



The *WALT DISNEY* Company[®]

Tom Staggs at
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Disney Speaker:

Tom Staggs

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

Moderated by,

Jason Bazinet

Smith Barney Citigroup

Jason Bazinet – Smith Barney Citigroup

I am very pleased to have up on stage Mr. Tom Staggs, Chief Financial Officer of The Walt Disney Company. Tom, thank you for joining us.



Tom Staggs at Smith Barney Global Media Conference

January 10, 2006

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

My pleasure. Thank you.

Jason Bazinet – Smith Barney Citigroup

Before I get started, Disney has asked me to make a quick comment. For forward-looking disclaimer language, please see the Walt Disney Company website. With that, Tom, thanks for coming.

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

Thank you.

Jason Bazinet – Smith Barney Citigroup

I guess what we will probably do is, I will ask a few questions, and then we will turn it over to the audience. But before I get started, are there any introductory comments that you would like to make to the group?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

Sure. I think the backdrop for us is that as we move along, we are pleased with the way performance has been going. 2005 turned out well - double-digit growth again, very strong cash flow and continued improvement in capital returns - just as we set out to do. Because we have a September year end, we see nice momentum as we go into the second quarter. As we look back, the parks had a great holiday season. We actually set a record at Walt Disney World for the holiday period in terms of attendance. So that was nice after a little bit of a slow start due to the hurricanes at the beginning of the quarter. We really had a nice end to the quarter. Disneyland continues to knock the cover off the ball through the 50th anniversary, so that's great.

Hong Kong Disneyland is ramping up extremely well, and the guest satisfaction ratings there are even better than we hoped. Whenever we see the product resonating that well, it really bodes well for the future. It seems like people watch the opening of a theme park as if it were the opening of a film, although it's a very different thing. Theme parks are 40 or 50-year assets. The early returns in terms of guest satisfaction [at Hong Kong Disneyland], and the ramp up [in attendance] over the holidays both looked good.

Obviously we are pleased with *Narnia*, which looks like it is on its way to doing something in the \$300 million range domestically. And it is doing equally well internationally.

The ad market has held up well with high single-digit ad sales at the network above upfront levels. ESPN is also seeing a nice ad market. We had a fantastic week last week with the bowl games, with some of the highest ratings we've seen in years there.

So, the base businesses all look great. When we step back, we feel like our performance is largely being driven by the success of our content, which is critical for us. I was just out at CES in Las Vegas, and it was amazing to see the array of devices. Everything has a video screen now; in cars, in watches, etc. You never knew you had to have a 102" high definition plasma screen television, but if you were there, suddenly you had to have one.

And then you look at the content they are showing to help market all these things and invariably, if it's about high-definition it's about ESPN, if it's about family content it's Disney. It's a great reminder that content is what's going to flow over these devices. So the work we've been doing - the stuff that Bob has really been spearheading - to embrace technology throughout the organization to take advantage of these new platforms, while remaining platform-agnostic, really bodes well for the future.

So, these are long winded opening comments, but we like where we sit, and we actually like where the market is going.

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Q & A

Jason Bazinet – Smith Barney Citigroup

Let me start with a senior management question, because it is probably the biggest thing that has happened to Disney over the last year. Mr. Eisner was CEO for 20-plus years. Mr. Iger has certainly been around for a while, since ABC/CapCities. Given the change in CEO, is there anything you can share with the audience about potential changes in strategic direction, in terms of where Disney will be headed over the next three to five years?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

You raise a good point that Bob Iger had been in the President role for a number of years prior to taking over as CEO, which has given us a nice continuity during the transition. But as with any company that has had a long-standing CEO and is in the process of changing CEOs, it's natural to step back and take a look and say, "what's the direction?" First of all, Michael left the Company in very good shape with things moving in the right direction. On the other hand, we've got this opportunity for people to look to new direction. So, even though there has not been a radical change in strategy, and I don't think you should expect one as we're still very content focused— we've been talking about the opportunities of technology and opportunities of international now for awhile. I think there is a chance to jumpstart those priorities and to accelerate them. Some of the things that Bob has done like championing the iPod deal and testing the waters in some of new areas like that, have invigorated the organization. We are fundamentally a creative company. It's about the content we create. And as I mentioned to CES, the content has to be there. But the real takeaway for us is that the content has to continue to be great and we have to invest in the creative process and get that right. There is an opportunity to really invigorate our creative process and show that we're ready to put capital against great content, and we're doing just that. There is a real sense of energy around the company and I think Bob is doing a good job of taking advantage of that.

