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Disney Speaker:

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

PRESENTATION

Drew Borst – *Analyst, Goldman Sachs*

I'm pleased to welcome to the stage Jay Rasulo, senior executive vice president and chief financial officer of The Walt Disney Company. Jay has been with Disney in various capacities for 25 years. He has served as CFO since January of 2010. Prior to becoming CFO Jay was chairman of Disney's Parks & Resorts division for eight years. So I appreciate you joining us today, Jay.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

It's a pleasure to be here. Nice to see a lot of familiar faces out there.

Drew Borst – *Analyst, Goldman Sachs*

As I mentioned in my brief introduction, you have had a wealth of experience at The Walt Disney Company. As you look at the business today, what assets are you most excited about and where do you see the biggest opportunities for incremental growth in returns?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, you know, Drew, when I look out at our next fiscal year, which starts in a couple of days, I really have to say that I'm pretty happy with the hand we have.

If you look across the businesses, whether you think about the studio and the incredible slate that we will be releasing starting with *Frankenweenie* next week, and then a great animated film from the Disney Animation Studios, *Wreck-It Ralph* and then *Monsters U*, and then two big blockbuster titles with *The Lone Ranger* with Johnny Depp and *The Great & Powerful OZ*, and then another Marvel film with *Thor 2*[*], I am very, very excited about what we have got going on there. Those of course feed our future.

If you look at the cable nets, I know we'll talk about it further, but ESPN, great position, just finished another major sports rights deal with Major League Baseball, feel very strong about our position there both on the long-term rights side and on the long-term affiliate deals that we have done.

Parks and Resorts - a lot of things that we have been working on for the last few years coming into the market, we are going to start seeing returns from it. The early returns on those expansions in terms of the interest, the bookings, the attendance they have brought, the additional spending all are moving in the direction that we had hoped.

Disney Channel on fire all over the world from a ratings perspective here in the US, with popularity, expanding platforms and then internationally growing very quickly - Consumer Products of course the beneficiary of all of that. We are looking for a very big Christmas season with *Avengers*, Princesses with the follow up to *Brave*, Disney Channel properties.

And Disney Interactive, of course, moving into fiscal 2013 where we start the year right out with a big title with *Epic Mickey 2*, another big title that hasn't been announced yet but coming mid-year and continuing to grow in the social space.

So I have to say that I am feeling pretty good about the assets, how we are deploying the assets. You know, our fundamental strategic advantage is making great IP that works across the company and making it work together. And I see that, and as we get on in our session today I will be happy to share some examples of why I am so excited about how that machine is working.

Drew Borst – *Analyst, Goldman Sachs*

I wanted to ask you about sort of deploying some of the excess free cash flow that you have. Over the past couple of years you've been buying back your stock. In the past you have

[*] *Thor 2*'s release date is November 8, 2013. *Iron Man 3*'s release date is May 3, 2013.

described the strategy as saying you look at the market value and you like to buy when the gap between market and intrinsic is sort of greatest, a very pragmatic sort of approach.

And then when you looked at last quarter, the shares had outperformed the S&P by 14% and the buyback slowed pretty significantly sort of quarter on quarter. So it seems to suggest maybe that you thought the shares were approaching -- or the gap wasn't that wide. I mean, how are you thinking about repurchases as you look forward?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, I said on our last call that I think it would be a bit of a mistake to focus too much on a single quarter's purchases and what happened and what didn't, all part of a complex cash management system. But we really haven't departed from the strategy that I have been talking about in terms of capital deployment and not to spend too much time on anything other than return to shareholders.

About two thirds of the cash that we generate goes into reinvestment in the businesses in various forms and there has been many of those that all of you are aware of over the last few years. And we reserve in our mind about 20% for merger and acquisition activity. It is lumpy, it doesn't happen every year -- not always predictable but it has been a big part of our growth story.

And we look at about 20% -- if you look at the last five years, the last seven years -- about 20% of capital returned to shareholders in the form of dividends and stock buyback. And when I say capital I mean the cash generated by the business not the accounting definition of capex.

And by the end of this fiscal year, which is a few days from now, I think we will have bought about $3 billion worth of stock back in. That is right on that sort of 20% -- happens to be right on that 20% -- case if you add the dividend to it.

So we still feel aggressive about our stock, we feel like we should be in the market buying it back, we are in the market buying it back. And I am not really worried about getting too close to where it starts becoming a bad investment decision to buy back our stock.

