



The Walt Disney Company<sup>®</sup>

## **A.G. Edwards Media and Entertainment Conference**

**APRIL 17, 2007**

**Disney Speaker:**

**Anne Sweeney**

*Co-Chairman, Disney Media Networks,  
President, Disney-ABC Television Group*

### **PRESENTATION**

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**Mike Kupinski** - *Analyst, A.G. Edwards*

We are thrilled to have Disney represented by Anne Sweeney, the Co-Chair of Disney Media Networks and President of Disney-ABC Television Group. She needs no introduction, obviously, with the rebound of this division. It's been a strong growth driver for the Company over the course of the last couple of years. We're thrilled to have Anne here to talk about this exciting part of the Disney Corporation. Anne, thanks for coming. We appreciate it.

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Thank you, Mike. Thank you very much.



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**Mike Kupinski** - *Analyst, A.G. Edwards*

And, so, if you wanted to go ahead and give us your talk, you can just start right into it.

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Sure. The beauty of being in the television business is that we have a lot of great tape, so I thought I'd start with just a fast sizzle reel to set the table, so-to-speak.

[Video clip]

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**Mike Kupinski** - *Analyst, A.G. Edwards*

That's great.

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Well, I thought that would be a fun 2 minute, 30 second way to show you a little bit about us and why I'm so excited to be in the television business and why it's a great time to be in the television business.

You know, we do a lot of research, we buy a lot of studies every year, and we're learning that people are watching more television now than ever before, on average about eight hours a day. The Nielsen Company has told us that despite the more than one hundred television channels that you're getting in your homes, it really boils down to about 10 to 12 television channels for each of us. The broadcast networks like ABC continue to draw the biggest audience. But kid and family-friendly fare on Disney Channel is also a wonderful opportunity and certainly a great opportunity for our Company.

You probably saw that this year Fortune magazine had a great quote that I've almost had tattooed on my leg. They said, "As you try to figure out where consumer infotech is going and what it means for society, remember this big, central reality: People just want more television." We know that's true because television has become more important to people than ever before, which is great news for The Walt Disney Company.



What we've done to make the most of that opportunity is to combine the most compelling content that we have with the most innovative technology that we can find to create strong and sustainable franchises for the future. We've been moving our content from the television screen to phones and other devices.

Every one of our television businesses is performing incredibly well.

On the broadcast side of the equation, more Americans continue to get their news from ABC News than any other news source, and when you look at shows like *Good Morning America* or *World News with Charles Gibson*, or *Nightline*, these are franchises that continue to grow for the Company. And now you can get them in many different forms. We have our blogs, we have our podcast. Of course, you can see us online on ABCNews.com, or our broadband player, *ABC News Now*, which are all wonderful new ways to serve our viewers.

I've been watching over the last really sad and terrible 24 hours, the tragedy in Virginia, and just looking at how differently networks are handling this news and how people are responding to this news, and how they're using blogs to express themselves in a way that we didn't see 12 months ago. The world has changed and the good news, I believe, is that *ABC News* has changed with it.

Steve McPherson, who some of you may have met, is our President of Entertainment for the ABC Television Network, and I give him credit for completely reinventing ABC in primetime. He started with development. He focused on creativity and high quality, and I think above all else, truly wonderful stories.

I have another short clip to show you some of the great stories that we're telling this season.

[Video clip]

I don't know about you, but I do believe these are some of the great stories on television. It's one thing to have the great stories, but from the very beginning, Steve McPherson and his team have been very focused on the right scheduling. They've also been very, very aggressive.



If you remember the '04-'05 season, they replaced *Alias* with *Desperate Housewives* on Sunday night, and broke *Dancing With The Stars* into two nights, and then ultimately moved *Grey's Anatomy* from Sunday night to Thursday just this past season.

They have also been incredibly successful using current hits to launch new ones, and great examples of this are *Desperate Housewives* being used to launch *Grey's Anatomy*, and then *Brothers and Sisters* this year. *Grey's Anatomy* on Thursday nights helped us launch *Men in Trees* and also *Ugly Betty*.