Jason Bazinet – Smith Barney Citigroup

Very good. If I could shift gears a little bit to talk about theatrical distribution. Late last year you hinted at potentially collapsing the release windows so that the DVD release date was coincident with the theatrical window. Can you just give us a sense of whether or not we interpreted those comments correctly, and is it a likely change?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

First of all, the comments weren't meant to denigrate the theatrical window because the fact is that the theatrical window is very important, and should remain important. If you look at theatrical films in rough terms, a quarter of the revenue is going to come from theatrical, 50% is going to come from home video and the remainder will come from, generally, the television window. Theatrical is a big, important window and it's the right launching pad for films and will likely continue to be so for some time. But, at the same time you have seen the gap between the theatrical release and the home video release compress somewhat, and I think that will probably continue. In fairness, what we're doing is following the consumer which is what we as a company think we need to focus on. We've all seen what happens when you ignore what the consumer is saying in terms of how and when they want to consume content. We need to make sure that we're making content available in windows that make sense to the consumer and maximize the opportunity there.

We put *Chicken Little* out on 100 screens with a true 3-D experience, and that resonated extremely well with people. Those screens easily had the highest per-screen averages. We got great feedback on that, which reinforces our belief that we have to make sure we're putting out great product and that the theatrical experience is all that it can be. With work both from the side of the folks creating the content and from the theater owners, this will be a robust window for some time to come. We are not predicting that a concurrent release is going to happen tomorrow for the majority of films, or even pushing for that to happen. But what we will do is experiment with what works with consumers. We're not going to be afraid to make sure that we are doing what we can do to maximize the consumer experience, and therefore the value of our content, even if it means bucking convention in terms of how things have been done in the past.



Jason Bazinet – Smith Barney Citigroup

Understood. That's helpful. Sticking with the studio, I think that you gave some indication that during '06 and '07 you would potentially reduce the number of movie releases. When you made that decision, was the intent to disinvest and commit less capital to that business, given the lower returns in that business versus some of the others, or is it really more an intent to just reduce the amount of excess supply in that business?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

I think the best way to characterize it would be that we are trying to make sure that we're focusing our investments in the places where we think there is the best chance for great returns. If you look back over the last ten years, our Disney branded live-action releases have easily outpaced the industry, and outpaced our own non-Disney live-action releases in terms of returns and profitability. Given that, we plan to have greater than 50% of our films be Disney branded going forward. If you take the 2006 film slate as an example, we will put 70% of our investment toward Disney branded films.

We will put much less than we did before toward Miramax properties, which is the principal place we've reduced investment in the last year. The number of releases will come down some because we don't have nearly the volume of Miramax titles coming out, and we think that that is a good balance.

The creative process for us seems to work best when there is a relative scarcity of capital, meaning that our filmmakers (and we've got great filmmakers) have got to focus on the projects they believe in most. When we focus on Disney branded titles, those are the titles that resonate throughout the organization. I know this is just a Q&A, but I couldn't resist bringing one teaser to make my point. Yes, it is to sell tickets. But to make my point, I just want you to take a look at the latest work that we've done on *Pirates*. It's really just a teaser piece, but if you could run it, that would be great.

(Video clip)

So clearly *Pirates* is an example of getting it right, but we don't always get it right. The point is that when we hit on a franchise like this (especially when it's a Disney branded franchise) you will see a video game coming out at the time the film comes out, you will see new elements going into the *Pirates of the Caribbean* ride at our parks and sparking new interest there. We are also running this trailer along with a lot of the *Narnia* prints, and we are getting applause in the audiences. It is just one of those things; it is the kind of content from which we derive a lot of our other activities. And those are the kind of projects where we want to focus our film investment. We know not every one is going to be anything like *Pirates* or *Narnia*, and that these are exceptional hits. The good news is that *Narnia* will be somewhere close to *Pirates One* in terms of box office. We started the year by saying that we had a tough live-action slate last year, and we will have relatively less home video in the beginning of this year. But if you look at where the studio is going and the kind of projects they are putting out, it bodes well for the future.