Drew Borst – *Analyst, Goldman Sachs*

Okay. Maybe I'll ask a couple questions about Parks and Resorts. As you alluded to before, there has been a significant investment phase over the past couple years. I mean that investment actually was done when you were running the parks division, many of those investment decisions were made.

Two of those projects recently came online, you have had the two new cruise ships over the past two years, and then sort of the revamp of California Adventure, and then there are several

more that are still to come, your Fantasyland down in Orlando, *AVATAR* Land also in Orlando and Shanghai Disney.

I wonder if you could sort of talk about the return profile on those investments, sort of generally. How does that compare to investing in the core kind of theme park, existing theme park?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. Well, when you sort of tick through those investments each of them were substantial, many of them are completed or nearly completed and are now in the marketplace. If we look at for instance the cruise ships they are both on the water. The response to those new cruise ships has been spectacular. They are all but fully booked at all times. I think we said in Q3 that we were looking at 94% occupancy on the fleet and feeling very, very strong about it.

So this was a classic expansion of capacity, it was a business in which we were over demanded with our two ships. We thought that new ships, expanded itineraries, higher quality experiences, could generate extraordinary returns and I still feel incredibly strongly about that, that we will see extraordinary returns from these ships -- in fact, returns higher than the average for the business as a whole, probably higher than the domestic business.

If you look at Disney's California Adventure, since its opening we always felt like it needed a little more. It wasn't carrying its weight in terms of the share of the Disneyland Resort attendance it was attracting, how long it was keeping people, wasn't keeping the guests into the evening, and we set out to fix that two or three years ago. In stages those fixes have come on.

Every one has been incredibly well received up through this summer when the big megillah, Cars Land, opened along with the new entry sequence, and it has fundamentally changed the dynamic of the Disneyland Resort, with the ultimate goal of both raising attendance on a permanent basis as well as allowing us to price aggressively behind that new capacity, and bring Disneyland Resort up to parity with the pricing at Walt Disney World. And all of that seems to be happening in spades, really coming to fruition.

So we are very excited with what has happened there. We see whereas a third of the folks used to go visit Disney's California Adventure, now 50% go visit. We keep people for six or seven hours, they used to be there four to five hours. So it is really fundamentally changed the dynamic there and for me allowed us to back fill what was an overflow of demand for Disneyland but we were actually getting rejection because it was crowded year-round.

So I think that one -- we said at the time we announced it that we would have attractive financial returns. In fact, what we are seeing so far will take those returns above what we even

expected. And when we say attractive, of course it is beyond our weighted average cost of capital, so I feel very good about it.

The Magic Kingdom expansion in Florida, obviously we have said many times the Magic Kingdom in Florida is our most popular park, Fantasyland the most popular part of that park. This was a long overdue capacity expansion. We haven't put substantial investment in that most popular park in the world since -- really since it opened, we have only kind of touched it around the edges.

And we expect incredible interest in a land that is both focused on our younger guests of course, but that is the driver for the Magic Kingdom. So [we] feel very good about what it will deliver.

AVATAR in 2016, 2015-2016, still to come. And so I think we are feeling like these were smart investments. We don't greenlight these projects unless there are fundamental economics that can drive returns to them. We hold ourselves pretty diligently to look back every year to see whether the way we have implemented the strategies to introduce them are delivering those.

And we also look from a top-down basis on the whole business and look at the capital envelope for the whole thing and ask ourselves, do we believe that the operating income for this business and the cash it will generate into the future will support this ongoing level of investment. And I've got to say we are pretty happy with what we see so far.

Drew Borst – *Analyst, Goldman Sachs*

So a couple follow-ups on that. So when we talk about the returns, are you sort of thinking for these projects 10% to 15% kind of return on…?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

That would definitely be the range of IRR for these kinds of projects. You know, our weighted average cost of capital for that business over the 25 years I have been in the company have never varied very much, maybe 200 basis points between 9.5 and 11.5 in terms of, of course, at this point in time we are probably at the lower end of that range with interest rates where they are, inflation where it is. But, yes, those are the kinds of returns that we look for on everything we do.