Steve and his team have changed the way we, and now almost every other network, market our television shows. In the past we would spread the money evenly across all of the television shows that were going on that fall, and found that this really wasn't very effective. You couldn't market everything with the power you needed to attract the viewers. So, starting with the '04-'05 season, Steve made the bold move of deciding on three shows that would be allocated the bulk of the marketing dollars. And the three shows that he chose were *Desperate Housewives*, *Lost*, and *Wife Swap*. To say the rest is history sounds a little bit trite, but he did use these resources. He did use the marketing dollars as a good asset, and the efforts have paid off.

ABC this year got off to its best primetime season start since 1977. We are still number one with every upscale demo, and we've been number one on Thursdays this season after moving *Grey's Anatomy* to that all important night. We went back and looked, and the last time we were competitive on Thursdays was 1978-79. Some of you may remember that season, with *Mork and Mindy*, *What's Happening*, *Barney Miller*, *Soap* and *Family*.

All of this success in primetime, daytime, and in news has translated into larger ad dollars for us. ABC achieved the highest pricing increase of any network in the last year's upfront market, and we've continued this aggressive pricing throughout the scatter market.

We're looking forward to the '07 upfront in just a couple of weeks. We have some incredibly strong returning shows which have given us some scheduling stability that we haven't had before, and we're looking at some exciting new series to fill the few open spots that we've got.

Our in-house studio is the key to our content business and has been the creative engine driving ABC's stellar performance. It is ABC Studios who has created *Desperate*



*Housewives, Lost, Grey's Anatomy, Ugly Betty* and *Brothers and Sisters*. This has also driven the success of our domestic and international distribution businesses. ABC Studios may be a new name to you. It was previously called Touchstone Studios, but it's been renamed ABC Studios to really focus on the three key brands of the Walt Disney Company, obviously, Disney, ABC, and ESPN.

Four of the top shows on TV this season are on ABC and produced by ABC Studios. If you look at '06, compared to where we were two years ago, our primetime shows have driven more than half a billion dollars in operating income improvement for the network and the studio combined.

And, when you look at the studio's production slate, you can really see the advantage of having in-house production. For example, shows that are currently in or slated for syndication, like *Lost, Desperate Housewives* and *Grey's Anatomy*, are expected to generate more than \$1 billion in operating income to the Company, through platforms like DVDs, syndication, and domestic and international license fees.

We're getting more than \$3 million an episode for some of these shows in international markets. We also sell these shows on iTunes and stream sponsored episodes on ABC.com. To date, we've sold more than 13 million DVDs of *Lost, Desperate* and *Grey's* combined.

We have great news on the cable side of our business. Last year, ABC Family delivered its strongest performance to date, and they leveraged original content, like returning series *Wildfire*, and a new series, *Kyle XY*. The addition of a new hit, *Lincoln Heights*, put ABC Family in a wonderful position, which was to achieve the highest rated February sweep in the channel's history, which was terrific and a great credit to Paul Lee and his team.

SOAPnet, a cable channel that we launched seven years ago, continues to be one of the fastest-growing cable networks out there and is now seen in 61 million homes.

And over the past couple of years, Rich Ross and Disney Channel have pretty much redefined the way we think about and the way we measure success in kids' television. *High School Musical* was the hit that was heard around the world. And if you've got kids, chances are the music is just burned into your brain and you could probably sing the whole soundtrack by memory. We don't have time today, but maybe another time.



*High School Musical* is more than a successful television movie for us. It has become a global phenomenon, and it really taught us a lot about building and sustaining franchises across the entire Disney company. It's a great example of what a hit can do not just for Disney Channel but really across the board.

We made this movie for just over \$4 million in 2005. We introduced it on Disney Channel in the U.S. in January of 2006. Since then, I just want to read through the list of what it has meant to the Company.

The soundtrack released by Walt Disney Records 10 days before the movie premiered, has sold 6.8 million copies globally so far. The junior novel from Disney Publishing is a *New York Times* bestseller and has sold more than 1.3 million copies. This month, our publishing division launched a complete book series that will tell a new story about the *High School Musical* gang every 60 days.

We quickly leveraged the success of the movie with our great partners over at Disney Consumer Products. Thanks to some strategic licensing agreements, there were plenty of new products in stores for the '06 holiday season.

Our Buena Vista Home Video division has sold more than 7.5 million DVDs on a global basis, and our friends down at Walt Disney Parks and Resorts have taken this to a whole new level with themed pep rallies currently at Anaheim and also down in Florida, and coming soon to Disneyland Paris.