So yes, we brought our film investment down some. The number of releases has come down. I think that 2006 is a pretty good representation of where we think steady-state is. Things like *Narnia*, *Pirates* and *Shaggy Dog* and pictures like these represent the sweet spot for us in terms of where we can drive returns, and drive the rest of our businesses, including consumer products, and all the other ancillary revenue streams.

Jason Bazinet – Smith Barney Citigroup

That's helpful. Thank you. On the animation business - given your long history in the animation business, it comes as a bit of a surprise that some other firms have emerged as dominant animation companies. I am thinking specifically of DreamWorks and Pixar. Could you just share with the audience what you think has gone off track in terms of the development of great animation features? And what specifically you're doing to correct that going forward? I think you said that this is one of your priorities for '06 and beyond.

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

Animation is absolutely one of our priorities, and it is one of the sweet spots of the company. It is one of the core creative efforts of the company and one that we intend to invest in, both in terms of people and in terms of capital. *Chicken Little* was a very nice first step in the direction of reigniting the animation business. We are not all the way there, but I think it [Chicken Little] demonstrates that technologically, from a look and feel standpoint, we can take care of that part of the equation. From the filmmaking side, if history is any guide, we will do all right there. But



Tom Staggs at Smith Barney Global Media Conference

January 10, 2006

we've got room for improvement. I have been at Disney awhile, and back in 1996, people talked as though every film we put out was going to be another *Lion King* and of course that was not right. Nor is it right to think that because we had a run of films that weren't quite as successful, we just weren't going to be able to make successful films in the future. But the process didn't produce the results that we had hoped for or wanted. We've made some changes and we've got some new folks in there. All of our products in production right now are CGI, and we are excited about where we are taking it. We know there is work to do, and we know it is a place where we need to focus and that we have to get right.

Jason Bazinet – Smith Barney Citigroup

Shifting over to the parks business - a lot of the investors in this room have expressed skepticism about the capital intensity of the parks business. When you look internationally, it seems like you've taken a very different financial approach toward some of those investments by attracting third party investment. Has there ever been any thought on the domestic parks here in the U.S. of getting some sort of sponsorship that would remove the capital from your books, with you entering some sort of leasing model or something that would still allow you to keep the strategic benefit of the parks, and capture royalties, but not have as much capital intensity associated with the business?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

We've looked at using third party capital, and obviously we've done it internationally. But let me come back to that in a second. One of the things that I am not sure is fully appreciated about the theme parks is the degree to which we have created an asset where we enjoy a substantial competitive advantage. If you go back and look from 9/11 during the downturn to now, after a substantial recovery, we've actually built share during that period of time. At the same time, we are not subjected to having to put quite the level of discounting that some competitors have had to do. We also have an asset base that we can leverage in unique ways. The pricing plan we put in place last year really encourages greater length of stay, brings people on our property for a longer period of time and allows us to capture a greater share of the vacation dollar. By the way, our capital needs have come down considerably since we have largely completed the build out domestically of our parks. So we will still invest meaningfully below a billion dollars a year, and after that investment the parks business we will still deliver \$1 billion or so a year in free cash flow. I also think we can deliver attractive growth - not raging growth - but attractive growth, going forward. There is still a lot there in terms of asset utilization that we can mine.

To the extent that we were able to access someone else's balance sheet, someone else's capital at a lower cost of capital and increase returns without sacrificing too much profitability for our investor base, we'd certainly be open minded, and we do look at those things from time to time. So far we haven't found, nor has anybody else, an approach that would yield a structure that really cracks the code from a tax perspective (because a lot of those assets have a low tax basis) or from a true lowering of cost of capital standpoint. To believe that you've really accessed a lower cost of capital, you have to have really shifted the risk of the business. It is difficult to do that and still maintain the synergies among all the businesses that we enjoy. Those synergies are a large measure of what continues to confer the competitive edge on the theme parks. But, we are certainly open-minded about that sort of thing and in fact we've looked at international parks development, and we have done just that. The structures that we've utilized, most recently in Hong Kong, are going to be really meaningful to our business in that region as a whole. We have put in about \$315 million of capital, we will collect royalties and management fees, and we have 43% of the equity. I like that structure quite a lot and I think it's a good model for future international development. But domestically, with the existing asset base, we have yet to come up with the "secret sauce" that allows us to do both at once.

