	**8**	10	20%	**16**	19	16%
Total amortization of intangible assets	**$ 39**	$ 47	17%	**$ 88**	$ 82	(7)%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Media Networks

Operating results for the Media Networks segment are as follows:

	Quarter Ended		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues			
Affiliate Fees	**$ 2,150**	$ 1,952	10%
Advertising	**1,852**	1,728	7%
Other	**690**	642	7%
Total revenues	**4,692**	4,322	9%
Operating expenses	**(2,379)**	(2,234)	(6)%
Selling, general, administrative and other	**(658)**	(624)	(5)%
Depreciation and amortization	**(64)**	(63)	(2)%
Equity in the income of investees	**138**	123	12%
Operating Income	**$ 1,729**	$ 1,524	13%

Revenues

The 10% increase in Affiliate Fees was driven by increases of 6% from contractual rates and 4% from a change in the provisions related to annual programming commitments in an MVSP contract at Cable Networks.

Higher advertising revenues were due to increases of $99 million at Cable Networks from $751 million to $850 million and $25 million at Broadcasting from $977 million to $1,002 million. The increase at Cable Networks included a 16% increase due to higher rates driven by a shift in the timing of the Rose and Fiesta Bowls and certain NBA games, relative to our fiscal period end, at ESPN. The increase at Broadcasting reflected a 5% increase due to higher ABC Television Network advertising revenues, partially offset by a 2% decrease due to lower local television advertising revenues. The increase at the ABC Television Network was due to an increase in rates and units sold, partially offset by a decrease due to lower daytime ratings.

The increase in other revenues reflected higher royalties from MVSP distribution of our programs, sales of ABC Family and Disney Channel programs and inclusion of UTV s operations following the acquisition of UTV in the current quarter, partially offset by lower sales of ABC Studios productions driven by *Criminal Minds: Suspect Behavior.*

Costs and Expenses

Operating expenses include programming and production costs which increased $98 million from $1,884 million to $1,982 million. At Cable Networks, an increase in programming and production costs of $137 million was primarily due to the timing shift related to the two college bowl games and higher costs due to contractual rate increases for college basketball. At Broadcasting, programming and production costs decreased $39 million driven by the absence of *The Oprah Winfrey Show* at our local television stations, lower sales of ABC Studios productions and lower news and daytime production costs at the ABC Television Network.

The increase in selling, general and administrative and other costs and expenses includes higher marketing costs at ESPN, the ABC Television Network and the international Disney Channels and the inclusion of UTV s operations following the acquisition of UTV in the current quarter.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Equity in the Income of Investees

Income from equity investees was $138 million for the current quarter compared to $123 million in the prior-year quarter. The increase in income from equity investees was due to increased affiliate and advertising revenues at A&E Television Networks, partially offset by higher programming and marketing costs at Hulu.

Segment Operating Income

Segment operating income increased 13%, or $205 million, to $1.7 billion. The increase was primarily due to increases at ESPN, the ABC Television Network and the domestic Disney Channels.

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

(in millions)	**Quarter Ended**		% Change Better/ (Worse)	**Six Months Ended**		% Change Better/ (Worse)
	March 31, 2012	April 2, 2011		**March 31, 2012**	April 2, 2011	
Revenues:						
Cable Networks	**$ 3,167**	$ 2,826	12%	**$ 6,476**	$ 5,894	10%
Broadcasting	**1,525**	1,496	2%	**2,995**	3,073	(3)%
	$ 4,692	$ 4,322	9%	**$ 9,471**	$ 8,967	6%
Segment operating income:						
Cable Networks	**$ 1,500**	$ 1,357	11%	**$ 2,467**	$ 2,128	16%
Broadcasting	**229**	167	37%	**455**	462	(2)%
	$ 1,729	$ 1,524	13%	**$ 2,922**	$ 2,590	13%

Restructuring and impairment charges

The Company recorded charges of $9 million and credits totaling $4 million related to Media Networks in the current and prior-year quarters, respectively, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Parks and Resorts

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

(in millions)	**Quarter Ended**		% Change Better/ (Worse)
	March 31, 2012	April 2, 2011	
Revenues			
Domestic	**$ 2,395**	$ 2,157	11%
International	**504**	473	7%

Total revenues	**2,899**	2,630	10%
Operating expenses	**(1,902)**	(1,755)	(8)%
Selling, general, administrative and other	**(464)**	(448)	(4)%
Depreciation and amortization	**(311)**	(282)	(10)%
Operating Income	**$ 222**	$ 145	53%

Revenues

Parks and Resorts revenues increased 10%, or $269 million due to an increase of $238 million at our domestic operations and an increase of $31 million at our international operations.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Revenue growth of 11% at our domestic operations reflected a 5% increase due to volume from increased attendance, hotel occupancy and passenger cruise ship days driven by a full quarter of operations from our *Disney Dream* cruise ship which launched in January 2011 and a 5% increase from higher average guest spending. Higher guest spending was primarily due to higher average ticket prices, daily hotel room rates and food, beverage and merchandise spending.

Revenue growth of 7% at our international operations reflected a 6% increase from higher royalty revenue from Tokyo Disney Resort, and a 3% increase from higher average guest spending and an increase of 1% from higher attendance at Hong Kong Disneyland Resort, partially offset by a 4% decrease due to lower attendance and hotel occupancy at Disneyland Paris. The increase at Tokyo Disney Resort reflected the loss of income in the prior-year quarter from the March 2011 earthquake and tsunami in Japan which resulted in a temporary suspension of operations at the resort.

The following table presents supplemental park and hotel statistics:

	Domestic Quarter Ended		International [2] Quarter Ended		Total Quarter Ended	
	March 31, 2012	April 2, 2011	**March 31, 2012**	April 2, 2011	**March 31, 2012**	April 2, 2011
Parks						
Increase/ (decrease)						
Attendance	**7%**	%	**(2)%**	9%	**5%**	2%
Per Capita Guest Spending	**5%**	6%	**1%**	(2)%	**4%**	4%
Hotels [1]						
Occupancy	**82%**	81%	**79%**	84%	**82%**	81%
Available Room Nights (in thousands)	**2,449**	2,419	**613**	609	**3,062**	3,028
Per Room Guest Spending	**$ 250**	$ 233	**$ 246**	$ 235	**$ 249**	$ 234

(1) Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverage and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

(2) Per capita guest spending and per room guest spending include the impact of foreign currency translation. Guest spending statistics for Disneyland Paris were converted from Euros into US Dollars at weighted average exchange rates of $1.31 and $1.37 for the quarters ended March 31, 2012 and April 2, 2011, respectively.