We have kids in about 2,000 schools across the U.S. who are going to perform their own *High School Musical* this year using a stage adaptation that Walt Disney Theatrical has created for them. We've also licensed a professional version that is getting ready to tour the U.S. During the holiday season we launched a sold-out, 42-date arena concert tour featuring the cast from *High School Musical*, and also songs from their own solo projects. Some of these kids have been signed up by Hollywood Records.

On the feature film side, our studio is planning to leverage *High School Musical* as well, with an original feature film version in the U.S., India and Latin America. And just last month, you may have seen the ads already, we announced plans for *High School Musical: the Ice Tour*.

This franchise is projected to generate \$500 million in total retail sales. And over 2006 and 2007, it's expected to provide more than \$100 million in contribution to operating



income for The Walt Disney Company as a whole. That's not too bad for a kids' TV movie.

We often use *High School Musical* to demonstrate the tremendous return on investment we're getting from Disney Channel content. But since that first huge success, we've got some other franchises in progress that are also generating great potential.

Hits like *Hannah Montana* and *Mickey Mouse Clubhouse*. Once again, we're partnering with other divisions to spread the success of these hits. *Hannah Montana*'s soundtrack debuted at No. 1 on the billboard charts. It's the first TV soundtrack to ever do that, and it's already sold more than 3.4 million copies.

In June, Hollywood Records is going to release the first solo CD from the show's star Miley Cyrus, a wonderfully talented 14-year-old. The *Hannah* junior novels are big sellers, and merchandise based on both *Hannah Montana* and *Mickey Mouse Clubhouse* were top sellers during this past holiday season.

And Disney Channel has a few more hits on tap this year. *Cory in the House* was the highest rated series premiere in the history of the channel, and another TV movie, *Jump In!* with Corbin Bleu, who is one of the kids from *High School Musical*, debuted as the highest rated Disney Channel original movie ever, in the history of the channel.

Next month Disney Channel will launch *My Friends Tigger & Pooh*, which is an interactive preschool series in vibrant, CG animation, and we believe it is going to introduce Pooh to a whole new generation of fans.

We're very excited about Playhouse Disney, and I'm thrilled to show you just a short clip of *Tigger & Pooh* today.

[Video clip]

These are some of the best-loved characters in the Company's portfolio, along with the characters in *Mickey Mouse Clubhouse*. And we believe by taking them into CG and into 500 million homes around the world, we're really taking these franchises to a whole new level. Today we announced in *Variety* that *Mickey Mouse Clubhouse* has been sold into 80 territories around the world. So, we'll be reaching more people than ever before with them.





And, of course, this August we will premiere *High School Musical 2*, which is the sequel to the hit heard around the world. Gary Marsh at Disney Channel who is our President of Entertainment, showed us some of the early footage and showed our partners around the Company in the other lines of businesses just to get everybody focused again on the great opportunity to build out the franchise even further.

*High School Musical 2* just finished filming last Wednesday, and the movie's director, Kenny Ortega, who also did *High School Musical 1*, is in the editing room as I speak, but he was very gracious, as were Gary and Rich, to allow me to show you the very first clip from *High School Musical 2*.

[Video clip]

This clip is scheduled to be screened on Disney Channel in just a couple of days, so you are truly the very first to see it.

Our success across the entire division really depends on our ability to reach many different demos, from preschoolers to tweens to adults. This broad appeal really strengthens our appeal to advertisers and distributors. It also helps us build a high degree of brand affinity, and it gives us a strong promotional foundation for our group and the company overall.

I mentioned a couple of minutes ago that I'm incredibly proud of our content, and I have to say I'm also proud of what we've done with it so far. In addition to the success of our on-air channels, like Disney Channel and ABC Family and ABC, we've also leveraged our content to reach viewers in new ways and to deepen our relationship with them, and the relationship they have with our various brands and shows.

Two years ago, our industry was talking about the digital future and what it would look like and what it would mean. Apple's video iPod gave us that first glimpse, and our decision to be the first company to put our content on this new device helped launch that device. That was just in October of 2005, and since then over 21 million episodes of our shows have been delivered through iTunes.

We were also the first company to stream full-length episodes of our TV content online. Ad-supported ABC.com, our broadband player, gave us a separate platform and a very different model from iTunes, and it taught us a lot about our audience, how they use our content and really, more importantly, what they want from us.