Jason Bazinet – Smith Barney Citigroup

Fair enough. What about park margins? If you go as far back as the mid-90s through 2001, you still had pretty significant EBIT margin expansion in the parks business. Then we saw a pullback and it looked like it had bottomed. And then we saw some modest improvement in 2005. Can you just talk about your comfort in achieving the 20% objective that you've laid out? And what are some of the specific levers you are pulling to reduce the cost structure without impacting the experience that your guests enjoy?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

A couple of things happened that really drove some of the margin decline. One is that we had an overall downturn, and so coming out of that naturally allows us to increase margins. We saw some of that in 2004, and you saw it again in 2005 to a large degree. Also right about that time a lot of the development and build-out that we had done came online, and started working its way through the cost structure, so that had an impact. We've also seen substantial increases in employee benefit costs. That piece alone has had a major impact on margins. I think that employee

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benefits will still be an increasing cost, but we are very comfortable that we have strategies and programs to leverage the employee base in a way that will allow us to continue to provide an exceptional level of guest service, while at the same time having a satisfied, motivated employee base.

The fact that we put the assets in the ground lead us to believe there is a greater level of asset utilization and therefore top-line growth that can drive the margin improvement. I should say that in achieving our top-line growth goals, we feel comfortable even with some additional downturn. But, top-line growth is the most important part of where margins are going to go. I talked about *Magic Your Way* and extending people's length of stay. If we have people staying off property, we might capture roughly half of their vacation dollars when they are in Orlando. If we bring them on property, that number goes up to 70% or 80%. If we bring them on property and have them using our transportation, it is even higher. So the projects that we've undertaken, which fundamentally go to improving the guest experience, also have the ancillary benefit of having people more satisfied with their vacation on property, which is critical to where we are taking the business. We don't have a huge amount of capital needs going forward on a relative basis. Therefore, we don't have big increases in the number of employees that we need to support greater folks coming through on property, and so you've got a leveragable business model. That's why we're comfortable with the steady increase in the margins that we have laid out as our goal.

Jason Bazinet – Smith Barney Citigroup

So based on your comments, is it a fair implication that if you don't hit the revenue targets then you won't hit the EBITDA margin improvement at the same time? Either we are going to get both or we are going to get neither?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

I think we are going to be successful on the revenue side, but to the extent we saw another downturn for instance, that would have an impact on margins. At the same time, as we've seen, we recover from those things and the resilience of the business is intact, and the differentiation of a Disney vacation is intact.

We've also got some nice flanker businesses -- we call them flanker businesses -- that on an overall parks basis look like high-margin businesses that can help us. Disney Cruise Line is one of them.

We tested last year, and are rolling out more broadly this year, a vacation concept called *Adventures by Disney*, which is essentially guided tours but with a Disney element of storytelling and guest service, etc. We did Yellowstone and Hawaii last year and the results were quite exceptional. The guest satisfaction was very high; people were really thrilled with it. That is a nice business for us to put out there. I'm not saying it's going to be a giant business, but it is another place for people to have a Disney vacation experience in between theme park visits.

Roughly half the people that go down to Florida from the domestic tourist standpoint are going to return; but it's going to take a few years for them to return. Many of them sort of say, "Well, gee, we wish we had another type of Disney experience to have." So there is that opportunity.

Jason Bazinet – Smith Barney Citigroup

Let me just hit on a few other businesses that may not be enormous but nonetheless interesting. Hispanics are probably one of the faster growing demographic segments of the U.S. population. I was wondering if you could just elaborate a little bit on Disney's Hispanic strategy -- where was it, where is it today, and what should we look for going forward?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

It is something that we haven't given a lot of air time to, but it is something we are very serious about and spending a lot of time on. Hispanics will make up 15% to 20% of the U.S. population by 2009. So that is going to be a big part of our market segment.

The really good news is that the Disney brand and the Disney properties resonate extremely well with the Hispanic population. They are at least as strong as or stronger than the population as a whole, in terms of Disney brand affinity. So there is a real opportunity for us there.

In terms of the theme parks, we are trying to make sure we have specific marketing efforts aimed at the Hispanic demographic. We have made sure that we have celebrations specifically targeted toward that demographic, and those are resonating quite well.