Costs and Expenses

Operating expenses include operating labor which increased by $80 million from $856 million to $936 million driven by labor cost inflation and labor associated with new guest offerings including the expansion of Disney California Adventure at Disneyland Resort. Operating expenses also include cost of sales which increased $17 million from $274 million to $291 million driven by higher volumes. Operating expenses also increased due to higher costs for resort expansions and investments in systems infrastructure. Costs for resort expansions included other operating costs for the *Disney Dream* and *Disney Fantasy*, our two newest cruise ships launched in January 2011 and March 2012, respectively, and our new hotel and vacation club resort in Hawaii, Aulani, A Disney Resort & Spa. These increases were partially offset by the collection of business interruption insurance proceeds related to the prior-year earthquake and tsunami at Tokyo Disney Resort.

The increase in selling, general, administrative and other costs was driven by labor and other cost inflation.

Segment Operating Income

Segment operating income increased 53%, or $77 million, to $222 million due to increases at our domestic parks and resorts, Tokyo Disney Resort and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Quarter Ended **March 31, 2012**	April 2, 2011	% Change Better/ (Worse)
Revenues			
Theatrical distribution	**$ 220**	$ 296	(26)%
Home entertainment	**426**	536	(21)%
Television distribution and other	**534**	508	5%
Total revenues	**1,180**	1,340	(12)%
Operating expenses	**(732)**	(659)	(11)%
Selling, general, administrative and other	**(505)**	(570)	11%
Depreciation and amortization	**(27)**	(34)	21%
Operating Income	**$ (84)**	$ 77	nm

Revenues

The decrease in theatrical distribution revenue reflected lower performance from current-year titles. Key titles in the prior year included *Tangled, Tron: Legacy* and *Gnomeo and Juliet* while the current quarter included *John Carter*, *The Muppets* and *Beauty and the Beast 3D.*

Lower home entertainment revenue reflected a 14% decrease due to a decline in unit sales, and a 6% decrease due to lower net effective pricing. Net effective pricing is the wholesale selling price adjusted for discounts, sales incentives and returns. These decreases reflected lower performance of current quarter titles and a higher sales mix of catalog titles, which have lower average unit sales prices. Significant current quarter titles included *Lady and the Tramp* Platinum Release and *The Muppets* while the prior-year quarter included *Tangled* and *Bambi* Platinum Release.

The increase in television distribution and other revenue was driven by timing of title availabilities relative to our fiscal period end and the strength of *Pirates of the Caribbean: On Stranger Tides* in international markets, partially offset by a decrease in domestic markets. Significant current quarter titles in domestic markets included *Thor, Pirates of the Caribbean*: *On Stranger Tides* and *The Help* while the prior-year quarter included *Toy Story 3* and *Iron Man 2.*

Costs and Expenses

Operating expenses included an increase of $60 million in film cost amortization, from $383 million to $443 million driven by higher film cost write-downs in the current quarter. Operating expenses also increased 2% due to higher distribution expenses driven by the inclusion of UTV s film distribution operations following the acquisition of UTV in the current quarter.

The decrease in selling, general, administrative and other expenses reflected lower marketing expenses in the current quarter and higher executive contract termination costs and bad debt expense in the prior-year quarter. Lower marketing expenses were primarily due to a decrease at our home entertainment business, partially offset by higher marketing spend on the theatrical titles including *John Carter* in the current quarter.

Segment Operating Income

Segment operating income decreased $161 million to a loss of $84 million primarily due to a decrease in worldwide theatrical results and higher film cost write-downs.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Restructuring and impairment charges

The Company recorded charges of $6 million and credits of $2 million related to the Studio Entertainment segment in the current and prior-year quarters, respectively, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Consumer Products

Operating results for the Consumer Products segment are as follows:

	Quarter Ended		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues			
Licensing and publishing	**$ 436**	$ 397	10%
Retail and other	**243**	229	6%
Total revenues	**679**	626	8%
Operating expenses	**(294)**	(283)	(4)%
Selling, general, administrative and other	**(208)**	(174)	(20)%
Depreciation and amortization	**(29)**	(27)	(7)%
Operating Income	**$ 148**	$ 142	4%

Revenues

The increase in licensing and publishing revenue was driven by a 9% increase due to licensing revenue growth driven by higher recognition of minimum guarantees and higher earned revenue reflecting the performance of Minnie, Mickey, *The Avengers*, and Princess merchandise, partially offset by lower revenue from *Toy Story* merchandise, and a 2% increase from a favorable impact of foreign currency translation primarily as a result of the weakening of the U.S. dollar against the Japanese Yen.

Higher retail and other revenue reflected a 6% increase due to higher sales at our North American retail business driven by in-store and online promotional events and the ongoing shift of our stores to the new imagination park format.

Costs and Expenses

Operating expenses included an increase of $7 million in cost of goods sold, from $115 million to $122 million, driven by increased sales volume at our retail business. Operating expenses also increased 2% due to higher occupancy expense and labor costs driven by the expansion of the Disney English business in China.

The increase in selling, general, administrative and other expenses was driven by an unfavorable impact of foreign currency translation including the impact of the weakening of the U.S. dollar against the Japanese Yen and higher marketing expenses at our licensing business.