Drew Borst – *Analyst, Goldman Sachs*

And then one more follow up. The comment that you made about Fantasyland and you said that the Magic Kingdom, most popular park, but really you hadn't put a lot of capital into the business since it opened in 1970. So I guess it begs the question, after this Fantasyland project

is complete do you anticipate seeing other things, enhancements that you have to do at the Magic Kingdom?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

You know, probably the next project of size in Florida will be that *AVATAR* Land in Disney's Animal Kingdom. We will more or less absorb that into the normal renewal capital we put into Walt Disney World. So we'll delay things that we might have done before, maybe not do some things that we had planned.

But our Imagineers on a constant basis look for the needs for each resort as a whole, because we are trying to of course attract people to the overall destination, but then look within each part and say, sort of, where is the next need, what is the next big opportunity. Of course we constantly look at the franchises that are developed from other parts of the company and how we can exploit those and where the heat is behind those. So it is a dynamic process.

There is an incredible amount of future planning that goes on around each and every one of the parks, but the timing of that tends to take shape later on. So I am not sure when we will be back to the Magic Kingdom, but I am sure we will be at some point.

Drew Borst – *Analyst, Goldman Sachs*

Yes. And I guess -- I assume there is no change in what you have described before in terms of the trajectory of sort of capex. I think you have talked about this being the peak year and then it sort of...

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. We -- this will definitely -- we will see a significant drop in capital expenditures in 2013, this coming fiscal year, whether you look at it on an equity basis or on a consolidated basis. And of course with our international operations you have to look at it both ways.

But of course Shanghai is ramping up for its opening in 2015. So, on a consolidated basis you will start to see new capital spending show up in our capex line for Shanghai Disneyland. You will remember that's a project of roughly $4.3 billion of which we are investing 43%, Chinese government 57%.

So you will see that -- pretty big capex numbers which on a consolidated basis 57%, that will net out in the financing line in our reported results. But we are really looking forward to that opening and think it can be the beginning of the next chapter for us in that business.

Drew Borst – *Analyst, Goldman Sachs*

Theme park margins are up 170 basis points fiscal year-to-date. Can you speak about the dynamics at play here and what is going to drive the return to sort of pre-recession margins in parks?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. I have been saying, and I am sure it is not very easy to follow quarter to quarter, but as you introduce these new products they are very big capital investments for us, we have a lot of economics we want to deliver behind them.

So we do spend, rather than invest, a fair amount of resources in their pre-opening to make sure that they open -- when that curtain comes up on opening day they are at full tilt, that all those fans who rush to Cars Land or Fantasyland or try to book that maiden cruise have a fantastic experience, which means we spend a lot of time, money and effort training people in advance to be ready for that opening day. We put a fair amount of marketing money into the market to be sure that we are going to hit the kinds of increased results that we are looking for. And of course that has a drag on our margins.

We talked last year about $300 million of incremental revenue when they were just kind of sticking their head out of the water on those new projects. That would be pretty much offset by start-up costs of about that magnitude. And again this year the same thing happened at even a larger number and again offset.

But as we start moving towards the steady state and permanent operating basis for these things, of course all those start-up costs will disappear, those projects all are accretive to margins at their steady-state and we'll start to see that progressively over time.

So of the 190 basis points, for instance, in Q3 that we saw in overall Park's margins, those new projects were about a 50 basis point drag on the overall margins. And I think that is a picture that you will see work its way out over the next few years as we get into normal operations, the lift that we get in attendance and spending starts to materialize and we sort of get into the normal operations and then the ramp-up is behind us.

Drew Borst – *Analyst, Goldman Sachs*

And I want to ask you about the current trends at the theme parks. Obviously the global economic picture has been a little bit spotty, a little bit challenged. When you look at Disney's Park results, they actually have been pretty impressive top-line growth of double digits, some of that is these new projects we were just discussing. But I guess can you describe the demand level currently at the parks, what are you seeing from consumers right now globally?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, I don't really have anything additional or I guess by virtue of the fact that I am saying it a couple months later it is an update. But we continue to see the trends we talked about in Q3 where we said that our occupancy [domestic resort reservations] was slightly up, our spending was moderately up on a per room basis and those are the trends that have continued over the course of September.

Europe - headwinds are extremely unpredictable. I have to say that Disneyland Paris has fared, in my opinion, extremely well relative to what could have happened. They are drawing from -- heavily from some of the headline countries that you see having problems in Europe, whether it is Italy, Spain -- I mean these are heavy sources of attendance for Disneyland Paris and the management team there has done a pretty extraordinary job.

So on the one hand I can't say that we are completely immune to those trends, but I think our Parks and Resorts team has managed brilliantly through this -- through the downturn and continues in whatever we are in now -- I wouldn't say upturn, I would say flat economy that we see now.