But it's broader than that. If you have watched, ABC has actually just gotten a couple of awards in recognition for the diversity that it has pursued both in front of and behind the camera. If you look at all of our major hit shows right now, they've got diverse casts associated with them: *Desperate Housewives*, *Lost*, *Grey's Anatomy*. Disney Channel is the same way with some of their most popular shows. *That's So Raven* has been a big hit for the Disney Channel in terms of its broad-based audience, but especially for the African-American population. Making sure that we are reflecting the culture in our programming and in our content, and then specifically marketing that content and product to those demographics, is a big part of what we do and a big opportunity for us.

If you look at the Hispanic population in terms of their economic purchasing power, they are actually over-indexed on entertainment, over-indexed on movie going, over-indexed on family entertainment, and so it is clearly an important demographic for us to get right. But we are really well-positioned and in good shape there. That is part of the reason that we are so excited about the international opportunity as well.

We have a brand, especially Disney, but ESPN to a lesser extent as it grows around the world, that resonates across cultures around the world. It's a brand that can be positioned in different environments, in different political climates, without being a threat. In fact, it is pro-family and welcomed in most environments. So I think Disney can position itself and take advantage of growth in international markets more readily than most other entertainment properties.

A lot of the positioning we're doing now is not going to move the needle in the next couple of years when you talk about markets like China and India, but if you look at how important markets like Japan have become to us, and of course Western Europe, it gives you a sense of where that can go. It can be a very big deal for us.

Jason Bazinet – Smith Barney Citigroup

In terms of hitting on a few other emerging businesses, I think Apple just reported blow-out iPod numbers this afternoon. I was wondering if you could give us the latest update on how Disney is perceiving the success of some of these early agreements with Apple regarding your content and what sort of collateral implications that agreement has had on other parts of the company, either good or bad.

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

That's an important piece of the puzzle because we have had roughly 1.5 million downloads for the video iPod, and *Lost* continues to be the biggest piece of that, although this last week the Rose Bowl highlights were the biggest download for iPod in general, certainly for us but I think for the video iPod overall. While 1.5 million downloads doesn't suddenly move the needle in terms of the overall revenue picture for the company, it is something that wakes up the industry to a certain extent to these other platforms and the ability to repurpose programming to extend the platforms of programming.

We've done a lot with *Lost* as an example, not just in the video downloads of the episodes, but in terms of being out there in the blogging community and putting supplemental content out there available over mobile devices or over the Internet. That is really about capturing the tremendous community around those properties, because the next phase for broadcast networks especially, but all program users, is to better capture the time and community around hit shows. The Internet provides an opportunity to do that in ways we never had before. We used to talk 20 years ago about the water cooler effect, and networks didn't get paid for the water cooler effect unless it made people go watch back at home. But now there is an opportunity for that water cooler effect. They don't have water coolers anymore, but they have the Internet, they have mobile devices, and there is advertising that goes with it. People are prepared to spend considerable time around these hits. These things help define culture in our world, and these devices are the thing that connect people with each other - having that discourse and then the content provider connects with those audiences in ways that we haven't before. I won't sit here today and predict exactly what the business model is, but the iPod deal and things like it have our organization pretty excited about the prospects as opposed to fearful about how it might disrupt existing modes of doing business.

So, from that standpoint, it's a very big deal. We put it out there and the first question we got was, "well, gee, won't this erode audiences?" It is obviously early to say, but from all I can see, it can only help build audiences; it is another opportunity for people to access the content and get addicted to a show like *Lost* or *Desperate Housewives* and become part of an audience that comes back in many different ways and through many different opportunities. So that is a big deal to us. I think that is why you are seeing our company press at least as much as any other content company, being aggressive about really trying to plumb the depths of, "what can we do with this relationship that consumers are asking for with our content?"



Jason Bazinet – Smith Barney Citigroup

Very helpful. I think with that we will turn it over to audience questions. If you have a question just raise your hand and we will get you a mic.

Unidentified Audience Member

What are the limiting factors to rolling out more content to either Apple or online partners like Google and Yahoo!? And how do you manage your broadcast affiliates as you do? Have you had any problems with that?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

Obviously our relationship with our broadcast affiliates is very important, and it is going to continue to be important for a very long time. As I said before, I think the early returns are that making the content available through these other platforms is actually enhancing the television experience. We will want to keep our eye on that and try to make sure that we are serving all the masters well. There is not a lot that keeps us from looking to other platforms and other opportunities like that. We've got digital rights management issues, so we want to make sure that iPod provides a very robust digital rights management environment. The use is well defined and I think that we know we can't hold back the tide of consumer usage. At the same time, we need to be intelligent about the way we put our properties out there, how we charge for them and what the business looks like.