Segment Operating Income

Segment operating income increased 4% to $148 million due to an increase at our licensing business, partially offset by lower results at our North American retail business.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Restructuring and impairment charges

The Company recorded charges totaling $7 million in the current quarter related to the Consumer Products segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Interactive Media

Operating results for the Interactive Media segment are as follows:

(in millions)	Quarter Ended **March 31, 2012**	Quarter Ended April 2, 2011	% Change Better/ (Worse)
Revenues			
Game sales and subscriptions	**$ 130**	$ 108	20%
Advertising and other	**49**	51	(4)%
Total revenues	**179**	159	13%
Operating expenses	**(152)**	(141)	(8)%
Selling, general, administrative and other	**(85)**	(119)	29%
Depreciation and amortization	**(12)**	(14)	14%
Operating Loss	**$ (70)**	$ (115)	39%

Revenues

The increase in game sales and subscriptions revenue reflected a 25% increase due to higher social games revenue reflecting improved title performance in the current quarter and lower acquisition accounting impacts which were adverse to the prior-year quarter. This increase was partially offset by a 6% decrease due to a decline in console game unit sales and a 2% decrease due to lower net effective pricing on console games reflecting stronger performing titles in the prior-year quarter and fewer titles in release in the current quarter, consistent with our ongoing shift from console games to social and other interactive platforms. Current quarter titles included *Lego Pirates of the Caribbean and Cars 2* while the prior-year quarter included *Toy Story 3, Tron: Evolution* and *Epic Mickey.*

Costs and Expenses

Higher operating expenses reflected an increase of $16 million in cost of sales from $36 million to $52 million driven by increased social game sales. The increase was partially offset by a decrease of $6 million in product development costs from $105 million to $99 million driven by decreased console game development.

The decrease in selling, general, administrative and other expenses was driven by acquisition accounting impacts which had a higher adverse impact on the prior-year quarter at our social games business and recoveries of previously reserved receivables. Marketing costs decreased by 5% as lower console games marketing was partially offset by increased marketing of social games.

Segment Operating Loss

Segment operating loss for the quarter decreased 39% to $70 million driven by improved results at our games business.

Restructuring and impairment charges

The Company recorded charges totaling $4 million and $6 million in the current and prior-year quarters, respectively, related to the Interactive Media segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

BUSINESS SEGMENT RESULTS Six Month Results

Media Networks

Operating results for the Media Networks segment are as follows:

	Six Months Ended		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues			
Affiliate Fees	**$ 4,209**	$ 3,802	11%
Advertising	**4,059**	3,989	2%
Other	**1,203**	1,176	2%
Total revenues	**9,471**	8,967	6%
Operating expenses	**(5,425)**	(5,320)	(2)%
Selling, general, administrative and other	**(1,283)**	(1,216)	(6)%
Depreciation and amortization	**(123)**	(120)	(3)%
Equity in the income of investees	**282**	279	1%
Operating Income	**$ 2,922**	$ 2,590	13%

Revenues

The 11% increase in Affiliate Fees was driven by increases of 6% from higher contractual rates, 4% from a change in the provisions related to annual programming commitments in an MVSP contract and 1% from subscriber growth at Cable Networks.

Higher advertising revenues were due to an increase of $119 million at Cable Networks from $1,846 million to $1,965 million, partially offset by a decrease of $49 million at Broadcasting from $2,143 million to $2,094 million. The increase at Cable Networks was driven by a 10% increase due to higher rates and a 2% increase due to higher units sold, partially offset by a 6% decrease due to lower ratings. The decrease in Broadcasting reflected a 4% decrease due to lower local television political advertising revenues and a 3% decrease due to lower ratings at the ABC Television Network, partially offset by a 4% increase due to higher rates at the ABC Television Network.

The increase in other revenues reflected sales of ABC Family and Disney Channel programs, higher royalties from MVSP distribution of our programs and inclusion of UTV s operations following the acquisition of UTV in the current quarter, partially offset by lower sales of ABC Studios productions driven by *Lost*, *Brothers and Sisters* and *Scrubs*.

Costs and Expenses

Operating expenses include programming and production costs which increased $45 million from $4,611 million to $4,656 million. At Cable Networks, an increase in programming and production spending of $138 million was driven by higher sports rights costs primarily due to contractual rate increases for college sports. At Broadcasting, programming and production costs decreased $93 million driven by lower production cost amortization related to sales of ABC Studios productions and the absence of *The Oprah Winfrey Show* at our local television stations.

The increase in selling, general and administrative and other costs and expenses includes higher marketing costs at the ABC Television Network, the international Disney Channels and ABC Family and the inclusion of UTV s operations following the acquisition of UTV in the current quarter.

Equity in the Income of Investees

Income from equity investees was $282 million for the current six month period compared to $279 million in the prior-year six month period. The increase in income from equity investees was due to increased affiliate and advertising revenues at A&E Television Networks, partially offset by higher programming and marketing costs at Hulu and higher equity losses at UTV.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Segment Operating Income

Segment operating income increased 13%, or $332 million, to $2.9 billion. The increase was due to increases at ESPN, the domestic Disney Channels and the ABC Television Network, partially offset by a decrease at the owned television stations.

Restructuring and impairment charges

The Company recorded charges of $10 million and credits totaling $1 million related to Media Networks in the current and prior-year six month periods, respectively, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Parks and Resorts

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

	Six Months Ended		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues			
Domestic	**$ 4,898**	$ 4,406	11%
International	**1,156**	1,092	6%
Total revenues	**6,054**	5,498	10%
Operating expenses	**(3,789)**	(3,505)	(8)%
Selling, general, administrative and other	**(876)**	(813)	(8)%
Depreciation and amortization	**(614)**	(567)	(8)%
Operating Income	**$ 775**	$ 613	26%

Revenues

Parks and Resorts revenues increased 10%, or $556 million due to an increase of $492 million at our domestic operations and an increase of $64 million at our international operations.

Revenue growth of 11% at our domestic operations reflected a 5% increase due to higher volume, driven by increases in attendance, passenger cruise ship days from the *Disney Dream* which launched in January 2011 and hotel occupancy, and a 5% increase from higher average guest spending at our domestic parks and resorts. Guest spending increased primarily due to higher average ticket prices, food and beverage spending, and daily hotel room rates.