So I continue to be bullish that -- like you see in other businesses, whether it is in the television business or the film business, when you put great content out into the market people respond to it. Maybe they respond in an abnormal way compared to other people in the market and we are the beneficiaries of that. But I think that a lot of these new products we've put in the market have really helped us weather this downturn pretty well.

Drew Borst – *Analyst, Goldman Sachs*

And maybe one question about Disneyland Paris. Earlier this week there was an announcement of a refinancing. Can you explain what is going on there with them in terms of what their…?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure. Since the early days Disneyland Paris was pretty heavily debt laden as a company. And despite its increasing commercial success, the financial burden on that company was pretty heavy. And there were a number of refinancings. The interest rate was the best one to get in the market at the times of those refinancings, but it still left a pretty complex web of lenders and, more importantly, increasingly complex covenants under which the company had to operate.

And those covenants and the resolving around them spending the capital that you need to spend in the business was a constant drain on management time over there to constantly go back, negotiate waivers to the covenants, explain the operating business to the bankers.

And we finally decided that with the availability of capital to the parent company at great rates that we would refinance, we'd buy in all that existing debt and extend a similar loan to Disneyland Paris at a rate that for them ended up being 100 basis points less than the average rate that they were borrowing at.

And of course being the parent company, and being incredibly supportive, kind of took this issue of covenants out of the picture. So I think it was a strategic decision to allow that business to operate in a less fettered way, or almost an unfettered way relative to what the debt was causing them and the covenants around the debt was causing them to do.

Lowered their cost of borrowing, has not increased our balance sheet borrowing at all because of course we were already consolidating all the debt of Disneyland Paris onto our books. You have read recently what the rating agencies have said about this transaction; it hasn't burdened us with any debt, hasn't changed our rating in the market, hasn't altered our ability to borrow money as The Walt Disney Company.

So I think all around it was a very successful transaction and ended up getting the approval of course of the government because the government was one of the big lenders to Disneyland Paris. The supervisory Board and the Workers Council all agreed that this was a great transaction. So we are really looking forward to providing those guys with clear airspace to do what they have to do to grow that business.

Drew Borst – *Analyst, Goldman Sachs*

And it seems like you are pretty content with the current structure, I mean, this is a structure that has been in place for some time now. I believe you -- Disney manages it. Do you have control over -- you are the biggest shareholder. Because there has been some speculation in the recent past about that you might want to buy it in. Is there any strategic merit to that given…?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

You know, we -- of course when you look at a major refinancing you have to ask yourself that question, and we did. And we really didn't see any strategic improvement in the business by buying in all of the outstanding shares. Our shareholders have been supportive of the growth of the company and we really felt that the debt was the burden we had to handle.

Drew Borst – *Analyst, Goldman Sachs*

Okay maybe we will move on to the cable network assets. To some outside observers the backdrop for ESPN appears challenging with a consistently high sports cost inflation, increasing

competition from rival sports networks and MVPD customers that are -- that have a diminishing capacity to pass through the rate hikes that you put through on ESPN.

With all that said, since 2005 your cable network margins have expanded by 500 basis points. Do you think that the past is prologue here? And how to see the cable network margins trending over the next couple of years?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, I'm not going to talk specifically to margin trends. I don't like to give guidance there. But let me be crystal clear -- we see ESPN as a business that continues to be a growth vehicle. We will continue to grow that business and nothing out there that we see has changed our opinion of that.

If you look at the landscape, whether it is the increased competitiveness or what has gone on in sports rights fees, I guess I would look at it this way - number one, ESPN never has been and I don't ever see them being complacent about their position in the business.

They have a great position in cable sports. That position is made up by an unbelievable stable of properties that we now and have increasingly done long-term deals with. We have long-term deals with two major affiliates that have been recently redone. Definitely in this case, the past I think is prologue to the future. We feel very strongly about the affiliate deals that we can do going forward.

And we have done those deals with a very good picture of what our sports rights costs will look like. And we are still very confident that we can continue to grow the business.

From a platform perspective, we continue to push our position and grow our market share in alternative platforms to the linear networks, whether it's things like the WATCH[ESPN] app, whether it is online, we continue to push that aggressively. We continue to grow internationally in North America where we think we can.