So, in fairness, there is an element of walking before we run to test the market and understand what resonates best with consumers and what works best in the context of our existing set of relationships. You're going to see us continue to go forward and you will probably see our properties on more platforms going forward, and more of our properties on the platforms that are already out there.

Unidentified Audience Member

Some of the investments the Company has made in the past few years have been relatively quiet, but you were relatively loud about some of the costs about the pre-opening of Hong Kong, as an example. Could you perhaps give us some idea of the scale of a couple business areas that you are in, where the investments have taken place? One example would be your consolidated Internet activities. What are your revenues, how fast are they ramping page views, revenues per user, all of that little trivia?

Also, having been to Connecticut to see the investments that have been made in HD by ESPN, and having come from the CES show and seeing ESPN HD, what's the order of magnitude of the "pot at the end of the HD rainbow" for Disney shareholders?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

First, in terms of some of the businesses that we have been pursuing... You look at our overall Internet activity. That is the best way to think about it. It has been growing at double digits, and in 2006 we will pass about \$500 million in Internet based revenue. I think the best way to think about that is a roughly one-third, one-third, one-third split between advertising, E-commerce and paid content. That sort of gives you a sense of how that breaks down. We are seeing growth in each of those areas. We recently purchased a little company, a less than \$20 million kind of purchase, called Living Mobile in Europe, and that is about extending our overall mobile licensing business, the paid content business. We started with a thing called Starwave, and now this extends our reach and our content pie quite nicely, especially in a market where those sorts of platforms are well developed. So we would like to continue to expand there.

But we are trying to be intelligent about where we place our bets. We are big believers in increasing the overall audience that we capture, especially on some of these new platforms, but we want to make sure that if we acquire audience, we are acquiring one that is leverageable and sustainable and one that fits in with the overall activities we are pursuing. We have perhaps been a little cautious in terms of our Internet based acquisition, but I think we would be open-minded to pursuing future ones as long as we think we are acquiring leverageable audiences or content that we think can expand.

You asked about HD. That is an area we invested in early, and we built out a new digital facility that ESPN supported. HD is really about further differentiating the product and the viewing experience. You're right, CES was all about HD. It was kind of amazing what a big deal it was. And



the content I think I saw most often was ESPN in HD. Everywhere you turned that was what people wanted to use to show us their hardware. For us it is about continuing to build the ESPN brand. We talked about the fact that we think over five years we can grow ESPN's profit double digits. We feel good about that goal and we feel confident in our ability to meet it. But I think the important thing about ESPN is that it has got an amazing position on traditional television. Therefore, it is positioned to do things on other platforms that I don't think anyone else can even think about doing at this point. The relationship it can strike with its fan base is unique. It is the reason that we are going after the MVNO business. Again, we're not saying that we have to go out and get 10 million subscribers. This is a business that breaks even at 1.5 million or something like that, but it allows us to solidify our relationship with consumers. If it works, it's also an opportunity to push the envelope in terms of the new ways that we can make content available to people. The amount of people that are doing 15 minute downloads of Rose Bowl highlights is a bit of an eye opener. Perhaps it shouldn't be, because *SportsCenter* is our most popular program on ESPN, and people can't get enough of that. But we've said for the last couple of years that technology enables us to reach a new set of consumers in new ways at new times in their lives. What we need to do is make sure that we are leveraging the existing platforms we have and the existing audiences we have into those new areas. We don't make a big splash about a lot of the investments we are trying to pursue in that regard, but that is at the core of what we're trying to do.

Unidentified Audience Member

If 2006 Internet revenue is expected to be over \$500 million, what was FY05?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

\$500 million represents about 25% growth.

Unidentified Audience Member

This time of year it is easy to focus on the verge of new technologies, but can you talk a little bit about the next 12 to 18 months for Disney? Is this going to be marked as to what faces even the travel industry? How much do other big media companies struggle with this transition at ESPN and Walt Disney World, and what's going to keep Disney from being exactly like everybody else? With the Super Bowl ads down year-over-year, it doesn't look like the traditional media business or the film businesses are really getting better any time soon. And while all of these new technologies are wonderful, and they are coming, the reality is they are not going to be big drivers over the next year and a half. So can you just talk a little bit about the mainstay of the business?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

There are a couple of points in there, at least. On the one hand, I think it is right to point out that the theme parks are an insulated business from the standpoint of technological change. And we do not spend a lot of time there, even though we've put a lot of technology in the theme parks to make sure that the rides are continuing to 'wow' our guests. That business has a competitive advantage as it is well insulated, and I think we will continue to see that business post nice gains out into the future. ESPN similarly has a significant moat around it from the standpoint of the programming it commands and the long-term affiliate deals it has in place. It is just really well positioned to continue to do well.