We now know that most people use the player to catch up on an episode that they missed, and the player doesn't cannibalize our television audience. If anything, it seems to give people the chance to stay current and become more engaged with our shows.

We've also proved that ABC.com is a viable model for advertisers, because our online viewer is about 28 years old, college educated, and affluent. It's an audience that's extremely attractive to advertisers. We also discovered that roughly 84% of the people that we surveyed both during our test and then continued to track when the player went live in September of last year, can remember the ad that they saw in the episode.

This year, we gave ABC affiliates the chance to incorporate local advertising into the ABC.com player, and most of them took us up on the offer, including our major affiliate groups and our own stations.

This fall we're going to launch the next generation of this video site, expanding it into a full broadband channel that will be streaming ABC shows as well as news and local content. The site this fall is going to be geo-targeted, so that the local ads and the content will be relevant to each user. We've realized that interactivity is key to the success of these businesses, and it's very important in online advertising. So, we'll also be working with our advertisers to figure out the interactivity of their ads on our player to increase their impact.

We're adding a fun new feature. *America's Funniest Home Videos*, which premiered on ABC 17 years ago, is now coming to ABC.com, so users are going to be able to post their own videos under this site and also watch others.

Our innovation isn't limited to platforms. We've also been experimenting with new kinds of content for different platforms. Last month we launched a series of shorts called *Voicemail*, which is our first short form series from ABC Studios. The clips run roughly one to four minutes in length, and we launched three episodes in March and are adding several more each week through mid-June.

I mentioned earlier that we use *High School Musical* as an example of the power of Disney Channel as a content engine for the Company. Likewise, we focus on the ABC.com player to demonstrate our leadership on new platforms. But the success isn't limited to just that site. ABCFamily.com now has a robust player, and Disney.com streams Disney Channel shows in DXD and in six languages.



ABC Daytime and SOAPnet paired up last year to create a broadband service called Soapnetic, for the soap fans out there. ABCFamily.com recently launched *Viewing Party* last month, so fans of the hit series *Wildfire* could watch the season finale together online and chat live with family and friends who were watching along.

This innovative feature was really a first step towards transcending that traditional viewing experience with the online community. We're going to take what we've learned with *Viewing Party* and ABC, and just continue to evolve these businesses.

We've taken steps internationally online. German fans of *Lost* and *Desperate Housewives* can pay to watch episodes online at MaxDome, which is ProSiebenSat1's video on demand portal, and they can watch them up to seven days before they air on live television.

We're exploring other platforms, too. We recently announced an agreement with Comcast, where viewers will watch Disney Channel original movies, some ABC primetime shows, and other content from across our portfolio on Comcast's on-demand service. Just a week or two ago, we announced our Time Warner agreement, which has some of our shows available on Time Warner "Start Over" program, which allows viewers to restart a program that's already in progress.

And we have agreements to stream our content on mobile full episodes in some markets from Asia to Europe, from Tu Media in South Korea to the Orange Network in the UK. So, iTunes, MaxDome, broadband player, Comcast VOD, Time Warner Start Over, wireless phones, all very different models that all achieve the same goal. They're giving viewers more control over the content that they want and making it more available and easier for them to access, while at the same time generating new incremental revenue streams for The Walt Disney Company.

It's still way too early to tell what these new revenue lines will ultimately do, but we're very encouraged by the way viewers are adopting and using the new platforms to watch TV content.

So, our biggest challenge going forward is probably one of the same challenges we've faced throughout our entire evolution, which is staying relevant to our viewers. And throughout all of this constant change, really staying close to our viewers is the most



important thing that we can do, and if we do it well, and we do it effectively, it's also profitable.

We've done well so far because we paid attention to our viewers and how they're using our content, and we've built our business models around them. We feel that we're moving forward into the future from a position of strength, and going forward our first priority is going to continue to be to create great content. We're also going to sharpen our brands, because in a world where we have increased ways to access content, clear brands in the marketplace become great navigation tools for the viewer. And we're going to continue to not only identify but exploit the right opportunities on the right platforms for all of our content.

So, in short, we're all about creating what's next. Some of it you saw today, and some of it is yet to come.

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**Mike Kupinski** - *Analyst, A.G. Edwards*

Thanks, Anne.