Revenue growth of 6% at our international operations reflected a 3% increase from higher royalty revenue from Tokyo Disney Resort and 2% increases from both higher average guest spending and higher attendance at Hong Kong Disneyland Resort, partially offset by a 2% decrease due to lower real estate sales and hotel occupancy at Disneyland Paris. The increase at Tokyo Disney Resort reflected the loss of income in the prior-year from the March 2011 earthquake and tsunami in Japan which resulted in a temporary suspension of operations at the resort.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

The following table presents supplemental park and hotel statistics:

	Domestic Six Months Ended		International (2) Six Months Ended		Total Six Months Ended	
	March 31, 2012	April 2, 2011	**March 31, 2012**	April 2, 2011	**March 31, 2012**	April 2, 2011
Parks Increase/(decrease)						
Attendance	**5%**	1%	**3%**	6%	**4%**	2%
Per Capita Guest Spending	**6%**	7%	**2%**	(3) %	**5%**	5%
Hotels (1)						
Occupancy	**83%**	83%	**82%**	84%	**83%**	83%
Available Room Nights (in thousands)	**4,854**	4,801	**1,233**	1,230	**6,087**	6,031
Per Room Guest Spending	**$ 253**	$ 238	**$ 273**	$ 261	**$ 257**	$ 242

(1) Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverage and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

(2) Per capita guest spending and per room guest spending include the impact of foreign currency translation. Guest spending statistics for Disneyland Paris were converted from Euros into US Dollars at weighted average exchange rates of $1.33 and $1.36 for the six months ended March 31, 2012 and April 2, 2011, respectively.

Costs and Expenses

Operating expenses include operating labor which increased by $159 million from $1,720 million to $1,879 million driven by labor cost inflation, higher employee benefits costs and labor associated with new guest offerings including the expansion of Disney California Adventure at Disneyland Resort. Operating expenses also include cost of sales which increased $20 million from $585 million to $605 million driven by higher volumes. Operating expenses also increased due to higher costs for resort expansions and investments in systems infrastructure. Costs for resort expansions included other operating costs for the *Disney Dream* and *Disney Fantasy*, our two newest cruise ships launched in January 2011 and March 2012, respectively, and our new hotel and vacation club resort in Hawaii. These increases were partially offset by the collection of business interruption insurance proceeds related to the prior-year earthquake and tsunami at Tokyo Disney Resort.

The increase in selling, general, administrative and other costs was driven by labor and other cost inflation and higher marketing costs at our domestic parks and resorts.

Segment Operating Income

Segment operating income increased 26%, or $162 million, to $775 million due to increases at our domestic parks and resorts, Tokyo Disney Resort, Disney Cruise Line and Hong Kong Disneyland Resort, partially offset by a decrease at Disneyland Paris.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Studio Entertainment

Operating results for the Studio Entertainment segment are as follows:

(in millions)	Six Months Ended March 31, 2012	April 2, 2011	% Change Better/ (Worse)
Revenues			
Theatrical distribution	**$ 359**	$ 618	(42)%
Home entertainment	**1,433**	1,578	(9)%
Television distribution and other	**1,006**	1,076	(7)%
Total revenues	**2,798**	3,272	(14)%
Operating expenses	**(1,427)**	(1,558)	8%
Selling, general, administrative and other	**(978)**	(1,201)	19%
Depreciation and amortization	**(64)**	(61)	(5)%
Operating Income	**$ 329**	$ 452	(27)%

Revenues

The decrease in theatrical distribution revenue reflected the worldwide performance of current period titles including *John Carter* and *The Muppets* compared to *Tangled* and *Tron: Legacy* in the prior-year period.

Lower home entertainment revenue was driven by an 11% decrease due to a decline in unit sales reflecting the strength of *Toy Story 3* and *Tangled* in the prior-year period compared to *Cars 2* in the current period, as well as lower catalog sales. Other current period titles included *The Lion King* Platinum Release and *Pirates of the Caribbean: On Stranger Tides* while the prior-year period included *Beauty and the Beast* Platinum Release.

The decrease in television distribution and other revenue reflected a decrease in worldwide television markets. Significant current period titles included *Pirates of the Caribbean: On Stranger Tides, Thor* and *Gnomeo and Juliet* while the prior-year period included *Alice in Wonderland, Iron Man* and *Toy Story 3.*

Costs and Expenses

Operating expenses included a decrease of $80 million in film cost amortization, from $892 million to $812 million. The decrease was due to lower theatrical revenues and lower home entertainment unit sales, partially offset by higher film cost write-downs. Operating expenses also include cost of sales which decreased $48 million from $202 million to $154 million primarily due to lower home entertainment unit sales.

The decrease in selling, general, administrative and other expenses was primarily due to lower theatrical marketing expenses, due to fewer Disney branded titles in the current period, and a decrease at our home entertainment business.

Segment Operating Income

Segment operating income decreased 27%, or $123 million, to $329 million primarily due to higher film cost write-downs and lower results in theatrical and television distribution and home entertainment.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Restructuring and impairment charges

The Company recorded charges of $7 million and $1 million in the current and prior-year six month periods, respectively, related to the Studio Entertainment segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

Consumer Products

Operating results for the Consumer Products segment are as follows:

	Six Months Ended		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Revenues			
Licensing and publishing	**$ 962**	$ 914	5%
Retail and other	**665**	634	5%
Total revenues	**1,627**	1,548	5%
Operating expenses	**(700)**	(676)	(4)%
Selling, general, administrative and other	**(409)**	(365)	(12)%
Depreciation and amortization	**(57)**	(53)	(8)%
Operating Income	**$ 461**	$ 454	2%

Revenues

The increase in licensing and publishing revenue reflected a 4% increase due to higher licensing revenue driven by higher recognition of minimum guarantees and earned revenue growth driven by the performance of *Cars*, Minnie, Mickey and *The Avengers* merchandise, partially offset by lower revenue from *Toy Story* merchandise, and a 2% increase from a favorable impact of foreign currency translation primarily as a result of the weakening of the U.S. dollar against the Japanese Yen.

Higher retail and other revenue reflected a 5% increase due to higher sales at our North American retail business driven by the ongoing shift of our stores to the new imagination park format and online and in-store promotional events.

Costs and Expenses

Operating expenses included an increase of $9 million in cost of goods sold, from $318 million to $327 million, driven by increased sales volume at our retail business. Operating expenses also increased 2% due to higher labor costs and occupancy expenses driven by the expansion of the Disney English business in China.

The increase in selling, general, administrative and other expenses was driven by higher marketing and promotions expense and an unfavorable impact of foreign currency translation at our licensing business including the impact of the weakening of the U.S. dollar against the Japanese Yen.

Segment Operating Income

Segment operating income increased 2% to $461 million due to an increase at our licensing business, partially offset by lower results at our retail business.