So I would say that the sports business has always been competitive whether it is on the sports rights purchase side, whether it is on regional networks and upstarts in the sports business. And I think we have prevailed despite that and continue to enhance our own position.

I think that when you look at start-ups, they have had a very, very tough time of getting a foothold in this business and part of that is how well, and strategically, we have managed ESPN for the long-term.

We don't go out and buy everything, but we are sure to put our stake in the ground on things that we think are extremely important, and when you look at our position with the NFL, the dominant position we have in college sports, particularly college football, and the long-term

deals we have done there, some banner events - picking up things like Wimbledon along the way, just puts us in a position that we feel strongly we can continue to maintain.

So I'm very, very bullish on it. Even though I won't predict margins, I will let you take from my tone how I feel about it.

Drew Borst – *Analyst, Goldman Sachs*

Yes, I guess most of the sports rights have been locked up. I think as you alluded to, I think there is only NASCAR and NBA at least of the existing contracts you have that come up...

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Right, NBA is a couple of years out, and NASCAR as well.

Drew Borst – *Analyst, Goldman Sachs*

And then I guess the conference realignment in colleges can sometimes impact on the margin. But I guess it's a relatively small proportion when a couple of teams shift you may have to re-strike the conference contract.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Right, and we have done a couple of those, but I wouldn't say they are major drivers, as you said. And we have locked up Major League Baseball for the long-term in a deal that has really given us -- of course it is Major League Baseball, it's the games we have. But we have added -- we have added a wild card, we have gotten rid of some of restrictions on broadcasting in local markets, we have gotten more games that we can broadcast. In other words, less games blacked out in local markets.

We have gotten tons of editorial for *SportsCenter* -- our unbelievably successful studio shows, we have gotten the rights to do a studio show, 100% dedicated on Major League Baseball. So, yes, the rights increased, but I would say it's kind of an apples to oranges comparison relative to the rights we now have relative to what we had before.

Drew Borst – *Analyst, Goldman Sachs*

Okay. I wanted to ask about online license deals, Disney was a company that was pretty early to embrace licensing content to Netflix and others, particularly in the kid's genre with the Disney content, Disney Channel content. So I wanted to ask you about what you have learned about consumption of this content online. Especially recently there has been a lot of disruption in

television viewing among children, and some have speculated maybe that has something to do with increased online viewing. But I wonder what your observations are about it?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, well, let me say first that from the very start, Bob Iger was very vocal about the need to embrace new technologies as they came on board - but with the caveat that we weren't going to embrace them by giving our content away. We were going to be paid for the convenience of portability, the convenience of multiple devices by which people could consume our content. And we went forward with that as a point of view, and I think that that has been totally borne out in the way this marketplace has unfolded for us.

I will say that we -- particularly since you asked about the children's space -- we have not seen the availability -- for instance of the Disney Channel on the WATCH apps and the iOS platform -- is the number one way kids are watching the online available Disney Channel. We have not seen that affect the viewing of the linear network.

In fact, this past summer has been a banner year for the Disney Channel. We, for the first time, became number one among Kids 2 to 11, 6 to 11, 9 to [14], Disney XD had its highest rated summer in its history, the Disney Junior block on Disney Channel had its highest rated summer.

So we only see greater involvement with our franchise by the fact that kids can -- when not at home watching the television -- can take the content along with them, it just seems to build their adhesion to the brands that we are introducing.

Of course, content always has something to do with it and content has had something to do with it whether you are talking about *Doc McStuffins*, which has been incredibly popular in the preschool market, *Phineas and Ferb* for older kids, *Jake and the Never Land Pirates* for preschool. These franchises have had incredible interest and get great ratings.

But the overall channel could not be stronger despite the fact, or maybe because of the fact, that we've really sought out all these other platforms to expand. And that expansion has not only lifted the Disney Channel domestically, but internationally the Disney Channel is absolutely on fire as well.

Drew Borst – *Analyst, Goldman Sachs*

On the topic of -- sticking with the mobile and moving to the ESPN, the sports side, I think the WATCH ESPN app has been a tremendous success for sports fans and for me personally, I love it. But one thing I have noticed as I am using that application is that there is still no advertising.

In fact, if you watch a live stream of ESPN, they actually strip out the advertisements; there is just sort of a blank screen. Sometimes they put up a trivia question. But I am wondering where -

- why are you doing that and how do you see that playing out in the future in terms of monetizing it?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, well let me say this, it was never envisioned that that would be the way and the reason why that particular platform, the iPad, the iOS platform has been stripping out ads was a technical one more than anything else. But here is the good news. If you watch ESPNU today you will see ads. And in the near future, by the end of this month, you will see advertising even on the iOS platform.