I think that with the rest of the media businesses, there is more going on than perhaps just the environment and I think it is important that we not confuse that. By the way, I actually concur with your points that over the next 12 or 18 months these new technologies won't have a giant impact. I think these are the early days right now, and the iPod is not going to suddenly move the needle. HD isn't suddenly going to move the needle. High-definition DVD / Blu-ray probably won't suddenly move the needle over the next 12 months either. You are going to see business models change, but we have to be careful not to let the change in business models be confused with a fundamental change in the value of the underlying content that is being sold to those distribution mechanisms. I think those models will change, and I think advertising shares will shift around some. They are already shifting around some.

The Super Bowl, by the way, is doing quite well in terms of sales, so I'm not so sure about that comment. We're feeling pretty good about that. I look at the ad market and I mentioned earlier that we are up high single-digits above the upfront for ABC, which bodes well for us. I think it's really incumbent upon us to take the popularity of the shows within those platforms and leverage them into positions and in new media. It's a little early to say that it is moribund out there. You will see nice growth over at the media networks, including ESPN but certainly on the broadcasting side, out of Disney this year. You will see nice growth in the theme parks. And we've also got a consumer products business that I think is well positioned, provided we continue to make great content. I actually feel pretty good about the near to medium-term, and I think that



Tom Staggs at Smith Barney Global Media Conference

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what we're talking about, and what we talked a lot about today, is positioning for taking advantage of the longer-term. What we're talking about is growing markets on a global basis and growing markets from the standpoint of the ability to reach the consumer.

The one takeaway from CES I alluded to is that new platforms and hardware requires good content to be on it. I think Yahoo! is doing some very smart things because they are figuring out that user-created content is more than just marshalling a bunch of content created by random people, but using the force of the networks to help guide people to what content is best. That is going to continue. But a lot of the best content, and a lot of the best community, can continue to be created by companies like Disney. And those phenomena are things that we can participate in as well.

Jason Bazinet – Smith Barney Citigroup

We have time for one more question.

Unidentified Audience Member

One thing you don't talk very much about is that you have a number of cable networks that are not consolidated. I know they are recorded in the equity and earnings, so it would be helpful if I had a better understanding of exactly what you did own, did they contribute anything to earnings last year, and is there any opportunity that you can see over time to rationalize those investments to take better advantage of the franchises, and maybe at some point bring them into EBITDA as well?

Tom Staggs - Senior EVP and CFO, The Walt Disney Company

Yes, we literally within the last ten days filed an 8-K about this. We are going to take the equity in affiliates and move it up into segment operating income because that's how we manage the business and we think it's the best way to report it. We will continue to provide you some ancillary information so you can track what that is. But exactly to that point, that is how we think about those businesses. The major businesses that we hold on a partial basis: Lifetime where we own half, A&E and History where we own 37.5%, and E! where Comcast is the majority owner. We own around 40% of that asset. They do contribute overall to our earnings quite nicely. We have some other smaller ones and international investments, but those are really the major pieces.

I think that the strategic direction for us would be toward rationalization of that ownership so that we can leverage those properties better, but I can't tell you that's going to happen anytime soon. We have some pretty stable partnerships with good partners. We have been partners with Hearst on a whole bunch of things, including ESPN for a long time, and I think they are quite happy with where things are and business has performed relatively well. So the good news is they have been good partners. To the extent that we see an opportunity to better fold that business in or rationalize it in a way that it can become more strategic, we're certainly open to that going forward.

Jason Bazinet – Smith Barney Citigroup

Tom, thank you very much. Thank you all.

Please be reminded that certain statements in this presentation may constitute "forward-looking statements" under the securities laws. These statements are subject to a number of risks and uncertainties and actual results may differ materially from those expressed or implied in light of future decisions by the company and by market, economic, political, competitive, regulatory, technological and other developments beyond the company's control. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in our Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. The company does not undertake any obligation to update forward-looking statements.

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