Restructuring and impairment charges

The Company recorded charges totaling $7 million in the current six month period related to the Consumer Products segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Interactive Media

Operating results for the Interactive Media segment are as follows:

(in millions)	Six Months Ended March 31, 2012	Six Months Ended April 2, 2011	% Change Better/ (Worse)
Revenues			
Game sales and subscriptions	**$ 347**	$ 404	(14)%
Advertising and other	**111**	104	7%
Total revenues	**458**	508	(10)%
Operating expenses	**(331)**	(345)	4%
Selling, general, administrative and other	**(201)**	(263)	24%
Depreciation and amortization	**(24)**	(28)	14%
Operating Loss	**$ (98)**	$ (128)	23%

Revenues

The decrease in game sales and subscriptions revenue reflected a 24% decrease due to lower console game unit sales and a 9% decrease due to lower net effective pricing of console games reflecting the strong performance of *Epic Mickey* in the prior-year period and fewer releases in the current period. Significant current period titles included *Disney Universe* and *Cars 2* while the prior-year period included *Toy Story 3* and *Tron: Evolution* in addition to *Epic Mickey.* The decrease was partially offset by a 14% increase due to higher social games revenue reflecting improved title performance in the current period and lower acquisition accounting impacts, which were adverse to the prior-year period.

Higher advertising and other revenue was driven by services and handset sales revenue at our mobile phone service in Japan due to increased subscribers and the launch of three new handsets in the current period.

Costs and Expenses

Operating expenses included a $13 million decrease in product development costs from $201 million to $188 million driven by decreased console game development. Operating expenses also include cost of sales, which was comparable to the prior-year period as a decrease driven by lower console game sales volume was largely offset by an increase at social games associated with revenue growth.

The decrease in selling, general, administrative and other costs was primarily due to lower marketing costs at our console games business driven by fewer releases in the current period, lower acquisition accounting impacts which had a higher adverse impact on the prior-year period at our social games business and higher cost allocations related to website design and maintenance for other company businesses.

Segment Operating Loss

Segment operating loss decreased 23% to $98 million driven by improved results at our social games and Online businesses partially offset by a decrease at our console games business.

Restructuring and impairment charges

The Company recorded charges totaling $8 million and $12 million in the current and prior-year periods, respectively, related to the Interactive Media segment, which were reported in Restructuring and impairment charges in the Consolidated Statements of Income.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

OTHER FINANCIAL INFORMATION

Corporate and Unallocated Shared Expenses

Corporate and unallocated shared expense is as follows:

	Quarter Ended		% Change	**Six Months Ended**		% Change
			Better/			Better/
(in millions)	**March 31, 2012**	April 2, 2011	(Worse)	**March 31, 2012**	April 2, 2011	(Worse)
Corporate and unallocated shared expense	**$ 120**	$ 122	2%	**$ 227**	$ 234	3%

Net Interest Expense

Net interest expense is as follows:

	Quarter Ended		% Change	**Six Months Ended**		% Change
(in millions)	**March 31, 2012**	April 2, 2011	Better/ (Worse)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Interest expense	**$ (126)**	$ (111)	(14)%	**$ (242)**	$ (211)	(15)%
Interest and investment income	**31**	28	11%	**57**	33	73%
Net interest expense	**$ (95)**	$ (83)	(14)%	**$ (185)**	$ (178)	(4)%

The increase in interest expense for the quarter and the year was primarily due to higher average debt balances, partially offset by lower effective interest rates.

The increase in interest and investment income for the year was driven by gains from sales of investments.

Income Taxes

The effective income tax rate is as follows:

	Quarter Ended		Change	**Six Months Ended**		Change
	March 31, 2012	April 2, 2011	Better/ (Worse)	**March 31, 2012**	April 2, 2011	Better/ (Worse)
Effective Income Tax Rate	**34.6%**	35.6%	1ppt	**33.3%**	35.5%	2.2ppt

The effective income tax rate for the quarter decreased to 34.6% from 35.6% primarily due to an increase in earnings from foreign operations subject to tax at rates lower than the federal statutory income tax rate.

The effective income tax rate for the six months decreased to 33.3% from 35.5% due to the prior-year gain on the sale of Miramax and an increase in earnings from foreign operations subject to tax at rates lower than the federal statutory income tax rate. Our book value of Miramax included non-deductible goodwill such that the taxable gain on the sale of Miramax resulted in tax expense that exceeded the book gain and accordingly resulted in an increase in the prior-year effective tax rate. The increase in the prior-year effective tax from the sale of Miramax was

partially offset by a tax benefit from the impact of a non-recurring impairment charge related to assets that had tax basis in excess of the book value resulting in a tax benefit that exceeded the pre-tax impairment charge.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Noncontrolling Interests

Net income attributable to noncontrolling interests is as follows:

	Quarter Ended		% Change	Six Months Ended		% Change
(in millions)	March 31, 2012	April 2, 2011	Better/ (Worse)	March 31, 2012	April 2, 2011	Better/ (Worse)
Net income attributable to noncontrolling interests	**$ 83**	$ 68	(22)%	**$ 140**	$ 100	(40)%

The increase in net income attributable to noncontrolling interests for the quarter and six months was due to improved operating results at ESPN and Hong Kong Disneyland Resort, partially offset by performance at Disneyland Paris. Net income attributable to noncontrolling interests is determined based on income after royalties, financing costs and income taxes.

FINANCIAL CONDITION

The change in cash and cash equivalents is as follows:

	Six Months Ended		Change
(in millions)	March 31, 2012	April 2, 2011	Better/ (Worse)
Cash provided by operations	**$ 3,546**	$ 3,068	$ 478
Cash used in investing activities	**(2,781)**	(1,556)	(1,225)
Cash used in financing activities	**(226)**	(1,207)	981
Impact of exchange rates on cash and cash equivalents	**7**	67	(60)
Increase in cash and cash equivalents	**$ 546**	$ 372	$ 174

Operating Activities

Cash provided by operations increased 16% to $3.5 billion for the current six month period compared to the prior-year six month period. The increase was due to higher net operating cash receipts driven by higher revenues at Parks and Resorts and lower operating cash payments at Corporate and Studio Entertainment. The lower operating cash payments at Corporate were driven by the timing of accounts payable disbursements and pension contributions. The lower operating cash payments at Studio were driven by lower marketing expenses. These increases were partially offset by lower net operating cash receipts at Studio Entertainment, higher operating cash payments at Parks and Resorts and higher income tax payments. The increase in cash payments at Parks and Resorts was driven by labor cost inflation, costs for resort expansion and new guest offerings and investments in systems infrastructure.