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Thank you, Mike.

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**Mike Kupinski** - *Analyst, A.G. Edwards*

That was terrific. Thanks for the video clips. Do you have time for a couple of questions?

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Sure.



## Q & A

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**Mike Kupinski** - *Analyst, A.G. Edwards*

Can we talk a little bit about the scatter prices in the upfront market? We talked about this at one of our panels. The last couple of years, ABC has set the bar in terms of setting the pace of the upfront. And it seems like a lot of the networks now are kind of almost even, with the exception of a couple, and it doesn't seem like there's any one way out in front of the other networks at this point. You have a great night on Thursday, others have strengths at other times, and it's just like no one network is just really well ahead of the others, if you take all the day parts together.

And it seems like in that environment, it seems like it's unprecedented over the course of the last 20 years, that we haven't really seen that happen. Can we expect that -- and certainly the scatter prices look like they're very high right now -- but does it seem like that puts it in the favor of the buyers at this point, or does ABC believe that they're going to set the pace as we enter the upfront market?

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Well, just going back to your scatter question, I believe during the Q1 earnings announcement, we were projecting double-digit increases in scatter for Q2, and we're very pleased with our performance. We're pleased with the mix of programming that we have in the scatter market.

The other thing that we did that was unlike the other networks is that we held back the ABC.com opportunity from the upfront and specifically had it positioned for scatter, and sold out the available space before we even announced the schedule. So, I think that tells you a lot about how ABC is positioning itself, not only with this programming in the scatter marketplace, but also use of technology.

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**Unidentified Participant**

Can you talk about how you view dramas and procedurals, and whether there will be an increased role of comedies?



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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

You know, it's very interesting, because we now have many different opportunities to syndicate our product, not just in the U.S. but on the international front as well. We've had very interesting conversations internally about when you look at our lineups, some of our dramas have comedic elements, some of our comedies have dramatic elements.

So, we've seen a change creatively certainly with our own shows in that space, and it's become a little bit harder to draw the hard line between what is a comedy now and what is a drama. But we've seen through what we've achieved in the pricing of some of these shows internationally, the dramas have commanded very high license fees.

I think Steve has done an excellent job of really using assets, as I mentioned, to launch other assets. And I think he's created terrific flow. I mean, Sunday night is just impossible to separate -- I find, it's impossible to separate yourself from your television set, and I think the build-out that he's done on Thursday night has just been remarkable. So, I see a high degree of engagement with our dramas.

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**Unidentified Participant**

Can you talk about whether you are planning to expand your cable channels?

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

Well, the cable channels have been branching out with their dotcom businesses. DisneyChannel.com has had an astounding number of episode requests, with over 77 million episode requests to date since it launched on June 2 of last year. And Disney Channel is really keeping pace with its viewers by expanding that offering. So, I think the expansion that you'll see will really be about the utilization of new technology and of new platforms.

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**Unidentified Participant**

How important is HD going forward?



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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

I think it will help viewership going forward. I think this past year, I read somewhere that this past year, there were more HD sets sold than standard sets. So, I think we're starting to see the consumers turn toward HD, and certainly the more HD programming you offer, I believe the better position you'll be in. Much of our schedule is in HD. *Good Morning America* went into HD about 18 months ago now.

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**Unidentified Participant**

How do you cut through the clutter and compete in news?

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**Anne Sweeney** - *Co-Chairman, Disney Media Networks, President, Disney ABC Television Group*

You make a great point. I've always believed that *ABC News* stood for something, and for many years they had a tagline "Trust is earned," and they really earned the trust of people, of viewers, through their integrity, through the depth of their reporting, and really the strength of their presentation of information.

When I look at what David Westin has created with ABCNews.com, our news division is evolving their dotcom businesses as quickly as our entertainment divisions. I believe he's really created a place that doesn't exclude the rest of the world. When there is a big story, like Anna Nicole, you absolutely could not escape it anywhere, but if you go on ABCNews.com, you'll be able to continue to get the rest of the stories of the day from the rest of the world. It's built to be a global brand.

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**Mike Kupinski** - *Analyst, A.G. Edwards*

Well, I know that you have a plane to catch and I really appreciate the time that you spent with us. Thank everyone from Disney for us.

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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 September 30, 2006 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](http://www.disney.com/investors).