By the way, we have already had advertising in the desktop and PC, on the Android phones, you have already seen advertising and now we will have it on the iOS platform as well. So starting with ESPNU, which I believe is already up as of today, and then ESPN, ESPN2 and ESPN3 will ultimately get, even on the iOS platform, the monetization that we always of course envisioned but there were some technical (inaudible) to overcome.

Drew Borst – *Analyst, Goldman Sachs*

So it wasn't so much -- I mean, some of the other media companies talk about the lack of - there is no measurement really for -- there's no third party independent measurement.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Right.

Drew Borst – *Analyst, Goldman Sachs*

I mean, that hasn't been the issue?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, it is an issue, but an issue that I can assure you that we and some of the measurement agencies are working on with great diligence to make happen because obviously, as you successfully convert eyes from fundamentally what used to be missing sporting events to watching them, that you want to measure that and you want to get credit for that and present that data to advertisers.

So it isn't fully available now, but I think in the near future we will start seeing efforts in that regard. Because I know there is a lot of folks, including us, working on that.

Drew Borst – *Analyst, Goldman Sachs*

And then another priority is international growth. And so, I wonder if you could speak about the international growth opportunities within the cable network group.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, if you look at the -- our overall cable network group of course is very dominated by ESPN, which is fundamentally a domestic story. And if you look at, for instance, the revenues that we have across our cable nets internationally, we are in the single digits[†] in terms of percentage. But if you strip out ESPN from the measurement, we are about one third international in our cable nets.

Drew Borst – *Analyst, Goldman Sachs*

Profit, revenue?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

From a revenue perspective. So let me talk to what the parts and pieces of that are. First of all, I think today there are like 147 – 148[‡] and counting Disney Channels around the globe, many markets are multi-platform and in many markets we are the multi-platform leader in 20 or 25 markets.

We continue to introduce the Disney Channel around the world into new markets. Last year we did Turkey, Russia, we went free-to-air in Spain, we changed our arrangement in France to make it more broadly available because the Disney Channel is the biggest bearer of the Disney brand. And it used to be animated films, it is now clearly the Disney Channel.

The ubiquity of the franchises we create there, the franchises for the overall company that we promote broadly are all well carried by the Disney Channel internationally. So it is clearly part of our both brand and franchise strategy as well as our financial growth story to expand the Disney Channel.

In the coming year we will be launching DXD in Malaysia. In fact I think that might have happened in the last couple of days. Disney Junior in Japan. Last year we launched a channel called D-life in Japan for sort of the young female market. And we've got several more in the works, so we continue to look to that for expansion.

[†] The "single digits" refers to operating income in terms of percentage.
[‡] There are 105 international Disney Channels covering 167 territories.

If you look at ESPN and its international platform, the biggest growth story for ESPN internationally is Latin America. That business is about $500 million of revenue today, continues to grow. We continue to basically execute the same multi-platform strategy that has been so successful in the US in Latin America and it is taking hold.

As that market grows middle income households, cable consuming households continue to grow, we will be right there with it. We have a very high penetration of cable households today with ESPN in many Latin American countries and we want to continue to move it.

In Canada we have a great joint venture and the sports network of which our joint venture expresses itself in terms of sports is doing quite well. And so Canada I think is still our biggest international market and we continue to grow it.

If you look at what has happened with ESS in Asia, obviously we have decided that that -- we and STAR Sports have sort of started to separate in terms of the strategic direction we want to go, so we've ended that. You know that we have one year left in the UK on our Premiere League rights.

We did not pick up those rights, we could not buy them at a level that was economic enough for us to get the kinds of returns on continuing to invest in that business that we wanted. But we continue to look for opportunities for ESPN and of course the Disney Channel all over the world.

Drew Borst – *Analyst, Goldman Sachs*

On the note of the UK, is that a market you are still committed to, in other words -- that's marquis content that you bought very opportunistically on the last go around?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, I would say that the structure there, and two key elements; the fact that we are not a distributor and many distributors buy sports rights in the UK as a loss leader, and the fact that the rights come up every three years for renegotiation makes it very difficult with our positioning to build a strong position there.