Film and Television Costs

The Company s Studio Entertainment and Media Networks segments incur costs to acquire and produce film and television programming. Film and television production costs include all internally produced content such as live action and animated feature films, animated direct-to-video programming, television series, television specials, theatrical stage plays or other similar product. Programming costs include film or television product licensed for a specific period from third parties for airing on the Company s broadcast and cable networks and television stations. Programming assets are generally recorded when the programming becomes available to us with a corresponding increase in programming liabilities. Accordingly, we analyze our programming assets net of the related liability.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

The Company s film and television production and programming activity for the six months ended March 31, 2012 and April 2, 2011 are as follows:

	Six Months Ended	
(in millions)	**March 31, 2012**	April 2, 2011
Beginning balances:		
Production and programming assets	**$ 5,031**	$ 5,451
Programming liabilities	**(866)**	(990)
	4,165	4,461
Spending:		
Film and television production	**1,714**	1,514
Broadcast programming	**2,966**	2,939
	4,680	4,453
Amortization:		
Film and television production	**(1,588)**	(1,641)
Broadcast programming	**(2,596)**	(2,628)
	(4,184)	(4,269)
Change in film and television production and programming costs	**496**	184
Other non-cash activity	**181**	5
Ending balances:		
Production and programming assets	**5,559**	5,487
Programming liabilities	**(717)**	(837)
	$ 4,842	$ 4,650

Investing Activities

Investing activities consist principally of investments in parks, resorts, and other property and acquisition and divestiture activity.

During the six months ended March 31, 2012 and April 2, 2011, investments in parks, resorts and other properties were as follows:

	Six Months Ended	
(in millions)	**March 31, 2012**	April 2, 2011
Media Networks		
Cable Networks	**$ 55**	$ 33
Broadcasting	**24**	55

Total Media Networks	**79**	88
Parks and Resorts		
Domestic	**1,445**	1,381
International	**310**	165
Total Parks and Resorts	**1,755**	1,546
Studio Entertainment	**33**	57
Consumer Products	**26**	37
Interactive Media	**10**	12
Corporate	**208**	105
Total investment in parks, resorts and other property	**$ 2,111**	$ 1,845

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

Capital expenditures for the Parks and Resorts segment are principally for theme park and resort expansion, new rides and attractions, cruise ships, recurring capital and capital improvements. The increase was due to resort expansion and new guest offerings at Walt Disney World Resort and Disneyland Paris and construction at Shanghai Disney Resort.

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

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

Other Investing Activities

During the current quarter, acquisitions totaled $726 million primarily due to the acquisition of an incremental 43% interest in UTV and a 49% interest in Seven TV network in Russia.

The prior-year quarter included proceeds from dispositions totaling $566 million primarily due to the sale of Miramax. Acquisitions in the prior year totaled $171 million due to payments related to the acquisition of Playdom, Inc.

Financing Activities

Cash used by financing activities was $226 million for the current six-month period compared to $1.2 billion for the prior-year six-month period. The net use of cash in the current six months reflected repurchases of common stock and dividend payments totaling $2.7 billion, partially offset by net borrowings totaling $1.9 billion and proceeds from exercises of stock options totaling $524 million. The decrease in cash used in financing activities of $981 million was primarily due to an increase of $1.5 billion in net borrowings compared to the prior-year six months, partially offset by a $494 million decrease in proceeds from the exercise of stock options and an increase of $320 million in dividend payments.

During the six months ended March 31, 2012, the Company s borrowing activity was as follows:

(in millions)	October 1, 2011	Additions	Payments	Other Activity	March 31, 2012
Commercial paper borrowings	$ 1,583	$ 290	$	$	$ 1,873
U.S. medium-term notes	8,400	2,977	(1,250)	3	10,130
European medium term notes and other foreign currency denominated notes [1]	1,111	180	(172)	205	1,324
Other	572	2	(58)	33	549
Disneyland Paris borrowings	1,981		(82)	(32)	1,867
Hong Kong Disneyland borrowings [2]	330			(44)	286
Total	$ 13,977	$ 3,449	$ (1,562)	$ 165	$ 16,029

(1) The other activity is primarily borrowings assumed in the acquisition of UTV.
(2) The other activity reflects the conversion of a portion of the Government of the Hong Kong Special Administrative Region s loan to equity pursuant to a capital realignment and expansion plan.

The Company s bank facilities as of March 31, 2012 were as follows:

(in millions)	Committed Capacity	Capacity Used	Unused Capacity
Bank facilities expiring February 2013	$ 2,250	$	$ 2,250
Bank facilities expiring February 2015	2,250	47	2,203
Total	$ 4,500	$ 47	$ 4,453

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

These bank facilities allow for borrowings at LIBOR-based rates plus a spread, which depends on the Company s public debt rating and can range from 0.33% to 4.50%. The Company also has the ability to issue up to $800 million of letters of credit under the facility expiring in February 2015, which if utilized, reduces available borrowings under this facility. As of March 31, 2012, $374 million of letters of credit had been issued of which $47 million was issued under this facility.

The Company may use commercial paper borrowings up to the amount of its unused bank facilities, in conjunction with term debt issuance and operating cash flow, to retire or refinance other borrowings before or as they come due.

On November 30, 2011, the Company declared a $0.60 per share dividend ($1.1 billion) related to fiscal 2011 for shareholders of record on December 16, 2011, which was paid on January 18, 2012. The Company paid a $0.40 per share dividend ($756 million) during the second quarter of fiscal 2011 related to fiscal 2010.

During the six months ended March 31, 2012, the Company repurchased 45 million shares of its common stock for $1,669 million. As of March 31, 2012, the Company had remaining authorization in place to repurchase 260 million additional shares. The repurchase program does not have an expiration date.