So for the time being we have retreated from what we have done, got too expensive for us. I don't think anybody at ESPN would ever say that they are out of any market forever in any situation, but clearly we have to retrench if we decide to relaunch that market with a new entry point.

Drew Borst – *Analyst, Goldman Sachs*

I will ask one more question and then we will open it up to the audience. On the topic of Marvel and the film studio, but Marvel in particular, can you talk about the impact that the success of *Avengers* and the Marvel films could potentially have on your consumer products division?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Sure.

Drew Borst – *Analyst, Goldman Sachs*

That's a business that investors struggle with in terms of modeling out consumer products but it's a huge business for you.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Marvel -- I mean when we looked at Marvel as an acquisition possibility, obviously it was both the untapped IP, but the already demonstrated success with a very small team without the reach of The Walt Disney Company and without the, if you will, distribution network of consumer products that The Walt Disney Company had.

It was clear that they were already creating an enormous amount of value around the exploitation of these great stories and characters into the apparel market, the toy market, household items and all the things you see our brands exploited against.

And we thought that the combination of our worldwide network to be able to do this along with the investment in continued content growth would really create something well beyond what Marvel could be on its own. And I think that has certainly come to fruition.

We talked for -- since the acquisition that *Avengers* was going to be our franchise play with Marvel. In other words, yes, we were going to put the *Thor* movie out, we were going to put *Cap* out, we had *Ironman* going, but we were really going to put the weight and breadth of The Walt Disney Company behind something like *Avengers* which had enough depth of content, enough characters, enough continuity in a story that could continue into future films that this is where we wanted to make our big investment of time, organization and money. And that has really come to pass.

Obviously we didn't plan for a $1.5 billion movie at the box office, to be the number three, that is something that would be silly to ever plan for. But now that it has happened it has really validated the idea that this was the film to put all the effort behind and I think you will see this Christmas that *Avengers* merchandise both *Avengers* as a concept with all these characters in

one movie and each individual character within that really being all over the place for the Christmas season and into the summer and so on.

So I think that we see it as the same apparatus that exploits *Cars* and *Toy Story*. And many of you probably were there a couple years ago when I talked about how and why the investment in franchise films delivers itself around the rest of our company.

But it is not just consumer products. There is *The Avengers* social game that has just launched, there are spin-offs of *Avengers* on Disney XD. We have just started with Joss Whedon to work around a show around S.H.I.E.L.D. which is the organization under which *The Avengers* work.

So this is the uniqueness of Disney, this is the Disney machine, as some of our colleagues call it, that allows us to invest the money to create IP and then get the returns out of it. And I would say *The Avengers* is just another great example along with Princesses, *Cars*, *Toy Story* -- it is just the next one in that line that our company will broadly use across all of our businesses.

Drew Borst – *Analyst, Goldman Sachs*

Are there any questions from the audience? Right here.

Unidentified Audience Member

A few years ago you made a deal for properties that might have been a park south of Washington D.C., is that still a prospect?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

No. It wasn't a park south of Washington, D.C. a few years ago, it was an idea around a Washington-based destination resort, which would have -- and by resort I mean in the more traditional sense, a hotel and adjoining activities that would both appeal to the local market as well as regional market and be a base for families to visit Washington, D.C. And we took an option out on some land, turns out that under further and deeper investigation probably not the direction we want to continue in.

Drew Borst – *Analyst, Goldman Sachs*

Any other questions? Right here.

Unidentified Audience Member

Good morning, Jay. Given your comments on parks and the investment overlapping, and if you solve for pension expense -- take pension out of that, isn't there a case to be made that over the next several years we will see new peak levels of profitability in that segment, you will see new levels of peak margins in that segment?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

I would say this and I have been saying it for a long time. We have added businesses and expanded on businesses in a way that we think is margin accretive. There is nothing structurally in the makeup of that business in the way the base business continues to be a run.

There are no new factors jumping into the cost side of the equation that make us believe that we can't return to the margin level that we saw in pre-recession. Obviously as we talked earlier we have got big projects in the pipeline that will have to reach steady state before that statement comes to fruition, but I guess that is how I would answer your question.

Drew Borst – *Analyst, Goldman Sachs*

Unfortunately we are out of time. But thank you very much, Jay.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thank you, Drew.

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Forward-Looking Statements:
Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These 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. Management does not undertake any obligation to update these statements. 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:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

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 set forth in the Company's Annual Report on Form 10-K for the year ended October 1, 2011 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.