We believe that the Company s financial condition is strong and that its cash balances, other liquid assets, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects. However, the Company s operating cash flow and access to the capital markets can be impacted by macroeconomic factors outside of its control. In addition to macroeconomic factors, the Company s borrowing costs can be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on the Company s performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of March 31, 2012, Moody s Investors Service s long- and short-term debt ratings for the Company were A2 and P-1, respectively, with stable outlook; Standard & Poor s long- and short-term debt ratings for the Company were A and A-1, respectively, with stable outlook; and Fitch s long- and short-term debt ratings for the Company were A and F-1, respectively, with stable outlook. The Company s bank facilities contain only one financial covenant, relating to interest coverage, which the Company met on March 31, 2012, by a significant margin. The Company s bank facilities also specifically exclude certain entities, such as Disneyland Paris, Hong Kong Disneyland Resort and Shanghai Disney Resort, from any representations, covenants or events of default.

Disneyland Paris debt agreements contain annual financial performance objectives and limits on investing and financing activities. In fiscal 2011, Disneyland Paris did not meet its annual performance objectives and deferred 25 million of royalties and management fees payable to the Company and 20 million of interest payable to a French state bank. Additionally, as a result of the fact that the performance objectives were not met, certain of Disneyland Paris investment activities were further limited by the debt agreements.

Disneyland Paris is also subject to certain financial covenants and was in compliance with such covenants with the assistance of the Company s agreement, as permitted under the debt agreements, to defer an additional 9 million of royalties payable to the Company into subordinated long-term borrowings.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

On January 6, 2012, Disneyland Paris obtained its lenders agreement to increase the recurring annual investment budget for fiscal year 2012 up to 100 million and to launch a multi-year expansion of the Walt Disney Studios Park, which includes a new attraction. In connection with lenders approval, Disneyland Paris obtained a standby revolving credit facility of 150 million from the Company, which expires on September 30, 2018. The new facility is in addition to an existing 100 million facility provided by the Company which expires on September 30, 2014.

COMMITMENTS AND CONTINGENCIES

Legal Matters

As disclosed in Note 11 to the Condensed Consolidated Financial Statements, the Company has exposure for certain legal matters.

Guarantees

See Note 11 to the Condensed Consolidated Financial Statements for information regarding the Company s guarantees.

Tax Matters

As disclosed in Note 10 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K, the Company has exposure for certain tax matters.

Contractual Commitments

Refer to Note 15 in the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for information regarding the Company s contractual commitments.

OTHER MATTERS

Accounting Policies and Estimates

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of our significant accounting policies, including the accounting policies discussed below, see Note 2 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K.

Film and Television Revenues and Costs

We expense film and television production, participation and residual costs over the applicable product life cycle based upon the ratio of the current period s revenues to the estimated remaining total revenues (Ultimate Revenues) for each production. If our estimate of Ultimate Revenues decreases, amortization of film and television costs may be accelerated. Conversely, if our estimate of Ultimate Revenues increase, film and television cost amortization may be slowed. For film productions, Ultimate Revenues include revenues from all sources that will be earned within ten years from the date of the initial theatrical release. For television series, Ultimate Revenues include revenues that will be earned within ten years from delivery of the first episode, or if still in production, five years from delivery of the most recent episode, if later.

With respect to films intended for theatrical release, the most sensitive factor affecting our estimate of Ultimate Revenues (and therefore affecting future film cost amortization and/or impairment) is domestic theatrical performance. Revenues derived from other markets subsequent to the domestic theatrical release (e.g., the home entertainment or international theatrical markets) have historically been highly correlated with domestic theatrical performance. Domestic theatrical

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

performance varies primarily based upon the public interest and demand for a particular film, the popularity of competing films at the time of release and the level of marketing effort. Upon a film s release and determination of domestic theatrical performance, the Company s estimates of revenues from succeeding windows and markets are revised based on historical relationships and an analysis of current market trends. The most sensitive factor affecting our estimate of Ultimate Revenues for released films is the extent of home entertainment sales achieved. Home entertainment sales vary based on the number and quality of competing home video products, as well as the manner in which retailers market and price our products.

With respect to television series or other television productions intended for broadcast, the most sensitive factor affecting estimates of Ultimate Revenues is the program s rating and the strength of the advertising market. Program ratings, which are an indication of market acceptance, directly affect the Company s ability to generate advertising revenues during the airing of the program. In addition, television series with greater market acceptance are more likely to generate incremental revenues through the eventual sale of the program rights in the syndication, international and home entertainment markets. Alternatively, poor ratings may result in a television series cancellation, which would require the immediate write-off of any unamortized production costs. A significant decline in the advertising market would also negatively impact our estimates.

We expense the cost of television broadcast rights for acquired movies, series and other programs based on the number of times the program is expected to be aired or on a straight-line basis over the useful life, as appropriate. Amortization of those television programming assets being amortized on a number of airings basis may be accelerated if we reduce the estimated future airings and slowed if we increase the estimated future airings. The number of future airings of a particular program is impacted primarily by the program s ratings in previous airings, expected advertising rates and availability and quality of alternative programming. Accordingly, planned usage is reviewed periodically and revised if necessary. We amortize rights costs for multi-year sports programming arrangements during the applicable seasons based on the estimated relative value of each year in the arrangement. The estimated values of each year are based on our projection of revenues over the contract period which include advertising revenue and an allocation of affiliate revenue. If the annual contractual payments related to each season approximate each season s relative value, we expense the related contractual payment during the applicable season. If planned usage patterns or estimated relative values by year were to change significantly, amortization of our sports rights costs may be accelerated or slowed.

Costs of film and television productions are subject to regular recoverability assessments which compare the estimated fair values with the unamortized costs. The net realizable values of television broadcast program licenses and rights are reviewed using a daypart methodology. A daypart is defined as an aggregation of programs broadcast during a particular time of day or programs of a similar type. The Company s dayparts are: daytime, late night, primetime, news, children, and sports (includes network and cable). The net realizable values of other cable programming assets are reviewed on an aggregated basis for each cable channel. Individual programs are written-off when there are no plans to air or sublicense the program. Estimated values are based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than our projections, film, television and programming cost write-downs may be required.

Revenue Recognition

The Company has revenue recognition policies for its various operating segments that are appropriate to the circumstances of each business. See Note 2 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K as for a summary of these revenue recognition policies.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

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

We recognize revenues from advance theme park ticket sales when the tickets are used. For non-expiring, multi-day tickets, we recognize revenue over a four-year time period based on estimated usage, which is derived from historical usage patterns. If actual usage is different than our estimated usage, revenues may not be recognized in the periods the related services are rendered. In addition, a change in usage patterns would impact the timing of revenue recognition.

Pension and Postretirement Medical Plan Actuarial Assumptions

The Company s pension and postretirement medical benefit obligations and related costs are calculated using a number of actuarial assumptions. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement which we evaluate annually. Refer to the 2011 Annual Report on Form 10-K for estimated impacts of changes in these assumptions. Other assumptions include the healthcare cost trend rate and employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increase.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. A lower discount rate increases the present value of benefit obligations and increases pension expense. The guideline for setting this rate is high-quality long-term corporate bond rates. The Company s discount rate was determined by considering the average of pension yield curves constructed of a large population of high quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

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

Goodwill, Intangible Assets, Long-Lived Assets and Investments

The Company is required to test goodwill and other indefinite-lived intangible assets for impairment on an annual basis and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are generally an operating segment or one level below the operating segment. The Company compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of the goodwill.

To determine the fair value of our reporting units, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. We apply what we believe to be the most appropriate valuation methodology for each of our reporting units. The discounted cash flow analyses are sensitive to our estimates of future revenue growth and margins for these businesses. We include in the projected cash flows an estimate of the revenue we believe the reporting unit would receive if the intellectual property developed by the reporting unit that is being used by other reporting units was licensed to an unrelated third party at its fair market value. These amounts are not necessarily the same as those included in segment operating results. We believe our estimates of fair value are consistent with how a marketplace participant would value our reporting units.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

In times of adverse economic conditions in the global economy, the Company s long-term cash flow projections are subject to a greater degree of uncertainty than usual. If we had established different reporting units or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

The Company is required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. Fair values of other indefinite-lived intangible assets are determined based on discounted cash flows or appraised values, as appropriate.

The Company tests long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group against the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group s long-lived assets and the carrying value of the group s long-lived assets. The impairment is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts, but only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset s fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values. If we had established different asset groups or utilized different valuation methodologies or assumptions, the impairment test results could differ, and we could be required to record impairment charges.

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

Allowance for Doubtful Accounts

We evaluate our allowance for doubtful accounts and estimate collectability of accounts receivable based on our analysis of historical bad debt experience in conjunction with our assessment of the financial condition of individual companies with which we do business. In times of domestic or global economic turmoil, our estimates and judgments with respect to the collectability of our receivables are subject to greater uncertainty than in more stable periods. If our estimate of uncollectible accounts is too low, costs and expenses may increase in future periods, and if it is too high, cost and expenses may decrease in future periods.

Contingencies and Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of the probable and estimable losses for the resolution of these claims. These estimates have been

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Note 11 to the Condensed Consolidated Financial Statements for information on litigation exposure.

Income Tax Audits

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

MARKET RISK

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

Policies and Procedures

In the normal course of business, we employ established policies and procedures to manage the Company s exposure to changes in interest rates, foreign currencies, commodities, and the fair market value of certain investments in debt and equity securities using a variety of financial instruments.

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to the Company s portfolio of borrowings. By policy, the Company targets fixed-rate debt as a percentage of its net debt between minimum and maximum percentages.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow in order to allow management to focus on core business issues and challenges. Accordingly, the Company enters into various contracts that change in value as foreign exchange rates change to protect the U.S. dollar equivalent value of its existing foreign currency assets, liabilities, commitments and forecasted foreign currency revenues and expenses. The Company utilizes option strategies and forward contracts that provide for the purchase or sale of foreign currencies to hedge probable, but not firmly committed, transactions. The Company also uses forward and option contracts to hedge foreign currency assets and liabilities. The principal foreign currencies hedged are the Euro, British pound, Japanese yen and Canadian dollar. Cross-currency swaps are used to effectively convert foreign currency denominated borrowings to U.S. dollar denominated borrowings. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its forecasted foreign exchange exposures generally for periods not to exceed four years. The gains and losses on these contracts offset changes in the U.S. dollar equivalent value of the related exposures.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION - (continued)

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

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

Based on their evaluation as of March 31, 2012, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

There have been no changes in our internal controls over financial reporting during the second quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are forward-looking, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. All forward-looking statements are made on the basis of management s views and assumptions regarding future events and business performance as of the time the statements are made and the Company does not undertake any obligation to update its disclosure relating to forward looking matters. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company s control, including: changes in domestic and global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments. Such developments may affect travel and leisure businesses generally and may, among other things, affect the performance of the Company s theatrical and home entertainment releases, the advertising market for broadcast and cable television programming, expenses of providing medical and pension benefits, demand for our products and performance of some or all company businesses either directly or through their impact on those who distribute our products. Additional factors are discussed in the 2011 Annual Report on Form 10-K under the Item 1A, Risk Factors.

PART II. OTHER INFORMATION (continued)

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

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended March 31, 2012**:**

Period	Total Number of Shares Purchased (1)	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
January 1, 2012 January 31, 2012	7,783,252	$ 38.80	7,192,500	274 million
February 1, 2012 February 29, 2012	5,873,000	40.14	5,769,000	268 million
March 1, 2012 March 31, 2012	8,504,470	42.55	8,416,009	260 million
Total	22,160,722	40.59	21,377,509	260 million

(1) 783,213 shares were purchased on the open market to provide shares to participants in the Walt Disney Investment Plan (WDIP) and Employee Stock Purchase Plan (ESPP). These purchases were not made pursuant to a publicly announced repurchase plan or program.

(2) Under a share repurchase program implemented effective June 10, 1998, the Company is authorized to repurchase shares of its common stock. On March 22, 2011, the Company s Board of Directors increased the repurchase authorization to a total of 400 million shares as of that date. The repurchase program does not have an expiration date.

ITEM 6. Exhibits

See Index of Exhibits.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE WALT DISNEY COMPANY

(Registrant)

By: /s/ JAMES A. RASULO
James A. Rasulo,

Senior Executive Vice President and

Chief Financial Officer

May 8, 2012

Burbank, California

INDEX OF EXHIBITS

Number and Description of Exhibit (Numbers Coincide with Item 601 of Regulation S-K)		Document Incorporated by Reference from a Previous Filing or Filed Herewith, as Indicated below
10.1	Description of Non-Management Director Compensation	Filed herewith
12.1	Statement Regarding Ratio of Earnings to Fixed Charges	Filed herewith
31(a)	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(b)	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32(a)	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
32(b)	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Equity and (v) related notes	Filed

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